



OFFICE OF INSPECTOR GENERAL **AUDIT REPORT**

FINANCIAL MANAGEMENT

AUDIT OF EPA S FISCAL 1999 FINANCIAL STATEMENTS

Audit Report 00100231

February 29, 2000



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Agency-wide

Cover Photo by Alan Bogus
Financial Audit Division
(Yosemite National Park)

February 29, 2000

MEMORANDUM

SUBJECT: EPA's Fiscal 1999 Financial Statements
Audit Report No. 00100231

FROM: James O. Rauch */signed/*
Assistant Inspector General for Audit (2421)

TO: Michael W.S. Ryan
Acting Chief Financial Officer (2710A)

Romulo L. Diaz, Jr.
Assistant Administrator for
Administration and Resources Management (3101A)

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

Attached is our audit report on the Agency's fiscal 1999 financial statements. The report recognizes the efforts that were made to improve the Agency's financial statement preparation process. Our work shows, however, that further improvements are needed in the Agency's financial reporting processes to ensure that timely and reliable information is available at year-end for external reporting purposes, as well as on an ongoing basis for the day-to-day management of the Agency's 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 report deals primarily with financial management issues, we are requesting the Acting Chief

Financial Officer, as the primary action official, take the lead in coordinating and providing us a written response to this report. 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 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. We have no objections to the further release of this report to the public.

Should you or your staff have any questions about the report, please contact Edward Gekosky, Divisional Inspector General for Audit, Financial Audit Division, at 260-1072, or Alan Bogus of his staff at 260-4943.

Attachment

cc: See Report Distribution List

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 primary objectives were to determine whether:

- EPA's principal financial statements¹ are fairly presented,
- information presented in EPA's Management Discussion and Analysis is consistent with the principal financial statements,
- adequate internal controls related to the principal financial statements were in place, and
- the Agency complied with applicable laws and regulations that could materially affect the principal financial statements.

RESULTS IN BRIEF

Opinions on EPA's Fiscal 1999 Financial Statements

The Agency was unable to provide support in a timely manner for the composition of Other Financing Sources for the Superfund Trust Fund and the Agency as a whole. In addition, Note 28 to the financial statements discloses these differences as Custodial Liability Reclassifications and Other which in our opinion does not adequately address the source or composition of these

¹ EPA's principal financial statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, Statement of Custodial Activity, and the Notes to the Principal Statements.

amounts. The Agency was also unable to provide support for the composition of “Other” in the Statement of Financing for the All Other Appropriated Funds and the Agency as a whole. Therefore, we were unable to apply audit procedures to satisfy ourselves as to the fair presentation of these line items.

Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as Other Financing Sources in the Statement of Changes in Net Position and the related effects on Equity and Net Costs of Operations, the fiscal 1999 financial statements for the Superfund Trust Fund are fairly presented.

Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as “Other” in the Statement of Financing, the fiscal 1999 financial statements for All Other Appropriated Funds are fairly presented.

Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as Other Financing Sources in the Statement of Changes in Net Position and the related effects on Equity and Net Costs of Operations, and the amounts reported as “Other” in the Statement of Financing, the fiscal 1999 Agency-wide financial statements are fairly presented.

Although we were able to render opinions on EPA’s financial statements, weaknesses existed in the Agency’s process for preparing the fiscal 1999 financial statements that resulted in the Agency being unable to provide us with complete, accurate and reliable statements, footnotes and supplemental information by the agreed upon dates. Significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000.

In addition, the Government Performance and Results Act requires EPA to develop plans on intended accomplishments, measure how well it is doing, make appropriate decisions based on the information gathered, and communicate information about performance to Congress and the public. To do this, EPA developed a strategic plan with ten goals and during fiscal 1999 began tracking the cost to achieve each of its goals. We found that the Agency’s methodology for accumulating costs by goal could not be relied upon to fairly state costs by goal. The Agency had originally planned to present its Statement of Net Cost by goal. After we expressed concern about the Agency’s ability to fairly present its costs by goal, Agency management decided to present EPA’s costs for the Superfund Trust Fund and All Other Appropriated Funds rather than present the information by goal. Weaknesses in this area also affect the quality of cost accounting data Agency managers have available for decision making.

Review of EPA's Management Discussion and Analysis

We did not identify any material inconsistencies between the information presented in EPA's Management Discussion and Analysis and in the principal financial statements. However, EPA's Management Discussion and Analysis states that the Agency is in compliance with Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." We do not believe the Agency is in compliance with this standard because EPA was not able to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs. EPA's Management Discussion and Analysis also states that, during fiscal 1999, the Agency conducted a review of its user fees in accordance with the requirements of the Chief Financial Officers (CFO) Act and provisions of OMB Circular A-25, "User Charges." Our audit work showed, however, that the Acting CFO still needs to follow through and either institute, revise, or update its user fees or obtain exceptions from OMB for the user fees identified during the 1997 review, as updated by the 1999 review.

Evaluation of Internal Controls

In evaluating the Agency's internal controls, we identified the following material weaknesses. Material weaknesses are situations where internal controls do not reduce to a relatively low level, the risk that errors, fraud or noncompliance in amounts material to the principal financial statements, Required Supplemental Stewardship Information or a reported performance measure may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Although the Agency made some improvements in its financial statement preparation processes, the financial statements provided to us for the purpose of expressing an opinion were incomplete and contained significant errors. The financial statements that we used as a basis for rendering our opinions were not received until late February 2000. Further, significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000. The Agency needs to make further improvements in its financial statement preparation process. These improvements should be designed to improve the accuracy and reliability of financial information used to prepare financial statements after the end of the year, as well as the data that is available on an ongoing basis throughout the year to manage EPA's environmental programs.

The Office of Inspector General previously reported concerns that security plans for EPA's core financial systems were not compliant with Federal financial management system requirements. Our work continues to show significant deficiencies for fiscal 1999. As a result, we continue to

report the issue as a noncompliance with the Federal Financial Management Improvement Act (FFMIA). Additional developments for fiscal 1999 support the listing of computer security controls as a material weakness. EPA's Acting CFO, in his Management Representation letter to us, listed potential vulnerabilities in the Agency's mainframe computer and network servers as an exception to Agency FFMIA compliance. Also, a current, more comprehensive review by the General Accounting Office (GAO) indicates that EPA weaknesses "pose a serious threat to the integrity of EPA's information systems; and if uncorrected could allow unauthorized users to take control of EPA's network operations." The problems are of such magnitude that the security program was rendered ineffective. A Congressional Committee, citing the seriousness of the vulnerability, plans a March 2000 hearing on the issue. Relying on the work of GAO and our efforts, and considering the concerns noted by the Acting CFO, we have concluded that computer security controls should be considered a material weakness.

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. However, we did note the following significant noncompliance issues.

EPA makes disbursements for grants that are funded from more than one appropriation 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. Even though this instance of noncompliance did not result in a material misstatement of EPA's financial statements, it is a significant issue the Agency must address.

In response to our prior audit report findings, EPA's Office of the Chief Financial Officer conducted biennial reviews of user fees required by OMB Circular A-25, "User Charges" and the CFO Act. The November 1997 review showed five current fees, four proposed fees, and eight exceptions. To be in complete compliance with OMB Circular A-25 requirements, the Acting CFO needs to follow through and either institute, revise, or update its user fees, or obtain exceptions from OMB, for the user fees identified during the 1997 review, as updated by the 1999 review.

Compliance with the Federal Financial Management Improvement Act

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 discussed material weaknesses in the Agency's process for preparing financial

statements and in its computer security, we also identified the following instances of substantial noncompliance with FFMIA requirements.

- ! EPA's methodology for accumulating and reporting costs by the Agency's ten strategic goals could not be relied upon to fairly state the Agency's costs to achieve each goal. Weaknesses in this area affected the quality of cost accounting data EPA managers had available during fiscal 1999 to manage their programs. In addition, the Agency was not in compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 that requires EPA to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs.
- ! EPA was unable, in most cases, to report its intra-governmental assets and liabilities by trading partner because finance offices were not coding transactions to show this information. The Treasury Financial Manual (TFM) requires agencies to report trading partner information, so Treasury can eliminate intra-governmental transactions when it prepares the Financial Report of the United States Government. Agencies also need this information, so they can manage their assets and liabilities.

RECOMMENDATIONS

We are not making any new recommendations concerning the Agency's financial statement preparation process. The recommendations we made as a part of the fiscal 1998 audit, when fully implemented, should correct weaknesses in the Agency's financial statement preparation process. To correct the other FFMIA noncompliances we noted during this audit, we are recommending the Acting Chief Financial Officer (CFO):

- incorporate planned fiscal 2000 security plan actions for financial systems into a formal remediation plan,²
- establish procedures to identify actual costs by goal, objective and subobjective at the time the costs are recorded,
- develop timely, reliable, accurate cost reports to enable managers to monitor the total cost of their programs,
- develop a Statement of Net Cost with accurate and reliable cost information by goal which can be used for external reporting, and

² We expect the General Accounting Office will also make recommendations designed to improve the Agency's computer security.

- issue policies to require all finance offices to expedite the review and input of trading partner information for the Agency's intra-governmental assets and liabilities.

Our report also contains recommendations related to the other internal control and compliance issues we identified during this audit.

AGENCY COMMENTS AND OIG EVALUATION

In a memorandum dated February 24, 2000, the Acting CFO responded to our draft report. In the response, he indicated that his office agrees that further improvements need to be made to the process for preparing financial statements. However, the weaknesses we identified in the financial statement preparation process do not warrant categorization as a material weakness, nor are they indicative of the Agency's inability to provide managers with information that is accurate and reliable for use on a day-to-day basis to manage Agency programs. The Acting CFO also disagreed with our conclusion that the Agency is in noncompliance with the requirements of SFFAS No. 4, "Managerial Cost Accounting Concepts and Standard for the Federal Government." The Acting CFO agreed with many of the recommendations and indicated corrective actions are planned or ongoing to implement these recommendations. Finally, the Acting CFO expressed appreciation for our cooperation in resolving outstanding financial statement issues. The Agency's complete response is included as Appendix II to this report.

We will continue to support the Agency's efforts to improve its processes for preparing timely, reliable financial statements. In particular, we look forward to working with the Agency to make improvements in the cost accounting information available to Agency managers to use in carrying out their environmental programs. We have not changed our classification of the reported material weakness and noncompliance issue. The rationale for our conclusions is included in the appropriate sections of this report.

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ABBREVIATIONS

ADP	Automated Data Processing
APF	Authorized Program Facility
ARTS	Asbestos Retrieval Tracking System
BAS	Budget Automation System
BCCP	Business Continuity and Contingency Planning
BOC	Budget Sub-object Class Code
CDOTS	Contract Delivery Order Tracking System
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFMC	Cincinnati Financial Management Center
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIS	Contracts Information System
CMS	Change Management System
CPARS	Combined Payroll Redistribution Reporting System
CPS	Contracts Payment System
CTS	Superfund Cost Recovery Collection Tracking System
DOJ	Department of Justice
DOPO	Delivery Order Project Officer
EAD	Environmental Accountability Division
EDP	Electronic Data Processing
EPA	Environmental Protection Agency
EPAYS	EPA Payroll and Personnel System
ERRD	Emergency Remedial and Response Division
ESD	Enterprise System Division
ETSD	Environmental Technology Services Division
FACTS	Federal Agencies' Centralized Trial-Balance System
FAS	Fixed Assets Subsystem
FFMIA	Federal Financial Management Improvement Act
FFMSR-O	Framework for Federal Financial Management Systems
FFS	Federal Financial Systems
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act
FMD	Financial Management Division
FMFIA	Federal Managers' Financial Integrity Act
FMOs	Financial Management Offices or Officers
FMS	Financial Management System
FOS	Found-on-Station
FSB	Financial Systems Branch
GAD	Grants Administration Division
GAO	General Accounting Office

ABBREVIATIONS

GAS	Government Auditing Standards
GCRC	Grants Customer Relations Council
GICS	Grants Information and Control System
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
IAGs	Interagency Agreements
ICMS	Integrated Contract Management System
IFMS	Integrated Financial Management System
JFMIP	Joint Financial Management Improvement Program
LUST	Leaking Underground Storage Tank
MARS	Management Accounting and Reporting System
NIST	National Institute of Standards and Technology
NSA	National Security Agency
NTSD	National Technology Services Division
OARM	Office of Administration and Resource Management
OC	Office of the Comptroller
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OGC	Office of General Counsel
OIG	Office of Inspector General
OIRM	Office of Information Resources Management
OMB	Office of Management and Budget
OPAA	Office of Planning, Analysis and Accountability
OPAC	On-Line Payment and Collection System
OPP	Office of Pesticide Programs
ORC	Office of Regional Counsel
OSWER	Office of Solid Waste and Emergency Response
P2000	Partnership 2000
PDD	Presidential Decision Directive
PE	Program Element
PMO	Property Management Officer
PP&E	Property, Plant, and Equipment
PPGs	Performance Partnership Grants
PRC	Program Results Code
RMDS	Resources Management Directives System
RSSI	Required Supplemental Stewardship Information
RTP	Research Triangle Park
SARA	Superfund Amendments and Reauthorization Act
SFFAS	Statement of Federal Financial Accounting Standards
SIRMO	Senior Information Resources Management Officer
SPEDI	Small Purchase Electronic Data Interchange

ABBREVIATIONS

SRO	Senior Resource Official
SSC	Superfund State Contract
TFM	Treasury Financial Manual
TM	Travel Manager
UAO	Unilateral Administrative Order
WCF	Working Capital Fund
WFMC	Washington Financial Management Center

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 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. The objectives of our audit work were to determine if:

- (1) EPA's principal financial statements are fairly presented;
- (2) information reported in EPA's Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis is consistent with information presented in the principal financial statements;
- (3) adequate internal controls related to the principal financial statements were 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 principal financial statements or RSSI.

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 include two major components -- the Superfund Trust Fund and All Other Appropriated Funds. These two components are 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.

All Other Appropriated Funds

All Other Appropriated Funds consists of the State and Tribal Assistance Grants Appropriation which 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. It also includes the Asbestos Loan Program, Leaking Underground Storage Tank Trust Fund, the Oil Spill Trust Fund, the Agency's Working Capital Fund, and the Environmental Program and Management, Science and Technology, 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:

- the Agency's process for preparing financial statements, including the Statements of Budgetary Resources and Financing;
- recording unbilled Superfund oversight costs;
- accounting for and managing Superfund accounts receivable;
- accounting for and controlling property;
- recording accrued liabilities for grants;
- approving payments for interagency agreements;
- identifying, tracking and reporting EPA's environmental liabilities;
- recording revenue for Superfund state contracts;
- documenting EPA's Integrated Financial Management System;
- complying with federal financial management system security requirements;
- accounting for payments for grants funded from multiple appropriations;
- reconciling the components of Superfund net position;
- identifying and allocating indirect costs;
- reviewing Agency fees; and
- allocating costs to the Superfund Trust Fund.

Attachment 4 summarizes the status of the prior audit report recommendations in each of these areas. 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.

The Chief Financial Officer (CFO), as the Agency's Audit Follow-up Official, oversees EPA's follow-up on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the CFO with various Assistant Administrators, Regional Administrators and Office Directors before they can be completely resolved. A number of issues have been unresolved for a number of years.

On January 13, 2000, the OCFO and the OIG jointly sponsored a meeting with a number of senior managers and representatives from the OCFO, the Office of General Counsel and the Office of Administration and Resources Management to discuss our concerns about the audit management process and the length of time management was taking to complete corrective action on some of our older audit recommendations. The intended outcome of this meeting was to ensure a clear understanding of the roles, responsibilities and processes needed to implement a quality audit management program.

We acknowledge that EPA updated its policy in fiscal 1999 to enhance the audit management process (EPA Order 2750, *Audit Management Process*, revised December 3, 1998). Nevertheless, the Agency's Audit Follow-up Official, OCFO, agreed on a number of additional actions to ensure appropriate resources and priority attention by senior management is devoted to our prior audit issues and that progress and status on these issues is appropriately discussed in management's semiannual reports to Congress. Because efforts are underway by the OCFO to further strengthen and enhance the audit management process, we will monitor the progress during fiscal 2000 to determine if we need to make any audit recommendations concerning the audit follow-up process and management's reporting of progress made on corrective action plans to Congress. Our office will continue to work with the OCFO in helping them to resolve all audit issues resulting from our financial statement audits.

INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 1999 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 1999 financial statements. Following are our opinions on the Agency's financial statements, and the results of our evaluation of internal controls and tests of compliance.

The financial statements include expenses of 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.

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 financial statements. The OIG is organizationally independent with respect to all other aspects of the Agency's activities.

OPINIONS ON EPA'S FISCAL 1999 FINANCIAL STATEMENTS

Superfund Trust Fund Financial Statements

The Agency was unable to provide support in a timely manner for the composition of Other Financing Sources for the Superfund Trust Fund, so we were unable to apply audit procedures to satisfy ourselves as to the fair presentation of this line item. In addition, Note 28 to the financial statements discloses these differences as Custodial Liability Reclassifications and Other which in our opinion does not adequately address the source or composition of these amounts. Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as Other Financing Sources in the Statement of Changes in Net Position and the related effects on Equity and Net Costs of Operations, the financial statements for the Superfund Trust Fund fairly present the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the fund as of and for the year ended September 30, 1999, in accordance with generally accepted accounting principles, as described in Note 1 to the financial statements.

All Other Appropriated Funds Financial Statements

The Agency was unable to provide support for the composition of “Other” in the Statement of Financing for All Other Appropriated Funds, and we were unable to apply audit procedures to satisfy ourselves as to the fair presentation of this line item. Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as “Other” in the Statement of Financing, the financial statements for All Other Appropriated Funds fairly present the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and custodial activity for All Other Appropriated Funds as of and for the year ended September 30, 1999, in accordance with generally accepted accounting principles, as described in Note 1 to the financial statements.

Agency-wide Financial Statements

The Agency was unable to provide support in a timely manner for the composition of Other Financing Sources for the Agency as a whole. In addition, Note 28 to the financial statements discloses these differences as Custodial Liability Reclassifications and Other which in our opinion does not adequately address the source or composition of these amounts. In addition, the Agency was unable to provide support for the composition of “Other” in the Statement of Financing for the Agency as a whole. We were unable to apply audit procedures to satisfy ourselves as to the fair presentation of these line items. Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as Other Financing Sources in the Statement of Changes in Net Position and the related effects on Equity and Net Costs of Operations, and the amounts reported as “Other” in the Statement of Financing the Agency-wide financial statements fairly present the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the Agency as of and for the year ended September 30, 1999, in accordance with generally accepted accounting principles, as described in Note 1 to the financial statements.

Other Significant Matters

Although we were able to render opinions on EPA’s financial statements, weaknesses existed in the Agency’s process for preparing the fiscal 1999 financial statements that resulted in the Agency being unable to provide us with complete, accurate and reliable statements, footnotes and supplemental information by the agreed upon dates. Significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000.

In addition, GRPA requires EPA to develop plans on intended accomplishments, measure how well it is doing, make appropriate decisions based on the information gathered, and communicate information about performance to Congress and the public. To do this, EPA developed a strategic plan with ten goals and during fiscal 1999 began tracking the cost to achieve each of its goals. We found that the Agency’s methodology for accumulating costs by goal could not be relied upon to fairly state costs by goal. The Agency had originally planned to present its Statement of Net Cost

by goal. After we expressed concern about the Agency's ability to fairly present its costs by goal, Agency management decided to present EPA's costs for the Superfund Trust Fund and All Other Appropriated Funds rather than present the information by goal. Weaknesses in this area also affect the quality of cost accounting data Agency managers have available for decision making.

REVIEW OF EPA'S REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION, REQUIRED SUPPLEMENTAL INFORMATION, AND MANAGEMENT DISCUSSION AND ANALYSIS

EPA's Required Supplemental Stewardship Information, Required Supplemental Information, and Management Discussion and Analysis are presented for purposes of additional analysis. We inquired of EPA's management as to their methods of preparing this information and reviewed this information for consistency with the principal financial statements. However, our audit was not designed to express, and we are not expressing an opinion on it.

We did not identify any material inconsistencies between the information presented in EPA's principal financial statements and the information presented in EPA's: (1) Required Supplemental Stewardship Information, (2) Required Supplemental Information, and (3) Management Discussion and Analysis. We did find that EPA was unable, in most cases, to provide Required Supplemental Information about its trading partners. The January 7, 2000, technical amendments to OMB Bulletin 97-01 require agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by federal trading partner (see Attachment 3 for additional details on this issue).

EPA's Management Discussion and Analysis presents performance information about various EPA programs. Our audits of EPA's programmatic areas have identified weaknesses in the environmental data information systems used to generate data used for managing the Agency's environmental programs. The Agency has several initiatives underway to address data quality and ensure that environmental data systems contain timely and accurate data. Although these initiatives move the Agency in the right direction, EPA has not developed an overall strategy to address the completeness of its environmental data. As a result, EPA's ability to evaluate the outcomes of its programs in terms of environmental changes will continue to be limited by gaps and inconsistencies in the quality of its data.

EPA's Management Discussion and Analysis states that the Agency is in compliance with Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." We do not believe the Agency is in compliance with this standard because EPA was not able to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs (see Attachment 3 for additional details on this issue).

EPA's Management Discussion and Analysis also states that, during fiscal 1999, the Agency conducted a review of its user fees in accordance with the requirements of the CFO Act and provisions of OMB Circular A-25, "User Charges." Our audit work showed, however, that the Acting CFO still needs to follow through and either institute, revise, or update its user fees or obtain exceptions from OMB for the user fees identified during the 1997 review, as updated by the 1999 review (see Attachment 3 for additional details on this issue).

EVALUATION OF INTERNAL CONTROLS

We evaluated the Agency's internal controls over financial reporting: (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, processed, and summarized to permit the preparation of reliable principal financial statements in accordance with generally accepted accounting standards;
- financial transactions are executed in compliance with applicable laws and regulations; and
- assets are safeguarded against loss from unauthorized acquisition, use or disposition.

Recognizing on-going work by the General Accounting Office (GAO) on computer security controls, we supplemented our review of these controls by relying on the GAO review. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. Our objective in evaluating controls was not to express an opinion on controls. Consequently, we are not expressing an opinion on EPA's internal controls. 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 system of internal controls, 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 Weaknesses

OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements," defines a material weakness as a situation where internal controls do not reduce to a relatively low level, the risk that errors, fraud or noncompliance in amounts material to the audited financial statements, Required Supplemental Stewardship Information, or reported performance measures 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 weaknesses.

Although the Agency made some improvements in its financial statement preparation processes, the financial statements provided to us for the purpose of expressing an opinion were incomplete and contained significant errors. The financial statements that we used as a basis for rendering our opinions were not received until late February 2000. Further, significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000. The Agency needs to make further improvements in its financial statement preparation process. These improvements should be designed to improve the accuracy and reliability of financial information used to prepare financial statements after the end of the year, as well as the data that is available on an ongoing basis throughout the year to manage EPA's environmental programs. Attachment 1 describes weaknesses in the Agency's financial statement preparation process in more detail.

The Office of Inspector General previously reported concerns that security plans for EPA's core financial systems were not compliant with Federal financial management system requirements. Our work continues to show significant deficiencies for fiscal 1999. As a result, we continue to report the issue as a noncompliance with the Federal Financial Management Improvement Act (FFMIA). (See Attachment 3 for details.) Additional developments for fiscal 1999 support the listing of computer security controls as a material weakness.

EPA's Acting CFO (in his Management Representation letter to us) listed potential vulnerabilities in the Agency's mainframe computer and network servers as an exception to Agency FFMIA compliance. In addition, the Acting CFO cited the lack of sufficient detail in security plans, and security training programs that were under development but not yet completed and implemented, as further exceptions to complying with system requirements.

In addition, a current, more comprehensive, on-going review by the GAO indicates that computer security weaknesses "pose a serious threat to the integrity of EPA's information systems; and if uncorrected could allow unauthorized users to take control of EPA's network operations." The problems are of such magnitude that the security program was rendered ineffective. There have been numerous computer incidents identified, but the system to document and manage the incidents is inadequate. The operating computer and network controls were vulnerable to tampering and disruption of services. EPA is vulnerable to serious disruptions, disclosure of data and destruction of data. A Congressional Committee, citing the seriousness of the vulnerability, plans a March 2000 hearing on the issue.

Relying on the work of GAO and our efforts, and noting the concern of the Acting CFO, we consider the lack of adequate computer security controls a material weakness.

Reportable Conditions

We also identified the following reportable conditions. OMB Bulletin 98-08 defines a reportable condition as an internal control weakness that could adversely affect EPA's ability to ensure: (1) transactions are executed in accordance with applicable laws; (2) assets are safeguarded against

unauthorized acquisition, use, or disposition; (3) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and Required Supplemental Stewardship Information in accordance with generally accepted accounting principles; and (4) transactions are properly recorded, processed and summarized to permit the preparation of reliable performance information.

- The Agency did not timely identify and deobligate unnecessary funds during its annual review of inactive obligations. Therefore, the Agency had to conduct a special review of its open obligations to ensure an accurate reporting of its open obligations in the Agency's financial statements. The special review identified \$14.6 million of open obligations which should have been deobligated by September 30, 1999 in addition to the \$10 million which should have been deobligated based on the fiscal 1998 special review. In addition, our fiscal 1999 audit work identified another \$6.3 million which should have been deobligated by September 30, 1999.

- During fiscal 1999, the Agency continued its efforts to improve controls in the accounts receivable area. However, we continued to find: (1) accounts receivable that were not recorded and billed timely, (2) accounts receivable balances in the Agency's Integrated Financial Management System (IFMS) were not reconciled to subsidiary records, (3) outstanding receivables were not timely followed up on and written off, and (4) collection transactions were not properly recorded. Consequently, some accounts receivable may not be correctly valued and timely collected. These problems were primarily caused by Offices of Regional Counsel and program offices not timely forwarding documentation needed to manage accounts receivable to the financial management offices.

- Some Agency project officers were not fulfilling one of their program oversight duties, that of timely reviewing and approving interagency agreement invoices. In addition, some project officers were not obtaining and reviewing supporting cost documentation for amounts billed by other agencies. The Agency needs to continue making improvements in this area, so that it can be assured that payments are only made for costs billed that are valid and allowable under the terms of its interagency agreements.

- For a number of years, we have reported that EPA needs to make improvements in accounting for its property. The Agency has been addressing weaknesses in its accounting for property; however, our fiscal 1999 audit work disclosed the need for further corrective actions. We again found property that was not recorded or not recorded timely or accurately. In addition, we found weaknesses in the reconciliation of property information in the Agency's accounting system with information contained in the property subsystem. When property is not accurately accounted for it impacts the quality of data available to manage EPA's resources and increases the risk of theft, loss or misuse of the property.

- 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 accounting transactions contained in the Agency's IFMS. We recognize the Agency has initiated a work group to replace the Agency payroll system, and the Agency's budget request indicated a desire to replace IFMS in

the near future. An active data dictionary would simplify conversion of data in implementing future financial systems.

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.

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

As required by OMB Bulletin 98-08, we compared EPA's Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) Report with our evaluation of the Agency's internal control systems. For reporting under FMFIA, material weaknesses are defined differently than they are defined 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. OMB Bulletin 98-08 defines a material weakness as a weakness in controls that creates a risk that errors, fraud or noncompliance in amounts material to the financial statements could occur and not be timely detected.

As a part of the fiscal 1999 Integrity Act process, the Agency reported the following two material weaknesses that relate to the Agency's financial statements.

- **Construction Grants Close Out.** In 1992, EPA designated this area as an Agency weakness and in 1996 reclassified it as a material weakness due to the concern that lack of Agency-wide attention might result in the loss of resources to properly complete the program. In addition, there were concerns that millions of dollars in potentially ineligible program costs might not be available for reuse on other high priority state clean water projects. The Agency is in the process of implementing its corrective action strategy and expects to close out all construction grants by 2006.

- **Information Systems Security Plans.** Our audits have identified deficiencies in the Agency's information security planning. Security plans serve as a management control mechanism to assist officials in the implementation of Agency security policies and in protecting valuable information technology resources. Organizational security programs are to include the development, maintenance, and management reviews of information security plans; to date, the Agency's program and regional offices are not fully compliant. At risk is the possible unauthorized access, use, modification, or destruction of EPA information resources that could result from exploitation of these vulnerabilities. As previously noted, we also consider this weakness a material weakness, as well as a FMFIA noncompliance.

As a part of the Agency's Integrity Act process, the Agency did not identify and report the financial statement preparation process as a material weakness. Rather the Agency elected to track the Agency's corrective actions in the financial statement preparation process as an Agency-

level weakness. We believe the Agency should report weaknesses in its financial statement preparation process as an Integrity Act material weakness.

TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS

We tested compliance with provisions of those laws and regulations that could either materially affect the financial statements or RSSI, 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. Consequently, we do not express 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 FFMIA, as a part of our audit, we assessed whether EPA's financial management systems substantially complied with Federal financial management systems requirements, applicable accounting standards, and the Standard General Ledger at the transaction level. In planning, performing and reporting on our tests of compliance, we followed OMB Bulletin 98-08, **Audit Requirements For Federal Financial Statements.**

We found EPA was not in substantial compliance with the FFMIA requirements because of weaknesses in: (1) the Agency's process for preparing financial statements, and (2) its computer security controls. We also identified the following instances of substantial noncompliance with FFMIA requirements. Attachment 3 describes the following two noncompliance issues in more detail and provides our recommendations on actions that should be taken to correct these noncompliances.

- ! EPA's methodology for accumulating and reporting costs by the Agency's ten strategic goals could not be relied upon to fairly state the Agency's costs to achieve each goal. Weaknesses in this area affected the quality of cost accounting data EPA managers had available during fiscal 1999 to manage their programs. In addition, the Agency was not in compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 that requires EPA to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs.
- ! EPA was unable, in most cases, to report its intra-governmental assets and liabilities by trading partner because finance offices were not coding transactions to show this information. The Treasury Financial Manual requires agencies to report trading partner information, so Treasury can eliminate intra-governmental transactions when it prepares the

Financial Report of the United States Government. Agencies also need this information, so they can manage their assets and liabilities.

Other Noncompliance Issues

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

Disbursements for Multiple Appropriation Grants. 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. A January 13, 2000, Office of General Counsel decision concluded that making disbursements for multiple appropriation grants using the oldest available funding first violates 31 U.S.C. 1301 and is an inappropriate method of charging, except in limited situations.

User Fees. In response to our prior audit report findings, EPA's OCFO conducted biennial reviews of user fees required by OMB Circular A-25, **User Charges** and the CFO Act. The November 1997 review showed five current fees, four proposed fees, and eight exceptions. To be in complete compliance with OMB Circular A-25, the Acting CFO needs to follow through and either institute, revise, or update its user fees or obtain exceptions from OMB for the user fees updated in 1997, as updated by the 1999 review. See Attachment 3 for a further discussion of this issue, including the Agency's comments on this issue and our recommended corrective action.

RESPONSIBILITIES AND METHODOLOGY

EPA MANAGEMENT RESPONSIBILITIES

EPA's management is responsible for:

- preparing annual financial statements and Required Supplemental Stewardship Information;
- 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 generally accepted accounting principles, and
- evaluating related internal controls and testing compliance with applicable provisions of laws and regulations.

AUDIT METHODOLOGY

In order to fulfill our responsibilities, except as described in our opinions, we:

- examined on a test basis, evidence supporting the amounts and disclosures in the principal 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 controls over financial reporting, determined whether they had been placed in operation, assessed control risk, and tested the effectiveness of significant manual controls 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
- gained an understanding of the significant internal controls related to the RSSI;
 - inquired of EPA's management as to their methods of preparing EPA's Required Supplemental Information;
 - compared EPA's RSSI and Required Supplemental Information with the Agency's principal financial statements;
 - obtained an understanding of the automated internal control structure of the subsystem interfaces with IFMS;
 - completed a separate audit addressing the adequacy of critical mainframe operating systems libraries, program property tables and supervisory call programs;
 - reviewed the work of the GAO relative to computer security controls at EPA to determine their findings and that we could rely on their work;
 - documented the status of corrective actions in the Agency's FFMIA remediation plan, dated March 31, 1999;
 - 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 FFMIA;
 - compared the material weaknesses reported in the Agency's FFMIA report to the material weaknesses we found;
 - tested compliance with applicable sections of laws and regulations that either materially affect the financial statements or RSSI, 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,³ applicable accounting standards, and the Standard General Ledger at the transaction level as required by the FFMIA.

Detailed system documentation was not available that would have allowed us to develop an understanding of the IFMS automated transaction level control structure and to test those automated controls. Our systems compliance work also was limited to evaluating the scope and methodology of three reviews performed by the Treasury Financial Management Service: (1) EPA Financial Systems=Compliance with OMB Circular A-127, dated November 4, 1999; (2) IFMS Documentation Evaluation, dated September 1999; and (3) EPA Financial Systems=Compliance with OMB Circular A-130, dated August 25, 1999. In addition, we performed field work to evaluate the adequacy of Agency actions to revise core financial systems security plans, which were identified in the Agency FFMIA remediation plan, dated March 31, 1999.

We met with GAO and discussed the results of their computer security control review of EPA and attended the GAO exit conference with EPA on February 2, 2000. This allowed us to develop an understanding of the issues. We reviewed a GAO summary of the issues and reviewed supporting work papers. We further reviewed the qualifications of the GAO staff and obtained assurance of their independence to satisfy ourselves that we could rely on their work.

The information presented in EPA's Management Discussion and Analysis is supplemental information required by OMB Bulletin 97-01, entitled "Form and Content of Agency Financial Statements." OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements," requires that we obtain an understanding of the internal controls designed to ensure that data supporting the measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information. Our audit work related to EPA's Management Discussion and Analysis was limited to comparing the financial information included in the document 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.

³ We evaluated whether EPA was in substantial compliance with OMB Circular A-127; OMB Circular A-130, Appendix 3; and Joint Financial Management Improvement Program system requirements, as identified in OMB Bulletin 98-08. We also evaluated systems budgetary reporting requirements, as stated in OMB Circular A-11.

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; the Office of Enforcement and Compliance Assurance (OCEA); 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 audit was performed from June 9, 1999 through February 24, 2000. 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, issued by the Comptroller General of the United States; and OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements.⁶ 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.

This report is intended solely for the information and use of the management of EPA, OMB and Congress, and it is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses and noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

James O. Rauch
Assistant Inspector General for Audit
U.S. Environmental Protection Agency
February 24, 2000

ATTACHMENT 1

MATERIAL WEAKNESS

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FURTHER IMPROVEMENTS NEEDED IN THE AGENCY'S PROCESS FOR PREPARING FINANCIAL STATEMENTS

The Government Management Reform Act (GMRA) requires EPA to submit its audited financial statements to OMB by March 1. To ensure timely completion of the fiscal 1999 audited financial statements, our office and the Office of the Chief Financial Officer (OCFO) agreed that the OCFO would provide us a complete set of financial statements with related footnotes and supplemental information by December 3, 1999, with the exception of selected items that would be provided no later than December 15, 1999. This information would be used as the basis for expressing our opinions. The final financial statements would be provided to us by January 18, 2000.

Weaknesses in the Agency's process for preparing the fiscal 1999 financial statements resulted in the Agency being unable to provide us with complete, accurate and reliable statements, footnotes and supplemental information by the agreed upon dates. Significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000. As a result, the financial statements we used as a basis for rendering our opinions were not received until late February 2000.

OMB Bulletin 98-08 requires that audited financial statements be prepared and submitted to the agency head in sufficient time to enable the agency head to meet the GMRA due date. The fiscal 1998 audited financial statements were issued on September 28, 1999. EPA was unable to meet the March 1, 1999 deadline due to difficulties in obtaining information from other Agency offices and external sources, and problems in implementing new accounting standards and OMB reporting requirements. These issues highlighted the need for the Agency to strengthen its coordination and quality control processes to ensure accurate data is available to prepare the annual financial statements and to manage the Agency's program activities on an ongoing basis. During the fiscal 1998 audit, we reported financial statement preparation as a material weakness. The Agency subsequently declared financial statement preparation as an Agency-level control weakness.

The Agency agreed to implement corrective actions to improve the preparation of the fiscal 1999 financial statements. These corrective actions included: (1) developing a planning document with milestones and responsibilities to prepare the statements, (2) establishing a Quality Control Group, (3) updating policies and procedures for preparing the financial statements, and (4) the Director, Financial Management Division (FMD) certifying as to the accuracy and completeness of the financial statements. In order to prepare the fiscal 1999 financial statements, the Agency analyzed the preparation process, established comprehensive time lines, improved the planning and coordination to prepare the statements, assessed resources needed to complete the preparation and review, strengthened its quality control process, and involved senior management. Despite these efforts, during fiscal 2000, EPA continued to encounter difficulties in the preparation of timely, reliable financial statements.

On December 3, the Director, FMD, submitted to us the financial statements, footnotes, supplemental information and supporting documentation; and on December 15, additional information was provided. The Agency met the committed milestones and improved the quality of the content and presentation of this submission compared to submissions received in prior years. However, the Agency's process for the preparation of the financial statements was not sufficient to keep its commitments to provide us accurate and reliable statements, footnotes and supplemental information prepared in accordance with OMB Bulletin 97-01. While continuous quality control is important, at the time the statements were submitted to us, the Agency's internal quality control review had not been completed. Based on our preliminary review of financial statements submitted to us on December 3, 1999, we identified a number of significant deficiencies that would have affected our opinion. We continued to find significant deficiencies on the financial statements submitted to us on January 19, 2000 and February 12, 2000. The final financial statements that we used as a basis for rendering our opinions were not received until late February 2000. Included as an addendum is a listing of some of the issues we identified during our audit.

The number and type of errors and omissions we noted in the fiscal 1999 statements shows the OCFO's current process for preparing financial statements needs further improvement. The requirement for audited financial statements was enacted to bring about improvements in agencies' financial practices, systems, and controls so that *timely, reliable* information is available for use by the executive branch of the government and the Congress in the financing, management and evaluation of Federal programs. When information submitted to us is not accurate and reliable for the purpose of opining on the financial statements, we believe this is an indication that the Agency needs to make further financial management improvements to meet the intent of the CFO Act and GMRA. Using audit staff to perform quality control reviews of financial information after the end of the year does not provide a means to ensure financial data in EPA's financial accounting system is accurate on an ongoing basis. Process improvements should be designed not only to improve the preparation of the financial statements at year-end, but also to provide Agency managers with information that is accurate and reliable for use on a day-to-day basis to manage Agency programs. In particular, the Agency needs accurate, reliable information on costs expended to achieve its environmental goals (See Attachment 3, "EPA Was Not Able to Accurately Account for the Cost to Achieve Each of its Goals").

RECOMMENDATIONS

We are not making any new recommendations at this time, as the Agency has not completed its implementation of corrective actions in response to our fiscal 1998 recommendations. We believe the significance of the issues we identified is an indication that the Agency needs to make further financial management improvements. Therefore, the Agency should report financial statement preparation as a fiscal 2000 Integrity Act material weakness, if weaknesses are not corrected by fiscal 2000 year-end.

AGENCY COMMENTS AND OIG EVALUATION

In responding to the draft report, the Acting CFO disagreed that the financial statement preparation process should be reported as a material weakness. While the Acting CFO agreed that further improvements need to be made to the process for preparing financial statements, he did not believe the findings support categorization as a material weakness. In commenting on our addendum on the presentation and preparation issues, the Acting CFO noted agreement with some changes but noted a number of findings were not “errors,” but rather differences in professional judgement on the application of accounting standards.

The Acting CFO also disagreed that our finding is indicative of the Agency’s inability to “provide Agency managers with information that is accurate and reliable for use on a day-to-day basis to manage Agency programs.” The Acting CFO indicated that our findings are pertinent to the year-end financial statement presentation and do not reflect upon the accuracy of the underlying accounting data. Agency managers have a variety of management reports and ad hoc reports to manage their programs on an ongoing basis.

We believe the cited weaknesses in the Agency’s financial statement processes are significant enough to continue to be reported as a material weakness. The requirements for audited financial statements were enacted to bring about improvements in agencies’ financial practices, systems and controls so that *timely, reliable* information is available for managing Federal programs. Agency management is ultimately responsible for the timely and reliable preparation of the financial statements. As indicated, the December 3, 1999, January 19, 2000 and February 12, 2000 financial statements contained significant deficiencies that would have affected our opinions. Significant issues were still being resolved in mid-February 2000, and final statements with all significant issues corrected, with the exception of those affecting “Other Financing Sources” in the Statement of Changes in Net Position and “Other” in the Statement of Financing, were not received until late February 2000.

We believe the Agency continues not to realize the severity of the problems noted. The Agency continues to dismiss our findings as OIG presentation preferences, differences in professional opinion, or needed changes are immaterial to the fair presentation of the financial statements. While we purposely did not list all the issues found in the addendum due to time constraints, other significant issues existed such as various OCFO adjustments, the adequacy of supporting documentation for the adjustments, and its resultant effects on one or more of the principal statements. In addition, we do not believe that the Agency has an effective and comprehensive quality control process to provide a means for identifying and correcting errors in the financial statements. The Agency needs to continue to make process improvements to improve the preparation of the financial statements and to provide Agency managers with information that is accurate and reliable for use on a day-to-day basis. We strongly encourage the Acting CFO to undertake immediate corrective action in response to our fiscal 1998 recommendations.

**PRESENTATION AND PREPARATION ISSUES
FOR THE FISCAL 1999 FINANCIAL STATEMENTS**

The issues described below illustrate the weaknesses we found regarding the Agency's presentation and preparation of its fiscal 1999 financial statements. This listing is not totally inclusive and therefore does not represent all of the weaknesses found. The number and type of errors, omissions, and significance of the issues are characteristic of the weaknesses found.

Balance Sheet.

- The Intra-governmental Trust Fund activity was not properly eliminated in the 12/3/99 statements and footnotes. This resulted in: (1) a \$2.9 billion overstatement of the Superfund "Accounts Receivable" balance, and (2) a \$134 million overstatement in the All Other "Accounts Receivable" balance. This issue is now resolved. There was still an outstanding balance of \$52.2 million for All Other "Accounts Receivable" on the 1/19/00 statements for which an adjustment was needed. This issue was corrected on the 2/12/00 statements.
- The Working Capital Fund activity was not eliminated on the 12/3/99 consolidated financial statements. This issue was corrected on the 1/19/00 statements.

Statement of Net Cost.

- Intra-agency Working Capital Fund revenues and expenses were not eliminated on the 12/3/99 statements. This issue is now resolved.
- Intra-agency elimination column and imputed interest and expense allocations on the 12/3/99 statements were reversed and therefore did not agree with the detailed schedules. This issue was corrected on the 1/19/00 statements.
- "Intra-governmental" costs of \$7.2 billion and "With the Public" costs of \$843 million on the 1/19/00 statements were reversed. This issue is now resolved.
- Adequate support was not provided for the crosswalk used to align costs to the Agency's strategic goals as the approach used did not provide adequate audit evidence of actual expenditure by goal. This issue is outstanding (See Attachment 3).
- Adequate support was not provided for the Superfund account 5990 balance of \$364 million and its classification on the 1/19/00 statements. This issue is now resolved.

Statement of Net Cost, Statement of Financing, and Statement of Net Position.

- The presentation of the 1/19/00 Statements of Net Cost, Financing and Net Position did not properly present the "Income/Expenses from Other Appropriations" balance of \$35.7 million. The cost was properly reported on the Statement of Net Cost to reflect the total cost of the fund. However, the Agency improperly included "Income from Other Appropriations" on the Statement of Net Cost. This caused the "Net Cost of Operations"

to be understated. Such income should be disclosed on the Statement of Changes in Net Position and should be shown as a financing source on the Statement of Financing. This change also impacted the footnote. This issue is now resolved.

Statement of Budgetary Resources.

- Adequate documentation was not provided to support the Superfund “Unobligated Balance - Beginning of Period” on the 12/3/99 statements and the amount reported to OMB on the SF-133. Upon obtaining OMB assistance, the Agency adjusted the fiscal 1999 statements to agree with the SF-133. This issue is now resolved.

Statement of Custodial Activity.

- The 12/3/99 statement contained material misstatements. The statement’s format was inconsistent with last year’s presentation. The statement incorrectly listed “Tax Revenues,” and showed a material amount as “Miscellaneous.” Excise tax revenue for LUST was incorrectly included as “Tax Revenues.” “Miscellaneous” contained fines and penalties that were reported separately last year and the supporting schedule for the miscellaneous amount did not foot. “Increase (Decrease) in Amounts Yet to be Transferred” was mathematically incorrect and materially misstated. The 1/19/00 statement also contained material misstatements. The “Retained by the Reporting Entity” balance of \$267 million was mathematically incorrect, materially misstated and did not belong on the statement. The “Increase (Decrease) in Amounts to be Transferred” balance of \$8.6 million was mathematically incorrect and materially misstated. These issues are now resolved.

Statement of Changes in Net Position.

- “Other Financing Sources” amount on the 12/3/99 statements was a positive rather than a negative amount. This issue was corrected on the 1/19/00 statements.
- Superfund “Increase (Decrease) in Unexpended Appropriation” balance of \$93.4 million on the 1/19/00 statements did not agree to the general ledger detail. This issue is now resolved.
- All Other “Transfers-Out” balance of \$25 million on the 1/19/00 statements was a positive rather than a negative amount, accordingly the account needed to be reclassified as a “Transfers-In.” This issue is now resolved.
- Superfund “Other Financing Sources” balance of \$1.6 billion on the 1/19/00 statements contained an unsupported amount of \$33.9 million; similarly the LUST portion of the All Other “Other Financing Sources” balance was not supported. The unsupported amounts could also affect equity and net cost of operations. This issue is outstanding.

Statement of Financing

- Superfund “Other Resources” balance of \$334 million on the 1/19/00 statements was material and required classification. This issue is now resolved.
- Superfund “Transfers-In” balance of \$325 million on the 1/19/00 statements did not belong on the statement. This issue is now resolved.

- Superfund “Loss on Disposition of Assets” balance of \$477 thousand on the 1/19/00 statements did not agree with support of \$483 thousand. This issue is outstanding.
- Superfund “Depreciation and Amortization” balance of \$319 thousand on the 1/19/00 statements did not agree with support of \$2.595 million. This issue is now resolved.
- “Change in Amount of Goods, Services and Benefits Ordered but Not Yet Received or Provided” for All Other on the 1/19/00 statements was not properly supported. This issue is now resolved.
- “Costs Capitalized on the Balance Sheet” on the 1/19/00 statements was misstated for Superfund and All Other and did not agree to changes in property accounts. This issue is now resolved.
- “Financing Sources that Fund Costs of Prior Periods” on the 1/19/00 statements was listed, but without balances. Balances were provided for All Other on the 2/24/00 statements, however, support was not adequate.
- “Loss on Disposition of Assets” for All Other on the 1/19/00 statements did not agree to the general ledger detail by approximately \$3 million. This issue is now resolved.
- “Other” of approximately \$40 million for All Other and \$241,000 for Superfund on the 2/24/00 statements was not supported. This issue is still outstanding.

Grant Accrual.

- The grant accrual amount was not provided by December 15, as difficulties existed in obtaining the needed information from grantees. The Agency also misstated the total grant expenditures in calculating the grant accrual. This issue was corrected on the 1/19/00 statements.

Trading Partners.

- Omitted from the 12/3/99 statements. This issue was corrected on the 1/19/00 statements.
- The trading partner information included as Required Supplemental Information on the 1/19/00 statements did not agree with the line item reported on the balance sheet as required by OMB Bulletin 97-01. This issue is now resolved.
- Intra-governmental trading partner information for accounts receivable and liabilities cannot be identified as required by OMB Bulletin 97-01 and the Treasury Financial Manual. This issue is outstanding (See Attachment 3).

Expense Allocation.

- The expense allocation is an estimate of the expenses reallocated from the All Other fund to Superfund and FIFRA to show the full cost of these funds’ activities. The calculation was affected by input errors, unsupported spreadsheet balances, and Office of Pesticide Programs (OPP) support which was not properly applied. This issue is now resolved.

Deferred Maintenance.

- This information was omitted from 12/3/99 statements. This issue was corrected on the 1/19/00 statements.

Pension and Other Post-retirement Benefits

- OCFO staff correctly computed the imputed costs and revenues for Pension and Other Post-retirement Benefits for All Other Funds (Non-Superfund) as per OMB guidance. Originally these amounts were entered correctly in the All Other portion of the trial balance. These amounts were subsequently backed out and a new amount, without the portion attributable to FIFRA was re-entered. FIFRA amounts should be included as part of the All Other portion of the financial statements as well as presented in the stand alone financial statements for this Fund. The total amount of the difference was \$2,047,766. This issue was resolved on the 1/19/00 statements by the OCFO staff posting the imputed amounts related to FIFRA back to the imputed amounts for All Other Funds.

Footnotes were omitted or incomplete:

- The Statement of Budgetary Resources footnote was omitted from the 12/3/99 statements to describe a material amount shown as “Adjustments.” This issue was corrected on the 1/19/00 statements.
- Unfunded Liabilities footnote on the 12/3/99 Statement of Financing was omitted. This issue was corrected on the 1/19/00 statements.
- Payroll footnote #1R on both 12/3/99 and 1/19/00 included the wrong contribution and/or withholding rates. This issue is now resolved.

ATTACHMENT 2

REPORTABLE CONDITIONS

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FURTHER IMPROVEMENTS NEEDED IN EPA'S PROCESS FOR REVIEWING ITS UNLIQUIDATED OBLIGATIONS

EPA was required to make a \$31 million adjustment to the fiscal 1999 financial statements due to weaknesses in its process for reviewing unliquidated obligations. Specifically, during its annual review, the Agency did not timely identify and deobligate some unnecessary funds. As a result of weaknesses in the process for reviewing unliquidated obligations, the Agency had to perform an additional special review in order to obtain a more accurate accounting of its unliquidated obligations. This special review identified \$14.6 million of open obligations which should have been deobligated by September 30, 1999, in addition to the \$10 million which should have been deobligated based on the fiscal 1998 special review. Our fiscal 1999 audit discovered an additional \$6.3 million which should have been deobligated by September 30, 1999. Various regulations including GAO, OMB, Department of Treasury, and EPA policies address EPA's responsibility to review obligations annually and to deobligate all unnecessary funds.

EPA Office of the Comptroller Policy Announcement 96-04 and OMB guidance require EPA to review unliquidated obligations at least once each year to ensure that transactions are valid, i.e., that appropriated funds are still available for the purpose and time period specified, and an actual need still exists within the life of that appropriation. As a part of this annual review, the Financial Systems Branch and both the Cincinnati and Research Triangle Park Financial Management Centers send reports to each responsible office for their review. The reports list inactive unliquidated obligations. For travel obligations, the reports include items with no activity in the last three months. For all other obligations, the reports include items with no activity in the last six months. EPA's policy requires responsible officials to ensure that appropriate staff review the inactive unliquidated obligations administered by their offices. These officials are also responsible for certifying that the review was completed and appropriate deobligation made. These certifications are then sent to the Financial Reports and Analysis Branch which verifies the submissions. We performed audit work in four regional offices and four financial management centers and concluded that the review and deobligation processes need to be further improved.

Our fiscal 1998 audit of EPA's financial statements disclosed material weaknesses in the accounting for obligations. After the close of that fiscal year, the Agency performed a special review of unliquidated obligations which identified \$99.6 million in open obligations which should have been deobligated before the close of the year. The review also identified a problem with incorrect conversion in 1989, of obligation transactions from the predecessor accounting system to IFMS. All of these weaknesses prevented the Agency from preparing timely and accurate Statements of Budgetary Resources and Financing for fiscal 1998.

Our fiscal 1999 audit work showed that EPA's process for reviewing inactive unliquidated obligations to determine whether they are valid needs further improvement. Because the mandated annual review was not entirely effective in identifying and deobligating invalid obligations, the

Agency continued to have to rely on a special review (performed subsequent to the closing of the general ledger) to determine the true status of obligations. After this review is completed, adjustments must be made in order for the financial statements to be presented fairly. The certification of the annual review is also unreliable. Significant invalid obligations continue to be detected by the Agency and the auditors not long after those same funds have been certified as valid.

Weaknesses in EPA's deobligation process have been previously documented by both internal and external reports. For fiscal 1999, improvements were made in the process. The Agency was more aggressive in identifying invalid obligations and initiating the deobligation process, and as a result, reduced the adjustment by over \$70 million. Although improvements were made in fiscal 1999, the Agency still experienced difficulties in completing the deobligation process before the end of the fiscal year. For fiscal 1998, for example, the Agency executed a \$102.4 million, on-top adjustment to reduce unliquidated obligations. By the end of fiscal year 1999, \$10 million of those dollars still had not been deobligated. In at least one case, a deobligation request was reportedly submitted to FMD, but was never processed.

RECOMMENDATIONS

Since some findings are similar to our fiscal 1998 reported issues, we are not repeating the respective fiscal 1998 recommendations, as the Agency has not completed its implementation of corrective actions.

We recommend the Acting Chief Financial Officer (CFO):

- 2.1 incorporate the same analysis of individual obligations applied in the special year-end review into the annual review in order to perform one, thorough annual review. For example, the Agency should develop reports which emphasize older, open unliquidated obligations; and
- 2.2 require FMD to verify that deobligation requests have been processed in the IFMS and that prescribed annual review and deobligation processes are completed at each location.

AGENCY COMMENTS AND OIG EVALUATION

In responding to the draft report, the Acting CFO stated that during the annual review, program managers receive reports that show the budget fiscal year and last action date for each open obligation, so they can identify older obligations. The Acting CFO also characterized the special review as a review designed for financial statement presentation to identify unliquidated obligations which are candidates for deobligation as of September 30.

We believe that program managers are not emphasizing the review of older obligations during the annual review. This is evidenced by the need for a special year-end review. We believe the

Agency could more efficiently use its resources by performing only one thorough annual review of unliquidated obligations.

OCFO believes that its new procedures have addressed our recommendations to have FMD verify that deobligation requests have been processed in the IFMS and that prescribed annual reviews and deobligation processes are completed at each location. The Agency's new procedures require the responsible officials to follow up to make sure that deobligation requests are processed in the financial system. Additionally, the OCFO in the FY 2000 Quality Assurance Workplan guidance memorandum instructed Regional Comptrollers and Financial Management Officers to include unliquidated obligations in their review plans.

We are encouraged by the actions of OCFO, but still see a need for FMD to monitor the deobligation process and verify that responsible officials have followed up to make sure deobligations were processed correctly.

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 has taken corrective actions to improve controls in this area, however, we continued to find: (1) accounts receivable that were not recorded and billed timely; (2) accounts receivable balances in IFMS that were not reconciled to the subsidiary records; (3) outstanding receivables that were not timely follow-up on and written-off; and (4) collection transactions that were not properly recorded. Consequently, some accounts receivable 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 and other information needed to manage accounts receivable to Agency FMOs.

Some 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 closing instructions all require accounts receivable to be recorded in the accounting system completely, promptly and at the appropriate value. In Region 2, we identified ten receivables, valued at \$60,877,192 that were not recorded in IFMS within the established time frames. These receivables were recorded from 3 days to 136 days beyond the time frames established by the Agency. During any lapse of time when valid receivables are not recorded, the debtor may not be appropriately billed, interest may not accrue, and EPA may not be paid the debt owed. In most cases, the untimely recording of these receivables was attributed to the ORC or program offices not promptly forwarding the appropriate documentation to the FMO.

Accounts Receivable Were Not Properly Reconciled to Subsidiary Records

RMDS 2540, Chapter 9, Cash Management: Receivables and Billings, paragraph 9. f.(2) requires the reconciliation of accounts receivable between the general ledger (IFMS) and the manual subsidiary records. Chapter 14 of RMDS 2550D contains similar requirements for Superfund accounts receivable.

Our audit work, in Region 5, found that accounts receivable recorded in IFMS did not always reconcile to the subsidiary records because the region had not reconciled its Superfund Cost Recovery Collection Tracking System (CTS) to IFMS. Reconciliations are designed to identify receivables that have not been recorded or recorded at the correct amount. The untimely or

4 RMDS 2550D, Chapter 14 contains similar guidance applicable for Superfund accounts receivable.

incorrect recording of receivables could result in inaccurate or understated information recorded in both the financial statements and internal EPA reports used for monitoring and managing accounts receivable.

Outstanding Accounts Receivable Were Not Always Properly Managed

According to RMDS 2540, Chapter 9, paragraph 9.b.(3), the FMO is responsible for performing a quarterly review of accounts receivable files and disposing of uncollectible receivables. RMDS 2550D, Chapter 14, paragraph 10 states that any changes affecting amounts due, status of debts, and information on cases closed by the Department of Justice (DOJ) or bankruptcy court should be communicated between the FMO and ORC. Once notified by the FMO that a debt is 120 days in arrears, RMDS 2540, Chapter 9 requires that ORC must 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.

During our audit, we found that uncollectible accounts receivable were not timely written off due to communication problems between FMOs and ORCs. In some cases, ORCs were aware of certain actions initiated by DOJ but did not provide FMOs with available information about the status of overdue receivables, collection actions initiated, the changes affecting amounts due, and the cases closed by DOJ or the bankruptcy court.

For example, in Region 5 we found that our recommendation from fiscal 1998 regarding timely communicating with the Comptroller Branch on the status of receivables had not been implemented. Specifically, ORC did not always: (1) notify the Comptroller Branch of the selected collection option within 30 days of the Comptroller's referral of a delinquent receivable to ORC, and (2) communicate within three days to the Comptroller Branch any changes affecting amounts due, status of debts, and cases closed by DOJ or the bankruptcy court. Additionally, in Region 2, DOJ had officially closed the bankruptcy proceedings of two receivables and reversed the ruling on a third. However, the FMO was not notified of DOJ's action until 1 to 3 years after the decisions were made. The value of these receivables totaled \$3,039,525.

Timely follow up on accounts receivable is particularly important in Superfund cost recovery cases. Since the Superfund Trust Fund is a revolving fund, collection of money from responsible parties is necessary to replenish the Fund. When debts are not collected timely, the chances of collecting all amounts owed decreases. Debtors may not be reachable and/or not in business or assets may be diverted. As a result, less funds could be available in the future to clean up contaminated sites.

Collection Transactions Were Not Properly Recorded

The Statement of Federal Financial Accounting Standards No. 1, **Accounting for Selected Assets and Liabilities**; RMDS 2540, Chapter 9, **Receivables and Billings**; and FMD's year-end closing instructions all require accounts receivable to be recorded in the accounting system completely, promptly and at the appropriate value. Specifically, year-end guidance to the FMOs stated that IFMS would be open until October 15 for input of fiscal 1999 transactions such as expense or revenue accruals or obligations that had not been entered by September 30. During this time, FMOs were required to manually enter the appropriate fiscal year for all transactions. RMDS 2540, Chapter 10, **Receipts and Deposits**, paragraph 8 states: **Funds should be deposited immediately (in accordance with Paragraph 5) and the nature of the remittance subsequently determined. Suspense account 68X6875 should be used for depositing unidentified collections.** However, RMDS 2540, Chapter 10 does not specify what constitutes a reasonable period of time for identifying the funds and applying them to the appropriate accounts.

Our audit work in Region 4 found that: (1) collection transactions were not recorded in the proper period, and (2) amounts were held in suspense accounts for a lengthy time. The region erroneously recorded three collection transactions that totaled \$70,157 in both fiscal 1999 and fiscal 2000. In addition, the balance in the region's suspense account, \$1.4 million, had not changed from fiscal years 1997 to 1999. Region 4 indicated that these amounts represented entries made in prior years, possibly as early as 1989, when the Agency made the transition from the old FMS to the new IFMS. It is possible that the balance represents collections that should have been offset against various accounts receivable. Therefore, Region 4's accounts receivable could potentially be misstated.

RECOMMENDATION

Since some findings are similar to our fiscal 1998 reported issues, we are not repeating the respective fiscal 1998 recommendations, as the Agency has not completed its implementation of corrective actions.

We recommend the Acting Chief Financial Officer (CFO):

- 3.1 revise RMDS 2540 Chapter 10 to include a timeframe for clearing balances held in suspense accounts.

AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO concurred with our recommendation and will include a timeframe for clearing balances in suspense accounts while revising RMDS 2540 Chapter 10. In addition, the Acting CFO stated that the Agency is continuing to make improvements in the management of its accounts receivable and is more effectively managing its receivables. He acknowledged continued improvements are needed to ensure that all documents establishing accounts receivable are

provided more timely to the FMOs by the program offices, regional counsel offices, and DOJ. However, he did not believe the findings cited were sufficient to conclude a chronic timeliness problem exists. The Acting CFO believes the entire accounts receivable finding should be removed from the final audit report.

We acknowledge that steps that have been taken to improve the Agency's accounts receivable practices; however, we do not agree that the finding should be removed since we continued to find problems in this area during our fiscal 1999 audit.

ADDITIONAL IMPROVEMENTS NEEDED IN EPA'S INTERAGENCY AGREEMENT INVOICE APPROVAL PROCESS

Some EPA project officers in Regions 2 and 5, Cincinnati and Headquarters were not fulfilling one of their program oversight duties, that of reviewing and approving Interagency Agreement (IAG) invoices. Specifically, we found instances where project offices were not timely approving IAG invoices and instances where they were approving invoices without first obtaining the supporting documentation for the costs billed on the invoice. Weaknesses in the IAG approval process occurred because project officers were not: (1) fully aware of their duties and responsibilities for approving IAG invoices, (2) held accountable for promptly approving IAG invoices, or (3) the other Federal agency submitting the invoice was not providing supporting cost information. As a result, EPA's Cincinnati Financial Management Center (CFMC) recorded these transactions in the accounting system, with limited assurance that the invoices were valid, appropriate and allowable under the terms of the IAGs. In addition, since CFMC allocates costs incurred on IAGs with multiple goals by using the first-in first-out accounting basis, costs for multiple goal IAGs could be misstated. Weaknesses in the IAG invoice approval process have also been identified in prior financial statement audits.

The Resources Management Directives System, Section 2550C, Chapter 4, Interagency Agreements, paragraph 5 (g), states that the project officer is responsible for:

- \$ providing technical and managerial oversight;
- \$ receiving and reviewing detailed cost information submitted by other agencies, which should be provided on a project-by-project basis;
- \$ approving vouchers and OPAC (On-Line Payment and Collection System) billings received from other agencies after determining that performance is in accordance with the agreement; and,
- \$ forwarding approved vouchers to EPA's CFMC for payment within five days after receipt.

In addition, Paragraph 10 (d) states that it is the responsibility of the project officer to monitor IAGs. This responsibility includes: (1) monitoring EPA's receipt of goods or services to ensure their delivery in accordance with the terms of the agreement, (2) reviewing detailed cost information required of the agency providing the goods or services, and (3) resolving any discrepancies which may arise.

EPA's training manual for project officers entitled *Managing Your Financial Assistance Agreement*, 3rd Edition, October 1996, Module VIII provides guidance on OPAC billing. CFMC charges a bill to the appropriate IAG and submits the invoice to the project officer for approval. If there is a problem with the bill, EPA has 90 days to charge back the funds to the appropriate account.

In response to the recommendations made during the fiscal 1998 financial statement audit, the Agency agreed to implement the following corrective actions by March 31, 2000.

The Grants Administration Division (GAD) would:

- \$ develop and issue a fact sheet for Agency managers conveying the need for timely responses to invoices;
- \$ consult with the Grants Customer Relations Council (GCRC) on the acceptability of CFMC notifying IAG approving officials when project officers have not completed and returned the approval forms; and,
- \$ provide training on an ongoing basis to project officers on the proper procedures for completing invoice approval forms.

The Financial Services Division would:

- \$ provide Senior Resource Officers a listing of delinquent project officers semiannually in November and April; and,
- \$ disseminate follow-up correspondence on delinquent invoice approvals to the IAG approving official upon concurrence by the GCRC.

We have no additional recommendations at this time. We will reevaluate this area during our fiscal 2000 financial statement audit to assess the effectiveness of the Agency's corrective actions.

AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed to send Senior Resource Officials a list of "chronically" delinquent project officers on a routine basis. On February 7, 2000, GAD issued a fact sheet instructing program leaders to advise project officers to obtain adequate information before approving invoices. We concur with the Agency's planned and completed corrective actions.

CONTINUED IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITALIZED PROPERTY

For a number of years, we have reported that EPA needs to make improvements in its accounting for property. During fiscal 1999, the Agency continued to take action to correct weaknesses in the property area by issuing additional guidance on how to prepare procurement requests for property acquisitions. The results of this year's audit show, however, that the Agency needs to continue its efforts to improve its accounting for property. We found that the capitalization criteria for Automated Data Processing (ADP) systems was not consistently applied by the National Technology Services Division (NTSD). We again found property that was not recorded or not recorded timely or accurately in the Fixed Assets Subsystem (FAS)⁵, and property that was not properly classified. In addition, we found weaknesses in the Agency's process for reconciling property information contained in IFMS with that contained in FAS. These weaknesses occurred because property was delivered directly to its destination and Property Management Officers (PMO) were not notified of its receipt; inaccurate or incomplete property and accounting information was included on the procurement requests; and property payments were not thoroughly researched during the reconciliation process. When property is not accurately accounted for it impacts the quality of data available to manage EPA's resources and increases the risk of theft, loss, or misuse of the property.

Criteria for Capitalizing ADP Systems Needs to be Clarified

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment," states that once capitalization thresholds are established, these thresholds should be consistently followed and disclosed in the financial reports. The Agency's criteria and guidance for capitalizing personal property are presented below.

Office of the Comptroller Policy Announcement 96-03, "Property, Plant and Equipment Capitalization Threshold," establishes Agency criteria for capitalizing property, plant and equipment (PP&E), but does not address ADP systems. This announcement provides the following definition of personal property:

This includes assets such as equipment and furniture that are purchased or constructed....Group purchases of related items such as modular furniture, which individually do not exceed the \$25,000 capitalization threshold, but collectively do, will not be capitalized.

Office of the Comptroller Transmittal 99-03, "Guidelines on Preparing Requisitions for Property and Related Goods and Services" examples 4 and 7, discuss the capitalization of an electronic

⁵ In late fiscal 1997, the Agency implemented FAS which is integrated with IFMS, the Agency's accounting system.

certification system and server. In these examples, the system is one unit (e.g., server) which is comprised of two or more components (e.g., CPU, monitor, disk pack). The guidance states the determining criteria for listing an item as part of the system or individually is whether the individual component can function on its own.

The capitalization criteria for ADP systems was not consistently applied by the NTSD. NTSD and property officials indicated that the determination of what represented an ADP system and what acquisition amount should be capitalized were subjective determinations and Agency guidance needed to be clarified. As a result, NTSD officials had different interpretations of the capitalization criteria. For example, some officials believed the entire cost of a system should be capitalized regardless of the cost of individual components while other officials indicated that the capitalization criteria was to be applied on an individual component basis and only equipment items over \$25,000 should be capitalized. Different interpretations of what constitutes a system result in inconsistent application of the capitalization criteria for similar purchases resulting in either understatements or overstatements of capital assets and related accounts.

During our testing of Working Capital Fund (WCF) property acquisitions, we reviewed two similar types of system acquisitions which were categorized differently. For both purchases, the individual components each cost under \$25,000 yet were part of the same set-up or system. One purchase was for 10 routers to provide remote access to Agency E-Mail. The other purchase was for 23 switches to provide desktop connectivity to the North Ariel Rios Building. The purchase of the 10 routers was treated as a capital system and the entire acquisition cost was capitalized in the general ledger⁶, even though the individual components (i.e., 10 routers) each individually cost under \$25,000. However, the purchase of the 23 switches was considered a non-capital purchase since the components cost under \$25,000. Consequently, the entire purchase price was charged to operating expenses. We reviewed the Agency's policy and guidance for capitalizing property and do not believe these types of systems are addressed. NTSD and property officials we spoke with agreed that the definition of what constituted a "system" was subjective and that Agency guidance needed to be clarified. The Agency provided training in January 2000 to assist Agency management in preparing procurement requests.

Property Was Not Always Recorded Timely or Accurately in FAS and IFMS

OMB Circular A-123, "Management Accountability and Control," requires that transactions be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. SFFAS No. 6 and Agency policy require that PP&E be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity.

⁶ Even though the WCF Board intended this to be a capital purchase the purchase was not recorded as a capital system in FAS. Each router was individually assigned a decal number and entered in FAS as a non-capital item. This occurred because the purchase order received by the PMO did not indicate that this was a capital purchase but instead listed 10 items all valued at under \$25,000 and assigned the cost to a non-capital Budget Sub-Object Class Code (BOC). After payment, NTSD had the RTP-FMC re-assign the payments to a capital BOC. However, the PMO was not made aware of the subsequent adjustments to re-classify this purchase as a capital acquisition.

At RTP, we identified 34 WCF property items, including components that totaled \$5,019,181, that met the capitalization criteria, but were either not recorded in FAS and IFMS or were not recorded timely or accurately. One of these items was recorded in RTP's records, but physically located in Region 9. This item was recorded in FAS four months after it was received and placed in service. The item was not recorded timely in FAS because property personnel were not informed the property had been received, and RTP did not provide them a copy of the delivery order. In addition, property was not recorded accurately in FAS because procurement requests did not contain accurate and complete accounting information. To correct the weaknesses with regards to procurement requests, the Agency issued guidance during October 1998 on how to prepare procurement requests for property. When property acquisitions are not recorded timely or accurately in FAS, the property data available is not reliable.

As a result of the weaknesses in the Agency's property accounting, FMD made prior period adjustments to property and accumulated depreciation at year-end of \$9.9 million and \$1.1 million, respectively (see table below). FMD called these prior period adjustments Found-on-Station (FOS). FOS is considered prior year acquisitions entered into FAS in the current year. In other words, the property was not entered into FAS timely. FMD made these adjustments so that current year acquisitions would not be overstated. These adjustments were made to adjust property at the following accounting points: Regions 1, 5, 6, 8, and 10, RTP, Cincinnati, Las Vegas, and Headquarters. Because of the numerous adjustments, we do not have reasonable assurance as to the accuracy and reliability of the Agency's personal property balance.

<u>Acquisition Date</u>	<u>Acquisition Amount</u>	<u>Accumulated Depreciation</u>
FY1998	\$5,513,407.00	\$175,039.00
FY1989-1997	\$4,386,840.00	\$938,629.00
Total	\$9,900,247.00	\$1,113,668.00

Property Was Not Properly Classified

SFFAS No. 6 defines 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. The cost of property not meeting the capitalization criteria is to be expensed in the period acquired.

At RTP, we identified WCF property items valued at \$2,115,887, which were improperly classified. Specifically, three WCF property items totaling \$1,236,553 should have been capitalized, but were not. In addition, WCF property items totaling \$879,334 were capitalized when they should not have been. For example, the payments for non-capital equipment items under two contracts were incorrectly assigned to a capital property Budget Sub-object Class Code (BOC). As a result, the net value of EPA's WCF property and equipment was understated and its expenses were overstated. These items were not properly classified because incorrect or incomplete accounting information was included on the procurement requests. As mentioned earlier, the Agency issued guidance in October 1998 to correct this problem.

Problems Were Experienced During the Reconciliation Process

To help ensure the general journal properly reflected the amount of Agency-held capital equipment, FMD provided year-end instructions to the FMOs requiring them to reconcile capital equipment transactions recorded in the IFMS general journal with the entries recorded in the Fixed Assets (FA) tables (a part of the FAS). Any differences were to be corrected by adjusting entries. For fiscal 1998, FMOs performed limited year-end reconciliation work. The FMOs were only required to ensure that the capital equipment balances in FAS were as accurate and comprehensive as possible. Headquarters=FMD staff reconciled the general journal to the fixed assets journal, making the necessary adjusting entries. In fiscal 1999, FMD revised the year-end finance closing instructions (dated August 18, 1999) placing responsibility back with the FMOs to ensure the capital equipment balances in FAS were as accurate and comprehensive as possible; and to process adjusting entries to reconcile the general journal to the FA tables.

We found problems with the year-end property reconciliations at RTP and WFMC. During fiscal 1999, including at year-end, RTP finance personnel did not reconcile the general journal to FAS for WCF property purchases and other property purchases. At year-end, RTP's general journal was adjusted to agree with the property balances reflected in FAS. RTP finance personnel removed payments, totaling \$422,987, for capital property not recorded in FAS from the general journal so it would agree with FAS without performing a reconciliation. RTP finance personnel did not perform the reconciliations due to: (1) errors in the monthly reconciliation reports provided by FMD; (2) the lack of reports for several months; and (3) the lack of a common data element between the general journal and FAS reports that would allow them to match the property transactions.

WFMC finance personnel performed some year-end property reconciliation activities; however, capital property payments were removed from the general journal that should not have been. For example, in reviewing WFMC's year-end reconciliation activities, we found payments totaling \$233,263 for capital scientific and technical equipment not recorded in FAS during fiscal 1999 that were removed from the general journal property balance when they should not have been. During the year-end reconciliation process, WFMC made numerous adjustments to reconcile the general

journal to FAS. At the time of our audit, WFMC did not have adequate support available for the adjustments made. The year-end instructions require that supporting documentation (e.g., reconciliation reports, obligating documents, screen prints, invoices, etc.) be maintained for any FAS entries, corrections, etc., to ensure that there is an audit trail supporting the entries. Failure to perform adequate reconciliations reduces our assurance about the accuracy of the Agency's personal property balances.

RECOMMENDATIONS

We recommend the Acting Chief Financial Officer (CFO):

- 5.1 issue guidance clarifying the criteria for capitalizing an ADP system;
- 5.2 revise BOC definitions for capital equipment to be consistent with Agency policy for capitalizing systems; and
- 5.3 improve the reconciliation process by: (1) ensuring FAS reconciliations are conducted monthly and at year-end; (2) requiring FMOs to thoroughly research any discrepancies between the general journal and FA tables in FAS; and (3) requiring the FMOs to certify the year-end reconciliations.

We recommend the Acting CFO, in conjunction with the Assistant Administrator for Administration and Resources Management, continue to work to strengthen controls designed to ensure that property is timely and accurately recorded in the Agency's property accountability system, FAS. Specifically, reemphasize to the appropriate Agency personnel their responsibilities to:

- 5.4 ensure procurement requests are completed with the correct budget sub-object class code;
- 5.5 report receipt of accountable and capital property to the appropriate PMO in a timely manner when property acquisitions are directly delivered to the ordering official, and forward copies of appropriate documentation to the PMO; and
- 5.6 ensure that the appropriate personnel at EPA's offices are trained on their roles and responsibilities when property is delivered.

AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed with our recommendations concerning clarification of the criteria for capitalizing ADP systems. The Agency plans to: (1) issue revised guidance on capitalization and depreciation of WCF property, (2) revise the BOC definition for ADP equipment to be consistent with Agency guidance for capitalizing systems, and (3) revise the definition for ADP equipment to better reflect system purchases.

The Acting CFO also agreed to improve the reconciliation process by ensuring that FAS reconciliations are conducted monthly and at year-end. Specifically, the OCFO plans to require FMOs and FMCs to: (1) thoroughly research any discrepancies between the general journal and fixed asset tables in FAS, (2) certify the year-end reconciliations, and (3) include a review of FAS reconciliations in their quality assurance workplans.

During January 2000, OCFO provided training to NTSD staff on how to prepare capital property purchase documents. Additional training will be provided during upcoming Agency conferences that may include attendees who are responsible for property purchases.

OARM agreed with the recommendations directed to their office. A memorandum has been forwarded to the Agency's Senior Resource Officials reminding them of their property management responsibilities. It also requested their assistance in ensuring that property received by their offices is timely reported to the respective property management officer. The memorandum will be included on the Facilities Management Services Division web site. The Agency feels this memorandum will also benefit laboratory personnel by reminding them to inform the property office when accountable property is received.

We concur with the Agency's planned and completed corrective actions.

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 IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing and output controls, as well as compensating manual controls, was necessary to determine the reliance we could 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 transaction flowcharts or similarly descriptive narrative system documentation were not available. Furthermore, we previously concluded that the IFMS Users' and other EPA contractor baseline Federal Financial Systems (FFS) manuals did not contain the level of detail necessary to construct tests of automated internal controls which would satisfy our field work standards.

The Joint Financial Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems (FFMSR-0)*, dated January 1995, requires systems documentation include information necessary for a systems analyst or a programmer not familiar with the system to learn and maintain the system in a timely and efficient manner. As a minimum, the Federal guidance identifies three types of system documents as required: systems documentation, operations documentation, and user documentation.

The OIG has been working with Agency officials to improve IFMS system documentation. Agency officials disagreed with the conclusions and recommendations made in the OIG report, *Fiscal 1995 Financial Statement Audit of the EPA's Trust Funds, Revolving Funds and Commercial Activity*, dated May 3, 1996, and maintained that sufficient documentation existed in the Change Management System (CMS). Furthermore, management stated that the OIG's opinion was restricted by its definition of acceptable documentation. In response to the OIG audit report, *Audit of EPA's Fiscal 1996 Financial Statements*, issued March 24, 1997, the Agency completed a system documentation analysis, developed updated accounts receivable documentation, and completed an analysis for creating a comprehensive IFMS data dictionary. We concluded, as part of our fiscal 1998 financial statement audit, that the accounts receivable documentation was not adequate to establish the reliability of IFMS transaction processing controls.

In 1999, in response to our audit position, the Agency hired the Treasury's Financial Management Service (FMS) to evaluate EPA's overall compliance with Federal financial systems' documentation requirements. The Treasury report, dated September 1999, concluded that: (1) IFMS complied overall with system documentation requirements in OMB Circular A-127, and in FFMSR - 0; (2)

despite custom interfaces and other EPA system modifications, IFMS was still essentially off-the-shelf software (FFS); and (3) FFS User documentation should be considered to be part of the IFMS systems documentation. We do not agree that the report's conclusions were adequately supported because Treasury staff based their findings on the premise that IFMS was only 12 percent customized. Treasury staff obtained the 12 percent figure from a contractor and disclosed that they made no effort to validate the accuracy of the provided customization level. As a result, Treasury concluded that IFMS documentation is basically the same as the commercial off-the-shelf FFS software. As such, Treasury staff deemed that a combination of EPA's user manuals and off-the-shelf FFS documentation sufficiently met the criteria for Federal financial systems documentation requirements.

In accordance with generally accepted government auditing standards, we needed to verify the accuracy of critical data and review the adequacy of FMS's work before placing reliance on it for audit purposes. Our review disclosed a significant discrepancy which could not be adequately explained or supported by Treasury's review staff. Specifically, we could not place reliance on the 12 percent customization figure which formed the basis for Treasury's report conclusions. Therefore, we concluded that we could not rely on the report's conclusions.

We question Treasury's methodology for determining IFMS customization because it significantly conflicts with other known facts. It is a generally accepted fact that automated software systems tend to be more customized and costly to operate as they become older. Today, the average life of a financial system in industry is approximately five years. IFMS is over 11 years old. Thus, one would expect it to be highly customized and costly to operate. Treasury's 12 percent customization figure also differs significantly from prior audit information obtained from the same contractor in 1993. As of July 28, 1993, the contractor indicated that a 29 percent difference existed between the FFS 5.1 baseline software and EPA's version of FFS 5.1 software (i.e., a 29 percent customization level). The 29 percent figure was the result of a thorough line-by-line comparison of EPA's version of FFS to comparable FFS baseline code. The latest 12 percent figure was not computed using similar methodology, but rather only by counting the lines of code marked as IFMS enhancements. We consider Treasury's chosen methodology to be unreliable. While we concede that the level of customization would have fluctuated since 1993, when the contractor performed a line-by-line analysis, we do not think the evidence supports as significant a decrease as is implied by Treasury's report. Furthermore, after reviewing the supporting documents and work papers, we concluded that no analysis was performed to verify the accuracy of the 12 percent figure. As one would expect for an 11-year old system, IFMS is a very costly system to operate. A recent CFO study concluded that EPA's financial system costs are 38 percent higher than the average of other Federal Government entities, and 9 percent higher than the average of private sector entities. If, as Treasury proposes, the system was basically >off-the-shelf,= then one would expect these costs to be below average, rather than above. For these reasons, we cannot place reliance on Treasury's findings for audit purposes.

The Agency repeatedly has indicated its plans to replace existing financial systems but in the absence of tangible actions to do so, we believe the CFO should take positive steps to document

system upgrades and new financial systems at the transaction level. We recognize that the Agency has initiated a work group to replace the Agency payroll system, and that the Agency budget request indicated a desire to replace IFMS in the near future. Also, in the Agency's report to the OMB, management indicated a desire to initiate actions to replace IFMS during fiscal 2000. OIG staff continue to work with Agency officials to upgrade or replace existing financial systems, but all parties expect that it will be several years before the Agency replaces the financial systems. In the interim, we believe that the CFO should implement an active data dictionary for the existing IFMS. The Treasury review indirectly supports this action by reporting that different data definitions are a compliance issue under OMB Circular A-127. Also, our audit work regarding system interfaces supports that an active data dictionary is needed to integrate IFMS with other financial systems. We further believe that an active data dictionary would simplify conversion of data for any future financial systems. In summary, we continue to believe new financial systems and system upgrades should be documented at a transaction level, including flowcharts describing the transaction logic and data flow diagrams. Since our prior financial audit reports contained recommendations dealing with the need to develop a data dictionary and other IFMS systems documentation, we are not making any additional recommendations at this time.

AGENCY COMMENTS AND OIG EVALUATION

OCFO disagrees with the OIG conclusion that automated application processing controls for IFMS could not be assessed because of inadequate documentation. OCFO maintains that documentation for the system meets the requirements for Federal financial systems. OCFO further maintains that the benefits of additional documentation do not justify the costs to develop and maintain it. OCFO notes that it would not be economical to make major IFMS cost investments which could not be recovered within the next several years since they are initiating a system replacement effort. In making these arguments, OCFO disputes several of the facts and conclusions the OIG presented.

The OIG stands behind the facts and conclusions presented. We continue to feel that inadequate documentation is a problem and that the existing documentation does not meet the requirements for Federal financial systems. We believe that risks of fraud, errors, and omissions are high. We also believe that there are significant operational benefits and potential cost savings when IFMS is replaced, if the data dictionary is upgraded now.

We note that OCFO has said for several years that it would not be worth investing in the documentation OIG expects because a new system will be initiated. Attachment 4 of this report presents a summary of OIG system documentation issues dating back to the FY 1995 report. The OCFO indicated, in response to several of our prior reports, that paying for system documentation would not be economical because a new system was contemplated. It may be considerably more years before a replacement system is operational. Further, the costs to transition to a replacement system will be much less if adequate documentation exists for the existing system than otherwise.

ATTACHMENT 3

COMPLIANCE WITH LAWS AND REGULATIONS

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REVISED FINANCIAL SYSTEM SECURITY PLANS CONTINUE TO BE IN SUBSTANTIAL NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

As of September 30, 1999, we concluded that the revised security plans for the core financial systems⁷ continued to be substantially noncompliant with Federal financial management system requirements and FFMIA. In our opinion, the Agency did not adequately address the systems=operational security controls in its security plans. Our fiscal 1999 audit work followed-up on planned actions outlined in the Agency's remediation plan dated March 31, 1999. This plan was developed to address weaknesses we identified during our audit of EPA's fiscal 1998 financial statements. We found that the security plans were improved from prior years, and the plans identified additional action items needed to complete them. Nonetheless, the security plans still lacked sufficient detail to document critical operational security controls and to implement Agency related guidance.

Background

Progress is being made by the Agency to improve the financial and mixed financial systems' security plans. For example, OCFO engaged the National Security Agency to study and help strengthen system security at the Agency. In prior financial statement audits, we reported that EPA's financial management systems did not substantially comply with Federal system security requirements because of either a lack of security plans or critical components of security plans were non-compliant with requirements. As of September 30, 1997, we reported that the Agency core financial systems did not have completed security plans.⁸ As of September 30, 1998, we reported that the security plans for five core systems were lacking in several respects. We also reported that for the remaining financial or mixed systems two had insufficient security plans and eight had no security plans.⁹

Follow-up on FFMIA Remediation Plan, dated March 31, 1999

The Agency reported it had completed specific actions in its FFMIA remediation plan¹⁰ by revising security plans for the core financial systems. However, based on our review of selected security plans, we concluded that additional improvements are needed to document controls over information resources. The Agency revised its core system security plans twice during fiscal 1999; thus, remediation plan corrective actions were completed on schedule. We evaluated the adequacy of these corrective actions by performing a desk review of the security plans for IFMS, MARS, CPARS and EPAYS, as approved on September 30, 1999. We found that the security plans were

7 The Agency systems security plans dated September 30, 1999, that we included in our review were the IFMS, CPARS, MARS, and EPAYS.

8 Audit of EPA's Fiscal 1997 and 1996 Financial Statements (Audit Report No. E1AML7-20-7008, dated March 2, 1998).

9 Audit of EPA's Fiscal 1998 Financial Statements (Audit Report No. 99B0003, dated September 28, 1999).

10 FFMIA requires the preparation of a remediation plan when there is a finding of substantial noncompliance with FFMIA requirements.

improved, but that they still lacked significant detail to document critical operational security controls, identify audit trails, and implement system-related guidance. However, the plans did include a target date for identifying detailed security controls.

To illustrate our point, we offer the following examples from the IFMS security plan:

- \$ The plan section entitled *Application Rules* lacked sufficient details, stating that it was not possible to identify roles by job and function to specific security access.
- \$ The plan stated that a user may be granted access to more than one function, if approved by a coordinator and a security administrator. However, the plan did not address the need for compensating controls to mitigate this control weakness (i.e., a person granted access to multiple functions).
- \$ The plan discussed IFMS maintenance controls and stated that standard procedures will be followed; however, specific controls were not mentioned nor were references made to management approved policies, procedures or systems used for maintenance.

The system security plans meet the administrative requirements (i.e., they contain the proper headings and approval signatures, etc.), but they do not adequately document OMB, National Institute of Standards and Technology (NIST), or Agency system security requirements. Instead, the plans document the lack of understanding regarding many operational security controls and identify a number of control weaknesses. Upon completion of the action items listed in the system security plans, management should have adequate information to establish an operational security program to minimize risk and revise the security plans.

While we commend management for making continued improvements to their security programs and system security plans (as of September 30, 1999), we believe that the plans we reviewed still need substantial improvements. Actions already identified in system security plans should address most of our concerns regarding compliance with security requirements under OMB Circular A-130. Our comments on the state of compliance as of September 30, 1999 must rely on our audit analysis as of that point in time. Thus, we believe the reported audit findings are appropriate, and the Acting CFO should establish during fiscal 2000, a new remediation plan to incorporate needed corrective actions.

RECOMMENDATION

We recommend the Acting Chief Financial Officer (CFO):

- 7.1 incorporate planned fiscal 2000 security plan actions for financial systems (IFMS, CPARS, MARS and EPAYS) into a formal remediation plan.

AGENCY COMMENTS AND OIG EVALUATION

OCFO agreed to develop a formal remediation plan by March 31, 2000.

EPA WAS NOT ABLE TO ACCURATELY ACCOUNT FOR THE COST TO ACHIEVE EACH OF ITS GOALS

A recent management reform initiative, the Government Performance and Results Act (GPRA or the Results Act), holds EPA accountable for using resources wisely and achieving program results. The Results Act requires EPA to develop plans on intended accomplishments, measure how well it is doing, make appropriate decisions based on the information gathered, and communicate information about performance to Congress and to the public. To do this, EPA developed a strategic plan with ten goals and during fiscal 1999 began tracking the cost to achieve each of these goals. We found that the Agency's methodology for accumulating costs by the Agency's ten strategic goals could not be relied upon to fairly state costs by goal.¹¹ Weaknesses in this area also affect the quality of cost accounting data Agency managers have for decision making. In addition, the Agency is not in compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," that requires EPA to: (1) determine the full cost of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs.¹²

Accounting for Resources Under the Agency's New GPRA Structure

One of the keys to managing for results at EPA is determining the full cost of Agency programs. In order to link the resources EPA actually used to the results achieved, beginning in fiscal 1999, EPA changed the way it budgeted and accounted for its resources. The fiscal 1999 Annual Performance Plan and Budget link resources to the Agency's strategic goals and objectives. This structure is intended to provide managers with cost information they can use to assess how resources are spent to achieve expected results and to help them make future budgeting decisions. In developing this new GPRA based structure, the Agency attempted to align its costs to its outputs.¹³

Effective October 1, 1998, all new obligational authority was accounted for using a program results code (PRC) instead of a program element (PE), as was done in prior years. The PRC allows the Agency to account for results by goal, objective, subobjective and National Program Manager. For budget execution purposes, the Agency issued resources to allowance holders at the appropriation, allowance holder and objective levels, while accounting for new obligational authority at the goal, objective and subobjective level. During fiscal 1999, costs related to prior year obligational authority continued to be accounted for using the old PE structure which did not include fields for goal, objective and subobjective. After the end of fiscal 1999, EPA used a crosswalk to convert

11 The Agency had originally planned to present its Statement of Net Cost by goal. After we expressed concern about the Agency's ability to fairly present its costs by the ten strategic goals, Agency management decided to present EPA's costs by Superfund and All Other Appropriated Funds rather than by goal.

12 Our audit work was performed to determine whether the Statement of Net Cost fairly presented the Agency's costs by goal and whether the Agency complied with SFFAS No. 4. After we determined that the Agency's cost accounting process could not be relied upon to fairly present EPA's costs by goal and that the Agency did not comply with SFFAS No. 4, we did not perform additional audit work. Further audit work could disclose other issues regarding the Agency's ability to fairly present the Statement of Net Cost by goal or the Agency's compliance with SFFAS No. 4 in addition to those discussed above.

13 The Agency considers its subobjectives as its outputs.

\$4.4 billion of costs recorded under the PE structure to a goal. The \$4.4 billion represents 59 percent of EPA's total costs of \$7.5 billion for fiscal 1999. In future years, a substantial portion of costs will continue to be accounted for under the PE structure since only obligational authority for fiscal 1999 and subsequent years is accounted for using the PRC.

Crosswalk Used to Assign Agency Costs to Goals

In June 1999, the Agency began to develop a crosswalk to assign its fiscal 1999 costs recorded using a PE to the appropriate goal, so the Agency could report its costs by goal in the fiscal 1999 Statement of Net Cost. We could not find adequate support for the crosswalk to allow us to opine on the Statement of Net Cost. While the crosswalk provided some assurance that costs for PEs assigned to a single goal were reasonably stated, we found that when PEs were allocated to multiple goals the percentage allocations were, in many cases, based on budget estimates or professional judgement rather than actual cost information. Budget estimates were derived from the Agency's budget submission or the approved operating plan used to allocate funds to various programs and activities. In effect, the crosswalk allocated PE costs to multiple goals based on planned or budgeted allocations without assurance the costs were actually spent in this manner. The Agency allocated \$674 million of costs recorded using PEs to multiple goals.

The crosswalk was used after the end of the fiscal year to develop costs by goal for financial statement presentation purposes. The crosswalk did not provide a means of accumulating and reporting costs by goal on an ongoing basis throughout the year. Thus, Agency managers did not have cost information by goal to use during the year in planning, budgeting and evaluating their programs. Improvements are needed in the Agency's process for accumulating and reporting costs by goal so that timely, reliable, and accurate information is available for managers on an ongoing basis throughout the year.

Allocating Costs Under the PRC Structure

In some cases, when the Agency established an obligation using the PRC structure the amounts obligated for each PRC were determined based on budget estimates or management's professional judgement or discretion. These problems usually occurred in financial assistance agreements such as Performance Partnership Grants (PPGs) and grants whose costs were assigned to multiple goals; however, this situation could occur for other financial instruments whose costs are allocated to multiple goals. As costs were incurred, they were allocated to goals, objectives and subobjectives based on the percentage allocations used to establish the obligation rather than actual cost information. When costs are allocated to multiple goals based on obligated or budgeted amounts, we have no assurance that the amounts reported by goal are fairly stated.

Presentation of Statement of Net Cost

OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," notes that the Agency's Statement of Net Cost is designed to show the components of net cost of the reporting entity's operation for the period by major program and activities. The bulletin notes that reporting by major program and activities may require supporting schedules to supplement the information in the statement and such information shall be included in the notes to the financial statements. In addition, the bulletin states the Agency should decide on its major programs to report based on the missions and outputs described in its GPRA strategic and annual plans and the entity's budget structure.

The bulletin allows agencies flexibility in how they present the Statement of Net Cost in order for them to be able to best present the information in a manner that is useful to Congress, agency managers and the public. The Agency defined its ten strategic goals as major programs, however, the Agency did not report its major programs in its financial statements. Neither the Statement of Net Cost nor the related footnotes include cost information for the Agency's major programs. The Agency's draft Statement of Net Cost was prepared to report costs by the Agency's ten strategic goals. However, when our audit work indicated that the Agency could not provide adequate evidence that the statement fairly presented the Agency's costs by goal, the Agency modified the statement to show only the costs charged to the Superfund appropriation and the costs charged to All Other appropriations.

Noncompliance with Managerial Cost Accounting Standard

During fiscal 1999, EPA did not comply with SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." Specifically, EPA did not comply with the requirements to: (1) determine the full cost of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign cost to outputs.

\$ Determining Full Cost of EPA Activities. SFFAS No. 4 requires EPA to measure and report the full cost of its outputs in its general purpose financial reports. SFFAS No. 4 states "the full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities."

EPA established the GPRA structure (goal, objective, subobjective) as the "unit" for resources accounting and for implementing the SFFAS No. 4 requirement to account for the "full cost" of its outputs. In implementing SFFAS No. 4, EPA planned to account for the costs of its "outputs" at the subobjective level. EPA identified 124 subobjectives, and therefore planned to fully cost each of its subobjectives.

However, as previously noted, costs obligated under the PE structure were only crosswalked to the Agency's goals. The crosswalk was not designed to enable the Agency to align costs at the objective or subobjective level. Therefore, during fiscal 1999 the Agency did not have a process in place to measure and report the full costs of its outputs.

\$ Accumulating and Reporting Cost of Activities on a Regular Basis for Management Information Purposes. SFFAS No. 4 requires EPA to accumulate and report the cost of its activities on a regular basis for management information purposes. In order to perform managerial cost accounting on a "regular basis," entities should establish procedures to accumulate and report cost continuously, routinely, and consistently for management information purposes. Information should be provided to help the user determine the costs of providing specific programs and activities. SFFAS No. 4 further notes that cost information should be reported in a timely manner and on a regular basis consistent with the needs of management and the requirements of both budgetary and financial reporting.

As previously noted, during fiscal 1999 Agency managers did not have accurate and reliable information by goal, objective and subobjective. In particular, Agency managers need timely, reliable and accurate information on costs expended for its outputs within strategic goals. EPA plans to integrate cost information from the Agency's accounting system, IFMS, with budget information in its Budget Automation System (BAS). This approach is a step in the right direction. However, until necessary improvements are made in the Agency's cost accounting practices, managers will not have the information they need to monitor their programs and outputs.

\$ Using Appropriate Costing Methodologies to Accumulate and Assign Cost to Outputs. SFFAS No. 4 requires EPA to accumulate the cost of its outputs by the type of resource, and if practicable, measure outputs in units. SFFAS No. 4 states "the full cost of resources that directly or indirectly contribute to the production of outputs should be assigned to outputs through costing methodologies or cost finding techniques that are most appropriate to the segment's operation environment and should be followed consistently." SFFAS No. 4 notes that costs should be assigned to outputs in preference order of: (1) direct tracing of costs wherever economically feasible, (2) assigning cost on a cause and effect basis, and (3) allocating cost on a reasonable and consistent basis. Further, SFFAS No. 4 states that some responsibility segments of an entity may provide supporting services to other segments within the same entity. The costs of the supporting services should be assigned to the segments that receive the services.

EPA's GPRA structure does not allocate indirect costs to the Agency's environmental activities. Instead of allocating these costs (such as general administrative services, security, and rent) over all outputs, EPA treats these costs as an Agency output. For example, costs for the design, construction, repair and improvements of buildings occupied by EPA were assigned to EPA subobjective "Facilities Operations" rather than being accumulated and allocated to EPA's environmental outputs. Therefore, EPA is not providing Agency managers with information about the true cost of their programs. Providing Agency managers with information about the total cost of their programs would allow them to better manage their resources to most efficiently achieve environmental results.

RECOMMENDATIONS

We recommend the Acting Chief Financial Officer (CFO):

- 8.1 establish, for both PEs and PRCs, procedures to identify actual costs by goal, objective and subobjective at the time the costs are recorded;
- 8.2 develop timely, reliable, accurate cost reports to enable managers to monitor, on an ongoing basis, the total costs of their programs, including indirect/support costs; and
- 8.3 develop a Statement of Net Cost with accurate and reliable cost information by goal which can be used for external reporting purposes.

AGENCY COMMENTS AND OIG EVALUATION

The OCFO believes that EPA was able to properly account for the cost to achieve each of its goals and that EPA met the criterion for the Managerial Cost Accounting Standard. In establishing the Goal-Objective-Subobjective account structure, the Agency made the decision not to formally “recast” resources under the old PE structure by converting PE-funded obligations and expenses to the PRC format. While agreeing that the fundamental requirement of SFFAS 4 is to account for the costs of EPA’s outputs, products, and services, OCFO believes that the standard allows the flexibility to use their approach.

While acknowledging that EPA is not accounting for PE-funded expenses by PRC and that improvements can be made in cost accounting, OCFO believes that they are following both the spirit and letter of the Managerial Cost Accounting Standard. They note that it is necessary to weigh cost/benefit considerations that include:

- Practicality of data collection;
- Cost of installing, operating, and maintaining the cost accounting process; and
- Precision desired and needed.

The OIG believes that both the spirit and letter of the Managerial Cost Accounting Standard require OCFO to produce timely cost per unit of output information as well as cost per goal information. We further believe that there is a compelling need to produce this information. To effectively manage and to make informed decisions about the merits of EPA programs, this information needs to be provided routinely throughout the year, as well as at year-end for the annual financial statement. Utilizing a year-end crosswalk, rather than a costing system, wherein 59 percent of EPA’s total costs are allocated to goals, does not provide accurate cost information by goal or satisfy the standard. At best, this is a once a year rough estimating technique, and it is at the more macro, goal level, than at the needed micro, or output (subobjective) level. Utilizing this gross estimating technique to calculate the cost of goals precludes any possibility of accurately deriving cost of unit of output information. The annual crosswalk does not make accurate cost of output information available during the year. One requirement of the Managerial Cost Accounting

Standard is for the Agency to have a costing system that produces cost of output information timely for use in decision making. Once a year gross estimates of the cost of goals fail to meet the need for timely cost of output (subobjective) information relative to the goals.

Relative to OCFO concerns over whether there are sufficient benefits to having an accurate, timely, costing system, that produces cost of goal and output information, OIG believes that such a system is essential to properly manage the Agency's resources and programs. Making management decisions without cost of output information, is a very expensive way to operate.

We feel the Agency is not complying with the standard, and will not comply with the standard, until it accurately produces cost per unit of output information periodically throughout the year.

EPA WAS UNABLE TO PRESENT REQUIRED INFORMATION ON ITS TRADING PARTNERS

The January 7, 2000, technical amendments to OMB Bulletin 97-01, require agencies to report intra-governmental assets and liabilities by federal trading partner. This information is to be included in the financial statements as Required Supplemental Information and should agree with the line items reported on the balance sheet. The Treasury Financial Manual (TFM) also requires agencies to report intra-governmental assets and liabilities by trading partner in their Federal Agencies' Centralized Trial-Balance System (FACTS) transmissions. Treasury needs the trading partner information so it can eliminate intra-governmental transactions when it prepares the Financial Report of the United States Government. Agencies need trading partner information, so they can manage their assets and liabilities.

EPA was only able to report the trading partner information for \$206,000 of its \$104,176,000 total intra-governmental accounts receivable and \$31,992,000 of its \$401,371,000 total intra-governmental liabilities. Since EPA was unable in most cases to provide the trading partner information required by OMB Bulletin 97-01 and the TFM, we consider this to be a FFMIA noncompliance. Agency financial managers believe their system can accommodate the requirement for reporting trading partners; however, finance offices have not been coding transactions to show the trading partner. FMD staff plan to issue a policy to require all finance offices to expedite their review of transactions and the input of the trading partner information into the system.

RECOMMENDATIONS

We recommend the Acting Chief Financial Officer (CFO):

- 9.1 issue an OCFO policy to require all finance offices to expedite the review of trading partner transactions and the input of the trading partner information into IFMS to ensure that the Agency can track and report trading partner information, and
- 9.2 establish quality control procedures to ensure the trading partner information is entered into IFMS timely, accurately, and reliably to meet applicable reporting requirements.

AGENCY COMMENTS AND OIG EVALUATION

The Acting CFO agreed with our recommendations. The Acting CFO plans to issue Comptroller policy announcements on: (1) coding trading partner information in IFMS, (2) confirming and reconciling balances with trading partners, and (3) establishing accounting entries for trading partners. We concur with the Agency's planned corrective actions.

ADDITIONAL ACTION IS NEEDED TO BRING EPA INTO FULL COMPLIANCE WITH USER FEE REQUIREMENTS

In our fiscal 1993 financial audit report on the Pesticides Revolving Funds and the Oil Spill Trust Fund¹⁴, under a caption *Higher Priority Needs To Be Placed On Completing Required Reviews Of User Fees*, we recommended that the CFO include timely review of user fees as one of the financial management performance measures used to evaluate program offices in the future. In our fiscal 1998 audit report, *Audit of EPA's Fiscal 1998 Financial Statements*¹⁵, we updated the status for this recommendation in Attachment 4, *Status Of Prior Audit Report Findings*. Our updated status included additional corrective actions that we believed were necessary in order for EPA to comply with OMB Circular A-25, *User Charges*.⁶ The additional actions needed were provided in an OIG Note as follows: On November 5, 1997, 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 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. We also noted that the next biennial review of user fees was scheduled to be completed by September 1999.

We discussed this matter with senior officials from the Office of Planning, Analysis and Accountability (OPAA) on January 13, 2000. OPAA is responsible for overseeing EPA's follow-up on audit findings and recommendations, including resolution and implementation of corrective actions for the OCFO. At this meeting, we were advised that the biennial review of user fees, scheduled for completion by September 1999, was still being reviewed by the Comptroller and had not yet been issued. We were also advised that the status of the additional actions we provided in our note would be determined and provided to us at a later date.

RECOMMENDATION

We recommend that the Acting Chief Financial Officer (CFO):

- 10.1 follow through and either institute, revise, or update all user fees or obtain exceptions from OMB as required by OMB Circular A-25, "User Charges."

AGENCY COMMENTS AND OIG EVALUATION

In his February 24, 2000 response to the draft report, the Acting CFO informed us that the OCFO recently completed a biennial review of the Agency's user fee systems which was performed in accordance with the CFO Act and provisions set forth in OMB Circular A-25, "User Charges." During the 1999 review, the Agency examined all six existing fee systems and implemented appropriate revisions. The review also identified potential new fee systems. The Agency is now in

14 Audit Report E1AML3-20-7001-4100230, issued March 31, 1994.

15 Audit Report 99B0003, issued September 28, 1999.

the process of updating the eight special benefit services for exceptions requests that were identified in the 1997 review. The final report is expected to be issued in March 2000.

We acknowledge recent Agency actions concerning the 1999 review of user fees and encourage the Acting CFO, when responding to our final audit report, to provide us with corrective action plans and milestones to ensure full compliance with the provisions of OMB Circular A-25.

STATUS OF PRIOR AUDIT REPORT FINDINGS

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<p>AUDIT OF EPA'S FISCAL 1998 FINANCIAL STATEMENTS (Audit Report 99B0003, Issued 09/28/99)</p> <p>EVALUATION OF INTERNAL CONTROLS - MATERIAL WEAKNESSES:</p> <p>1.0 IMPROVEMENTS NEEDED IN THE AGENCY'S PROCESS FOR PREPARING FINANCIAL STATEMENTS</p> <p>We recommend the Chief Financial Officer (CFO):</p> <p>1.1 evaluate the OCFO's process for preparing the financial statements, including the OCFO resources assigned, necessary improvements to IFMS, control processes within the Financial Reports and Analysis Branch, and the Year-End Closing Process,</p> <p>1.2 update the Agency's policies and procedures for preparation of annual financial statements to reflect the new legislative requirement, new accounting standards, and new format and presentation requirements. The procedures should include milestone dates and activities for completion, OCFO and other offices' roles and responsibilities, descriptive processes for preparing the financial statements, and plans for obtaining the needed information and providing reliable supporting documentation, and</p> <p>1.3 establish a quality review process to ensure that the draft financial statements including the footnotes, supplemental information, and overview are complete and reliable, and the Director, FMD, certifies such documents prior to submittal for audit.</p> <p>OIG Note: We again reported a material weakness in the Agency's process for preparing financial statements. Please refer to our FY 99 report, Attachment 1, for additional comments on this issue.</p>	<p>OIG Comments: The following management comments and corrective action plans are based on the OCFO's August 16, 1999 response to the draft fiscal 1998 audit report and as supplemented by the OCFO's February 24, 2000 response to our draft fiscal 1999 audit report. The comments and corrective action plans for the fiscal 1998 recommendations may be further revised based on the OCFO's response to the final report issued on September 28, 1999. The response to the final report was due by December 27, 1999. As of the date of the fiscal 1999 audit report, we had not received the OCFO's response to the final fiscal 1998 audit report.</p> <p>The CFO disagreed with our categorization of the OCFO financial statement preparation process as a material weakness.</p> <p>1.1 Complete evaluation of the OCFO process for preparing financial statements</p> <p>Implement the new automated reporting process using the Standard General Ledger for the SF-133 and Statement of Budgetary Resources.</p> <p>OIG Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that action was completed on this recommendation. We have not received or reviewed the final evaluation of the OCFO process for preparing financial statements. We have not received a written certification from the Action Official, or delegated program manager, that action was complete for this item as is required by EPA Order 2750 (Chapter 9, paragraph 3, Implementation of Corrective Actions, subparagraph e, Certifying Final Action).</p> <p>1.2 Issue Final Policies and Procedures on Preparing Financial Statements</p> <p>1.3 Establish Quality Control Group</p> <p>OIG Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that action was completed for this recommendation. We have not received a written certification from the Action Official, or delegated program manager, that action was complete for this item as is required by EPA Order 2750 (Chapter 9, paragraph 3, Implementation of Corrective Actions, subparagraph e, Certifying Final Action).</p> <p>.....</p>	<p>.....</p> <p>08/31/99</p> <p>10/30/99</p> <p>.....</p> <p>03/31/00</p> <p>12/03/99</p> <p>.....</p> <p>.....</p>	<p>OIG Comments</p> <p>Open</p> <p>Open</p> <p>OIG Comments</p> <p>Open</p> <p>Open</p> <p>OIG Comments</p> <p>OIG Note</p>

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<p>2.0 AGENCY ENCOUNTERED SIGNIFICANT DIFFICULTIES IN PREPARING THE STATEMENTS OF BUDGETARY RESOURCES AND FINANCING</p>			
<p>We recommend the Chief Financial Officer:</p>			
<p>2.1 review all fiscal year 1989 and prior unliquidated obligation and authority balances and make any necessary adjustments,</p>	<p>2.1 We agree with this recommendation and have already implemented it (in April 1999) as part of the FY 1999 Review of Unliquidated Obligations. OCFO/FMD provided guidance to all offices regarding identification and correction of erroneous unliquidated obligation balances from BFY 1989 and prior. By August 20, 1999, FMD will distribute to the FMOs a list of BFY 1989, and prior open obligations in IFMS and request that they work with the appropriate offices to ensure that any erroneous balances are properly removed from the books by September 30, 1999. We also plan to initiate a review of the IFMS budget authority balances for these fiscal years and make any necessary adjustments. We anticipate completing this process in mid-FY 2000. OIG staff previously agreed with FMD's approach and timing for dealing with these issues.</p>	<p>Mid-2000</p>	<p>Open</p>
<p>2.2 develop reports for the annual review of unliquidated obligations which highlight older open unliquidated obligations,</p>	<p>2.2 We do not agree with this recommendation because OCFO provides the responsible officials with reports listing <i>all inactive obligations</i> (no activity for 180 days) grants, contracts and IAGs for the annual review of unliquidated obligations. OCFO requires officials to review all inactive obligations including older open unliquidated obligations. Thus, the Agency maximizes its ability to efficiently use resources available and identify, deobligate and reuse these funds. The reports that OCFO provides comply with EPA and GAO review requirements.</p>	<p>None - due to disagreement. OCFO provides reports listing all inactive obligations</p>	
<p>2.3 require responsible officials to justify unliquidated obligation balances whose period of performance has ended, if the balances are not deobligated,</p>	<p>2.3 We do not agree with this recommendation since FMD has already implemented more stringent requirements. The March 25, 1999, guidance memorandum for the FY 1999, "Review of Unliquidated Obligations," requires responsible Agency officials to maintain documentation in their office's files justifying all unliquidated balances retained on the inactive obligation lists, as defined in the response to 2.2 above, that will be available for audit review.</p>	<p>None - more stringent requirements already implemented</p>	
<p>2.4 follow up on responsible officials' deobligations to verify appropriate actions were taken,</p>	<p>2.4 While we agree with the thrust of this recommendation, we want to clarify the roles and responsibilities for the verification process. Verification of deobligations requires two action plans: one for those identified during FMD's special analysis and another for deobligations identified by the allowance holders during the annual review of unliquidated obligations.</p> <p>Follow up with the appropriate procurement and/or finance office(s) regarding any unneeded funds that have not been deobligated,</p> <p>Monitor the document's fund status in IFMS (or CPS for contracts) until the deobligation has been processed, and</p> <p>Provide FMD at year end with the document number and funding information for any unneeded funds identified during the review that were not deobligated.</p> <p>OIG Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that action was completed for this recommendation. We have not received a written certification from the Action Official, or delegated program manager, that action was complete for this item as is required by EPA Order 2750.</p>	<p>Ongoing</p> <p>Ongoing</p> <p>10/30/99</p> <p>.....</p>	<p>OIG Comments</p>

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<p>2.5 prepare the SF-133s from the general ledger,</p> <p>2.6 prepare and retain support for all journal entries and adjustments made to produce the SF-133s, and</p> <p>2.7 require evidence of supervisory approval to help ensure that procedures have been followed.</p> <p>OIG Note: For FY 99, we had a Reportable Condition concerning the Agency's review of unliquidated obligations. Please refer to our audit report, Attachment 2, for additional comments and recommendations.</p>	<p>2.5 We agree with the recommendation because beginning in FY 1999, we began preparing the SF133 report directly from the General Ledger. We are now well underway in automating this process and plan to implement this process by October 30, 1999.</p> <p>2.6 We agree with this recommendation as all the above referenced documentation is maintained by FRAB. It is Agency policy to prepare and retain support for all journal entries and adjustments to the SF-133's. Beginning in FY99, we will reflect all SF-133 adjustments in the General Ledger.</p> <p>2.7 We disagree with this recommendation. Hard copies of the SF-133s are produced after they are electronically transmitted for post review purposes. The present electronic format, unlike previous years, does not provide for the supervisors' signature before transmission. Supervisory certification will be incorporated in the new FACTS II transmission (which will include the SF -133 and year end close-out reports). We will ensure that we annotate hard copies maintained within FRAB.</p> <p>.....</p>	<p>10/30/99</p> <p>Action already implemented</p> <p>None - due to disagreement</p> <p>.....</p>	<p></p> <p></p> <p></p> <p>OIG Note</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

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<p>EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS:</p> <p>3.0 AGENCY NEEDS TO ESTABLISH PROCEDURES FOR TRACKING UNILATERAL ADMINISTRATIVE ORDERS</p> <p>We recommend the Chief Financial Officer:</p> <p>3.1 track in IFMS all demands for payment issued under UAOs,</p> <p>3.2 determine if other demands for payment are issued by the Agency, the respective amounts demanded, and whether a need exists to track the amounts demanded in IFMS, and</p> <p>3.3 revise RMDS to clearly differentiate between administrative orders (particularly administrative orders on consent and UAOs), describe when the administrative orders need to be established as an accounts receivable in IFMS or separately tracked as a demand for payment in IFMS, and describe all other demands for payment that need to be tracked in IFMS.</p>	<p>3.1 We partially agree with this recommendation. We believe that this recommendation should only refer to the tracking of <u>Superfund</u> UAOs, and not all UAOs. Our partial disagreement is due to our understanding of the conclusions reached at the March 9, 1999, meeting between the OIG, OGC, OECA, and OCFO that Agency efforts should be focused on tracking Superfund UAOs only at this time.</p> <p>Issue Final Policy for Tracking UAOs. Comptroller Transmittal 00-05, dated 1/11/2000 outlines procedures for recording and tracking Superfund UAOs.</p> <p>OIG Note: The OCFO's February 24, 2000 response to our draft FY 99 audit report indicated that action was completed for this recommendation on 1/11/00. In our final FY 98 report, we concurred with the Agency's planned corrective actions for Superfund unilateral administrative orders. However, we disagreed that the Agency's corrective actions should be restricted to only Superfund unilateral administrative orders. Sound financial management practices should cover the identification, tracking and control of <i>all</i> demands issued similar to the Superfund unilateral administrative orders. Since the CFO's corrective actions are only designed to resolve an existing problem for Superfund unilateral administrative orders, there could be problems with the demands for other payments that are not addressed. Therefore, in responding to the report, we requested the Acting CFO provide specific corrective actions and target dates for addressing all demands for payment.</p> <p>Implement and Monitor Policy</p> <p>3.2 We partially agree with this recommendation. We believe that this recommendation should refer to other <u>Superfund</u> Demands and not "other Demands" for the same reasons discussed in our response to recommendation 3.1 above. The OCFO will address and determine other Superfund Demands which may or may not require tracking.</p> <p>Determine other Superfund Demands that may or may not require Tracking</p> <p>3.3 We partially agree with this recommendation. We believe that "other Demands" for payments should be deleted from this recommendation for the same reasons discussed under 3.1 above. The OCFO has already taken steps to clearly differentiate between Superfund administrative orders and describe when they need to be tracked in IFMS. This will be addressed after proper coordination with OECA, OSWER, and OGC taking into consideration the varying levels of enforcement tools available to the Agency. A final draft policy is in place which will supplement RMDS and includes: a clarification of the difference between Administrative Orders on Consent and Unilateral Administrative Orders (UAOs), and a discussion if these documents can be used to record accounts receivable; and guidelines for separately recording oversight accounts receivable to enhance the Agency's ability to track oversight amounts for management and reporting purposes.</p>	<p>9/30/99 1/11/00 Ongoing 4/1/00</p>	<p>See OIG Notes below</p> <p>Open</p> <p>OIG Note</p> <p>Open</p> <p>See OIG Note below</p>

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<p>We recommend the Assistant Administrator for Enforcement and Compliance Assurance:</p> <p>3.4 develop guidance for ORCs, program offices and finance offices regarding the types of instruments used in the Superfund enforcement process. For each instrument, describe when to establish an accounts receivable or separately track as a demand for payment, and describe the Agency's basis for legal liability under each instrument, and</p> <p>3.5 clarify the model language to be used by ORCs, program offices and finance offices to clearly differentiate between demands for payment and bills for payment used in the Superfund enforcement process.</p>	<p>Issue Final Policy. Comptroller Transmittal 00-05, dated 1/11/2000 outlines procedures for recording and tracking Superfund UAOs</p>	<p>9/30/99 1/11/2000</p>	<p>Open</p>
	<p>OIG Note: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that action was completed for this recommendation. In our final report, we concurred with the Agency's planned corrective actions for Superfund unilateral administrative orders. However, we disagreed that the Agency's corrective actions should be restricted to only Superfund unilateral administrative orders. Sound financial management practices should cover the identification, tracking and control of <i>all</i> demands issued similar to the Superfund unilateral administrative orders. Since the CFO's corrective actions are only designed to resolve an existing problem for Superfund unilateral administrative orders, there could be problems with the demands for other payments that are not addressed. Therefore, in responding to the report, we requested the CFO provide specific corrective actions and target dates for addressing all demands for payment.</p>	<p>.....</p>	<p>OIG Note</p>
	<p>Update policy to for tracking other Superfund Demands, if needed</p>	<p>5/31/00</p>	<p>Open</p>
	<p>3.4 OSRE/OECA previously responded to these audit recommendations 3.4 and 3.5 in memoranda dated February 17 and February 26, 1999.</p> <p>OIG Comments: The memoranda dated February 17 and February 26, 1999, responded to audit recommendation 3.5. However, Comptroller Transmittal 00-05, dated 1/11/2000, outlines procedures for recording and tracking Superfund UAOs which responds to audit recommendations 3.4 and 3.5. The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that action was completed for this recommendation. Please refer to our OIG Note below for additional action needed to complete corrective action on our recommendations.</p>	<p>.....</p>	<p>Open OIG Comments</p>
	<p>3.5 See response to 3.4 above.</p> <p>OIG Note: In our final report, we concurred with the Agency's planned corrective actions for Superfund unilateral administrative orders. However, we disagreed that the Agency's corrective actions should be restricted to only Superfund unilateral administrative orders. Sound financial management practices should cover the identification, tracking and control of <i>all</i> demands issued similar to the Superfund unilateral administrative orders. Since the CFO's corrective actions are only designed to resolve an existing problem for Superfund unilateral administrative orders, there could be problems with the demands for other payments that are not addressed. Therefore, in responding to the report, we requested the CFO provide specific corrective actions and target dates for addressing all demands for payment. We also requested the Office of Enforcement and Compliance Assurance, in responding to the report, provide specific corrective actions and target dates for recommendations addressed to that office.</p>	<p>.....</p>	<p>Open OIG Note</p>

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<p>4.0 FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE</p> <p>We recommend the Chief Financial Officer (CFO):</p> <p>4.1 continue to provide training on calculating the allowance for doubtful accounts, particularly in the area of developing the percentage portion of the allowance and maintaining proper supporting documentation,</p> <p>4.2 review finance offices' management and accounting for accounts receivable during regularly scheduled Quality Assurance Reviews to ensure FMOs understand and are following guidance on accounts receivable, and</p> <p>4.3 instruct the FMOs to follow-up with ORCs and program offices when responses to requests for receivable collectability information are not received timely; instruct the FMOs to assess how communication with the ORCs and the program offices can be improved; and reemphasize FMOs' responsibilities in ongoing training sessions.</p> <p>We recommend the Assistant Administrator for Enforcement and Compliance Assurance:</p> <p>4.4 continue to work to improve the Regional process for meeting guidelines in the July 16,1998, memo to Regional Counsels entitled "Effective Debt Management," and</p>	<p>4.1 Provide Training on Calculating Allowances for Doubtful Accounts</p> <p>4.2 Determine which regions require quality assurance reviews</p> <p>Conduct FMO training</p> <p>Conduct quality assurance reviews to ensure FMOs are properly following accounting guidance.</p> <p>4.3 The Agency continuously emphasizes the need for more effective accounts receivable and collections management. We continue to make improvements in this area and believe that we are doing a better job of managing our accounts receivable and collections. Numerous actions taken during fiscal 1999 included discussing policy and procedures during a June 1999 <i>Superfund Cost Recovery and Financial Management Training Conference</i>, periodic meetings with DOJ to improve accounts receivable recording and discuss status of collections, issuing a joint OCFO and OECA memorandum dated July 26, 1999, entitled <i>Superfund Accounts Receivable Collections</i>, to emphasize collection of outstanding accounts receivable and OECA and OCFO discussions concerning the establishment of a Superfund collections workgroup.</p> <p>Provide periodic training and workshops on the management of accounts receivable and collections</p> <p>Meet with DOJ</p> <p>4.4 We disagree with this recommendation. OSRE and FMD began this review by issuing a memorandum dated July 26, 1999, to the Regional Comptrollers, Waste Division Directors, and the Office of Regional Counsel Branch Chiefs addressing Superfund Accounts Receivable Collections. The memorandum requires each region to prepare and submit to Headquarters, within a month of the receipt of the memorandum, a plan to address overdue receivables. As a coordinated effort among the financial management offices, offices of regional counsel, program offices and the DOJ, each plan should define the roles and responsibilities of each organization in performing the steps in addressing overdue receivables, the estimated time frames to complete these steps, and a primary regional contact. OSRE and FMD will continue to work with the regions to monitor their progress in addressing the overdue receivables.</p>	<p>Ongoing</p> <p>Annually</p> <p>As needed</p> <p>As needed</p> <p>Annually</p> <p>Ongoing</p> <p>None due to disagreement and ongoing activities</p>	

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<p>4.5 revise the Department of Justice interagency agreement to require DOJ to directly transmit to the ORCs and Regional finance offices copies of final source documents (i.e. Consent decrees, judgements) required to establish the recording of accounts receivable within 7 days of entry by the courts, and notify both the ORC and finance offices of any changes in the status of the collectability of the debt within 30 days of such determinations.</p> <p>We recommend the CFO and the Assistant Administrator for Enforcement and Compliance Assurance work together to:</p> <p>4.6 assure the roles and responsibilities of offices involved in the oversight billing process are maintained so that the Agency can sustain its emphasis on timely billing and collection of oversight costs, and</p> <p>4.7 develop and implement performance measures for the Senior Resource Officials to assess how well the regions are managing their oversight cost billings and other cost recovery activities. Tie the performance measures into EPA Goal 10, Effective Management, which calls for EPA to “establish a management infrastructure that will set and implement the highest quality standards for effective internal management and fiscal responsibility.”</p> <p>OIG Note: We again noted a Reportable Condition for accounts receivable in our FY 99 audit. Please refer to our FY 99 Attachment 2 and FY97 recommendations under 2.0, Further Improvements Needed In Managing EPA’s Accounts Receivable, pages 4-13 and 4-14 below, for additional comments and current status on this issue. For many years, management has been working to improve its management of accounts receivable. Starting with FY 83, our audit reports (of the Hazardous Substance Superfund obligations and disbursements) consistently identified improvements needed in the three phases of a receivable: recording the amount due, monitoring the status of the receivable and recording the funds collected. While we acknowledge many actions and initiatives have been taken to resolve these problems, management should continue its emphasis in this area.</p>	<p>4.5 We agree with this recommendation and OSRE, FMD, and DOJ have been working to implement an electronic network to satisfy the requirements for establishing the recording of accounts receivables. Data management personnel have acquired the necessary software to implement this electronic system. We believe that this system will be more effective and prompt in transmitting the source documents. After addressing any initial system problems and ensuring the effectiveness of the electronic system, the Department of Justice IAG will be revised.</p> <p>4.6 The roles and responsibilities of the regional offices in carrying out the oversight billing process were documented by each region in April 1998. The roles and responsibilities vary among regions, and the OCFO will continue to emphasize the need to have clear regional roles and responsibilities for this process.</p> <p>Maintain roles and responsibilities for the regional oversight billing process</p> <p>4.7 This was completed in July 1999. The OCFO has implemented the recently developed SRO Performance Measure on Superfund oversight billing. The first measurement period will be FY 2000. We also have developed a new Financial Management Core Measure on Oversight billing which automatically ties in to Goal 10, Objective 2, and Subobjective 1. Within Subobjective 1, annual performance goal # 2 requires core finance activities meet OCFO Core Financial Management Performance Measures.</p> <p>Develop and Implement the SRO Measure on Superfund oversight billing</p> <p>.....</p>	<p>Date not provided</p> <p>Ongoing</p> <p>7/28/99</p> <p>.....</p>	<p>Open</p> <p>Completed</p> <p>OIG Note</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

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<p>5.0 ADDITIONAL CONTROLS NEEDED IN INTERAGENCY AGREEMENT INVOICE APPROVAL PROCESS</p> <p>We recommend the Director, Grants Administration Division (GAD):</p> <p>5.1 develop a fact sheet for Agency managers explaining the invoice approval requirements to help ensure responses are provided timely,</p> <p>5.2 consider expanding the IAG portion of the project officer training/refresher course to place more emphasis on the importance of timely and properly completing the approval form. Consider having an official from CFMC present this portion of the course or prepare the materials to be used, and</p> <p>5.3 work with the Director, Financial Services Division, to have the Chief, CFMC notify the IAG approving officials when project officers are delinquent or not timely in completing and returning the IAG invoice approval forms.</p> <p>We recommend the Director, Financial Services Division direct the Chief, CFMC:</p> <p>5.4 to notify IAG approving officials when project officers are delinquent or not timely in completing and returning IAG invoice approval forms, such as by sending the second request to approving officials, and</p>	<p>5.1 The OCFO did not agree with the initial OIG recommendation and, instead, indicated it would be more beneficial for the Grants Administration Division to develop and issue a GAD Fact Sheet for Agency Managers explaining the requirement and the need for timely responses.</p> <p>OIG comments: The OIG concurs with the GAD proposal. The fact sheet can also be a useful tool to alert managers to related concerns about timely return of the approval form, completeness and the need for cost details to support the invoice.</p> <p>Issue GAD Fact Sheet</p> <p>5.2 We share your views on the need to continue to emphasize the importance of timely and accurately completing the invoice approval form. Beginning in FY 2000, Grants Administration Division will place additional emphasis on the importance of timely, proper completion of the payment approval form. We will also add a copy of the form to the IAG appendix. CFMC is willing to participate in the project officer training courses as the Division's travel budget will allow each year. During fiscal year 1999, CFMC attended the Region III project officer training course. CFMC reviewed the responsibilities of the project officers for the timely processing of IAG invoice approval forms.</p> <p>Participate in GAD Project Officer Training Course</p> <p>5.3 It would take considerable research to determine delinquent project officers' supervisors, so GAD proposes that the CFMC instead send notices to the approval official who signed the agreement. Generally, approval officials will be in the chain of command of project officers, although in many cases not the project officers' immediate supervisors. In order to determine whether this will be acceptable, we will present it as a recommendation to the Grants Customer Relations Council (GCRC). If they have significant objections, we will work with the GCRC members to develop an alternative approach and notify the Inspector General's office of the change in approach and put the final approach in place by March 31, 2000.</p> <p>OIG comment: GAD proposed acceptable alternative corrective actions.</p> <p>Work with GCRC members to develop an alternative approach and notify OIG office of change in approach</p> <p>5.4 While we agree in principle with the initial OIG recommendation, identifying the project officers' supervisor and keeping that information current is a huge undertaking. The Grants Management Division and CFMC feel that the IAG approving official could be sent the follow up letters on the late invoice approval forms. As described in the response to the previous recommendation, CFMC will work with the Grants Administration</p>	<p>.....</p> <p>3/31/00</p> <p>Ongoing</p> <p>.....</p> <p>3/31/00</p>	<p>OIG Comments</p> <p>Completed 2/07/00</p> <p>OIG Comment</p> <p>Open</p>

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<p>5.5 to compile a list of project officers with outstanding, late or incomplete invoice approval forms and forward to the Senior Resource Officials on a semiannual basis, asking for their assistance in getting project officers to timely and properly complete the forms.</p> <p>OIG Note: This issue was first reported by us in our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our FY 99 report, Attachment 2, for additional comments on this issue.</p> <p>6.0 CONTINUED IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITALIZED PROPERTY</p> <p>We recommend the Chief Financial Officer, in conjunction with the Assistant Administrator for Administration and Resources Management:</p> <p>6.1 continue to work to strengthen controls designed to ensure that property is timely and accurately recorded in the Agency's property accountability system, FAS. Specifically, reemphasize to the appropriate Agency personnel their responsibilities to:</p> <ul style="list-style-type: none"> • provide descriptive information about an existing parent property item in the procurement request for capital improvements; and • report receipt of accountable and capital property to the appropriate PMO in a timely manner when property acquisitions are directly delivered to the ordering official, and forward copies of appropriate documentation to the PMO. 	<p>Division to use the IAG approving official for second requests. Once the Grants Management Division has cleared the use of the approving official with the GCRC, CFMC will begin sending the approving official the second requests for invoice approval. Also see response to 5.3 above.</p> <p>5.5 We agree in principle with this recommendation. We agree to provide the SROs a list of the delinquent project officers, but propose to send the list semiannually rather than quarterly. Initially CFMC plans to provide the SROs the names of project officers who have been chronically delinquent in returning the invoice approval form. This list will be provided to the SROs semiannually in November and April. We believe the recommendation to provide this information to the SROs quarterly is overly burdensome. While CFMC does have an automated system to produce the invoice approval forms, the system does not track statistics on the submission of the approval forms. At this time, the data for such reports have to be accumulated manually. It is more reasonable from a workload prospective to provide the listings semiannually. Semiannual reports will decrease manual workload while providing the SROs the information they need. Furthermore, the reports should raise the level of awareness and accountability the OIG and OCFO wish to achieve.</p> <p>OIG comment: We revised our initial recommendations as the OCFO/GAD proposed acceptable alternative corrective actions.</p> <p>6.1 We concur with the above recommendation. We believe it important to emphasize, however, that the appropriate Agency personnel who need to be reminded of their property management responsibilities are not necessarily Property or Financial Management personnel. Users of Agency property, such as custodial officers, project officers, funds certifying officers and managers, and other ordering officials, must be made aware of Agency property management requirements. To correct this problem OARM's role in this effort will be to coordinate with specific organizations when property records indicate they are not complying with Agency property management policy. In addition to site visits performed by OARM's Facilities Management Services Division (FMSD), FMSD in conjunction with FMD, plans to take every opportunity to present briefings, conduct training sessions (such as the Fixed Asset Subsystem training conducted February 2-4, 1999), attend organizational meetings, and participate in any way to disseminate information and guidance concerning accurate documentation and timely processing of required receiving documents.</p> <p>As mentioned in the Audit report, during October 1998, the Financial Management Division (FMD) issued Transmittal Notice (TN) 99-03, "Guidelines on Preparing Requisitions for Property and Related Goods." This guidance provided detailed instruction on preparing purchase requests for capital improvements. The instructions give examples of how to prepare requisitions for capital improvements when descriptive information concerning an existing parent property is required. FMSD will issue a memorandum to Agency Senior Resources Officials: (1) reminding them of their responsibility to follow Agency property management policy along with a copy of the FMD TN 99-03 and (2) requesting that they distribute it to their respective project officers, ordering, and funds certifying officers.</p>	<p>3/31/00</p> <p>.....</p> <p>Date not provided</p> <p>.....</p>	<p>Open</p> <p>OIG Note</p> <p>OIG Comment</p>

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<p>OIG Note: We again noted a Reportable Condition for accounting for capitalized property in our FY 99 audit. Please refer to our FY 99 audit report, Attachment 2, for additional comments and recommendations. We have reported property issues since our first financial statement audit of the Superfund in FY 92 and other financial related audits of the Superfund since FY 82. Since that time, we have reported continuing problems with accounting for and controlling property. Management should continue its emphasis in this area.</p> <p>7.0 REVENUE WAS NOT PROPERLY RECORDED ON SUPERFUND STATE CONTRACTS</p> <p>We recommend the Chief Financial Officer (CFO):</p> <p>7.1 assist the regions in identifying and correcting problems causing errors in their advances and unbilled accounts receivable, and</p> <p>7.2 continue to emphasize the need for regional personnel to perform analytical reviews of their account balances.</p> <p>OIG Note: We first reported this issue in our FY 92 financial statement audit of the Superfund Trust Fund, LUST Trust Fund and Asbestos Loan Program.</p> <p>8.0 AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED</p> <p>No new recommendations.</p>	<p>Finally, ETSD is scheduling a joint review session with RTP FMSD, RTP OAM and FMD to address WCF property accounting problems. At the conclusion of this session, ETSD expects to have a plan of action for correcting problems before the end of this fiscal year.</p> <p>Issue memorandum to Agency Senior Resource Officials</p> <p>Implement an action plan to correct WCF property accounting problems.</p> <p>.....</p> <p>7.1 We agree with this recommendation. During the FY 1998 SSC revenue recognition process, there were problems with the spreadsheet formulas relative to State Cost Share (SSC) Credits. This problem has been corrected for the FY 1999 spreadsheets. We will work with individual regions in FY 1999 to assure SSC revenue has been properly recorded and to assure related account balances are correct.</p> <p>7.2 We agree with the recommendation. We conducted a workshop in June 1999 in which one of the sessions dealt specifically with the General Ledger and the need for continual account analysis. In addition, we have performed account analysis here at headquarters.</p> <p>.....</p> <p>We have identified accounts that need to be analyzed and have communicated this information to the regions. We will continue to analyze the accounts and work with regions in getting account balances corrected.</p> <p>8.0 In her response to the draft report, the Chief Financial Officer stated that her office continues to believe that IFMS documentation is sufficiently detailed in the context of their legacy system. Whereas management acknowledges that the IFMS dictionary could be improved, they maintain that the data dictionary enhancements and ongoing maintenance would not be cost effective considering the system's maturity and life-cycle stage.</p> <p>OIG Note: This issue has been reported since our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our FY 99 final report, Attachment 2, Reportable Conditions, for our current comments on this issue. In conclusion, we maintain our position that IFMS systems data dictionary and other technical systems documentation do not meet Federal systems documentation requirements for an integrated financial management system, and continue to believe that IFMS systems documentation is a reportable condition.</p>	<p>9/30/99</p> <p>9/30/99</p> <p>.....</p> <p>Date not provided</p> <p>6/30/99</p> <p>.....</p> <p>Date not provided</p> <p>.....</p>	<p>Completed 01/12/00</p> <p>Open</p> <p>OIG Note</p> <p>Completed December 1999</p> <p>Completed</p> <p>OIG Note</p> <p>Completed December 1999</p> <p>OIG Note</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>COMPLIANCE WITH LAWS AND REGULATIONS</p> <p>9.0 EPA IS NOT IN SUBSTANTIAL COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS</p> <p>Because the organizational responsibility for the financial and mixed-financial systems varies, we are directing our recommendations to multiple action officials. The following recommendations intentionally address corrective actions at a high level, because it would be too prescriptive and voluminous to elaborate on corrective actions for each system within the confines of this final report. Furthermore, we believe managers should be responsible for determining minimum security controls, based on the risk associated with system operations. For more specific information, managers should refer to the detailed evaluations which we previously forwarded to system owners.</p> <p>We recommend the Chief Financial Officer:</p> <p>9.1 develop an overall remediation plan which specifies resources, remedies and intermediate target dates associated with bringing CPARS, CPS, EPAYS, IFMS, MARS, TM+ and BAS systems into substantial compliance with OMB, NIST and Agency requirements, and addresses the critical security controls shown in Table 2.</p>	<p>In the CFO's 8/16/99 response to the draft report, she stated: With respect to compliance with the Federal Financial Management Improvement Act, we continue to believe that we are substantially in compliance with the requirements of that law. In those areas where the audit cites deviations from procedural requirements, we have documented the steps we have taken to remedy those findings.</p> <p>9.1 We do not agree with this recommendation. We believe that the Agency financial systems cited above (in FY 98 report) are substantially in compliance with OMB, NIST and Agency requirements. See FY 98 report, Appendix II, pages 14 - 25 for detail discussions supporting the CFO position on this recommendation.</p> <p>OIG Comment: Based on our review of evidence provided to us at the time of the audit, and subsequently, we have not changed our position on the need to develop an overall remediation plan.</p> <p>Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated "The report notes (page 3-1, last paragraph) that the Agency revised its core system security plans during 1999. Thus the "remediation plan corrective actions were completed on schedule." The auditors evaluated the adequacy of the security plans for IFMS, MARS, CPARS, and EPAYS, as approved in 1999. A revised security plan for CPS was approved May 26, 1999, and a new security plan for TM+ was approved on September 13, 1999. Copies of both security plans were furnished to the OIG auditors and the auditors did not request any additional information. Since the auditors report no adverse findings with respect to these security plans, we believe that no further remediation under this recommendation is necessary."</p> <p>Additional OIG Comments: As also stated in our fiscal 99 report, page 3-1, we performed a follow up review of security plans prepared as a result of our FY 98 audit recommendations. We found that the security plans were improved, but that they still lacked significant detail to document critical operational security controls, identify audit trails, and implement system-related guidance. For fiscal 1999, we again reported a Noncompliance with Laws and Regulations for federal financial management system requirements in fiscal 1999. In responding to our fiscal 1999 draft audit report, the OCFO agreed to develop a formal remediation plan by March 31, 2000. Please refer to our FY 99 audit report, Attachment 3, for additional comments and our audit recommendation resulting from our FY 99 audit.</p> <p>OIG Note: In a February 2, 2000, exit briefing, GAO reported to senior EPA officials that the Agency's financial systems security plans were inadequate. We understand that GAO will be issuing a report by June 2000. Accordingly, additional corrective actions may be needed based on GAO's recommendations.</p>	<p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>OIG Comment</p> <p>Additional Agency Comments</p> <p>Additional OIG Comments</p> <p>OIG Note</p>

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Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>We recommend the Director for Acquisition Management:</p> <p>9.2 develop security plans for CDOTS, ICMS, SPEDI, and CIS which address the critical security controls depicted in Table 2 above, and bring these systems into compliance with OMB Circular A-130, NIST and Agency requirements.</p>	<p>9.2 We do not agree with this recommendation. We believe that the Agency procurement systems cited above are substantially in compliance with OMB, NIST and Agency requirements. Also in support of our position, the facts related to this issue are as follows:</p> <p>-- The Contracts Information System (CIS) has been in operation for a number of years and has had an approved Security Plan in the past. Although security controls for CIS have not changed, security information for this system is being incorporated into the ICMS Security Plan.</p> <p>Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that the Contracts Information System (CIS) was retired on December 31, 1999. Therefore, a security plan for CIS is no longer needed.</p> <p>OIG Comment: As this system was retired, we concur that a security plan for CIS is no longer needed. However, we have not received or reviewed documentation from the system manager about the decision to retire this system . .</p> <p>-- A Security Plan for the ICMS family of applications, which includes ICMS, SPEDI and CDOTS, was approved by the Security Information Resources Management Officer (SIRMO). The SIRMO has directed OAM to address issues brought up in an extensive critique of the Security Plan by OIRM's IRM Policy and Evaluation Division to add information to specific sections of the plan.</p> <p>Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that the ICMS Security Plan will be largely rewritten to incorporate changes in the system and its operating environment required for Year 2000 compliance and migration to Lotus Notes electronic mail. As issues brought up in the critique of the existing Security Plan by OEI's sections are completed, they will be forwarded to OARM's Senior Information Resource Management Officer (SIRMO).</p> <p>Complete full Security Plan</p> <p>OIG Comment: This corrective action meets the intent of our recommendation for ICMS.</p> <p>-- OAM's Office Director, as owner of these applications, has been briefed on the status of the ICMS Security Plan, has assigned the responsibility for system security to OAM's Technical Information Officer, and has granted authorization to operate these systems, with direction to the Technical Information Officer to comply with the SIRMO's instructions and guidance.</p> <p>OIG Comments: We commend management's decision to revise the ICMS Security Plan by addressing issues which OIRM staff raised during a recent critique of the plan. Whereas OAM management delegated the task to their Technical Information Officer, their response did not indicate an expected completion date for complying with the SIRMO's instructions and guidance.</p>	<p>Completion date not provided</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>09/30/00</p> <p>.....</p> <p>Completion date not provided.</p> <p>.....</p>	<p>No longer applicable</p> <p>Additional Agency Comments</p> <p>OIG Comment</p> <p>Additional Agency Comments</p> <p>OIG Comment</p> <p>OIG Comments</p>

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<p>We recommend the Director, Grants Administration Division:</p> <p>9.3 address the critical security controls, as indicated in Table 2, needed to bring the P2000 security plan into compliance with OMB Circular A-130, NIST and Agency requirements, and</p> <p>9.4 coordinate with GICS data owners and address the critical security controls, shown in Table 2, necessary to bring the GICS security plan into compliance with OMB Circular A-130, NIST and Agency requirements.</p> <p>We recommend the Region 5 Assistant Regional Administrator for Resources Management:</p> <p>9.5 develop a security plan for the CTS financial system which addresses the critical security controls shown in Table 2 and makes the system compliant with OMB Circular A-130, NIST, and Agency requirements.</p> <p>OIG Note: We reported a Noncompliance with Laws and Regulations for federal financial management system requirements since our FY 97 audit. Please refer to our FY 99 audit report, Attachment 3, for additional comments and our audit recommendation resulting from our FY 99 audit.</p>	<p>9.3 We disagree with this recommendation. The GAD Systems Security Plan as of September 30, 1998, represents a sufficient level of detail as required by EPA guidelines. A revised Security Plan is under review as part of our ongoing reviews and is expected to be completed by June 2000 to include requirements for the operation of the Partnership 2000/Integrated Grant Management System, which is under development.</p> <p>Issue P2000/IGMS Security Plan 6/30/00</p> <p>9.4 We disagree with this recommendation. The GAD Systems Security Plan as of September 30, 1998, represents a sufficient level of detail as required by EPA guidelines. GAD agrees to coordinate with the Office of Water, the co-owner of GICS data, and jointly address the additional critical security controls necessary to keep the GICS Security Plan in compliance with OMB, NIST and Agency requirements. The Plan has already been revised as part of our ongoing reviews to incorporate a sufficient level of detail as required by OMB and NIST standards and arrangements are being made to conduct an independent audit of the system.</p> <p>Issue Revised GICS Security Plan. 3/31/00</p> <p>9.5 Issue CTS Security Plan. 3/31/00</p> <p>OIG Comment: The actions for recommendations 9.3 through 9.5 satisfies the intent of our recommendations.. ...</p> <p>Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that OARM and OGD was on target to meet the corrective action due dates for recommendations 9.3, 9.4 and 9.5.</p> <p>.....</p>	<p>6/30/00</p> <p>3/31/00</p> <p>3/31/00</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>Open</p> <p>Open</p> <p>Open</p> <p>Additional OIG and Agency Comments</p> <p>OIG Note</p>

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<p>AUDIT OF EPA'S FISCAL 1997 FINANCIAL STATEMENTS (Audit Report E1AML7-20-7008-8100058, Issued 03/2/98)</p>			
<p>EVALUATION OF INTERNAL CONTROLS - MATERIAL WEAKNESSES:</p>			
<p>1.0 IMPROVEMENTS NEEDED IN AGENCY'S ACCOUNTING FOR UNBILLED SUPERFUND OVERSIGHT COSTS</p>			
<p>1.1 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.</p>	<p>1.1 OCFO and OECA establish a plan with goals and milestones for oversight billings.</p>	<p>04/30/98</p>	<p>Completed 06/09/98</p>
<p>OIG Note: This issue, which was also reported in our FY 96 financial statement audit report, was also discussed as a FY 98 Reportable Condition on accounts receivable.</p>	<p>OIG Note: Please refer to our FY 98 recommendations 4.6 and 4.7 on page 4-7 above for management comments and corrective action plans on the Agency's accounting for unbilled Superfund oversight costs.</p>	<p>.....</p>	<p>OIG Note</p>
<p>EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS:</p>			
<p>2.0 FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE</p> <p>We recommend that the Acting CFO:</p>			
<p>2.1 provide detailed training to regional finance personnel on how to calculate an allowance for doubtful accounts,</p>	<p>2.1 Conduct training at a technical workshop.</p>	<p>06/12/98</p>	<p>Completed</p>
<p>2.2 conduct site visits to regional finance offices and perform quality assurance reviews to ensure FMOs are properly following accounting guidance,</p>	<p>2.2 In a 9/30/98 memo, the CFO informed us that they performed quality assurance reviews in prior years, and in FY 1998, conducted such reviews in Regions I, IV, and V. The CFO further informed us that, on an as needed basis in future years, the CFO would: 1) determine which regions require quality assurance reviews; 2) conduct FMO training; and 3) conduct quality assurance reviews to ensure FMOs are properly following accounting guidance.</p>	<p>09/30/98</p>	<p>Completed</p>
<p>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</p>	<p>2.3 In a 9/30/98 memo, the CFO informed us that, based on discussions (with Regional Program Offices and Offices of Regional Counsel), there was a need to clarify the management of oversight bills. Guidance was provided by the Financial Management Division in April 1998. The CFO also recognized a need to continue providing periodic training and workshops on the management of accounts receivable and collections to further improve performance in this area. Accordingly, the OCFO will annually provide training and workshops on the management of accounts receivable and collections and will meet monthly with the Department of Justice (which began in April 1998).</p>	<p>06/12/98</p>	<p>Completed 09/30/98</p>

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<p>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.</p>	<p>2.4 Issue Cross Servicing Policy Announcement on delinquent debts. Issue Revised RMDS 2540, Chapter 9 (11/22/99 update - comments being reviewed)</p> <p>Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that the target publication date was changed to 3/31/00, due to amount of comments and changes that have to be incorporated into the RMDS 2540 Chapter 9.</p>	<p>03/30/98 06/30/98 07/30/98 (rev) 12/15/98 (rev) 04/30/99 (rev) 08/30/99 (rev) 01/31/00 (rev) 03/31/00 (rev)</p>	<p>Completed 06/09/98 Open</p>
<p>2.5 We recommend the Assistant Administrator for Enforcement and Compliance Assurance emphasize to ORCs:</p>	<p>2.5 In a 9/30/98 memo, the CFO informed us that, on July 26, 1998, the Assistant Administrator for Enforcement and Compliance Assurance issued a memorandum entitled "Effective Debt Management" to the Regional Counsels. The purpose of that memo was to reiterate and reinforce the Agency's policy regarding the Regional Counsels' responsibility in the identification and collection of accounts receivable.</p>	<p>03/31/98 06/30/98 (rev)</p>	<p>Completed 07/26/98</p>
<p>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</p>			
<p>2.5.2. the need to respond back to FMOs within 30 days concerning receivable collectibility determinations.</p>			
<p>OIG Note: We again noted a Reportable Condition for accounts receivable in our FY 99 audit. Please refer to our FY 99 Attachment 2 and FY98 recommendations under 4.0, Further Improvements Needed In Managing EPA's Accounts Receivable, pages 4-6 and 4-7 above, for additional comments and current status on this issue. For many years, management has been working to improve its management of accounts receivable. Starting with FY 83, our audit reports (of the Hazardous Substance Superfund obligations and disbursements) consistently identified improvements needed in the three phases of a receivable: recording the amount due, monitoring the status of the receivable and recording the funds collected. While we acknowledge many actions and initiatives have been taken to resolve these problems, management should continue its emphasis in this area.</p>			<p>OIG Note</p>

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<p>3.0 CONTINUING EFFORTS NEEDED TO IMPROVE THE ACCOUNTING FOR CAPITALIZED PROPERTY</p> <p>3.1 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.</p> <p>3.2 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.</p> <p>OIG Note: We have reported property issues since our first financial statement audit of the Superfund in FY 92 and other financial related audits of the Superfund since FY 82. Since that time, we have reported continuing problems with accounting for and controlling property. Management should continue its emphasis in this area. Please refer to our FY 99 Attachment 2 and our FY 98 recommendations under 6.0, Continued Improvements Needed In Accounting For Capitalized Property, pages 4-9 and 4-10 above, for additional comments and corrective action plans for this issue.</p>	<p>3.1 Conduct property training session.</p> <p>Conduct joint property/finance training.</p> <p>3.2 Above actions are also applicable to recommendation 3.2.</p> <p>.....</p>	<p>03/09/98</p> <p>06/30/98 08/30/98 (rev)</p> <p>.....</p>	<p>Completed 06/09/98</p> <p>Completed 08/19/98</p> <p>OIG Note</p>
<p>5.0 GRANT ACCRUAL PROCEDURES NEEDED</p> <p>5.1 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.</p> <p>OIG Note: This issue was also reported in our FY 96 financial statement audit report.</p>	<p>5.1 In a 9/30/98 memorandum, the CFO informed us that they had been working with the OIG to develop draft procedures and reached an agreement on the procedures. We selected 3 samples of grants and forwarded the sample selection to the OIG for their concurrence. We received the OIG's concurrence on September 2, 1998, and e-mailed the grants in our samples to our finance offices.</p> <p>.....</p>	<p>Pending</p> <p>.....</p>	<p>Completed</p> <p>OIG Note</p>

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<p>6.0 CONTROLS FOR APPROVING INTERAGENCY AGREEMENT INVOICES NEED TO BE IMPROVED</p> <p>No new recommendations.</p> <p>OIG Note: This issue was first reported by us in our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our FY 98 recommendations under 6.0, Additional Controls Needed In Interagency Agreement Invoice Approval Process, pages 4-8 and 4-9, for corrective actions on this reportable condition and to our FY 99 Attachment 2 for additional comments on this issue.</p>	<p>OIG Note: Although corrective actions had been implemented, our audit work continued to find that project officers were not receiving required information and payment requests were not timely approved.</p>	<p>.....</p>	<p>OIG Notes</p>
<p>7.0 PROCEDURES NEED TO BE ESTABLISHED FOR IDENTIFYING, TRACKING AND REPORTING EPA'S ENVIRONMENTAL LIABILITY</p> <p>7.1 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.</p>	<p>7.1 Jointly draft policies and procedures for tracking and annually reporting EPA's environmental liability.</p> <p>Jointly finalize policies and procedures for tracking and annually reporting EPA's environmental liability. (11/22/99 update - In Comptroller's office for review)</p> <p>Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that this action was completed on 1/13/00, with the issuance of Policy Announcement No. 00-02.</p>	<p>04/30/98 07/15/98 (rev)</p> <p>07/31/98 08/31/98 (rev) 10/30/98 (rev) 03/31/99 (rev) 05/31/99 (rev) 08/31/99 (rev) 01/31/00 (rev)</p>	<p>Completed 07/31/98</p> <p>Completed 01/13/00</p>
<p>8.0 REVENUE WAS NOT PROPERLY RECORDED ON SUPERFUND STATE CONTRACTS</p> <p>8.1 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.</p> <p>OIG Note: We first reported this issue in our FY 92 financial statement audit of the Superfund Trust Fund, LUST Trust Fund and Asbestos Loan Program. Please refer to our FY 98 recommendations under 7.0, Revenue Was Not Properly Recorded On Superfund State Contracts, page 4-10, for additional comments and current status on this reportable condition.</p>	<p>8.1 Conduct a SSC training session.</p> <p>.....</p>	<p>07/31/98</p> <p>.....</p>	<p>Completed 07/23/98</p> <p>OIG Note</p>

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<p>9.0 AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED</p> <p>No new recommendations.</p> <p>OIG Note: This issue has been reported since our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our FY 98 Reportable Condition, 8.0 page 4-10, and to our FY 99 report, Attachment 2, Reportable Conditions, for additional comments by us and the OCFO on this issue.</p>	<p>In the OCFO's February 20, 1998 response to the draft FY 97 report, the OCFO responded that existing documentation was 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 a system replacement project, so it would not be economical to make major IFMS cost investments that could not be recovered within the next several years.</p> <p>.....</p>	<p>.....</p>	<p>OIG Note</p>

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<p>COMPLIANCE WITH LAWS AND REGULATIONS:</p>	<p>10.1 - EPA submitted a remediation plan to OMB on 3/31/99. In this plan, the Comptroller advised OMB that all corrective actions were completed concerning the five core financial management systems.</p>	<p>10/31/98 02/28/99 (rev)</p>	<p>Completed 03/31/99</p>
<p>10.0 EPA IS NOT IN SUBSTANTIAL COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS</p>	<p>10.2 - OCFO and OIRM Approval of IFMS and EPAYS Decision Paper; - Complete EPAYS Year 2000 Decision Paper.</p>	<p>03/31/98</p>	<p>Completed</p>
<p>We recommend that the Acting CFO direct the Director, Financial Management Division (FMD) to:</p>	<p>10.2 - Implement EPAYS/TAPP Year 2000 modifications.</p>	<p>01/30/99</p>	<p>Completed</p>
<p>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 FFMA requirements,</p>	<p>OIG Note: Although FMD has addressed implementing Agency Systems Development Life Cycle (SDLC) policies for the core financial systems, we believe the OCFO needs to address implementing standard SDLC policies or procedures for <i>all</i> Agency financial systems.</p>	<p>.....</p>	<p>OIG Note</p>
<p>10.2 follow existing EPA policy for System Life Cycle Management,</p>	<p>10.3 - Prepare IFMS, MARS, CPARS, EPAYS & Employee Express application security plans.</p>	<p>02/20/98</p>	<p>Completed 01/15/98</p>
<p>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,</p>	<p>10.3 - Develop & Finalize Travel Manager + Security Plan.</p>	<p>12/31/98 03/31/99 (rev) 09/30/99 (rev)</p>	<p>Completed 09/13/99</p>
<p>10.4 implement policies and procedures where necessary to ensure appropriate FMD oversight of system planning, and upgrade and maintenance operations for financial systems,</p>	<p>10.4 - Review and update SMG & EMG Charters / Establish SMG/EMG or alternative groups.</p>	<p>03/31/98 09/30/98 (rev)</p>	<p>Completed 02/02/99</p>
<p>10.5 ensure that the financial systems annual inventory data required by OMB is consistent, comparable and accurate, and</p>	<p>OIG Note: The Comptroller decided to eliminate the SMG and EMG rather than update their charters.</p>	<p>.....</p>	<p>OIG Note</p>
<p>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.</p>	<p>10.4 - Issue internal operating procedures for IFMS oversight.</p>	<p>12/31/98</p>	<p>Completed 02/02/99</p>
<p>OIG Note: We also noted a Noncompliance with Laws and Regulations for federal financial management system requirements in our FY 98 audit and again in our FY 99 audit. Please refer to our FY 98 recommendations under 9.0, pages 4-11 through 4-13 above, for corrective actions, and Attachment 3 for comments and an additional recommendation resulting from our FY 99 audit.</p>	<p>OIG Note: The new FMD policies and procedures are limited in scope and only apply to three of the eight OCFO financial systems. We believe that there is a need to establish improved controls through formal oversight policies and procedures applicable to <i>all</i> financial systems under the OCFO.</p>	<p>.....</p>	<p>OIG Note</p>
<p>10.5 ensure that the financial systems annual inventory data required by OMB is consistent, comparable and accurate, and</p>	<p>10.5 - Improve guidance for OMB Inventory update.</p>	<p>09/30/98</p>	<p>Completed 10/15/98</p>
<p>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.</p>	<p>10.6 - Include system inventory in CFO Five-Year Plan. In a 9/30/98 memorandum, the CFO advised us that "We are providing more guidance to the system managers to improve the accuracy of the inventory data, which will be completed by October 15, 1998. The guidance will emphasize the need to accurately report systems inventory data and have supporting documentation for the responses on the inventory. FMD plans to use the new process in the FY 1998 annual update. Additionally, we will reflect all changes to the system inventory in the 1998 CFO Five-Year Plan by October 30, 1998."</p>	<p>10/30/98 02/26/99 (rev)</p>	<p>Completed 11/05/99</p>
	<p>OIG Note: OMB Circular A-11 changed the CFO Five-Year Plan reporting requirements. EPA discussed its financial systems structure and future plans as part of its FY 2001 OMB A-11 Section 52.2 submission.</p>	<p>.....</p>	<p>OIG Notes</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>11.0 EPA IS NOT COMPLYING WITH APPROPRIATIONS LAW WHEN DISBURSING GRANTS FUNDED WITH MULTIPLE APPROPRIATIONS</p> <p>11.1 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.</p> <p>OIG Note: This noncompliance with appropriations law was first reported by us in our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity and was again mentioned in our FY 98 and 99 reports. We note that the Agency has been slow to complete corrective actions for this noncompliance issue.</p> <p><u>AUDIT OF EPA'S FISCAL 1996 FINANCIAL STATEMENTS</u> (Audit Report E1AML6-20-7001-7100120, Issued 03/24/97)</p> <p>EVALUATION OF INTERNAL CONTROLS - MATERIAL WEAKNESSES:</p> <p>2.0 COMPONENTS OF SUPERFUND NET POSITION COULD NOT BE AUDITED</p> <p>EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS:</p> <p>9.0 AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE IFMS COULD NOT BE ASSESSED</p> <p>OIG Note: Repeat finding from our FY 95 financial statement audit recommendation 8.0, page 4-21. Because corrective actions on this issue were underway, we did not make additional recommendations. Please refer to our FY 98 audit recommendation 8.0, page 4-10, and to our FY 99 report, Attachment 2, for additional comments on this issue.</p>	<p>11.1 In a 9/30/98 memorandum, the CFO provided the following status "The determination of whether our accounting practices violate Appropriations Law remains under OGC review. We will continue to encourage them to issue an OGC decision as soon as possible, so we can resolve this issue."</p> <p>OGC opinion requested from OGC.</p> <p>Obtain OGC opinion.</p> <p>.....</p> <p>Implement accounting changes dependent on OGC opinion. Target date will be established after OGC opinion is received.</p> <p>OIG Note: Repeat finding from our FY 95 financial statement audit. Corrective action plans already established based on prior OIG recommendations. Corrective action not completed. See top of page 4-22 below for remaining corrective action for fiscal 1995 recommendation 5.1.</p> <p>OIG Note: Please refer to our FY 98 audit finding 8.0 and FY 97 audit finding 9.0, above, for additional comments on this issue and to our FY 95 audit finding 8.0, below, for planned corrective actions that have not been completed.</p>	<p>03/06/96</p> <p>To be determined</p> <p>.....</p> <p>To be determined</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>Completed</p> <p>Completed 01/13/00</p> <p>OIG Note</p> <p>Open</p> <p>Closed Analysis complete June, 1999</p> <p>OIG Note</p> <p>Open</p> <p>OIG Notes</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><u>FISCAL 1995 FINANCIAL STATEMENT AUDIT OF EPA's TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY</u> (Audit Report E1SFL5-20-8001-6100200, Issued 5/3/96)</p>			
<p>3.0 EXPENSES FOR MULTI-FUNDED GRANTS NEED TO BE ADJUSTED TO REFLECT WHICH APPROPRIATION BENEFITTED FROM THE WORK PERFORMED</p> <p>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.</p>	<p>3.1 AGENCY COMMENTS: 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. 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> <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 align="center">N/A</p>	<p align="center">Closed 12/30/96</p>
<p>3.2 Use the Office of General Counsel opinion to develop and implement policies and procedures for accounting for disbursements for multi-funded grants.</p> <p>OIG Note: Please refer to our FY 97 audit finding 11.0, page 4-20 (EPA Is Not Complying With Appropriations Law When Disbursing Grants Funded With Multiple Appropriations) for an additional recommendation and corrective actions on this issue.</p>	<p>3.2 Develop draft policies and procedures.</p> <p>Circulate draft policy to the appropriate offices and receive comments.</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>	<p align="center">N/A</p> <p align="center">01/30/97</p> <p align="center">.....</p> <p align="center">03/15/97</p>	<p align="center">Completed 12/30/96</p> <p align="center">OIG Note Completed 01/03/97</p>
<p>5.0 COMPONENTS OF NET POSITION ARE NOT RECONCILABLE</p> <p>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.</p>	<p>5.1 Issue guidance on Superfund State Contract and Cash Out billings and collections recorded in Superfund.</p> <p>Develop report and issue guidance for interest recorded incorrectly in FY 1994 and prior.</p> <p>Correct interest activity.</p> <p>Move SSC and Cash Out billings and collections to SSC and Cash Out funds.</p> <p>Analyze pre-1996 Cash Outs recorded in the reimbursable funds and adjust revenue and advances as required.</p>	<p align="center">N/A</p> <p align="center">N/A</p> <p align="center">01/31/97</p> <p align="center">04/30/97 (rev)</p> <p align="center">02/28/97</p> <p align="center">04/30/97 (rev)</p> <p align="center">04/30/97</p>	<p align="center">Completed 12/30/96</p> <p align="center">Completed 12/30/96</p> <p align="center">Completed 04/30/97</p> <p align="center">Completed 04/30/97</p> <p align="center">Completed 04/30/97</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>8.0 AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED</p> <p>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.</p> <p>OIG Note: Please refer to our FY 99 audit report, Attachment 2, Reportable Conditions, for additional comments on this issue. We also disclosed a reportable condition in our FY 96 (finding 9.0), FY 97 (finding 9.0), and FY 98 (finding 8.0) audit reports, because the automated processing controls were not sufficiently documented for us to audit them.</p> <p>8.2 Establish a plan and schedule to implement a comprehensive data dictionary.</p> <p>OIG Note: This issue has been reported since our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our FY 99 report, Attachment 2, Reportable Conditions, for our current comments on this issue. In conclusion, we maintain our position that IFMS systems data dictionary and other technical systems documentation do not meet Federal systems documentation requirements for an integrated financial management system, and continue to believe that IFMS systems documentation is a reportable condition.</p>	<p>Analyze SSC and Cash Out funds, Superfund and the Superfund equity and prepare adjustments.</p> <p>AGENCY COMMENTS: 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 our programming contractor review the "model" documentation provided by the OIG to determine whether such documentation could also be developed for IFMS.</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>8.1 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>OIG Note: Please refer to FY 98 finding 8.0 above, for additional comments on this issue.</p> <p>Documentation for OIG selected transactions in other modules completed by contractor.</p> <p>OIG Note: FMD closed this recommendation in its audit tracking system because Agency management did not believe it was cost effective to develop additional documentation.</p> <p>AGENCY COMMENTS: 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>8.2 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>06/30/97 08/30/97 (rev) 11/23/97 (rev)</p> <p>.....</p> <p>12/31/96</p> <p>01/30/97 09/30/97 (rev) 03/15/97 11/15/97 (rev) 09/30/97 TBD</p> <p>.....</p> <p>12/30/96</p> <p>02/15/97</p> <p>09/30/97</p>	<p>Completed June, 1999</p> <p>OIG Note</p> <p>Completed 03/07/97 Completed 09/30/97</p> <p>OIG Note Closed 04/10/98 OIG Note</p> <p>OIG Note</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><u>FISCAL 1994 FINANCIAL STATEMENT AUDIT OF EPA's TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY</u> (Audit Report E1SFL4-20-8001-510192, Issued 2/28/95)</p>			
<p>1.0 ADDITIONAL INFORMATION AND REPORTS WOULD ALLOW AGENCY OFFICIALS TO MORE EFFECTIVELY MANAGE FINANCIAL ACTIVITIES</p> <p>We recommended that the Chief Financial Officer:</p>			
<p>1.1 Provide financial management offices with general ledger reports by accounting point and hold them accountable for the accuracy of their account balances.</p>	<p>1.1 FMO's scheduled receipt of general ledger reports by accounting point.</p>	08/31/95	Completed 06/26/95
<p>1.2 Determine why individual obligations in MARS do not match the IFMS amount and take appropriate corrective action.</p>	<p>1.2 Determine corrective action.</p> <p>Develop IFMS reports for outstanding obligations.</p> <p>Modify MARS to incorporate the contract order number on contract obligation data.</p>	08/31/95 03/31/96 10/01/96 07/30/97 (rev) 07/30/98 (rev)	Completed 10/31/95 Completed 03/31/96 Closed 04/14/99
	<p>OIG Note: FMD closed this recommendation in its data base as this recommendation will be superseded by an updated recommendation concerning obligations in the FY 98 financial statement audit. Please refer to finding 2.0, Agency Encountered Significant Difficulties in Preparing the Statements of Budgetary Resources and Financing (page 4-2 above) for additional recommendations and corrective action plans for this issue.</p>	OIG Note
<p>4.0 GRANTEE PAYMENT REQUESTS DO NOT PROVIDE NECESSARY ACCOUNTING INFORMATION</p>			
<p>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.</p>	<p>Prepare a draft policy on split funded projects.</p> <p>Circulate to Grants Customer Relations Counsel for comment.</p> <p>Enter the policy into the Green Border process.</p> <p>Finalize and issue the policy.</p> <p>OIG Comments: On 12/14/99, a GAD representative provided us with the following update: "Based on the response received under the Green Border Review, specifically regarding the additional burdens the Policy placed on grantees and EPA, GAD requested a legal opinion from the Office of General Counsel (OGC). The Policy has been revised, but has not been finalized pending OGC's opinion. OGC estimates that it's final opinion</p>	08/15/95 08/31/95 09/30/95 01/97 (rev) 11/30/95	Completed 12/96 Completed 12/96 Completed 2/12/97 Open OIG Comments

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>10.0 A COMPREHENSIVE AGENCY-WIDE POLICY ON INDIRECT COSTS SHOULD BE IMPLEMENTED</p> <p>10.1 Chief Financial Officer develop and implement an Agency-wide policy for identifying and allocating indirect costs.</p>	<p>will be issued within the next few weeks. GAD has worked closely with OGC and the Financial Management Division (FMD) to modify the Multiple Appropriations Awards Policy. Once OGC issues its opinion, GAD will finalize the Policy to coincide with the opinion and proceed with implementation.” On 1/13/00, OGC issued its opinion.</p> <p>10.1 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>OIG Note: 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.” During FY 98, EPA developed detailed cost accounting procedures for implementation in FY 99.</p> <p>OIG Note: Fiscal 1999 update: EPA discussed its Goals and Strategies to Support Federal Financial Management Priorities as part of its FY 2001 OMB A-11 Section 52.2 submission to OMB on November 5, 1999. The goals and strategies included six priorities, two of which discussed Improving Financial Accountability and Improving Financial Management Systems. Neither of these two discussion topics mentioned the development or the implementation of an agency-wide indirect cost policy. We acknowledge that the discussion did mention the accomplishment of implementing the five basic accounting standards and the cost accounting standard issued by the Federal Accounting Standards Advisory Board (FASAB) as well as developing related policy announcements. The CFO should identify additional corrective action plans and milestones to implement our recommendation. We believe an Agency-Wide Indirect Cost Policy should identify what costs should be consistently included to recover its "full cost" when determining the appropriate level of user fees for programs that receive fees for services provided by EPA, costs for billing other government agencies for work performed by EPA, and</p>	<p></p> <p>06/30/96 03/01/97 (rev)</p> <p>10/31/96 03/01/97 (rev) 09/30/97</p> <p>.....</p> <p>.....</p>	<p></p> <p>Open</p> <p>Open</p> <p>OIG Note</p> <p>OIG Note</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p><u>FISCAL YEAR 1993 - FINANCIAL AUDIT - PESTICIDES REVOLVING FUNDS AND THE OIL SPILL TRUST FUND</u> (Audit Report E1AML3-20-7001-4100230, Issued 3/31/94)</p> <p>7.0 HIGHER PRIORITY NEEDS TO BE PLACED ON COMPLETING REQUIRED REVIEWS OF USER FEES</p> <p>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.</p>	<p>Superfund Indirect Costs to be included in billings to responsible parties for site cleanups, etc. A cost accounting system, by itself, is not sufficient to take the place of an agency-wide indirect cost policy. Such a policy would help ensure costs are consistently identified for inclusion in determining the "full cost" of conducting agency programs and activities.</p> <p>7.1 Implement financial management performance measures in the program offices.</p> <p>OIG Note: 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 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. The next biennial review of user fees was scheduled to be completed by September 1999. Fiscal 1999 update: Please refer to our FY 99 report, Attachment 3, Compliance with Laws and Regulations, for an additional recommendation on this issue.</p>	<p>12/01/94 04/01/95 (rev) 07/31/97 (rev) 9/30/99 (rev)</p> <p>.....</p>	<p>Open</p> <p>OIG Note</p>
<p><u>FISCAL YEAR 1992 - FINANCIAL AUDIT - SUPERFUND, LUST AND ASBESTOS LOAN PROGRAM</u> (Audit Report P1SFL2-20-8001-3100264, Issued 6/30/93)</p> <p>4.0 ACCOUNTING FOR GRANT DRAWDOWNS DOES NOT PROVIDE REQUIRED ACCOUNT INFORMATION</p> <p>4.1 CFO review the results of the Quality Action Team's analysis of this issue and determine if additional procedures need to be developed to account for grant drawdowns.</p>	<p>4.1 Establish QAT to review the procedures, establish milestones, report to process owners, and implement changes. .</p> <p>OIG Note: Our FY 94 audit report also discussed this issue. For a current status on corrective actions, please refer to our FY 94 audit finding 4.0 above on page 4-23.</p>	<p>N/A</p> <p>.....</p>	<p>Open</p> <p>OIG Note</p>
<p><u>FISCAL YEAR 1992 - FINANCIAL AUDIT - PESTICIDES REVOLVING FUNDS</u> (Audit Report E1EPL2-20-7001-3100065, Issued 6/30/93)</p> <p>6.0 TOLERANCE FEES COLLECTED DID NOT COVER EPA'S COSTS</p> <p>6.1 CFO, in coordination with the Director, OPP, conduct a comprehensive review of tolerance program costs to</p>	<p>6.1 Develop methodology for conducting review of tolerance program costs.</p>	<p>10/31/93</p>	<p>Completed 12/15/93</p>

STATUS OF PRIOR AUDIT REPORT FINDINGS

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<p>determine how much tolerance fees should be raised, and take the necessary steps to make appropriate changes in the fees charged.</p>	<p>OIG Note: The proposed rule for recovering the aggregate cost of the tolerance program through fees was published in the Federal Register on June 9, 1999 (Vol. 64, Number 110, pages 31039-31050). The FY 99 Appropriations Act prohibits the Agency from using FY 2000 appropriated dollars to promulgate a Final Rule increasing tolerance fees. However, the Appropriations Act authorizes EPA to proceed with the development of such a rule. Accordingly, we encourage the Agency to proceed with the development of a Final Rule to ensure the Tolerance Fees reflect the costs for the services provided.</p>	<p>.....</p>	<p>OIG Note</p>
<p>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.</p>	<p>6.2 Complete review and submit to CFO with recommendations.</p>	<p>01/31/94</p>	<p>Completed 11/5/97</p>
<p>FISCAL YEAR 1991 - FINANCIAL AUDIT - HAZARDOUS SUBSTANCE SUPERFUND (Audit Report PISFF1-11-0026-2100660, Issued 9/30/92)</p>	<p>OIG Note: In its FY 97 Integrity Act report, EPA reported a corrected Agency-level weakness for user fees. Our FY 93 audit report also discussed this issue. Please refer to our FY 93 audit finding 7.0 above for additional comments and the current status for this issue.</p>	<p>.....</p>	<p>OIG Note</p>
<p>3.0 CERTAIN ALLOCABLE COSTS WERE NOT ALLOCATED TO SUPERFUND</p>		<p>02/15/93</p>	
<p>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&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.</p>	<p>3.1 Request a legal opinion from OGC to reaffirm the legality of charging Superfund expenses to the S&E appropriation.</p> <p>OIG Note: 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&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&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, final resolution by the Comptroller and the OGC has not been reached on this issue.</p>	<p>06/30/95 (rev)</p> <p>.....</p>	<p>Open</p> <p>OIG Note</p>
	<p>OIG Note: FY99 update: In a January 13, 2000 meeting, the Director, APBD, advised us that they were discussing this issue with an appropriations committee and were hoping to resolve this issue through legislative action.</p> <p>OIG Comments: We continue to encourage the Comptroller to make every attempt to resolve this long standing issue. If the Comptroller is aware of reasons that would prevent taking action suggested by OGC, we suggest that a decision memorandum be prepared by the CFO and the OGC to resolve this issue.</p>	<p>.....</p> <p>.....</p>	<p>OIG Note</p> <p>OIG Comments</p>

APPENDIX I

EPA'S FISCAL 1999 FINANCIAL STATEMENTS

February 2000

**FY 1999
AUDITED FINANCIAL
STATEMENTS**



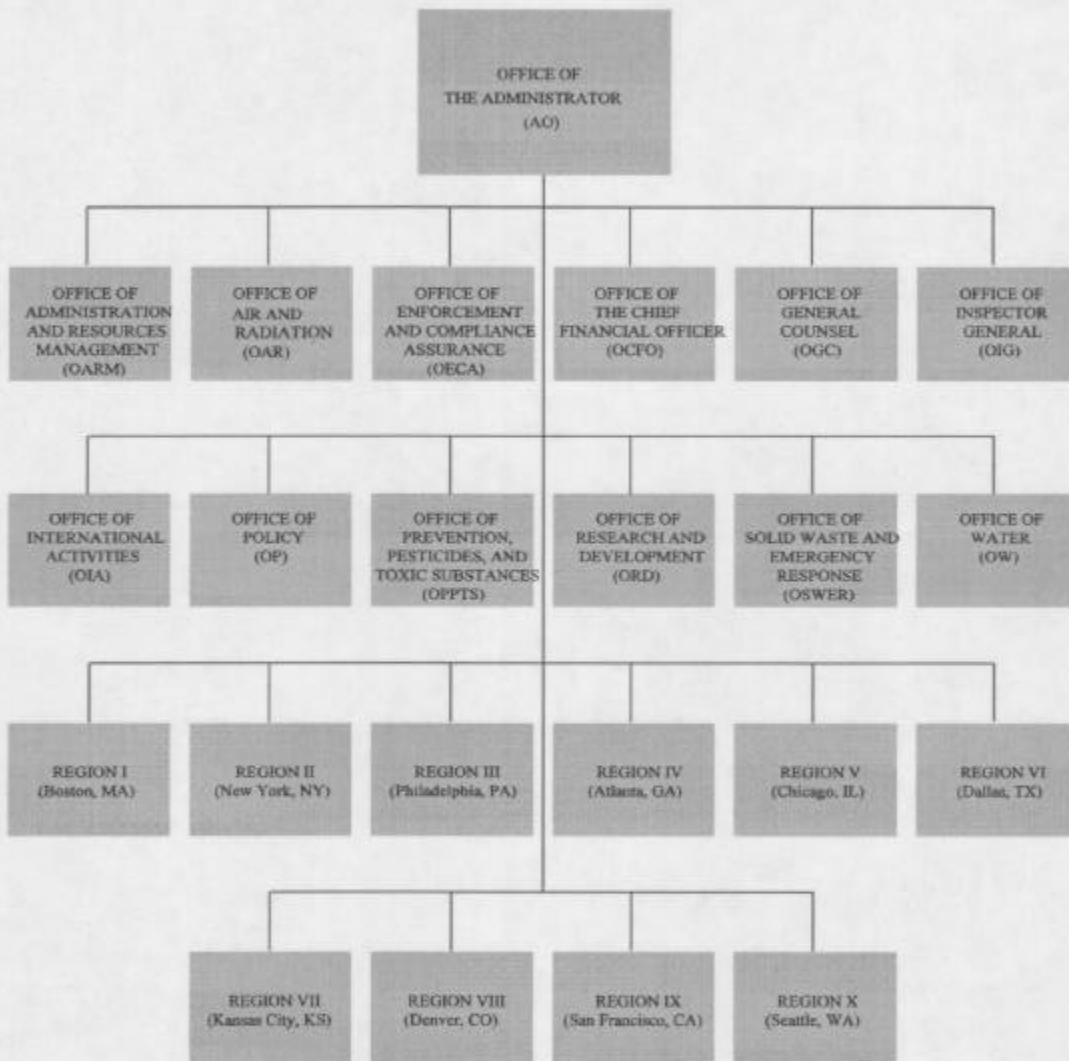
*Produced by the U.S. Environmental Protection Agency
Office of the Chief Financial Officer
Financial Management Division*

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**MANAGEMENT'S DISCUSSION
AND ANALYSIS (MD&A)**

**U.S. ENVIRONMENTAL PROTECTION AGENCY
(EPA)**



Note: This FY 1999 Organization Chart does not reflect the Office of Environmental Information (OEI) which was established in FY 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Environmental Protection Agency (EPA) was established to lead the nation's efforts to protect human health and safeguard the environment. EPA continues to work in partnership with local, state, tribal, federal and global communities to protect the air, water, land, and public health for all generations. This section contains an overview of the initiatives taken to ensure that all citizens have a clean environment and presents the key financial management highlights of the Agency. [For more detailed information on environmental initiatives, see EPA's FY 1999 Annual Performance Report (APR), to be issued in March 2000.]

EPA's Mission and Strategic Goals

The Agency's mission statement encompasses all of the legislative mandates of its programs and serves as a guidepost for all activities. Our strategic planning framework comprises ten strategic long-term goals that support the Agency's mission. We have articulated a set of objectives for each strategic goal, as well as performance goals to identify the progress we aim to make each year towards longer-term commitments.

Mission

"The mission of the U.S. Environmental Protection Agency is to protect human health and to safeguard the natural environment – air, water, and land – upon which life depends."

Strategic Goals

EPA has ten strategic goals to fulfill this mission. The Agency's Strategic Goals are:

1. Clean Air
2. Clean and Safe Water
3. Safe Food
4. Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems
5. Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response
6. Reduction of Global and Cross-Border Environmental Risks
7. Expansion of Americans' Right to Know About Their Environment
8. Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems
9. A Credible Deterrent to Pollution and Greater Compliance with the Law
10. Effective Management.

Overview of FY 1999 Results

EPA is proud of its FY 1999 contributions to establishing a cleaner, healthier environment. The results presented in this report demonstrate continued progress and reveal a mix of tools and approaches used to protect public health and promote environmental protection. Throughout the year, the Agency maintained close contact with its primary partners—states, tribes, and other federal agencies—whose involvement contributed significantly to the annual accomplishments discussed in this report and progress toward the longer-term environmental results.

For FY 1999, EPA can report significant accomplishments that contributed to cleaner air and land and safer food and water, meeting the majority of the 69 annual performance goals (APGs) to which the Agency committed in its FY 1999 Annual Plan. The Agency is also on track to achieve several APGs with targets that fall beyond FY 1999. Final results are not yet available for a number of APGs due to differences in reporting schedules. Owing to a variety of factors, EPA did not achieve some of the accomplishments it had planned for FY 1999. A table showing detailed results for EPA's 69 APGs is included in the Appendix of the FY 1999 APR.

Selected Accomplishments

Innovative Approaches to Environmental Problems

EPA is taking a fresh look at environmental problems and their solutions. We are devising more efficient and effective regulatory programs, expanding cooperative partnerships, and building simpler and more flexible processes for rule-making and permitting. We have some exciting results to report.

A 25-Percent Reduction in Acid Rain. In the Northeast and Mid-Atlantic regions of the United States, where ecosystems are most prone to acidification, acid deposition has declined by up to 25 percent through the efforts of the acid rain program, which implements a system of emissions trading known as “cap and trade.” This successful, market-based program was established by the Clean Air Act to control emissions of sulfur dioxide (SO₂) from electric power plants that cause acid rain and other environmental and public health problems. The “cap and trade” system is innovative in its use of the market to achieve greater environmental results for a given cost than are possible through traditional approaches. The program places a mandatory ceiling, or cap, on emissions nationwide from electric utilities, and allocates emissions to these pollution sources in the form of allowances. At the end of the year, sources must hold one allowance for each ton of SO₂ they emitted. Extra allowances may be banked (or carried over) for future use, or sold to other companies. This flexibility gives utilities the opportunity to find cost efficiencies while ensuring that overall emission reductions are achieved. Estimates by Edison Electric Institute in 1989 of estimated costs under traditional approaches were \$7.4 billion by 2010, versus EPA's initial estimate of \$4.6 billion under “cap and trade.” Based on recent compliance cost information, a 1998 Resources for the Future report estimated costs of SO₂ emissions reductions to be less than \$1 billion by 2010.

Early Progress in Food Safety. EPA is piloting a new approach to broaden public participation in decision-making on older agricultural pesticides. We are confronted with a large number of pesticides that were registered, or licensed for use, before tough standards for food safety were enacted into law. EPA is required by statute to evaluate these pesticides to set safe limits for their residues on foods, also called “food tolerances.” Our new approach to reassessment makes the process more transparent to the agricultural community, whose members are most directly affected by Agency findings. We are pleased to report that, as of September 30, 1999, EPA exceeded the statutory requirement of evaluating 33 percent of the 9,721 existing pesticide food tolerances, completing a net total of 3,430 reassessments (over 35%).

Regulations that Produce Better Environmental Results. One of EPA’s boldest innovations, Project XL (“eXcellence and Leadership”) was created through the President’s Reinventing Environmental Regulation Initiative. In FY 1999, EPA approved five more regulatory pilot projects through Project XL, bringing the number of pilot experiments in the implementation stage to 15. An additional 36 XL proposals were either under development or in negotiation, bringing the total number of projects to 51, meeting the Agency’s goal for FY 1999. To date, these pilots have revealed over 40 opportunities for improving environmental regulations, and eight innovations have already been incorporated into EPA regulations, permitting, and stakeholder involvement approaches. Project XL gives approved regulated sources the flexibility to develop alternative strategies to replace or modify specific regulatory requirements, contingent upon the production of greater environmental benefits.

Innovative Partnerships for Environmental Results

EPA could not have achieved the results described in this document during FY 1999 without forging innovative partnerships with many different governments, groups, and agencies. The Agency operates with the active participation of state and local agencies, tribes, community leaders, businesses, and private citizens to develop the most effective standards for public health and environmental protection.

Targeting Clean Water Efforts, from Coast to Coast. EPA’s Strategic Plan includes a commitment to expand our focus on watersheds in pursuit of our goal for Clean and Safe Water. FY 1999 brought to fruition a cooperative, intergovernmental process to assess the condition of the nation’s watersheds. For the first time, all 50 states, the District of Columbia, five territories, and numerous tribes each completed a comprehensive, nationwide assessment of watersheds within their boundaries, with guidance from EPA, the U.S. Department of Agriculture, and other federal agencies. The results incorporate water quality data, habitat conditions, endangered species listings, and other environmental factors. Taken together, this information helps all agencies identify the aquatic resources in greatest need of restoration and/or protection under the Clean Water Action Plan.

A Cleaner Environment, a Stronger Economy. During FY 1999, EPA’s government/industry partnership programs contributed to the reduction of annual greenhouse gas emissions in total by 35 metric tons in carbon equivalent. The Agency’s climate change efforts are part of the President’s

five-year Climate Change Technology Initiative included in the 1999 Budget and are designed to overcome barriers to investments in more efficient technologies by consumers, businesses, and others. EPA promotes energy-efficient technologies through programs such as the Energy Star Labeling Program and the Voluntary Aluminum Industry Partnership. Our support for innovation enables industries to limit greenhouse gas emissions and at the same time improve local air quality, save money for consumers and businesses, and enhance overall economic productivity.

Making the Most of our Land. In FY 1999, EPA demonstrated its commitment to Brownfields redevelopment by meeting its goal to provide funding and technical support to 80 communities, bringing the total communities served to 307. The Brownfields Assessment and Development Program supports the assessment, cleanup, and redevelopment of industrial and commercial properties that have been abandoned or underutilized due to real or perceived environmental contamination. Redevelopment efforts are designed to empower states, communities, and other stakeholders to work together on Brownfields projects. EPA and its partners also met the Agency's goal to complete construction at 85 Superfund sites in FY 1999. Major administrative reforms in the Superfund program have enabled us in the past seven years to complete construction at over three times the number of sites achieved during the first twelve years of the program.

Managing and Improving Environmental Information

EPA is working to assemble and manage more precise information about the environment to present a more complete picture to the public and to enhance Agency decision-making. During FY 1999, EPA made notable advances in the quality of data being produced and the availability of environmental information to all partners and stakeholders. When all of us—state and tribal governments, non-governmental and private organizations, communities, and individual citizens—have access to valid, consistent, and comprehensible data about environmental conditions, we can work together more effectively to address environmental problems and reduce exposure to harmful substances.

Establishing Common Data Standards. The State/EPA Information Management Workgroup, founded to promote compatible data standards and systems designs, has negotiated a common vision and operating principles for managing environmental information. Although EPA and state agencies are committed to sharing environmental data, the variety of data standards currently in use makes it difficult to integrate information or create accurate composites of environmental conditions. The workgroup has established multi-party action teams to identify and promulgate joint environmental data standards. In FY 1999, the teams completed standards for facility identification and standard date, and work is currently underway on standards for latitude/longitude, industrial classification, chemical identity, and biological classification.

Putting Information into the Hands of the Public. The Agency recognizes that making environmental and public health information available to local residents is one of the most effective ways to reduce local pollution and prevent it from happening in the future. EPA, the Environmental Defense Fund, and the Chemical Manufacturers Association achieved considerable success in FY

1999 during the first phase of the Chemical Right-to-Know Initiative. The focus was on 2,800 chemicals produced and imported at volumes exceeding one million pounds per year which, therefore, present significant chance of public and environmental exposure. The Right-to-Know initiative aims to identify and make public basic screening-level information on these chemicals, including some that may present particular concerns for children's health. Over 200 companies committed voluntarily to provide screening level toxicity information on over 1,150 of the chemicals in question.

New Information about Human Health and the Environment. Research and development programs at EPA seek out more innovative, effective ways to gather and distribute information about environmental health risks. The endocrine disruptors research program is producing important results by expanding our knowledge of how exposure to certain chemicals can affect human endocrine systems. In FY 1999, the Agency initiated a study to examine children for the effects of two endocrine-disrupting chemicals (EDCs). This study will help to characterize the key factors that influence human exposures to these chemicals and other persistent pesticides, toxics, and metals. It will also help produce a field exposure study protocol to support a follow-on larger-scale study to begin in FY 2000. The data from these studies will teach us more about where, when, and how children and other sensitive sub-populations are exposed to these kinds of environmental contaminants.

Transforming Information Management for the Next Century. During FY 1999, EPA laid the groundwork for a new office dedicated to information and information access issues. Formally established in FY 2000, EPA's Office of Environmental Information (OEI) will play a significant role to advance the creation, management, and use of data as a strategic resource. OEI will work closely with EPA's external partners to meet their data needs, develop appropriate policies regarding data protection and information security, create and oversee information standards and records management policies, and enhance the security and reliability of EPA's information infrastructure. The office supports the Agency's mission by integrating quality environmental information to maximize its usefulness for decision-makers.

Year 2000 (Y2K) Activities

In FY 1999, EPA positioned the Agency's information technology assets to successfully transition to the upcoming calendar year change. All 50 EPA mission critical systems were assessed, renovated, and certified through an independent certification program. In addition, the Agency's major computing platforms (mainframe, client/server, supercomputer) and wide area telecommunications networks were 100 percent compliant. EPA also completed assessment and renovation of its 1,475 non-mission critical systems, as well as renovations to 28 data exchanges, which are a combination of mission critical and non-mission critical systems. Currently, the Agency is monitoring the post Y2K transition testing process for mission critical and non-mission critical systems. This will enable EPA to determine whether or not the moratorium on modifications to information technology assets is needed through March 15, 2000.

EPA assessed all leased and owned buildings for Y2K compliance. The Agency received written confirmation from the General Services Administration (GSA) on March 1, 1999, that all EPA space was successfully evaluated and compliant. To address any adverse impact of the century change on EPA facilities, the Agency prepared guidance for all facility managers and coordinated the preparation of facility contingency plans specifically addressing building systems. The Agency completed testing facility contingency procedures and identified corrective actions.

To address worst case scenarios of the Y2K transition and ensure continuity of the core business processes, the Agency developed procedures to respond to threats and risks of the calendar year change. Through careful business process analysis, the Agency's Business Continuity and Contingency Planning (BCCP) methodology includes state and local interfaces, where appropriate. The Agency's BCCP also includes cross-cutting programmatic threats that may affect the continuity of business operations.

Within the Agency's BCCP methodology, EPA formed business resumption teams (BRTs) for each of the following nine core business processes:

- Protection of Air Quality
- Protection of Water Quality
- Safe Disposal of Waste Products
- Regulation of Pesticides and Toxic Substances
- Emergency Response to Environmental Emergencies
- Research and Development to Improve the Understanding of Environmental Risks
- A Credible Deterrent to Pollution and Greater Compliance with the Law
- Expansion of Americans' Right-to-Know About Their Environment
- Financial/Administrative Management of Agency Operations

The overall goals of the BRTs are to: 1) identify threats/risks and business priorities for its own core business process; 2) develop and embellish a set of contingency procedures; 3) review and rehearse procedures; and 4) enhance and implement procedures. EPA's BCCP Life Cycle includes milestones for corrective actions for identified contingencies and procedures through a series of workshops, rehearsals, and follow-up meetings.

The following table represents the historical and estimated future costs for Agency Y2K activities:

Fiscal Year	1996	1997	1998	1999	2000	Total
Cost (in Millions)	\$0.8	\$5.3	\$11.5	\$22.3	\$1.0	\$40.9

Building on Lessons Learned

As a learning year, FY 1999 provided EPA many opportunities to identify and develop the capabilities essential for results-based management. The Agency knows that future successes will

depend in large measure on its ability to set quantifiable, attainable goals and targets; to forecast external factors that may have an impact on program planning; to measure performance and results more precisely; and to analyze more accurately the relationships among costs, activities, and results.

For a variety of reasons that affected the Agency's ability to accomplish what it had planned, EPA achieved less than full performance for several of its 69 FY 1999 APGs discussed in the Agency's FY 1999 APR. The Agency does not expect the shortfall in meeting these annual performance targets, however, to compromise its progress toward the long-range goals to which they contribute. For example, the Agency met the statutory and cumulative goal of reassessing existing tolerances for pesticide food uses, but missed its annual target due to efforts to strengthen involvement of the agricultural community in the reassessment process. In another case, the Agency added only four states (out of the eight that were planned) to the One Stop Reporting program in FY 1999. However, EPA did develop a technology transfer activity to support states' efforts to increase their level of information integration. While they may not have resulted in the performance planned for FY 1999, these and other such efforts build a strong foundation for longer-term progress towards the Agency's goals.

In some cases, external factors affected the Agency's ability to achieve planned APGs. For example, due to difficulties reaching agreements with developing nations, EPA delivered 16 international training modules instead of the 30 originally planned. Similarly, the Agency's decision to relinquish interest in the Wilson Building so that the District of Columbia Government could return to its historic home delayed the consolidation of EPA Headquarters offices at the Federal Triangle.

Looking Ahead

In addition to the missed APGs, other program issues will need careful attention by the Agency and our partners if we are to maintain progress towards the achievement of long-term performance results. The Agency is working to address these challenges as we continue to strive for environmental outcomes.

Air Court Case: Implications for Future of EPA's Regulations. In May 1999, in a split decision (2 to 1), a panel of judges on the U.S. Court of Appeals for the D.C. Circuit held that the Clean Air Act, as applied in setting the new public health air quality standards for ozone and particulate matter, represents an unconstitutional delegation of legislative authority. The Court's decision calls into question these important new health air standards for ozone and particulate matter, which would protect the health of 125 million Americans, including 35 million children. Ozone and particulate matter are harmful pollutants that together contribute to acute health effects ranging from premature death to asthma and other respiratory problems. The Court's decision stands in the way of EPA's public health protection efforts and carries with it long-term implications not only for these new air quality standards, but also for many other federal regulations containing broad grants of authority to executive branch agencies. In January 2000, the Administrator filed a certiorari petition seeking Supreme Court review of key aspects of the Court's opinion.

Nonpoint Source Pollution. Nonpoint source (NPS) pollution is the nation's largest contributor to water quality problems. There are literally millions of diffuse sources of polluted runoff from agricultural lands, residential areas, city streets, and forests, and from pollutants settling out of the air. A key challenge for the future is to foster a national commitment to preventing nonpoint source pollution, assuring adequate investments by federal, state, tribal and local governments to fund projects to address these problems.

Performance Information: Need for Improved Data Quality and Availability. EPA gathers much of its data on the environment from sources outside the Agency, whose reporting cycles and data standards vary widely. For this reason, EPA has concerns about data quality, availability, and measurability. In a few instances, data relevant to FY 1999 performance are either lacking or of poor quality. We need accurate baseline data to measure performance effectively. EPA goal teams—bringing together representatives from all Agency offices whose work contributes to progress on our strategic goals—are working to determine what data are needed to set the baselines so that we can assess results over the long term. We are also working to develop performance measures that focus more on the outcomes of our work than on our programmatic outputs.

Need for Improved and More Accessible Information. EPA, in cooperation with the states and tribes, must advance efforts to reinvent environmental information by adopting formal data standards, providing universal access to electronic reporting, and re-engineering the Agency's national data systems. EPA must use efforts such as joint EPA/state/tribal information activities, Environmental Monitoring for Public Access and Community Tracking (EMPACT), Environmental Justice grants, and drinking water Consumer Confidence Reports (CCRs) to help provide communities and individuals with the information and tools they need to address environmental problems. EPA is striving to provide information in simpler, clearer terms and make it more accessible to states and local governments, the regulated community, and the public.

Future Trends

A number of current trends, which are likely to continue into the future, will have implications for the success of EPA's programs. The increasing likelihood of climate-change-driven weather extremes, such as more frequent hot, dry summers, may make it increasingly difficult to reach attainment with air quality standards, despite the full implementation of emission control plans. Similarly, droughts and floods, such as those that occurred in 1999, can significantly impact the success of the Agency's water and waste programs. As evidenced by the nation's recent experience, flood waters can disrupt hazardous waste sites and spread animal and other wastes. Drought conditions can preclude reliance on dilution to improve water quality. The Agency and its partners have established some pollution control strategies predicated upon fairly typical temperature and precipitation regimes; however, these control strategies may be less likely to succeed, as we are exposed to increasing climate and weather extremes.

Population growth, and the attendant development of suburban and urban areas, pose further implications for environmental protection programs. Sprawl places increased demands on

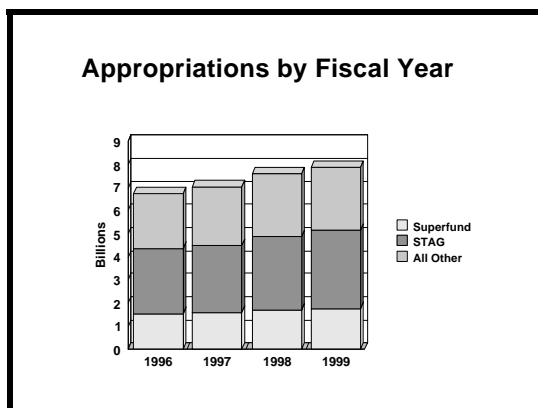
transportation, and can result in more people relying heavily on private vehicles. The need to drive more, coupled with the trend towards larger vehicles such as sports utility vehicles, can contribute to increased emissions of conventional pollutants and greenhouse gases such as carbon dioxide. In addition to air quality concerns, population growth places increased pressure on the nation's infrastructure for providing clean and safe water. This concern is especially apparent as the U.S. population grows in southern and southwestern states with fewer water resources and often less highly-developed water and wastewater treatment infrastructures.

The current trend of general economic growth and increased consumer demands will also bear upon the success of EPA's programs across all media. If domestic manufacturing and production rise to meet the demands of wealthier, more prosperous consumers, waste streams and air and greenhouse gas emissions are likely to increase.

Financial Analysis Highlights

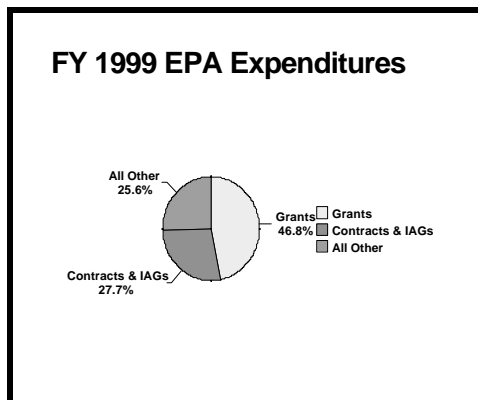
Financial Trends

Appropriation Levels for FY 1996-1999. For Fiscal Year 1999, Congress appropriated a total of \$7.9 billion to the Agency. A comparison of total Agency appropriations for Fiscal Years 1996 through 1999 is provided in the following chart:



The chart is categorized by Superfund, State and Tribal Assistance Grants (STAG), and All Other. The Superfund appropriation category is net of transfers to the Science and Technology (S&T) and Office of Inspector General (OIG) appropriations. The All Other category includes appropriations for OIG, Oil, Leaking Underground Storage Tank (LUST), Buildings and Facility, Environmental Program and Management (EPM), and S&T.

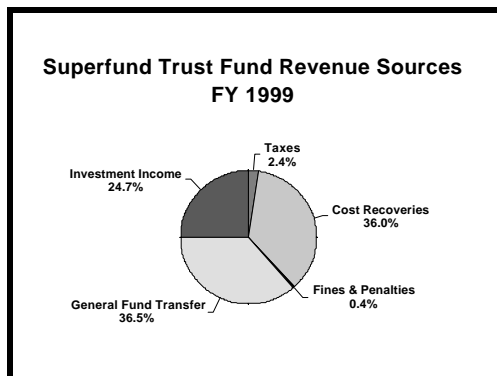
FY 1999 Expenses. In Fiscal Year 1999, EPA expended \$7.7 billion using current and prior year appropriation authority. Of this amount, as depicted, 74.9 percent was expended for contracts, inter-agency agreements, and grants.



Superfund Financial Trends. The U.S. Congress passed the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) (P.L. 96-510), which formally established the Superfund program and the Hazardous Substance Response Trust Fund, now known as the Hazardous Substance Superfund (Trust Fund). Although CERCLA has not been reauthorized

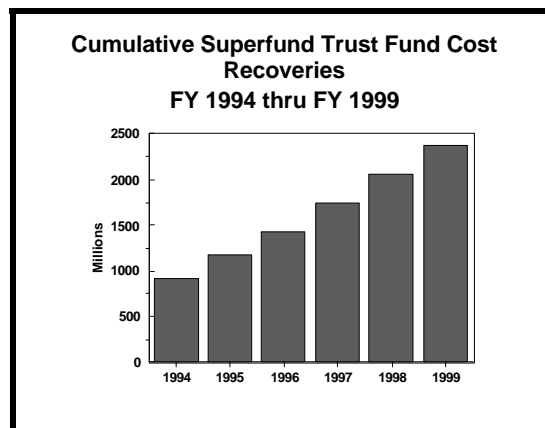
since 1995, the Superfund program continues to operate each year by way of annual Congressional appropriations.

The Trust Fund, which is administered by the Bureau of Public Debt, U.S. Department of the Treasury (Treasury), is the primary financing source for the Superfund program. For FY 1999, Treasury reports that the Trust Fund received \$889.5 million in receipts from the revenue sources shown in the following chart:



The Superfund program’s authority to tax expired on December 31, 1995. Consequently, tax revenues have diminished and the remaining revenue sources for the Trust Fund are: cost recoveries; interest, fines, and penalties; interest from Trust Fund investments; and general revenues. Due to diminishing revenues, EPA has increased its efforts to conserve existing Trust Fund balances and replenish the Trust Fund with all eligible revenues. Specifically, EPA has done the following to accomplish these goals:

- ◆ Reemphasized its “enforcement first” philosophy to compel Potentially Responsible Parties (PRPs) to clean up their sites. By having PRPs perform clean-ups, EPA can reduce related response and legal enforcement costs which result in cost savings to both the taxpayer and the Trust Fund.
- ◆ Accelerated efforts to pursue cost recovery (see chart). During FY 1999, EPA recovered \$319.7 million -- the largest cost recovery amount for a one year period to date.
- ◆ Placed increased emphasis on debt collection activities to pursue unpaid debts owed EPA.
- ◆ Diversified the Trust Fund’s investment portfolio, with direction from Treasury, to return a higher rate of interest to the Fund.



Office of the Chief Financial Officer’s (OCFO’s) Accomplishments

Financial Performance Measures. OCFO tracks nine Core Financial Management Performance Measures for monitoring the key functions in EPA’s 14 finance offices. The measures cover the timeliness of processing of payments (commercial, grant, travel, payroll), recording of contract obligations and accounts receivable, and reconciling cash as well as the use of electronic payments for travel and payroll. The Agency improved its performance compared to FY 1998 and exceeded the performance goals for all the measures during FY 1999.

Benchmarking. EPA, as a CFO Council member agency, participated in a Benchmarking project sponsored by The Hackett Group, an organization that conducts benchmarking studies for the private sector. EPA's business processes were compared to other government agencies and to private sector companies in areas such as transaction processing, control and risk management, decision support and finance function management. EPA compared very favorably against both government and private sector averages in the number of finance FTEs per billion dollars of appropriations (equated to revenues for private sector comparison) and the FTE staff time allocated to processing financial transactions (lowest among both government and private sector).

One area of concern that the study revealed was the overall cost of EPA's financial systems. OCFO is evaluating replacement systems and other measures to bring these costs in line with government and private sector averages.

Integration of Planning, Budgeting, and Accounting. EPA prepared its FY 1999 Annual Plan and Budget by linking resources to the Goals and Objectives in the Agency's Strategic Plan in accordance with the requirements of the Government Performance and Results Act (GPRA) and other related management reform initiatives. The General Accounting Office (GAO) commended EPA for being the first Agency to succeed at full integration of budget requests and annual performance plans. During the year, substantial enhancements were made to the Agency's Budget Automation System (BAS) to allow the resource community greater flexibility in formulating their budgets. The GPRA structure is used to account for the costs of our programs and meets the requirements of the Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, that requires Agencies to account for the "full costs" of their outputs.

Working Capital Fund. In 1999, the Working Capital Fund (Fund) completed its third year of providing administrative support services to Agency offices on a fee-for-service basis and ended its protected status as a mandatory source for services provided to internal Agency customers. The Fund is expected to demonstrate additional savings through increased efficiencies driven by market forces.

In 1999, the Fund operated two successful business activities, providing customers postage services and an array of telecommunications and data processing services. As expected, the Fund has promoted effective resource utilization Agency-wide by more clearly identifying to Agency managers, who must now account for the cost of administrative services in their budget planning, both the resources their organizations consume and the cost of those resources. EPA has experienced a 20 percent reduction in its postage costs, a savings of approximately \$1 million annually, simply through reduced internal demand. Similarly, EPA experienced significant savings in its telecommunications and data processing operations. For FY 1996, the year before the Fund commenced operations, these activities consumed approximately \$114 million of the Agency's appropriated budget. Actual costs for these operations dropped to approximately \$102 million in FY 1997 (first year of Fund's operations). Costs were \$114.1 million and \$127.8 million in Fiscal Years 1998 and 1999, respectively. Fund administrators are currently examining a business case

analysis for including certain payroll services within the Fund, and additional expansions are contemplated within the next several years.

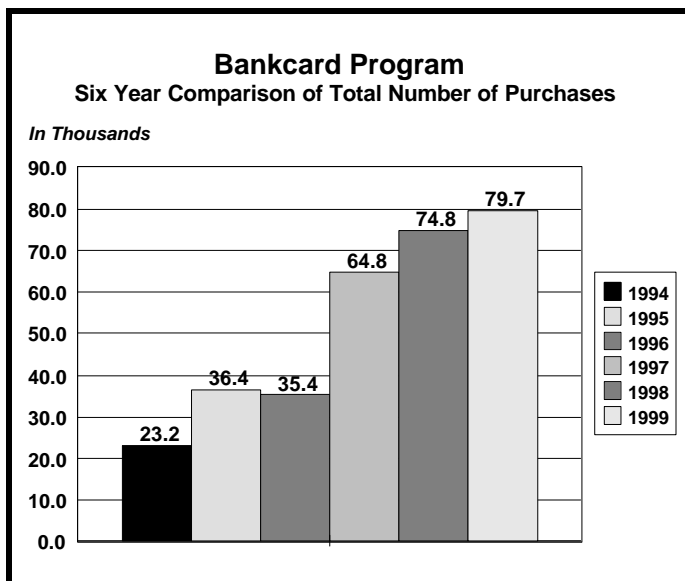
FY 1999 Biennial Review of EPA User Fee Systems. The Chief Financial Officers Act of 1990 (CFO Act), Section 902(a)(8), directs EPA's Chief Financial Officer to: "review on a biennial basis, the fees, royalties, rents and other charges imposed for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value."

The Agency's FY 1999 review was conducted in accordance with the CFO Act and provisions set forth in Office of Management and Budget Circular A-25, "User Charges." During this review process, the Agency assessed its existing fee systems, made necessary revisions and identified potential new fee systems. EPA has six existing fee systems: Motor Vehicle and Engine Compliance Fee, National Radon Proficiency Program Fee, Maintenance Fee, Tolerance Fee, Premanufacture Notice Fee, and Lead Accreditation and Certification Fee. The Agency is also proposing several new fees: Outside User Fee, Tolerance Fee, Registration "Fee for Service," Registration Review, and Registration Fee.

The preliminary results of the review reveal that the Agency is taking reasonable and appropriate actions to ensure that fees reflect costs where it would not adversely affect the service provided and where EPA has the statutory authority to do so. A formal report is being prepared and is expected to be completed by March 2000.

Re-engineered and Streamlined Payment Processes. In 1999, the Agency successfully re-engineered and/or streamlined several payment processes to ease the burden on external and internal customers, reduce the reliance on paper documents, and help the Agency take advantage of rebates and discounts for prompt payment. The benefits from these efficiencies flow back to EPA's program offices and are used to further the Agency's mission.

For small purchase payments, the Agency worked closely with its new credit card issuer to streamline invoicing and recording of accounting data. The Agency also developed new intranet-based reporting tools to facilitate cost allocation and expanded the use of automated tools to reduce duplicate data entry. The bank card effort alone allowed EPA to earn about \$365 thousand in rebates in 1999.



For travel and transportation payments, EPA implemented a new credit card to offer over 16,000 Agency employees a way to better manage their accounts and to provide the Agency with rebates and new administrative tools.

For contractor payments, the Agency moved aggressively to use electronic imaging of contracts to make information more accessible while reducing the use of paper. EPA introduced a new release of the Electronic Approval System (EASY) and expanded the use of the system to 94 project officers, up from 20 in 1998. EASY provides project officers a streamlined on-line invoice approval process. This re-engineering enabled EPA to pay 99.9 percent of invoices on time and earn over \$344 thousand in discounts in 1999.

Payment Related Initiatives Under Way. Three initiatives are under way to re-engineer and automate payment processes. First, by the end of September 2000, all EPA grant payment offices will have implemented Treasury's Automated Standard Application for Payments (ASAP) which standardizes federal payment request procedures for grant recipients. Second, a dedicated team thoroughly analyzed alternatives for replacing the aging EPA Integrated Payroll and Personnel System (EPAYS) and recommended a product that will interface easily with other agency software, automate a number of tasks, and provide high quality information to employees. Third, in 1999, the Agency obtained a new intranet-based release of Travel Manager Plus (TM+) software that allows travel documents to be prepared, processed, and approved on-line. TM+ will interface with the Agency's Integrated Financial Management System (IFMS) to allow the automatic obligation and disbursement of funds from fully approved documents.

**PRINCIPAL
FINANCIAL
STATEMENTS**

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**Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 1999
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	\$ 20,069	\$ 10,794,978	\$ 10,815,047	\$ ___	\$ 10,815,047
Investments (Note 4)	4,417,886	1,398,005	5,815,891	___	5,815,891
Accounts Receivable, Net (Note 5)	48,982	55,194	104,176	(2,513)	101,663
Other	<u>3,037</u>	<u>7,801</u>	<u>10,838</u>	<u>(2,638)</u>	<u>8,200</u>
Total Intragovernmental	4,489,974	12,255,978	16,745,952	(5,151)	16,740,801
Accounts Receivable, Net (Note 5)	643,255	88,565	731,820	___	731,820
Loans Receivables, Net - Non Federal (Note 6)	___	101,312	101,312	___	101,312
Cash (Note 3)	___	55	55	___	55
Inventory and Related Property, Net (Note 7)	___	237	237	___	237
Marketable Securities Equity (Note 4)	5,146	___	5,146	___	5,146
General Property, Plant and Equipment, Net (Note 8)	13,407	385,968	399,375	___	399,375
Other	<u>835</u>	<u>2,668</u>	<u>3,503</u>	<u>___</u>	<u>3,503</u>
Total Assets	\$ 5,152,617	\$ 12,834,783	\$ 17,987,400	\$ (5,151)	\$ 17,982,249
LIABILITIES					
Intragovernmental:					
Accounts Payable	\$ 89,594	\$ 2,737	\$ 92,331	\$ ___	\$ 92,331
Debt (Note 9)	___	37,922	37,922	___	37,922
Environmental and Disposal Costs (Note 17)	___	14,321	14,321	___	14,321
Other (Note 10)	<u>96,746</u>	<u>174,372</u>	<u>271,118</u>	<u>(5,151)</u>	<u>265,967</u>
Total Intragovernmental	186,340	229,352	415,692	(5,151)	410,541
Accounts Payable	47,945	75,241	123,186	___	123,186
Pensions and Other Actuarial Liabilities (Note 12)	5,826	23,987	29,813	___	29,813
Other (Note 10)	<u>611,256</u>	<u>752,651</u>	<u>1,363,907</u>	<u>___</u>	<u>1,363,907</u>
Total Liabilities	<u>851,367</u>	<u>1,081,231</u>	<u>1,932,598</u>	<u>(5,151)</u>	<u>1,927,447</u>
Commitments and Contingencies (Note 15)					
NET POSITION					
Unexpended Appropriations (Note 13)	2,656,831	10,076,964	12,733,795	___	12,733,795
Cumulative Results of Operations	<u>1,644,419</u>	<u>1,676,588</u>	<u>3,321,007</u>	<u>___</u>	<u>3,321,007</u>
Total Net Position	<u>4,301,250</u>	<u>11,753,552</u>	<u>16,054,802</u>	<u>___</u>	<u>16,054,802</u>
Total Liabilities and Net Position	\$ 5,152,617	\$ 12,834,783	\$ 17,987,400	\$ (5,151)	\$ 17,982,249

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Consolidating Statement of Net Cost
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
COSTS:					
Intragovernmental	\$ 454,791	\$ 607,490	\$ 1,062,281	\$ (344,375)	\$ 717,906
With the Public	1,254,104	5,764,882	7,018,986	—	7,018,986
Expenses from Other Appropriations (Note 20)	35,664	(35,664)	—	—	—
Total Costs	<u>1,744,559</u>	<u>6,336,708</u>	<u>8,081,267</u>	<u>(344,375)</u>	<u>7,736,892</u>
Less:					
Earned Revenues	707,674	212,904	920,578	(19,375)	901,203
Total Revenue	<u>707,674</u>	<u>212,904</u>	<u>920,578</u>	<u>(19,375)</u>	<u>901,203</u>
NET COST OF OPERATIONS	<u>\$ 1,036,885</u>	<u>\$ 6,123,804</u>	<u>\$ 7,160,689</u>	<u>\$ (325,000)</u>	<u>\$ 6,835,689</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 1999
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Net Cost of Operations	\$ 1,036,885	\$ 6,123,804	\$ 7,160,689	\$ (325,000)	\$ 6,835,689
Financing Sources (Other Than Exchange Revenues):					
Appropriations Used	1,549,960	6,150,746	7,700,706	—	7,700,706
Taxes (and Other Non-Exchange Revenues)	25,169	225,275	250,444	—	250,444
Trust Fund Appropriations Received (Note 14)	325,000	—	325,000	(325,000)	—
Imputed Financing	31,437	165,232	196,669	—	196,669
Income from Other Appropriations (Note 20)	35,664	(35,664)	—	—	—
Transfers-In/Out	—	206	206	—	206
Other Financing Sources (Note 28)	(1,524,112)	(75,179)	(1,599,291)	—	(1,599,291)
Net Results of Operations	(593,767)	306,812	(286,955)	—	(286,955)
Prior Period Adjustments	(20,122)	12,481	(7,641)	—	(7,641)
Net Changes in Cumulative Results of Operations	(613,889)	319,293	(294,596)	—	(294,596)
Increase (Decrease) in Unexpended Appropriations	(149,129)	249,165	100,036	—	100,036
Change in Net Position	(763,018)	568,458	(194,560)	—	(194,560)
Net Position - Beginning of Period	5,064,268	11,185,094	16,249,362	—	16,249,362
Net Position - End of Period	\$ 4,301,250	\$ 11,753,552	\$ 16,054,802	\$ —	\$ 16,054,802

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Year Ended September 30, 1999
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals
Budgetary Resources:			
Budget Authority	\$ 1,410,708	\$ 6,447,893	\$ 7,858,601
Unobligated Balances - Beginning of Period	701,468	1,717,941	2,419,409
Spending Authority from Offsetting Collections	139,421	276,342	415,763
Adjustments (Note 23)	<u>(59,368)</u>	<u>(81,848)</u>	<u>(141,216)</u>
Total Budgetary Resources	<u>\$ 2,192,229</u>	<u>\$ 8,360,328</u>	<u>\$ 10,552,557</u>
Status of Budgetary Resources:			
Obligations Incurred	\$ 1,709,357	\$ 6,685,653	\$ 8,395,010
Unobligated Balances - Available (Note 24)	482,872	1,567,142	2,050,014
Unobligated Balances - Not Available	<u>—</u>	<u>107,533</u>	<u>107,533</u>
Total, Status of Budgetary Resources	<u>\$ 2,192,229</u>	<u>\$ 8,360,328</u>	<u>\$ 10,552,557</u>
Outlays:			
Obligations Incurred	\$ 1,709,357	\$ 6,685,653	\$ 8,395,010
Less: Spending Authority from Offsetting Collections and Adjustments	326,851	427,091	753,942
Obligated Balance, Net - Beginning of Period	2,550,841	8,750,289	11,301,130
Less: Obligated Balance, Net - End of Period (Note 25)	<u>2,433,861</u>	<u>9,153,233</u>	<u>11,587,094</u>
Total Outlays	<u>\$ 1,499,486</u>	<u>\$ 5,855,618</u>	<u>\$ 7,355,104</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Combined Statement of Financing
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals
Obligations and Nonbudgetary Resources			
Obligations Incurred	\$ 1,709,357	\$ 6,685,653	\$ 8,395,010
Less: Spending Authority for Offsetting Collections and Adjustments	(139,421)	(276,342)	(415,763)
Recoveries	(205,200)	—	(205,200)
Financing Imputed for Cost Subsidies	31,437	165,232	196,669
Income from Other Appropriations (Note 20)	35,664	(35,664)	—
Transfers-In/Out	—	206	206
Exchange Revenue Not in the Budget	(612,898)	(73,735)	(686,633)
Nonexchange Revenue Not in the Budget	(4,150)	—	(4,150)
Other	241	40,351	40,592
Total Obligations as Adjusted and Nonbudgetary Resources	<u>815,030</u>	<u>6,505,701</u>	<u>7,320,731</u>
Resources that Do Not Fund Net Cost of Operations			
Change in Amount of Goods, Services, and And Benefits Ordered but Not Yet Received or Provided	156,635	(280,131)	(123,496)
Change in Unfilled Customers Orders	49,033	19,440	68,473
Costs Capitalized on the Balance Sheet	(9,510)	(162,028)	(171,538)
Financing Sources that Fund Costs of Prior Periods	—	9,628	9,628
Trust Fund Outlays Not Affecting Net Cost	74	—	74
Total Resources that Do Not Fund Net Costs of Operations	<u>196,232</u>	<u>(413,091)</u>	<u>(216,859)</u>
Costs that Do Not Require Resources			
Depreciation and Amortization	2,595	13,481	16,076
Bad Debt Expense from Non-Credit Reform Receivables	18,316	894	19,210
Loss on Disposition of Assets	477	884	1,361
Total Costs That Do Not Require Resources	<u>21,388</u>	<u>15,259</u>	<u>36,647</u>
Financing Sources Yet to be Provided (Note 27)	<u>4,235</u>	<u>15,935</u>	<u>20,170</u>
Net Costs of Operations	<u>\$ 1,036,885</u>	<u>\$ 6,123,804</u>	<u>\$ 7,160,689</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Statement of Custodial Activity
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	<u>All Others</u>
Revenue Activity:	
Sources of Collections:	
Fines and Penalties	\$ <u>126,996</u>
Total Cash Collections	126,996
Accrual Adjustment	<u>4,679</u>
Total Custodial Revenue	<u>131,675</u>
Disposition of Collections:	
Transferred to Others (by Recipient)	116,151
Increase (Decrease) in Amounts To Be Transferred	<u>15,524</u>
Total Disposition of Revenue	<u>131,675</u>
Net Custodial Revenue Activity	\$ <u>----</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Notes to Financial Statements
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the Agency in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 97-01, and the Agency's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency's use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate Federal pollution control efforts. The Agency is generally organized around the media and substances it regulates -- air, water, land, hazardous waste, pesticides and toxic substances. For FY 1999 the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by Federal and state governments as well as industry. The Agency allocates funds from its appropriation to other Federal agencies to carry out the Act. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis, and the design and implementation of cleanup remedies. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other Federal agencies. Through 1999, construction of cleanup remedies were completed at a total of 670 NPL sites (includes Federal and non-Federal sites). Superfund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

All Other Funds include Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other Federal agencies as authorized by the Economy Act of 1932. Trust Fund appropriations are to the Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund. General Fund appropriations are to State and Tribal Assistance Grants (STAG), Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector General (IG), Buildings and Facilities (B&F), and Payment to the Hazardous Substance Superfund. General Fund appropriations that no longer receive current appropriations but have unexpended authority are the Asbestos Loan Program, Program and Research Operations (PRO), and Energy, Research and Development. Revolving Funds include the FIFRA Revolving Fund and Tolerance Revolving Fund which receive no direct appropriations; however, they do collect fees from public industry as a source of reimbursement for the services provided. In addition to FIFRA and Tolerance, a Working Capital Fund (WCF) was established and designated as a franchise fund to provide computer operations support and postage service for the Agency. A Special Fund was established to collect the Exxon Valdez settlement as a result of the Exxon Valdez oil spill. All Other Funds are as follows:

The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and environment. Funds are used for grants to non-state entities including Indian tribes under section 8001 of the Resource Conservation and Recovery Act. The program is financed by a 0.1 cent a gallon tax on motor fuels which will expire in 2005, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act (OPA) of 1990. The Oil Spill Response Trust Fund was established in FY 1993 and monies were appropriated to the Oil Spill Response Trust Fund. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The State and Tribal Assistance Grants (STAG) appropriation provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and

Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 1999, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The Science and Technology appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the operating programs. Areas supported from this appropriation include Clean Air; Clean and Safe Water; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans' Right to Know About Their Environment; Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems; a Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The Environmental Programs and Management appropriation is accounted for under Treasury symbol 0108.

The Office of Inspector General appropriation provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund Trust Fund and the Leaking Underground Storage Tank Trust Fund are appropriated under those Trust Fund accounts and are transferred to the Office of Inspector General account. The audit function provides contract audit, internal and performance audit, and financial and grant audit services. The Office of Inspector General appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds being accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the Environmental Protection Agency. The Buildings and Facilities appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations from the General Fund of the Treasury to finance activities conducted through Hazardous Substance Superfund. Payment to the Hazardous Substance Superfund is accounted for under Treasury symbol 0250.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program fund disbursed the subsidy to the Financing fund as loans were made, and

disbursed administrative expenses to the providers. The Financing fund received the subsidy payment, borrowed from Treasury and disbursed loans and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 0118 for the subsidy and administrative support, under Treasury symbol 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans, and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The Program and Research Operations appropriation provides salaries and travel associated with administering the operating programs within the Environmental Protection Agency. It incorporated personnel, compensation and benefit costs and travel, exclusive of the Hazardous Substance Response Trust Fund, the Leaking Underground Storage Tank Trust Fund, the Office of Inspector General and the Oil Spill Response Trust Fund. In fiscal year 1996, Congress restructured the Agency's accounts. The Program and Research Operations appropriation was eliminated. Activity remaining from prior fiscal year appropriations is accounted for under Treasury symbols 0200 and 0201.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act Amendments of 1998, as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services of pesticide chemicals in or on food and animal feed. Effective January 2, 1997, fees collected are now being collected and deposited in the Reregistration and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The Working Capital Fund (WCF) includes two activities: computer support services and postage. WCF derives revenue from these activities based upon fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenue generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Appropriations transferred to the Agency from other Federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce which provide economic assistance to state and local developmental activities, the Agency for International Development which provides assistance on environmental matters at international levels, and from the General Services Administration which provides funds for rental of buildings, and operations, repairs, and maintenance of rental space. The transfers appropriations are accounted for under Treasury symbols 0200, 1010, 1021, 2050, and 4542.

Clearing Accounts include the Budgetary suspense account, Deposit in Transit differences, Unavailable Check Cancellations and Overpayments, and Undistributed and Letter of Credit differences. Clearing accounts are accounted for under Treasury symbols 3875, 3878, 3879, and 3880.

Deposit funds include Fees for Ocean Dumping, Nonconformance Penalties, Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6275, and 6875.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 2410, 3200, and 3220.

The Environmental Services Receipt account was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T appropriation and to the EPM appropriation to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund includes gifts for pollution control programs that are usually designated for a specific use by the donor and deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds was \$48.3 million for FY 1999.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriation for S&T, EPM and for the Office of the Inspector General to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress annually adopts a one year appropriation, available for obligation in the fiscal year for which it is appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that does not represent long term cost is financed under a permanent indefinite borrowing authority established with the Treasury. The annual appropriation bill limits the amount of obligations that can be made for direct loans. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan is disbursed. No appropriation was adopted by Congress for FY 1999; therefore, there was no new financing available to the Asbestos Loan Program for FY 1999.

Funding of the FIFRA and the Tolerance Revolving Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations collected to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other Federal agencies is funded by a non expenditure transfer of funds from the other Federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the transfer appropriation is reduced at Treasury.

Clearing accounts, Deposit accounts, and Receipt accounts receive no budget. The amounts are recorded to the Clearing and Deposit accounts pending further disposition. Amounts recorded to the Receipt accounts capture amounts receivable to or collected for the General Fund of the U.S. Treasury.

D. Basis of Accounting***Superfund and All Other Funds***

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources***Superfund***

The Superfund receives most funding needed to support the program through appropriations that may be used within statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund Trust Fund is obtained through reimbursements from other Federal agencies, from States for State Cost Share, and from potentially responsible parties (PRPs) for future costs. Revenues collected through cost recovery are deposited with the Trust fund at Treasury.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the loan disbursements through collections from the Program fund for the subsidized portion of the loan and through borrowing from Treasury for the non-subsidized portion. The last year Congress provided appropriations for this fund was 1993, accordingly no new funding has been available for this program. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as Other Financing Sources when earned, i.e., when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned, i.e., when services have been rendered.

F. Funds with the Treasury***Superfund and All Other Funds***

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and

Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments.

G. Investments in U.S. Government Securities

All Other Funds

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. The FIFRA Revolving Fund, which is included in All Other Funds, holds the investments to maturity, unless they are needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. Marketable Equity Securities

Superfund

During FY 1993 and FY 1996, the Agency received marketable equity securities, valued at a total \$5.1 million, which are still held, from a company in settlement of Superfund cost recovery actions. The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury, and reported at their cost value in the financial statements until sold.

I. Accounts Receivable and Interest Receivable

Superfund

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) as amended by the Superfund Amendments and Reauthorization Act (SARA) provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under Superfund State Contracts (SSCs), cost sharing arrangements under SSCs may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10% or 50% of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA and both accounts receivable and interest receivable to the General Fund of the Treasury.

J. Loans Receivable

All Other Funds

Loans are accounted for as receivables after funds have been disbursed. The amount of Asbestos Loan Program loans obligated but not disbursed are disclosed in Note 6. Loans receivable resulting from obligations on or before September 30, 1991 are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991 are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

K. Appropriated Amounts Held by Treasury

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. At the end of FY 1999 approximately \$2.9 billion remained in the Treasury managed Superfund Trust Fund and approximately \$82.6 million remained in the LUST Trust Fund to meet the Agency's disbursement needs.

L. Advances and Prepayments

Superfund and All Other Funds

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

M. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS) implemented in FY 1997 maintains EPA-held personal and real property records. The FAS automatically generates depreciation entries monthly based upon the acquisition date. Purchases of EPA-held and contractor-held personal equipment are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth year, and 20% in years two through five. All EPA-held personal equipment purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal equipment are depreciated using the straight-line method over the specific assets' useful lives, ranging from two to 15 years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is \$75 thousand or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. In addition to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

N. Liabilities

Superfund and All Other Funds

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

O. Borrowing Payable to the Treasury

All Other Funds

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

P. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 1999, there was no outstanding interest payable to Treasury since payment was made through September 30.

Q. Accrued Unfunded Annual Leave

Superfund and All Other Funds

Annual, sick and other leave is expensed as taken during the fiscal year. Sick and other leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Statement of Financial Position as a component of "Other Liabilities-Governmental". As of September 30, 1999, the unfunded annual leave liability for the Superfund Trust Fund was \$18.4 million and for All Other Funds was \$86.4 million.

R. Retirement Plan

Superfund and All Other Funds

The majority of the Agency's employees participate in the Civil Service Retirement System (CSRS), to which the Agency contributes 8.51% and employees contribute 7.25% of base pay.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to the Agency employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS-5), which was effective for the FY 1997 financial statements, accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS-5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the 'Cost Factors' to compute EPA's liability for each program.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 1999, consists of the following (in thousands):

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>
Trust Funds:			
Superfund	\$ 20,069	\$ ___	\$ 20,069
Lust	30	___	30
Oil Spill	(9,320)	___	(9,320)
Revolving Funds:			
FIFRA	7,319	___	7,319
Tolerance	22	___	22
Working Capital Fund	37,066	___	37,066
Appropriated Funds	10,694,125	___	10,694,125
Other Fund Types	63,480	2,256	65,736
Total	<u>\$ 10,812,791</u>	<u>\$ 2,256</u>	<u>\$ 10,815,047</u>

Entity fund balances includes balances which are available to pay current liabilities and to finance authorized purchase commitments. Also, entity assets, Other Fund Types consist of the Environmental Services Receipt account. The Environmental Services Receipt account is a special fund receipt account. Upon Congress appropriating the funds, EPA will use the receipts in the Science and Technology appropriation and the Environmental Programs and Management appropriation.

The non-entity Other Fund Type consist of deposits. The deposit accounts are awaiting documentation for the determination of proper accounting disposition.

Note 3. Cash

In All Others, as of September 30, 1999, Cash consisted of imprest funds totaling \$55 thousand.

Note 4. Investments

As of September 30, 1999, investments consisted of the following:

	-----Amounts for Balance Sheet Reporting-----			
	Cost	Unamortized (Premium) Discount	Investments, Net	Market Value
<u>Superfund</u>				
Intragovernmental Securities:				
Non-Marketable	\$ <u>4,593,183</u>	\$ <u>175,297</u>	\$ <u>4,417,886</u>	\$ <u>4,417,886</u>
Other Securities:				
Marketable	\$ <u>5,146</u>	\$ <u>----</u>	\$ <u>5,146</u>	\$ <u>11,525</u>
<u>All Others</u>				
Intragovernmental Securities:				
Non-Marketable	\$ <u>1,461,697</u>	\$ <u>63,692</u>	\$ <u>1,398,005</u>	\$ <u>1,398,005</u>

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RP's file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing marketable securities in the reorganized company. The Agency does not intend to exercise ownership rights related to these securities, and instead will convert these securities to cash as soon as practicable.

The other securities represent assets received during a bankruptcy proceeding.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 1999, consist of the following:

	1999	
	<u>Superfund</u>	<u>All Others</u>
Intragovernmental Assets:		
Accounts & Interest Receivable	\$ <u>48,982</u>	\$ <u>55,194</u>
Total	\$ <u>48,982</u>	\$ <u>55,194</u>
Governmental Assets:		
Unbilled Accounts Receivable	\$ 75,721	\$ ____
Accounts & Interest Receivable	927,758	149,250
Less: Allowance for Doubtful Accounts	<u>(360,224)</u>	<u>(60,685)</u>
Total	\$ <u>643,255</u>	\$ <u>88,565</u>

Accounts receivable due from other Federal agencies are considered fully collectible.

The Allowance for Doubtful Accounts is determined on a specific identification basis as a result of a case-by-case review of receivables at the regional level, and a reserve on a percentage basis for those not specifically identified.

Note 6. Loans Receivable, Net - Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 1999, is provided in the following sections.

	1999		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$ 67,441	\$ —	\$ 67,441
Direct Loans Obligated After FY 1991	<u>51,960</u>	<u>(18,089)</u>	<u>33,871</u>
Total	<u>\$ 119,401</u>	<u>\$ (18,089)</u>	<u>\$ 101,312</u>

* Allowance for Pre-Credit Reform loans (Prior to FY 1992) is the Allowance for Estimated Uncollectible Loan and the Allowance for Post Credit Reform loans (After FY 1991) is the Allowance for Subsidy Cost (present value).

Subsidy Expenses for Post Credit Reform Loans:

	Interest Differential	Expected Defaults	Fee Offsets	Total
Current Year's Direct Loan	\$ <u>109</u>	\$ _____	\$ _____	\$ <u>109</u>
Direct Loan Subsidy Expense				\$ <u>2,507</u>

Note 7. Inventory and Related Property

The Inventory and Related Property at September 30, 1999, consisted of the following:

	1999	
	Superfund	All Others
Operating Materials and Supplies Held for Use in Normal Operations	\$ —	\$ 237
Total	<u>\$ —</u>	<u>\$ 237</u>

Note 8. General Plant Property and Equipment

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under "All Others" and consists of real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

Purchases of EPA-Held and Contractor-Held personal property are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. The Agency depreciates EPA-Held personal property using a straight-line method over the asset's useful life ranging from two to 15 years.

Contractor-Held personal property is depreciated over five years using a modified straight-line method. Real property, other than land, is capitalized when the value is \$75 thousand or more and is depreciated using the straight-line method over the specific asset's useful life ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease term.

As of September 30, 1999, Plant, Property and Equipment consisted of the following:

	<u>Superfund</u>			<u>All Others</u>		
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
EPA-Held Equipment	\$ 22,983	\$ (15,734)	\$ 7,249	\$ 129,555	\$ (85,676)	\$ 43,879
Contractor-Held Equipment	8,271	(2,113)	6,158	86,504	(75,090)	11,414
Land and Buildings	—	—	—	370,102	(70,643)	299,459
Capital Leases	—	—	—	40,992	(9,776)	31,216
Total	<u>\$ 31,254</u>	<u>\$ (17,847)</u>	<u>\$ 13,407</u>	<u>\$ 627,153</u>	<u>\$ (241,185)</u>	<u>\$ 385,968</u>

Note 9. Debt

The Debt consisted of the following as of September 30, 1999:

<u>All Others</u>	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Other Debt:			
Debt to Treasury	\$ <u>37,922</u>	\$ <u> </u>	\$ <u>37,922</u>
Classification of Debt:			
Intra-governmental Debt			\$ <u>37,922</u>
Total			\$ <u>37,922</u>

Note 10. Other Liabilities

The Other Liabilities Covered by Budgetary Resources and Not Covered by Budgetary Resources for September 30, 1999, are as follows:

Other Liabilities Covered by Budgetary Resources:

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<u>Intra-governmental - Superfund</u>			
Accrued Liabilities	\$ ___	\$ 91,389	\$ 91,389
FECA Accrued Liability	731	485	1,216
Other	<u>1,256</u>	<u>2,885</u>	<u>4,141</u>
Total Intra-governmental	\$ <u>1,987</u>	\$ <u>94,759</u>	\$ <u>96,746</u>
<u>Intra-governmental - All Other</u>			
Accrued Liabilities	\$ ___	\$ 55,214	\$ 55,214
FECA Accrued Liability	1,048	4,496	5,544
WCF Advances	___	2,637	2,637
Other	<u>64</u>	<u>(104)</u>	<u>(40)</u>
Total Intra-governmental	\$ <u>1,112</u>	\$ <u>62,243</u>	\$ <u>63,355</u>
<u>Superfund</u>			
Cash Out - Non Federal	\$ 90	\$ 457,706	\$ 457,796
Accrued Liabilities	___	97,477	97,477
Accrued Funded Payroll and Benefits	___	15,243	15,243
Other	<u>3</u>	<u>21,647</u>	<u>21,650</u>
Total	\$ <u>93</u>	\$ <u>592,073</u>	\$ <u>592,166</u>
<u>All Other</u>			
Accrued Funded Payroll & Benefits	\$ ___	\$ 65,974	\$ 65,974
Accrued Liabilities	___	553,443	553,443
Other Liabilities	<u>335</u>	<u>8,291</u>	<u>8,626</u>
Total	\$ <u>335</u>	\$ <u>627,708</u>	\$ <u>628,043</u>

Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<u>Intra-governmental - All Other</u>			
Custodial Liability	\$ _____	\$ <u>111,017</u>	\$ <u>111,017</u>
Total Intra-governmental	\$ <u>_____</u>	\$ <u>111,017</u>	\$ <u>111,017</u>
 <u>Superfund</u>			
Accrued Unfunded Annual Leave	\$ _____	\$ 18,415	\$ 18,415
Contingent Liabilities - Unfunded	_____	<u>675</u>	<u>675</u>
Total	\$ <u>_____</u>	\$ <u>19,090</u>	\$ <u>19,090</u>
 <u>All Others</u>			
Accrued Unfunded Annual Leave	\$ _____	\$ 86,430	\$ 86,430
Capital Lease Liability	<u>38,178</u>	_____	<u>38,178</u>
Total	\$ <u>38,178</u>	\$ <u>86,430</u>	\$ <u>124,608</u>

Note 11. Leases

The Capital Leases as of September 30, 1999, consist of the following:

Capital Leases:

<u>Summary of Assets Under Capital Lease:</u>	<u>All Others</u>
Land, Buildings and Personal Property	\$ <u>40,992</u>
Accumulated Amortization	\$ <u>9,776</u>

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). These leases terminate in fiscal years 2010, 2013 and 2025. The charges are expended out of the Environmental Programs and Management appropriation. EPA has one capital lease for a xerox copier that expires in FY 2002. The total future minimum lease payments of the capital leases are listed below.

<u>Future Payments Due:</u>	<u>All Others</u>
Fiscal Year	
2000	\$ 6,314
2001	6,314
2002	6,303
2003	6,295
2004	6,295
After 5 Years	<u>102,489</u>
Total Future Minimum Lease Payments	134,010
Less: Imputed Interest	<u>(95,832)</u>
Net Capital Lease Liability	<u>\$ 38,178</u>
Liabilities not Covered by Budgetary Resources	<u>\$ 38,178</u>

Operating Leases:

The General Services Administration (GSA) provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties.

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). Three leases terminate in fiscal year 2000. In fiscal 1997 and 1998, EPA entered into two leases, which terminate in fiscal 2017 and 2003 respectively. The charges are expended out of the EPM appropriation. The total minimum future costs of the operating leases are listed below.

<u>Fiscal Year</u>	<u>Superfund</u>	<u>All Others</u>	<u>Total Land & Buildings</u>
2000	\$ —	\$ 6,109	\$ 6,109
2001	—	36	36
2002	—	34	34
2003	—	34	34
2004	—	24	24
Beyond 2004	<u>—</u>	<u>310</u>	<u>310</u>
Total Future Minimum Lease Payments	<u>\$ —</u>	<u>\$ 6,547</u>	<u>\$ 6,547</u>

Note 12. Pensions and Other Actuarial Benefits

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job; employees who have incurred a work-related occupational disease; and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by DOL.

The FECA Actuarial Liability at September 30, 1999, consisted of the following:

	<u>Superfund</u>	<u>All Other</u>
FECA Actuarial Liability	\$ <u>5,826</u>	\$ <u>23,987</u>

The FY 1999 present value of these estimates was calculated using a discount rate of 5.5 percent in years 1 and 2, 5.55 percent in year 3 and 5.6 percent in year 4 and thereafter. The estimated future costs are recorded as an unfunded liability.

Note 13. Unexpended Appropriations

As of September 30, 1999, the Unexpended Appropriations consisted of the following:

<u>Unexpended Appropriations:</u>	<u>Superfund</u>	<u>All Others</u>	<u>Total</u>
Unobligated			
Available	\$ 473,194	\$ 1,277,839	\$ 1,751,033
Unavailable	—	88,054	88,054
Undelivered Orders	<u>2,183,637</u>	<u>8,711,071</u>	<u>10,894,708</u>
Total	<u>\$ 2,656,831</u>	<u>\$ 10,076,964</u>	<u>\$ 12,733,795</u>

Note 14. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the “Hazardous Substance Superfund Trust Fund” (Superfund) and the “Leaking Underground Storage Tank Trust Fund” (LUST).

Superfund (Audited)

Superfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund as maintained by the U.S. Department of Treasury as of September 30, 1999. The amounts contained in these statements have been provided by the Treasury and are unaudited. Outlays represent appropriations received by EPA's Superfund Trust Fund, such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Available for Investment	\$ ----	\$ 1,262	\$ 1,262
Unavailable for Investment	<u>----</u>	<u>----</u>	<u>----</u>
Total Undisbursed Balance	----	1,262	1,262
Investments, Net of Discounts	<u>2,894,095</u>	<u>1,523,791</u>	<u>4,417,886</u>
Total Assets	<u>\$ 2,894,095</u>	<u>\$ 1,525,053</u>	<u>\$ 4,419,148</u>
Liabilities & Equity			
Debt	\$ ----	\$ ----	\$ ----
Equity	<u>2,894,095</u>	<u>1,525,053</u>	<u>4,419,148</u>
Total Liability and Equity	<u>\$ 2,894,095</u>	<u>\$ 1,525,053</u>	<u>\$ 4,419,148</u>
Receipts			
Crude and Petroleum	\$ ----	\$ (2,060)	\$ (2,060)
Certain Chemicals	----	12,830	12,830
Corporate Environmental	----	10,249	10,249
Cost Recoveries	----	319,746	319,746
Fines & Penalties	<u>----</u>	<u>3,648</u>	<u>3,648</u>
Total Revenue	----	344,413	344,413
Appropriations Received	----	325,000	325,000
Interest Income	<u>----</u>	<u>220,086</u>	<u>220,086</u>
Total Receipts	<u>----</u>	<u>889,499</u>	<u>889,499</u>
Outlays			
Transfers to EPA	<u>(1,545,851)</u>	<u>1,545,851</u>	<u>----</u>
Total Outlays	<u>(1,545,851)</u>	<u>1,545,851</u>	<u>----</u>
Net Income	<u>\$ 1,545,851</u>	<u>\$ (656,352)</u>	<u>\$ 889,499</u>

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in

these statements have been provided by Treasury and are unaudited. Outlays represent appropriations received by EPA's LUST Trust Fund, such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undisbursed Balances			
Available for Investment	\$ ----	\$ 10	\$ 10
Unavailable for Investment	<u>----</u>	<u>----</u>	<u>----</u>
Total Undisbursed Balance	----	10	10
Investments, Net of Discounts	<u>82,594</u>	<u>1,312,103</u>	<u>1,394,697</u>
Total Assets	<u>\$ 82,594</u>	<u>\$ 1,312,113</u>	<u>\$ 1,394,707</u>
Liabilities & Equity			
Debt	\$ ----	\$ ----	\$ ----
Equity	<u>82,594</u>	<u>1,312,113</u>	<u>1,394,707</u>
Total Liability and Equity	<u>\$ 82,594</u>	<u>\$ 1,312,113</u>	<u>\$ 1,394,707</u>
Receipts			
Highway TF Tax	\$ ----	\$ 199,333	\$ 199,333
Airport TF Tax	----	18,270	18,270
Inland TF Tax	<u>-----</u>	<u>1,024</u>	<u>1,024</u>
Gross Revenue	----	218,627	218,627
Less: Reimbursement to G/F	<u>----</u>	<u>(3,091)</u>	<u>(3,091)</u>
Net Revenue	----	215,536	215,536
Interest Income	<u>----</u>	<u>57,789</u>	<u>57,789</u>
Net Receipts	<u>----</u>	<u>273,325</u>	<u>273,325</u>
Outlays			
Transfers to EPA	<u>\$ (60,783)</u>	<u>\$ 60,783</u>	<u>\$ ----</u>
Total Outlays	<u>(60,783)</u>	<u>60,783</u>	<u>----</u>
Net Income	<u>\$ 60,783</u>	<u>\$ 212,542</u>	<u>\$ 273,325</u>

Note 15. Commitments and Contingencies

EPA is a party in various administrative proceedings, legal actions, and claims brought by or against it. These include:

-
- Various personnel actions, suits, or claims brought against the Agency by employees and others.
 - Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
 - The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
 - Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

Superfund

Under CERCLA §106 (a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA §106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the Fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA § 107 (a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

There are currently nine CERCLA § 106(b) administrative claims and four pending lawsuits. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately \$32.4 million and \$13.7 million, respectively. The Environmental Appeals Board has not yet issued final decisions on the administrative claims; therefore a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success in eight of these outstanding claims is characterized as reasonably possible. The outcome of the remaining claim is considered probable and the expected liability is \$50 thousand. The claimants' chance of success in three of the four pending lawsuits is also reasonably possible. The outcome of the remaining lawsuit is considered remote.

There are a number of outstanding CERCLA § 106(a) cleanup orders where the recipients of the orders have not yet completed the ordered response actions. Each such recipient could potentially file a claim with EPA for reimbursements under CERCLA § 106(b) of its costs of responding to the order once it has completed the ordered actions.

EPA is responsible to indemnify response action contractors (CERCLA § 119) for legal costs that will eventually exceed or have exceeded the deductible specified in the current indemnification agreements. Such payments by the United States would be recoverable government response costs. EPA has only one claim which is considered remote.

EPA contractors have submitted response action contractor claims. No claims were material.

All Other

There were no material litigation, asserted or unasserted claims or assessments involving all other appropriated funds of the Agency.

Judgement Fund

In cases which are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. The Agency is involved in various other actions that in the aggregate do not exceed \$3.4 million.

In addition, EPA is party to certain pending litigation upon which EPA believes it has a reasonable legal position. No estimate has been provided for a loss.

In the opinion of EPA's management and General Counsel, the ultimate resolution of any legal actions still pending will not materially affect EPA's operations or financial position.

Note 16. Grant Accrual

Grant accruals represent Grantee expenses that were not reported to EPA for reimbursement as of September 30, 1999.

EPA selected a statistical sample of grant recipients from our grantee universe to use as our basis to calculate our accrual. EPA sent confirmation letters to the sample grantees, asking them to provide the amount of unbilled grant expense at September 30, 1999. We then aggregated up the unbilled grant expense rates. Finally, we used these two weighted-average rates to compute the overall unbilled grant expense accruals.

	<u>1999</u>
Superfund Trust Fund	\$ <u>13,981</u>
All Others	\$ <u>430,299</u>

Note 17. Environmental Cleanup Costs

EPA has three sites that require clean up stemming from its activities. Two of these sites will be paid from the Treasury Judgement Fund amounting to \$105 thousand. EPA estimates that clean up on the other site will be approximately \$1 thousand. EPA also holds title to a site in Edison, New Jersey, which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the clean up costs. However, it is expected that the Department of Defense and the General Services Administration will bear all or most of the cost of remediation.

Accrued Clean-up Cost

EPA has sixteen sites that will require future clean up associated with permanent closure. The estimated cost will be approximately \$14.3 million. Since the clean up costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability upon implementation and record changes in estimate in subsequent years. The FY 1999 estimate decreased by approximately \$.2 million for unfunded clean-up costs over FY 1998. There was an increase of \$20 thousand for funded clean-up costs for FY 1999. EPA could also be potentially liable for cleanup costs at a GSA-leased sites; however, the amounts are not known.

Of the nearly \$14.3 million in estimated clean up costs, approximately \$11.3 million represents the estimated expense to close the current RTP research facility. These costs will be incurred within the next three years. The remaining amount represents the future decontamination and decommissioning costs of EPA's research facilities.

Note 18. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (SSCs) when EPA assumes the lead for a remedial action in their State. The SSC defines the State's role in the remedial action and obtains the State's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, States will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, States may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be paid by the States. Credit is limited to State site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action. Once EPA has reviewed and approved a State's claim for credit, the State must first apply the credit at the site where it was earned. The State may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 1999, total outstanding State credits has been estimated at \$7.3 million.

Note 19. Superfund Preauthorized Mixed Funding Agreements

Under Superfund Preauthorized Mixed Funding Agreements, settling Potentially Responsible Parties (PRPs) agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and Reauthorization Act (SARA) of 1986, a PRP may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action as agreed to under a mixed funding agreement. As of September 30, 1999, EPA had 13 outstanding preauthorized mixed funding agreements with obligations totaling \$50 million. A liability is not recognized for these amounts until the PRP's work has been performed and has been approved by EPA for payment. EPA will not disburse any funds under these agreements, however, until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 20. Income and Expenses from other Appropriations

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During Fiscal Year 1999, EPA had three appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The Environmental Programs and Management (EPM) appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Two prior year appropriations, Program and Research Operations

(PRO) and Abatement Control and Compliance (AC&C) generated expenses. PRO funded travel, personnel compensation and benefits. AC&C funded procurement and contract activities.

All of the expenses from EPM, PRO and AC&C were distributed among EPA's two Reporting Entities: Superfund and All Others. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses.

As illustrated below, this estimate does not impact the net effect of the Statement of Net Costs.

	1999		
	<u>Income From Other Appropriations</u>	<u>Expenses From Other Appropriations</u>	<u>Net Effect</u>
Superfund	\$ 35,664	\$ (35,664)	\$ ___
All Others	<u>(35,664)</u>	<u>35,664</u>	<u>___</u>
Total	<u>\$ ___</u>	<u>\$ ___</u>	<u>\$ ___</u>

Note 21. Custodial Non-Exchange Revenues

EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectability by EPA of the fines and penalties is based on the responsible parties' willingness and ability to pay.

	<u>1999</u>
Fines, Penalties & Misc Revenue (EPA)	<u>\$ 128,176</u>
Accounts Receivable for Fines, Penalties & Miscellaneous Receipts	<u>1999</u>
Accounts Receivable	\$ 66,750
Less: Allowance for Doubtful Accounts	<u>36,265</u>
Total	<u>\$ 30,485</u>

Note 22. Statement of Budgetary Resources

A reconciliation of budgetary resources, obligations incurred, and outlays, as presented in the audited Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 1999, is as follows:

	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
<u>Superfund</u>			
Statement of Budgetary Resources	\$ 2,192,229	\$ 1,709,357	\$ 1,499,486
Allocated to Other Agencies	97,741	80,789	77,029
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>(31,240)</u>	<u>(26,489)</u>	
Budget of the United States Government	<u>\$ 2,258,730</u>	<u>\$ 1,763,657</u>	<u>\$ 1,576,515</u>
<u>All Other</u>			
Statement of Budgetary Resources	\$ 8,360,328	\$ 6,685,653	\$ 5,855,618
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>77,806</u>	<u>9,411</u>	<u>(1,260)</u>
Budget of the United States Government	<u>\$ 8,438,134</u>	<u>\$ 6,695,064</u>	<u>\$ 5,854,358</u>

Note 23. Adjustments

During FY 1999, there is a reduction in the Superfund Trust Fund authority available of \$262.9 million between the beginning available and ending available authority. This amount represents amounts that were overstated in the beginning FY 1999 authority available resulting from anticipated reimbursable funding that was not decreased prior to the close of FY 1998. This amount is reflected as part of the \$59.3 million Adjustments on the Statement of Budgetary Resources. The remaining amount of the Adjustments is for Recoveries of prior year obligations of \$205.2 million and the Canceled Authority of \$1.6 million.

Note 24. Unobligated Balances Available

The Superfund Trust Fund has an unobligated balance of \$483 million in unexpired authority. All Others has an unobligated balance of \$1,675 million which includes \$1,567 million in unexpired authority and \$108 million in expired authority. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2000. Unobligated balances of expired authority is not available for new obligations. However, the expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

Note 25. Obligated Balance, Net - End of Period

Undelivered Orders at the end of the period are \$2.4 million for the Superfund Trust Fund and \$9.2 million for All Others.

Note 26. Difference in Outlays Between Statement of Budgetary Resources and SF-133

Outlays between the Statement of Budgetary Resources and the SF-133 differ by an unidentified \$1 million for All Others.

Note 27. Statement of Financing

Increases in Unfunded Liabilities relate to unfunded annual leave, environmental liabilities, contingent liabilities and the Federal Employees Compensation Act (FECA) special benefit fund. For Superfund and All Others, the amounts totaled \$4.2 million and \$15.9 million, respectively and is reflected in Financing Sources Yet to Be Provided.

Note 28. Other Financing Sources

Consists primarily of Appropriations to EPA from the Superfund and LUST Trust Funds held at Treasury (Treasury Trust Funds). Such appropriations are reported as non expenditure transfers on the financial statements of the respective Treasury Trust Funds. Upon consolidation with Trust funds held by EPA, the Treasury Trust Fund Appropriation non expenditure transfers are reported as Other Financing Sources to offset Appropriations Used and Trust Fund revenues.

<u>Trust Funds</u>	<u>1999</u>	
	<u>Superfund</u>	<u>LUST</u>
Treasury Trust Fund Transfers	\$ (1,545,851)	\$ (60,783)
Custodial Liability Reclassification	22,718	—
Other	<u>(979)</u>	<u>(14,396)</u>
Total	<u>\$ (1,524,112)</u>	<u>\$ (75,179)</u>

**Environmental Protection Agency
Required Supplemental Information
As of September 30, 1999
(Dollars in Thousands)
(Unaudited)**

Deferred Maintenance

The EPA classifies property, plant, and equipment as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings, and, 4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices.

One deferred maintenance project was identified in the Land and Buildings category, with an estimated total cost of \$325,000. This project included repairing and resurfacing weathered and cracked parking lots and driveways. No deferred maintenance was reported for the other three categories.

Intra-governmental Assets

Intra-governmental assets represent transactions between all federal departments and agencies.

<u>Agency</u>	<u>Accounts Receivable</u>	
	<u>Superfund</u>	<u>All Others</u>
Dept. of the Army	\$ 34	\$ —
Dept. of Interior	—	143
Dept. of Energy	—	24
Dept. of the Air Force	—	5
Unassigned	<u>48,948</u>	<u>55,022</u>
Total	<u>\$ 48,982</u>	<u>\$ 55,194</u>

Intra-governmental Liabilities

Intra-governmental liabilities represent transactions between all federal departments and agencies.

<u>Agency</u>	<u>Accounts Payable</u>		<u>Other Liabilities</u>		<u>Debt</u>
	<u>Superfund</u>	<u>All Other</u>	<u>Superfund</u>	<u>All Other</u>	<u>All Other</u>
Dept. of Agriculture	\$ —	\$ (3)	\$ —	\$ (759)	\$ —
Library of Congress	—	—	—	66	—
US Postal Service	11	—	—	—	—

Intra-governmental Liabilities - continued

<u>Agency</u>	<u>Accounts Payable</u>		<u>Other Liabilities</u>		<u>Debt</u>
	<u>Superfund</u>	<u>All Other</u>	<u>Superfund</u>	<u>All Other</u>	<u>All Other</u>
Government Printing Office	—	—	—	82	—
Dept. of the Army	—	1	34	26	—
Government Accounting Office	—	—	—	(1)	—
OPM	1	2	—	98	—
Executive Office of the President	—	—	—	46	—
Dept. of the Treasury	—	(12)	—	(8)	37,922
Dept. of Commerce	—	—	—	(994)	—
Dept. of Justice	—	—	498	(203)	—
Dept. of the Interior	—	—	—	(5,043)	—
Secretary of Defense	—	—	425	—	—
Dept. of Air Force	—	—	—	5	—
Dept. of Labor	—	—	1,216	4,649	—
Tennessee Valley Authority	—	—	—	1	—
Small Business Administration	—	—	—	(185)	—
Dept. of Health and Human Services	—	—	—	6,073	—
NASA	—	—	—	67	—
Housing and Urban Development	—	—	—	100	—
Dept. of Energy	—	—	—	(1,282)	—
National Labor Relations Board	—	—	—	(2)	—
Dept. of Transportation	—	—	—	(1,049)	—
Agency for International Development	—	—	—	431	—
Government Services Administration	—	—	—	(10,248)	—
National Science Foundation	—	—	—	38	—

Intra-governmental Liabilities - continued

<u>Agency</u>	<u>Accounts Payable</u>		<u>Other Liabilities</u>		<u>Debt</u>
	<u>Superfund</u>	<u>All Other</u>	<u>Superfund</u>	<u>All Other</u>	<u>All Other</u>
Dept. of State	----	----	----	(11)	----
Unassigned	<u>89,582</u>	<u>2,749</u>	<u>94,573</u>	<u>182,475</u>	<u>----</u>
Total	\$ <u>89,594</u>	\$ <u>2,737</u>	\$ <u>96,746</u>	\$ <u>174,372</u>	\$ <u>37,922</u>

**Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources
As of September 30, 1999
(Dollars in Thousands)**

Unaudited

	STAG	Environmental Programs & Management	Science & Technology	FIFRA	LUST Trust Fund	Miscellaneous All Others	Consolidated All Others
Budgetary Resources:							
Budget Authority	\$ 3,408,050	\$ 1,853,150	\$ 660,672	\$ ---	\$ 72,500	\$ 453,521	\$ 6,447,893
Unobligated Balances - Beginning of the Period	1,159,696	202,100	143,627	15,342	2,733	194,443	1,717,941
Spending Authority from Offsetting Collections	6,595	48,159	50,802	18,400	1	152,385	276,342
Adjustments	120,791	(11,035)	(908)	35	(434)	(190,297)	(81,848)
Total Budgetary Resources	<u>\$ 4,695,132</u>	<u>\$ 2,092,374</u>	<u>\$ 854,193</u>	<u>\$ 33,777</u>	<u>\$ 74,800</u>	<u>\$ 610,052</u>	<u>\$ 8,360,328</u>
Status of Budgetary Resources:							
Obligations Incurred	\$ 3,430,652	\$ 1,858,653	\$ 692,256	\$ 22,225	\$ 71,230	\$ 610,637	\$ 6,685,653
Unobligated Balances - Available	1,264,480	146,973	139,411	11,552	3,570	1,156	1,567,142
Unobligated Balances-Not Available	---	86,748	22,526	---	---	(1,741)	107,533
Total Status of Budgetary Resources	<u>\$ 4,695,132</u>	<u>\$ 2,092,374</u>	<u>\$ 854,193</u>	<u>\$ 33,777</u>	<u>\$ 74,800</u>	<u>\$ 610,052</u>	<u>\$ 8,360,328</u>
Outlays:							
Obligations Incurred	\$ 3,430,652	\$ 1,858,653	\$ 692,256	\$ 22,225	\$ 71,230	\$ 610,637	\$ 6,685,653
Less: Spending Authority from Offsetting Collections and Adjustments	127,386	64,263	55,514	18,435	1,898	159,595	427,091
Obligated Balance, Net - Beginning of Period	7,012,337	873,197	481,875	(627)	74,552	308,955	8,750,289
Less: Obligated Balance, Net - End of the Period	7,570,173	794,380	511,824	(926)	79,306	198,476	9,153,233
Total Outlays	<u>\$ 2,745,430</u>	<u>\$ 1,873,207</u>	<u>\$ 606,793</u>	<u>\$ 4,089</u>	<u>\$ 64,578</u>	<u>\$ 561,521</u>	<u>\$ 5,855,618</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Balance Sheet
As of September 30, 1999
(Dollars in Thousands)**

ASSETS	<u>Unaudited</u>
Intragovernmental	
Fund Balance With Treasury	\$ 37,066
Advances and Prepayments	<u>443</u>
Total Intragovernmental	37,509
Advances and Prepayments	5
Operating Materials and Supplies, Net	13
General Property Plant and Equipment	17,184
Other	<u>15,559</u>
Total Assets	\$ <u>70,270</u>
LIABILITIES	
Intragovernmental	
Accounts Payable	\$ 1,500
Other	<u>23,293</u>
Total Intragovernmental	24,793
Accounts Payable	13,165
Other	<u>1,171</u>
Total Liabilities	<u>39,129</u>
NET POSITION	
Cumulative Results of Operations	<u>31,141</u>
Total Net Position	<u>31,141</u>
Total Liabilities and Net Position	\$ <u>70,270</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Net Cost
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	<u>Unaudited</u>
COSTS:	
Intragovernmental	\$ 15,177
With the Public	<u>112,629</u>
Total	127,806
Less: Earned Revenues	<u>119,972</u>
Net Cost of Operations	<u>\$ 7,834</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Changes in Net Position
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	Unaudited
Net Cost of Operations	\$ 7,834
Financing Sources (Other Than Exchange Revenues)	
Imputed Financing	5,937
Transfers-In	4,160
Transfers-Out	(4,160)
Other	(952)
Net Results of Operations	(2,849)
Prior Period Adjustments	(5,535)
Net Changes in Cumulative Results of Operations	2,686
Net Position-Beginning of Period	28,455
Net Position-End of Period	\$ 31,141

**Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 1999
(Dollars in Thousands)**

***INVESTMENT IN THE NATION'S RESEARCH
AND DEVELOPMENT:***

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. EPA's Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across both risk assessment and risk management. Science enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, more efficient, and more effective approaches to reducing environmental risks.

Among the Agency's highest research priorities is a program to expand the understanding of near- and long-term effects of the environment on children. Another priority is the Particulate Matter (PM) research program, which focuses on review, implementation, and eventual attainment of the National Ambient Air Quality Standards (NAAQS). For FY 1999, the full cost of the Agency's Research and Development activities totaled \$603 million. A breakout of the expenses is below (Dollars in thousands):

FY 99 Programmatic Expenses:	\$543,777
Allocated Expenses:	\$ 58,728

FY 98 Programmatic Expenses:	\$507,828
Allocated Expenses:	\$ 53,322

***INVESTMENT IN THE NATION'S
INFRASTRUCTURE:***

The Agency makes significant investments in the Nation's drinking water and clean water infrastructure. The investments are the result of three programs: The Construction Grant Program which is being phased out, and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. Beyond 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

State Revolving Funds: The Environmental Protection Agency provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are

repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency is also appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the Nation's Water Infrastructure are outlined below:

FY 99	
Construction Grants:	\$ 414,528
Clean Water SRF:	\$ 925,744
Safe Drinking Water SRF:	\$ 387,429
Other Infrastructure Grants:	\$ 245,606
Allocated Expenses:	\$ 213,117

FY 98	
Construction Grants:	\$ 444,817
Clean Water SRF:	\$1,109,017
Safe Drinking Water SRF:	\$ 94,936
Other Infrastructure Grants:	\$ 138,363
Allocated Expenses:	\$ 187,649

STEWARDSHIP LAND

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (J) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of clean-up.

As of 9/30/99, the Agency possesses the following

land and land rights:

Superfund Sites with Easements

Beginning Balance	22
Additions	2
Withdrawals	<u>0</u>
Ending Balance	<u>24</u>

Superfund Sites with Land

Beginning Balance	18
Additions	2
Withdrawals	<u>0</u>
Ending Balance	<u>20</u>

HUMAN CAPITAL

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs, and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

FY 99	
Training and Awareness Grants	\$46,630
Fellowships	\$10,239
Allocated Expenses	\$ 6,142

FY 98	
Training and Awareness Grants	\$39,131
Fellowships	\$11,084
Allocated Expenses	\$ 5,273

ACRONYMS

ACRONYMS

AC&C	Abatement Control and Compliance
APGs	Annual Performance Goals
APR	Annual Performance Report
ASAP	Automated Standard Application for Payments
B&F	Buildings and Facilities
BAS	Budget Automation System
BCCP	Business Continuity and Contingency Planning
BRTs	Business Resumption Teams
CCRs	Consumer Confidence Reports
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO Act	Chief Financial Officers Act of 1990
CSRS	Civil Service Retirement System
EASY	Electronic Approval System
EDCs	Endocrine-disrupting Chemicals
EMPACT	Environmental Monitoring for Public Access and Community Tracking
EPA	Environmental Protection Agency
EPM	Environmental Program and Management
EPAYS	EPA Integrated Payroll and Personnel System
FAS	Fixed Assets Subsystem
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FTE	Full-time Equivalents
FY	Fiscal Year
GAO	General Accounting Office
GMRA	Government Management and Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
IFMS	Integrated Financial Management System
LUST	Leaking Underground Storage TankFebruary 27, 200044
MD&A	Management's Discussion and Analysis
NAAQS	National Ambient Air Quality Standards
NPL	National Priorities List

NPS	Nonpoint Source
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPA	Oil Pollution Act
PM	Particulate Matter
PRO	Program and Research Operations
PRPs	Potentially Responsible Parties
RP	Responsible Parties
S&T	Science and Technology
SARA	Superfund Amendments and Reauthorization Act of 1986
SO ₂	Sulfur Dioxide
SRF	State Revolving Fund
SSCs	Superfund State Contracts
STAG	State and Tribal Assistance Grants
TM+	Travel Manager Plus
UAOs	Unilateral Administrative Orders
WCF	Working Capital Fund
XL	eXcellence and Leadership
Y2K	Year 2000

For more information, contact:

**Financial Management Division
U.S. Environmental Protection Agency
Ariel Rios Building
1200 Pennsylvania Avenue, N.W. (2733R)
Washington, DC 20460**

APPENDIX II

AGENCY'S RESPONSE TO THE DRAFT REPORT

February 24, 2000

MEMORANDUM

SUBJECT: Response to “Draft Audit Report on EPA’s Fiscal 1999 Financial Statements”

FROM: Michael W. S. Ryan */signed/*
Acting Chief Financial Officer (2710A)

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

Thank you for providing us the opportunity to comment on and provide our consolidated response to the findings and recommendations made in the “Draft Audit Report on EPA’s Fiscal 1999 Financial Statements.” Attachment I contains our response to specific audit findings and recommendations. Attachment II is an update to your report on the Status of Prior Audit Findings.

We appreciate your consideration of our comments on your position papers that preceded the draft report. We also appreciate the cooperation of you and your staff as we prepared the financial statements for audit to resolve outstanding issues.

If you have any questions regarding our response please contact Juliette McNeil, Acting Director of the Financial Management Division, at (202) 564-4905.

Attachments

ATTACHMENT I

RESPONSE TO SPECIFIC AUDIT FINDINGS AND RECOMMENDATIONS

AUDIT REPORT ATTACHMENT 1 - MATERIAL WEAKNESS

1 - Further Improvements Needed in the Agency's Process for Preparing Financial Statements

The OIG offered no recommendations in this section. However, the draft report provided a discussion on pages 1-1 through 1-7 of the reasons for their categorizing Financial Statement Preparation as a material weakness. We agree with the OIG that further improvements need to be made to the process for preparing financial statements.

The Draft Audit Report includes an addendum of financial statement findings as evidence for the proposed material weakness which supports the need for improved quality control processes. As noted in the Table below, we agreed with and made several of the proposed audit changes. In some instances, the Agency's original presentation was correct and in these cases, the findings are not errors in underlying accounting data, but differences in professional judgment on the application of accounting standards. For example, the presentation of the Expense Allocation is presented as an error in the Addendum under the heading, "Statement of Net Cost, Statement of Financing, and Statement of Net Position." We believe the Agency's presentation is appropriate; it is also consistent with prior year audited financial statements. We are willing to collaborate with the OIG to improve the presentation and usefulness of our financial statements, but do not believe that these differences in judgment should be characterized as chronic Agency weaknesses.

We further disagree with the audit conclusion that the findings listed in the Addendum are indicative of the Agency's inability to "provide Agency managers with information that is accurate and reliable for use on a day-to-day basis to manage Agency programs," as stated in the Draft Audit Report. The majority of these findings relate to issues pertinent to year-end audited financial statement presentation only. These issues do not reflect upon the reliability of the Agency's underlying accounting data which is provided to Agency managers through a variety of management reports and ad hoc reporting tools, enabling officials to manage their programs on an on-going basis.

As indicated in the draft report, the Agency declared the financial statement process as an Agency-level weakness in the annual Integrity Act report. However, we do not believe the conclusions in this report rise to the level of a material weakness. Through the existing process (while not without some challenges), we have been successful in producing reliable financial statements that have achieved unqualified opinions for the past three years. However, we recognize there is a need to improve both the overall efficiency and the control of various stages in the preparation process.

TABLE: Response to Addendum of “Significant Deficiencies”

OIG Position	EPA Responses
Balance Sheet	
The Intra-governmental Trust Fund activity was not properly eliminated in the 12/3/99 statements and footnotes. This resulted in: (1) a \$2.9 billion overstatement of the Superfund “Accounts Receivable” balance, and (2) a \$134 million overstatement in the All Other “Accounts Receivable” balance. This issue is now resolved.	Adjusting entries were made subsequent to the December 3, 1999 statements. We believe this issue is resolved.
There is still an outstanding balance of \$52.2 million for All Other “Accounts Receivable” on the 1/19/00 statements for which an adjustment is needed.	The \$52.2 million for All Others “Accounts Receivable” was eliminated (AJE 900) on the financial statements of 2-12-00. We believe this issue is resolved.
The Working Capital Fund activity was not eliminated on the 12/3/99 consolidated financial statements. This issue was corrected on the 1/19/00 statements.	Working Capital Fund activity for All Other was eliminated on the 1-19-00 financial statements. (AJE 32 and 34). We believe this issue is resolved.
Statement of Net Cost	
Intra-agency Working Capital Fund revenues and expenses were not eliminated on the 12/3/99 statements. An adjustment was made to the 1/19/00 statements which correctly eliminated Superfund and All Other at the consolidated level. However, All Other on a stand alone basis was misstated.	We revised the WCF elimination entry to show the offset of costs and revenue in the All Other column for just the All Other portion of costs and in the Intra-Agency Elimination column of the statement for the Superfund portion of costs and revenue. We believe this issue is resolved.
Statement of Net Cost	
“Intra-governmental” costs of \$7.2 billion and “With the Public” costs of \$843 million on the 1/19/00 statements were reversed.	We corrected the sequencing of the titles. We believe this issue is resolved.
Adequate support was not provided for the crosswalk used to align costs to the Agency’s strategic goals as the approach used did not provide adequate audit evidence of actual expenditure by goal.	Management does not agree that the crosswalk support was inadequate. Management elected to not report costs by goal for 1999.
Adequate support has not been provided for the Superfund account 5990 balance of \$364 million and its classification on the	This account will be reduced to zero through a final adjusting entry and will not be included in the Statement of Net Costs.

Statement of Net Cost, Statement of Financing, and Statement of Net Position	
<p>The presentation of the 1/19/00 Statements of Net Cost, Financing and Net Position did not properly present the "Income/Expenses from Other Appropriations" balance of \$35.7 million. The cost was properly reported on the Statement of Net Cost to reflect the total cost of the fund. However, the Agency improperly included "Income from Other Appropriations" on the Statement of Net Cost. This caused the "Net Cost of Operations" to be understated. Such income should be disclosed on the Statement of Changes in Net Position and should be shown as a financing source on the Statement of Financing. This change also impacts the footnote.</p>	<p>The Agency's 12-3-99 and 1-19-00 presentation was consistent with the FY-1998 financial statements.</p> <p>The OIG proposed a new approach to OCFO after the 1-19 financial statements. We believe the prior year presentation and OIG-proposed presentation both have merit, and agreed to the change on the 2-11-00 financial statements.</p> <p>We believe this issue is resolved.</p>
Statement of Budgetary Resources	
<p>Adequate documentation was not provided to support the Superfund "Unobligated Balance - Beginning of Period" on the 1/19/00 statements and the amount reported to OMB on the SF-133. Upon obtaining OMB assistance, the Agency will adjust the fiscal 1999 statements to agree with the SF-133.</p>	<p>The requested documentation has been provided.</p> <p>We believe this issue is resolved.</p>
<p>Material differences exist between the general ledger and the amounts reported to OMB on the SF-133.</p>	<p>Material differences do not exist between the EPA General Ledger and the SF-133. The difference existed between the Statement of Budgetary Resources and the EPA General Ledger and SF 133. We believe this issue is resolved.</p>

Statement of Custodial Activity	
The 12/3/99 statement contained material misstatements. The statement's format was inconsistent with last year's presentation.	<p>Errors made in the 12/3/99 statements have been corrected. This year's statement format is essentially the same as last year. The only change was to one line on the statement to more accurately describe the activity.</p> <p>We believe this issue is resolved.</p>
The statement incorrectly listed "Tax Revenues," and showed a material amount as "Miscellaneous." Excise tax revenue for LUST was incorrectly included as "Tax Revenues."	<p>The correction was made on the 1-19-00 financial statement.</p> <p>We believe this issue is resolved.</p>
"Miscellaneous" contained fines and penalties that were reported separately last year and the supporting schedule for the miscellaneous amount did not foot.	<p>The formula was corrected to calculate "Miscellaneous" revenue for the 1-19-00 financial statements.</p> <p>We believe this issue is resolved.</p>
"Increase (Decrease) in Amounts Yet to be Transferred" was mathematically incorrect and materially misstated.	<p>Management reported correctly the "(Increase) Decrease in Amounts to be Transferred." The amount represents current-year activity, and is taken directly from the Custodial Liability general ledger account as required by the SGL Crosswalk.</p> <p>We believe this issue is resolved.</p>
The 1/19/00 statement also contained material misstatements. The "Retained by the Reporting Entity" balance of \$267 million is mathematically incorrect, materially misstated and does not belong on the statement. The "Increase (Decrease) in Amounts to be Transferred" balance of \$8.6 million is mathematically incorrect and materially misstated.	<p>The 1/19/00 statements have been revised.</p> <p>We believe this issue is resolved.</p>

Statement of Changes in Net Position	
<p>“Other Financing Sources” amount on the 12/3/99 statements was a positive rather than a negative amount. This issue was corrected on the 1/19/00 statements.</p>	<p>The “Other Financing Sources” amount was positive on the 12-3-99 financial statement because the eliminating entries had not been reflected in the financial statements.</p> <p>The amount became negative after the eliminating entries were posted. This issue was corrected in the 1-19-00 Statement of Changes in Net Position.</p> <p>We believe this issue is resolved.</p>
<p>Superfund “Increase (Decrease) in Unexpended Appropriation” balance of \$93.4 million on the 1/19/00 statements does not agree to the general ledger detail.</p>	<p>The Superfund “Increase (Decrease) in Unexpended Appropriation” was miscalculated because management used balances from the Accounting System rather than adjusted ending balances from the prior year’s financial statements. This was corrected and shown in the 1-19-00 financial statement.</p> <p>We believe this issue is resolved.</p>
<p>All Other “Transfers-Out” balance of \$25 million on the 1/19/00 statements was a positive rather than a negative amount accordingly the account needs to be reclassified as “Transfers-In.”</p>	<p>We reclassified the \$25 million for the 2-11-00 financial statements.</p> <p>We believe this issue is resolved.</p>
<p>Superfund “Other Financing Sources” balance of \$1.6 billion on the 1/19/00 statements contains an unsupported amount of \$23.9 million; similarly the LUST portion of the All Other “Other Financing Sources” balance is not supported.</p>	<p>OCFO and the OIG continue to work together to resolve the amount for Superfund. We agree that the LUST portion of all other is immaterial.</p>
Statement of Financing	
<p>Superfund “Other Resources” balance of \$334 million on the 1/19/00 statements is material and requires classification.</p>	<p>We reclassified the entry making up the large dollar amount to a more descriptive line item.</p> <p>We believe this issue is resolved.</p>
<p>Superfund “Transfers-In” balance of \$325 million on the 1/19/00 statements does not belong on the statement.</p>	<p>We made this adjustment that related to the transfer between “All Other” and “Superfund.”</p> <p>We believe this issue is resolved.</p>
<p>Superfund “Loss on Disposition of Assets” balance of \$477 thousand on the 1/19/00 statements does not agree with support of \$483 thousand.</p>	<p>The OIG agreed these amounts are immaterial.</p> <p>We believe this issue is resolved.</p>

<p>Superfund “Depreciation and Amortization” balance of \$319 thousand on the 1/19/00 statements does not agree with support of \$2.595.</p>	<p>The OIG agreed these amounts are immaterial.</p> <p>We believe this issue is resolved.</p>
<p>“Change in Amount of Goods, Services and Benefits Ordered but Not Yet Received or Provided” for All Other on the 1/19/00 statements is not properly supported and may contain misstatements.</p> <p>“Costs Capitalized on the Balance Sheet” on the 1/19/00 statements is misstated for Superfund and All Other and does not agree to changes in property accounts.</p> <p>“Financing Sources that Fund Costs of Prior Periods” on the 1/19/00 statements is listed, but without balances.</p> <p>“Loss on Disposition of Assets” for All Other on the 1/19/00 statements does not agree to the general ledger detail by approximately \$3 million.</p>	<p>We prepared the Statement of Financing by focusing on transactions rather than account balances. The transaction approach is much more labor intensive, but more thoroughly reconciles the Statements of Budgetary Resources and Net Cost.</p> <p>We believe these issues are resolved.</p>

Grant Accruals	
The grant accrual amount was not provided by December 15, as difficulties existed in obtaining the needed information from grantees. The Agency also misstated the total grant expenditures in calculating the grant accrual. This issue was corrected on the 1/19/00 statements.	We believe this issue is resolved.
Trading Partners	
Omitted from the 12/3/99 statements. This issue was corrected on the 1/19/00 statements.	Reliable data were not available on 12-3-99. We believe this issue is resolved.
The trading partners' information included as Required Supplemental Information on the 1/19/00 statements did not agree with the line item reported on the balance sheet as required by OMB Bulletin 97-01. This issue was subsequently resolved.	This Required Supplemental Information schedule was corrected to agree with the Balance Sheet. We believe this issue is resolved.
Intra-governmental trading partner information for accounts receivable and liabilities cannot be identified as required by OMB Bulletin 97-01 and the Treasury Financial Manual.	The Agency is working to identify Intra-governmental trading partner information for accounts receivable and liabilities to comply with OMB 97-01 and Treasury FACTS.
Expense Allocation	
The expense allocation is an estimate of the expenses reallocated from the All Other fund to Superfund and FIFRA to show the full cost of these funds' activities. The calculation was affected by input errors, unsupported spreadsheet balances, and OPP support which was not properly applied. This issue is now resolved.	The Expense Allocation model is complex and data intensive. We concur there were a few minor errors in the model, and OCFO and OIG staff collaborated to correct the errors. We believe this issue is resolved.

Deferred Maintenance	
This information was omitted from 12/3/99 statements. This issue was corrected on the 1/19/00 statements.	We believe this issue is resolved
Pension and Other Post-retirement Benefits	
OCFO staff correctly computed the imputed costs and revenues for Pension and Other Post-retirement Benefits for All Other Funds (Non-Superfund) as per OMB guidance. Originally these amounts were entered correctly in the All Other portion of the trial balance. These amounts were subsequently backed out and a new amount, without the portion attributable to FIFRA was re-entered. FIFRA amounts should be included as part of the All Other portion of the financial statements as well as presented in the stand alone financial statements for this Fund. The total amount of the difference is \$2,047,766.	The OIG reviewed their documentation and subsequently determined that there was no audit finding or \$2 million error related to Pension and Other Post-retirement Benefits. We believe this issue is resolved.
Footnotes were omitted or incomplete	
The Statement of Budgetary Resources footnote was omitted from the 12/3/99 statements to describe a material amount shown as "Adjustments." This issue was corrected on the 1/19/00 statements.	All required footnotes for the Budgetary Resources were provided; we are not required by OMB's 97-01 to include a footnote for the "Other" line item but agreed with the OIG's recommendation to define this line by major element. We believe this issue is resolved.
Unfunded Liabilities footnote on the 12/3/99 Statement of Financing was omitted. This issue was corrected on the 1/19/00 statements.	We prepared the footnote on Unfunded Liabilities for the Statement of Financing. We believe this issue is resolved.
Payroll footnote #1R on both 12/3/99 and 1/19/00 included the wrong contribution and/or withholding rates.	Management updated the footnote with new rates for the 1-19-00 financial statements footnotes. We believe this issue is resolved.

AUDIT REPORT ATTACHMENT 2 – REPORTABLE CONDITIONS

2 - Further Improvements Needed in EPA’s Process for Reviewing its Unliquidated Obligations

- 2.1 We recommend the Acting Chief Financial Officer (CFO) incorporate the same analysis of individual obligations applied in the “special” year-end review into the annual review in order to perform one, thorough annual review. For example, the Agency should develop reports which emphasize older, open unliquidated obligations;**

We agree that the annual review should be thorough. We also believe the current process is very thorough in that it requires the responsible office to review **all** inactive obligations (no activity for 90 days if travel, 180 days for all other obligations) and annotate their files with a justification for retaining the unliquidated obligation funds. By requiring review of all inactive obligations, OCFO maximizes EPA’s ability to efficiently use resources available and identify, deobligate and reuse these funds.

The special review is geared to financial statement presentation and is “point-in-time.” Its purpose is to identify the amount of unliquidated obligations which are candidates for deobligation as of September 30.

Regarding OIG’s reference to reports emphasizing “older, open obligations,” the current reports provide the budget fiscal year and last action date for each open obligation, thus enabling the responsible official to identify older obligations.

- 2.2 We recommend the Acting Chief Financial Officer (CFO) require FMD to verify that deobligations requests have been processed in the IFMS and that prescribed annual review and deobligation processes are implemented at each location.**

We believe that our current procedures address the OIG’s concerns raised in the draft report. FMD has a procedure in place for following up on deobligations identified for the on-top adjustment to the financial statements. During the brief period of time between the final resolution of the FY 1998 on-top adjustments and the end of FY 1999 (approximately three months), over 90% of the dollars identified were deobligated. With six months for the follow-up procedure this year, we anticipate that all documents identified in the FY 1999 on-top adjustment will be deobligated by the end of FY 2000. For all other obligations, we implemented a procedure requiring the responsible officials to follow up to make sure that deobligations requested are in fact processed in the financial system. This procedure was implemented by the March 25, 1999 guidance memorandum for the annual review of unliquidated obligations. In August 1999, we provided the responsible officials with reports showing documents with changed unliquidated obligation balances for their review and follow-up to assure the deobligation action was taken.

In addition, the FY 2000 Quality Assurance Workplan guidance memorandum, issued on February 2, 2000, instructs Regional Comptrollers and Financial Management Officers to include unliquidated obligations in their review plans.

3 - Further Improvement Needed in Managing EPA's Accounts Receivable

3.1 We recommend the Acting CFO revise RMDS 2540 Chapter 10 to include a time frame for clearing balances held in suspense accounts.

We agree with the recommendation and will include a timeframe for clearing balances in suspense accounts. However, we do not believe that accounts receivable issues are of major significance to merit specific attention in the financial statement audit report. Accordingly, we believe that this finding, "Further Improvement Needed in Managing EPA's Accounts Receivable" should be removed from the audit report.

During FY 1999 we continued to refine our accounts receivable management practices and believe that the Agency is more effectively managing its receivables. In fact, we are currently addressing several accounts receivable issues that relate to the audit findings made in this report. With respect to the specific audit findings, we would like to address the Region 2 finding which cites the Region for failing to timely record ten Superfund accounts receivables valued at \$60.9 million. Of these ten receivables, we have determined that two receivables valued at \$43.3 million were recorded three days late and two receivables valued at \$3.5 million were recorded seven days late. These four receivables alone represent approximately 77% of the \$60.9 million amount cited in your report. We agree that constant vigilance and continued improvements are needed to ensure that all documents establishing accounts receivable are provided within the three day standard to the FMOs by the program offices, regional counsel offices, and DOJ. However, we do not believe that the findings cited are sufficient to conclude a chronic timeliness problem exists within the Agency.

4 - Additional Improvements Needed in EPA's Interagency Agreement Invoice Process

4.0 Additional Improvements Needed in EPA's Interagency Agreement Invoice Approval Process

We generally agree with the audit findings in this area and as a corrective action, we agree to send the Senior Resource Officials a list of "chronically" delinquent project officers on a routine basis.

5 - Continued Improvements Needed in Accounting for Capitalized Property

5.1 We recommend the Acting CFO issue guidance clarifying the criteria for capitalizing an ADP system; and . . .

We agree with this recommendation. The OCFO is developing WCF guidance which clarified

criteria for capitalizing ADP Systems.

<u>Corrective Action</u>	<u>Target Date</u>
Issue revised guidance on capitalization and depreciation of WCF property	4/17/00

5.2 We recommend the Acting CFO revise BOC definitions for capital equipment to be consistent with Agency policy for capitalizing systems.

We agree with this recommendation. The OCFO will revise the current budget sub-object class codes' definition of "ADP Equipment" to make it consistent with Agency guidance on accounting for systems accordingly.

<u>Corrective Action</u>	<u>Target Date</u>
Issue revised definition for ADP equipment to better reflect system purchases	2/28/00

5.3 We recommend the Acting CFO, in conjunction with the Assistant Administrator for Administration and Resource Management, ensure procurement requests are completed with the correct budget sub-object class code.

We agree with the OIG's recommendation. In January 2000, the CFO began providing training to Agency staff who routinely prepare procurement requests (PRs) for property purchases. An initial course was provided to the National Technical Services Division who purchases the greatest volume of capital equipment on January 12, 2000. Additional training will be provided during upcoming Agency conferences that may include attendees who are responsible for property purchases.

<u>Corrective Action</u>	<u>Target Date</u>
Conduct training on preparing PRs	Ongoing during 2000

5.4 We recommend the Acting CFO, in conjunction with the Assistant Administrator for Administration and Resources Management, emphasize to appropriate Agency personnel their responsibilities to report receipt of accountable and capital property to the appropriate PMO in a timely manner when property acquisitions are directly delivered to the ordering official, and forward copies of appropriate documentation to the PMO.

We agree with the recommendation. The Office of Administration and Resources Management (OARM) forwarded a January 12, 2000, memorandum to the SROs reminding them of their property management responsibilities. It also requests their assistance in ensuring that property received by their offices are reported to their respective property management officer timely. The memorandum will also be placed on the FMSD web site.

Corrective Action

Target Date

Memorandum to SROs

Completed 1/20/00

5.5 We recommend the Acting CFO, in conjunction with the Assistant Administrator for Administration and Resource Management, ensure that the appropriate personnel at EPA’s laboratories are trained on their roles and responsibilities when property is directly delivered to a laboratory.

OARM agrees with the recommendation. We agree that EPA laboratories experience the same type of problem as stated in Recommendation 5.4. However, we feel that the recent memorandum issued to EPA SROs will also benefit laboratory personnel by reminding them to inform the property office when accountable property is received.

5.6 We also recommend the Acting CFO, in conjunction with the Assistant Administrator for Administration and Resources Management, improve the reconciliation process by: (1) ensuring FAS reconciliations are conducted monthly and at year-end; (2) requiring FMOs to thoroughly research any discrepancies between the general journal and FA tables in FAS; and (3) requiring the FMOs to certify the year-end reconciliations.

We agree that the CFO needs to improve the reconciliation process by ensuring that the Fixed Assets Subsystem (FAS) reconciliations are conducted monthly and at year-end. We will require the Financial Management Offices (FMO)s and Centers to thoroughly research any discrepancies between the general journal and Fixed Assets tables in FAS. We will also will require the Financial Management Officers to certify the year-end reconciliations. In addition, in our FY 2000 Quality Assurance Workplan instructions, we instructed Finance Offices and Centers to include a review of FAS reconciliations in their workplans to ensure they are performed timely and accurately. The following action plan will be implemented to ensure that the above items are carried out:

Corrective Action

Target Date

Send Finance Offices and Centers
QA workplan instructions

Completed

Send Finance Offices and Centers
reconciliation reports by the 15th of
each month requesting them to research

On-going

discrepancies.

Send Finance Offices and Centers Year-End reconciliation reports	10/16/00
Receive Finance Officers and Centers' certification of year end reconciliations	11/15/00

6 - Automated Application Processing Controls for the Integrated Financial Management Systems Could Not Be Assessed

The OIG made no new recommendations in this section. However, the OIG provided a discussion of the reasons why this is still an issue for them. Our response to Pages 2-15 through 2-17 follows:

Page 2-15, Fourth Paragraph

The Audit Report stated:

“In response to the OIG audit report, Audit of EPA’s Fiscal 1996 Financial Statements, issued March 24, 1997, the Agency completed a system documentation analysis, developed updated Accounts Receivable documentation, and completed an analysis for creating a comprehensive IFMS data dictionary. We concluded, as part of our fiscal 1998 financial statement audit, that the Accounts Receivable documentation was not adequate to establish the reliability of IFMS transaction processing controls.”

We believe it is important to recognize that the system documentation analysis and accounts receivable documentation that American Management Systems (AMS) prepared was the result of a Change Management System request that was prepared jointly with OIG staff.

Page 2-16, Second Paragraph (the next 6 quotations and responses apply to this paragraph)

“Treasury staff obtained the 12 percent figure from a contractor and disclosed that they made no effort to validate the accuracy of the provided customization level.”

We believe it is important to note that the “contractor” mentioned in this sentence was AMS, the vendor for the software which also produced the 1993 estimates of “customization” that the OIG mentions later in this section.

“We question Treasury’s methodology for determining IFMS customization because it significantly conflicts with other known facts. It is a generally accepted fact that automated software systems tend to be more customized and costly to operate as they become older. Today, the average life of a financial system in industry is approximately five years. IFMS is over 11 years old. Thus, one would expect it to be

highly customized and costly to operate.”

Although IFMS came into use in 1989, we have continued to upgrade the system, integrating AMS baseline code wherever possible. For example, since 1993 we have implemented seven IFMS subreleases, among which was the major 1994 subrelease of IFMS 5.1e, which incorporated the most recent AMS features and brought IFMS current with agencies who were adopting FFS at that time as new financial management software. EPA has made a conscious effort to avoid customization but rather to rely on baseline functionality wherever possible. Integrating baseline code is definitely more cost effective than developing custom code. For example, we implemented the FFS baseline Project Cost Accounting Module without any customization. We have also incorporated a number of significant cost-saving features for the operation of IFMS over the years. The generalizations cited by the OIG may be appropriate for the software industry do not fit the actual experience with IFMS.

“Treasury’s 12 percent customization figure also differs significantly from prior audit information obtained from the same contractor in 1993. As of July 28, 1993, the contractor indicated that a 29 percent difference existed between the FFS 5.1 baseline software and EPA’s version of FFS 5.1 software (i.e., a 29 percent customization level). The 29 percent figure was the result of a thorough line by line comparison of EPA’s version of FFS to comparable FFS baseline code.”

We disagree with the statement that the 1993 estimate was based on a thorough line by line comparison. The OIG’s notes from 1993 indicate that the methodology was based on total lines of code:

“Specifically, as of July 28, 1999, Ms. Firth indicated that the AMS FFS 5.1 Baseline consisted of 866,750 lines of code and EPA’s version of FFS 5.1, the IFMS 5.1e Release, consisted of 1,216,089 total lines of code. Based on a comparison of the lines of code, Ms. Firth indicated that the IFMS upgrade represented an approximately 71 percent baselined system in terms of total lines of code, or an approximately 29 percent customized system in terms of lines of code.”

Based on the OIG’s notes, it would appear that the percentages were calculated by dividing total lines in each version, not “line by line.” However, we recently asked AMS for any records about the 1993 methodology or results, but they were unable to find any documentation. We are also unaware of any validation by the OIG or any other party of the 1993 percentages.

“The latest 12 percent figure was not computed using similar methodology, but rather only by counting the lines of code marked as IFMS enhancements. We consider Treasury’s chosen methodology to be unreliable. While we concede that the level of customization would have fluctuated since 1993, when the contractor performed a line by line analysis, we do not think the evidence supports as significant a decrease as is implied by Treasury’s report.”

We believe the 1999 methodology is an appropriate approach, and arguably more accurate than the apparent 1993 methodology, for estimating the percentage of “customized” code. Further, as noted above, we do believe the evidence supports a significant decrease over the years in the percentage of customized code. As we stated, since 1993 EPA has consciously used baseline functionality wherever possible.

“Furthermore, after reviewing the supporting documents and work papers, we concluded that no analysis was performed to verify the accuracy of the 12 percent figure.”

As noted above, we are unaware of any validation of the 1993 percentages, so those numbers appear to have the same caveats attached to their reliability.

“As one would expect for an 11 year old system, IFMS is a very costly system to operate. A recent CFO study concluded that EPA’s financial system costs are 38 percent higher than the average of other Federal Government entities, and 9 percent higher than the average of private sector entities. If, as Treasury proposes, the system was basically ‘off-the-shelf,’ then one would expect these costs to be below average, rather than above.”

The referenced study was actually performed for a number of federal agencies by a consulting firm known as the “Hackett Group.” The study was performed in a very brief period of time and the Hackett Group relied primarily on self-reporting by the participating agencies. There was no rigorous analysis to ensure that the numbers being reported were derived in a consistent and comparable way. We viewed the Hackett Group’s results as indicating a need to look further into our systems costs compared to other organizations, not as rigorously derived statistics that one could rely on for specific actions or conclusions. Again, for the reasons stated earlier, we also do not believe that the number of years since IFMS was installed is a basis for concluding that IFMS has become more costly to maintain and operate.

“For these reasons, we cannot place reliance on Treasury’s findings for audit purposes.”

We disagree with the OIG’s conclusion. Instead, based on the information presented above, we concur with Treasury FMS’s conclusion that the combination of the AMS baseline FFS documentation and EPA’s user manuals meet sufficiently the criteria for Federal financial systems documentation requirements.

Page 2-17, first paragraph

“In the interim, we believe that the CFO should implement an active data dictionary for the existing IFMS. The Treasury review indirectly supports this action by reporting that different data definitions are a compliance issue under OMB Circular A-127.”

We believe that this is an incorrect interpretation of what Treasury FMS stated in the report. The Treasury report stated:

“Although the Center believes the existing IFMS data dictionary is adequate for operating and maintaining IFMS and its interface, the Center recommends that a more comprehensive data dictionary be developed for a new replacement financial system when EPA migrates from IFMS.”

Treasury is referring to a data dictionary for the new system - not IFMS. As we have indicated in our response to the 1997 and 1996 Financial Statements audit, we do not believe that the benefits of additional documentation justify the costs to develop and maintain it. IFMS is a mature system which has been in operation since 1989. Further, it would not be economical to make major IFMS cost investments which could not be recovered within the next several years since OCFO will be initiating a system replacement project for IFMS. We earlier stated to the OIG that it would probably cost about \$1,000,000 to document the IFMS modules, \$250,000 to create a data dictionary, and additional cost to maintain this documentation.

AUDIT REPORT ATTACHMENT 3 - COMPLIANCE WITH LAWS AND REGULATIONS

7 - Revised Financial System Security Plans Continue to Be in Substantial Noncompliance with Federal Financial Management System Requirements

7.1 The Acting CFO should incorporate planned fiscal 2000 security plan actions for financial systems (IFMS, CPARS, MARS and EPAYS) into a formal remediation plan.

OCFO agrees to develop a formal remediation plan. Incidentally, it's important to note that the NSA study referenced in the Audit Report was requested by OCFO management to further strengthen our system's security.

Corrective Action

Target Date

Completion of Remediation Plan

3/31/00

8 - EPA Was Not Able to Accurately Account for the Cost to Achieve Each of Its Goals

As stated in previous correspondence to OIG, we continue to disagree with OIG's position and believe we are in compliance with the Managerial Cost Accounting Standard (SFFAS 4) and the Federal Financial Management Improvement Act (FMFIA). We consider SFFAS 4 a flexible document which gives federal agencies broad discretion to interpret and implement the Standard in a manner best suited to the Agency's needs and operating environment. Accordingly, we believe EPA followed a reasonable, sound methodology to develop its cost accounting policies and procedures.

We readily acknowledge that cost accounting improvements can be made. However, the question is whether our alleged shortcomings are so significant as to render us noncompliant with SFFAS 4 and, consequently, FFMIA. While we believe we meet the letter and the spirit of SFFAS 4, we look forward to working with OIG to improve EPA's cost accounting capabilities including the preparation of the FY 2000 Statement of Net Costs.

9 - EPA Was Unable to Present Required Information on Its Trading Partners

We recommend the Acting CFO:

- 9.1 issue an OCFO policy to require all finance offices to expedite the review of trading partner transactions and the input of the trading partner information into IFMS to ensure that the Agency can track and report trading partner information, and**
- 9.2 establish quality control procedures to ensure the trading partner information is entered into IFMS timely, accurately, and reliably to meet applicable reporting requirements.**

We agree with the recommendations. We are currently drafting, and plan to issue in the near future, Policy Announcements on the trading partner requirements.

<u>Corrective Action</u>	<u>Target Date</u>
Issue Policy Announcements on:	
Coding trading partners transactions in IFMS	March 15, 2000
Confirming and Reconciling Balances with Trading Partners	April 1, 2000
Accounting Entries for Trading Partners	April 30, 2000

10 - Additional Action is Needed to Bring EPA into Compliance with User Fee Requirements

We recommend that the Acting Chief Financial Officer follow through and either institute, revise, or update all user fees or obtain exceptions from OMB as required by OMB Circular A-25, "User Charges."

OCFO recently completed a Biennial Review of the Agency's user fee systems. The review was performed in accordance with the CFO Act and provisions set forth in Office of Management and Budget (OMB) Circular A-25, "User Charges."

During the 1999 Review, the Agency examined all six existing fee systems: Motor Vehicle and

Engine Compliance Fee, National Radon Proficiency Program Fee, Maintenance Fee, Tolerance Fee, Premanufacture Notice Fee, and Lead Accreditation and Certification Fee, and implemented appropriate revisions. The review also identified potential new fee systems. The Agency is now in the process of updating the eight special benefit services for exceptions requests that were identified in the 1997 review.

A draft report on the 1999 Biennial Review of the Agency's user fee systems will be sent to the OIG under separate cover; we expect to issue the final report by March 15, 2000.

OCFO UPDATE TO AUDIT REPORT ATTACHMENT 4 – STATUS OF PRIOR AUDIT REPORT FINDINGS

We reviewed Attachment 4 and have the following updates to the status of corrective actions in response to specific audit recommendations:

Audit of EPA’s Fiscal 1998 FS (Audit Report 99B0003, issued 9/28/99)

- 1.1 Completed.
- 1.3 Completed.
- 2.4 Completed.
- 3.1 Completed.
- 3.3 Completed.
- 3.4 Completed.
- 5.1 Completed.
- 5.2 Ongoing. Recommendation should be closed in OIG tracking system.
- 6.1 Memorandum to SROs issued 1/12/2000.
- 7.2 Completed.
- 9.1 The report notes (page 3-1, last paragraph) that the Agency revised its core system security plans during 1999. Thus the “remediation plan corrective actions were completed on schedule.” The auditors evaluated the adequacy of the security plans for IFMS, MARS, CPARS, and EPAYS, as approved in 1999. A revised security plan for CPS was approved May 26, 1999, and a new security plan for TM+ was approved on September 13, 1999. Copies of both security plans were furnished to the OIG auditors and the auditors did not request any additional information. Since the auditors report no adverse findings with respect to these security plans, we believe that no further remediation under this recommendation is necessary.
- 9.2 **Corrective Action:** The Contracts Information System (CIS) has been in operation for a number of years and has had an approved Security Plan in the past. Although security controls for CIS have not changed, security information for this system is being incorporated into the ICMS Security Plan.

OARM Comment: The Contracts Information System (CIS) was retired on December 31, 1999. Therefore, a security plan for CIS is no longer needed.

Corrective Action: A Security Plan for the ICMS family of applications, which ICMS, SPEDI and CDOTS, was approved by the Security Information Resources Management Officer (SIRMO). The SIRMO has directed OAM to address issues brought up in a extensive critique of the Security Plan by OIRM's IRM Policy and Evaluation Division to add information to specific sections of the plan.

OARM Comment: The ICMS Security Plan will be largely rewritten to incorporate changes in the system and its operating environment required for Year 2000 compliance and migration to Lotus Notes electronic mail. As issues brought up in the critique of the existing Security Plan by OEI's sections are completed, they will be forwarded to OARM's Senior Information Resource Management Officer (SIRMO).

Target Date: Complete full Security Plan by September 30, 2000.

9.3, 9.4

9.5 GAD Systems Security Plans will be completed as follows:

Issue P200/IGMS Security Plan, due date June, 30, 2000.

Issue Revised GICS Security Plan, due March 31, 2000.

OARM Comment: OARM/OGD is on target to meet the corrective action due dates.

Audit of EPA's Fiscal 1997 Financial Statements (Audit Report E1AML7-20-7008-810058, issued 3/2/98)

2.4 Target publication date changed to 3/31/00, due to amount of comments and changes that have to be incorporated into the RMDS 2540 Chapter 9.

7.1 This was completed on 1/13/00, with the issuance of Policy Announcement No. 00-02.

APPENDIX III

REPORT DISTRIBUTION LIST

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