



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

JAN 15 2016

OFFICE OF THE CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Final Audit Report No. 16-F-0040, "Audit of EPA's Fiscal 2015 and 2014 Consolidated Financial Statements," dated November 16, 2015

FROM: David A. Bloom, Deputy Chief Financial Officer

TO: Arthur A. Elkins, Jr., Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the agency's overall position, along with its position on each of the report recommendations. We have provided high-level intended corrective actions and estimated completion dates to the extent we can.

AGENCY'S OVERALL POSITION

The agency concurs with 36 of the recommendations and non-concurs with two recommendations. We have attached technical comments which explains the agency's position on some of the report findings.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

Table with 4 columns: No., Recommendation, High-Level Intended Corrective Action(s), and Estimated Completion by Quarter and FY. Row 1: 1, Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production, Concur. The agency will continue to review software project cost in-development and in-production to correct the values of the software assets. Also, the agency will validate all software expenses before, September 30, 2018 and September 30, 2016

		they are entered into the agency fixed assets system.	
2	Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency's property management system and Compass; and that an audit trail is maintained for software projects analyzed.	Concur. OCFO/OFM will continue to validate all software expenses and record them into fixed asset system. All documentation for the software transactions will be kept in a project file. To date, the agency has corrected \$180M of software in-development costs. The agency has also developed internal controls to ensure the correct capitalization of software project costs.	October 30, 2018
3	Reclassify the \$226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated.	Concur. The agency changed its accounting practice to record special accounts settlement proceeds as unearned revenue as these collections are generally used for future clean-up activities. The FY 2015 financial statements reflect this change. OECA is evaluating how this change will affect enforcement settlements and will coordinate with OCFO.	Completed October 30, 2015
4	Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded.	Concur. OCFO already has established procedures contained in EPA's Resource Management Directives System 2550D-14-T1, Superfund Accounts Receivables and Billings. It was revised on August 13, 2015, in coordination with Office of Enforcement and Compliance Assurance, to require the Superfund Accounts Receivable Standard Control Form to be completed by legal counsel and forwarded to Cincinnati Finance Center. CFC will ensure that regional contacts fill out the control form completely for both administrative and judicial	Completed August 13, 2015

		documents, including the fund type(s) to be used as the basis for the receivable.	
5	Reclassify special accounts receivable totaling \$5,310,918 that were previously recorded as past costs, classifying them instead as future costs to ensure current year financial statements are properly stated.	Concur. The agency changed its accounting practice to record special accounts settlement proceeds as unearned revenue as these collections are generally used for future clean-up activities. The FY 2015 financial statements reflect this change. OECA is evaluating how this change will affect enforcement settlements and will coordinate with OCFO.	Completed October 30, 2015
6	Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.	Concur. OCFO already has established procedures contained in EPA's Resource Management Directives System 2550D-14-T1, Superfund Accounts Receivables and Billings. It was revised on August 13, 2015, in coordination with Office of Enforcement and Compliance Assurance, to require the Superfund Accounts Receivable Standard Control Form to be completed by legal counsel and forwarded to CFC. CFC will ensure that regional contacts fill out the control form completely for both administrative and judicial documents, including the fund type(s) to be used as the basis for the receivable.	Completed August 13, 2015
7	Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.	Concur. OCFO has developed a process to research and resolve differences between Compass and the agency's property management system. To date, the agency has resolved over \$50M of the differences. The agency will continue to clear the differences and anticipates completing by June 2016.	June 30, 2016

8	Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.	Concur. The policy was sent to all FMO's to ensure policy is followed. We currently have concurrence from all Security Organizations.	Completed October 28, 2015
9	Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS are recorded in Maximo accurately and timely.	Concur. The agency identified and corrected some of the differences between the fixed asset system and Compass. OCFO will continue to monitor and resolve remaining differences and ensure that software adjustments are processed correctly in the agency property module in Compass (e.g., FAS); however, coordination with OARM is not required because software transactions are not entered into MAXIMO.	September 30, 2016
10	Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.	Concur. In September 2015, OFM/RAS initiated a process to require the Finance Centers to provide the transactional details for the identifiable differences, not including timing differences, per the revised policy <u>RMDS 2540-03-P1</u> . OFM/RAS will continue to monitor all internal cash differences working with the finance centers to report their differences at the transaction level.	Completed September 30, 2015
11	Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.	Concur. The Office of Financial Services will update our reconciliation procedures and reinforce our current reconciliation procedures to research and resolve cash differences for payroll and the WFC.	February 29, 2016
12	Complete the planned corrective actions to require	Concur. In September of each fiscal year, OGD issues this	Completed September 30, 2015

	project officers to approve federal disbursements timely.	<p>guidance for consideration in assessing Project Officer and Supervisor/Manager compliance with key grants and IA management policies during end-of-year performance appraisals and developing next year's PARS performance agreements.</p> <p>IASSC has completed a comprehensive review of the existing EPA 1610 manual and identified necessary changes, including a description of the billing requirement. That description will be contained in the revised version of the Manual.</p>	March 31, 2016
13	Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.	Concur. The Cincinnati Finance Center has procedures in place to monitor, follow-up, and address suspense account items that remain for more than 60 days. CFC will continue to stress the importance of clearing items out of the suspense account in less than 60 days. The Payment Branch Chief will review the open items more frequently and elevate on a shorter time table.	Completed, December 1, 2015 (ongoing activity)
14	Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.	OCFO will review the existing separation of duties policy to ensure that it's being implemented as designed. Under the reorganization, OCFO will review all waivers and take appropriate action based on our new structure. Based upon the review, OCFO will update policy/procedures if applicable.	September 30, 2016
15	Modify Compass to route accounts receivable and	OCFO will further investigate and explore the appropriate controls for approval of	December 31, 2016

	collection cancellations for secondary approval.	accounts receivable and collection cancellations. OCFO will determine the feasibility of secondary approvals in Compass or develop an alternative mitigating control.	
16	Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.	Concur. CFC has reviewed all of the 72 cancellations cited in the position paper and all have appropriate documentation supporting the cancellation, either in the file or attached in Compass.	Completed November 6, 2015
17	Require CFC to record accounts receivable as provided in legal documents.	Concur. CFC will continue to record the accounts receivable as provided in legal documents. See the attached technical comments for the specific issue cited in the audit report.	Completed (ongoing activity)
18	Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.	Concur. CFC reviews all settlement documents to ensure the accounts receivables are established for the amounts due (or claim amounts related to bankruptcies). They will continue to thoroughly review documents to ensure receivables are established for the appropriate amounts.	Completed (ongoing activity)
19	Complete the corrective actions previously identified.	See below for information for Recommendations 20 thru 24 for the agency's planned actions to complete these recommendations.	See dates for Recommendations 20 through 24
20	Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.	Concur. OFM/RAS will reconcile balances in the accounts receivable general ledger account to its subsidiary ledgers going forward.	January 31, 2016
21	Reconcile federal and non-federal accounts receivable separately.	Concur. OFM/RAS designed a framework for providing separate timely and accurate reconciliations of federal and non-federal accounts receivable. Changes within Compass are	March 31, 2017

		needed to implement this design. Due to the pending Compass version enhancement, system changes have been placed on hold until CVE is completed. CVE implementation is currently scheduled as Compass 7.3 for February 2016. We will obtain an estimate of when change will be made in Compass.	
22	Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.	Concur. The scope of the recommendation in 2014 was to correct the remaining FY 2011 period 16 billing document activity that did not post to the general ledger. This was completed June 30, 2015. OFM/RAS continues to identify and correct the variances that occur during the current year.	Completed June 30, 2015 (continuing activity)
24	Correct the Compass reporting issues that prevent the proper reports to be produced.	Concur. OCFO implemented redundancy amongst staff to ensure backup in the event a report does not execute.	Completed September 30, 2015
25	Work with the Assistant Administrator for Solid Waste and Emergency Response to direct the regions to track, manage and reconcile SSC financial data by site.	Concur. The agency agrees that the regions should continue to follow the practices outlined in the Resource Management Directive System 2550D-09-P1 related to tracking, managing and reconciling SSC financial data by site. OSWER issued new SSC model provisions that include an updated final financial reconciliation provision and new language on periodic financial review, which reinforce for both states and regions the need to carefully track site-specific remedial action costs and state cost share payments.	Completed November 16, 2015

26	Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.	Concur. Upon availability of resources and completion of other high priority IT projects (i.e., CVE and Account Code Structure Project), OCFO will transfer the management of all application user access processes to the Office of Technology Solutions, Application Management Staff.	December 31, 2017
27	Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	Concur. Upon availability of resources and completion of other high priority IT projects (i.e., CVE and ACS), OCFO will conduct an inventory of OCFO systems managed by OTS/AMS and create or update supporting access management documentation for each application.	December 31, 2017
28	Work with the contracting officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management Staff. This should include establishing a date when the contractors would start using the updated account management documentation.	Concur. The OTS will work with the contracting officer to update applicable contract clauses related to Compass financials and distribute updated access management documentation to contractors supporting the user account management function for applications managed by AMS after items 26 and 27 are completed.	March 31, 2018
29	Review and update account management documentation and establish procedures for financial systems, as needed, to include implementation of the following controls:  a. Assign account managers for user accounts.	Concur. Upon availability of resources and completion of other high priority IT projects (i.e., CVE and ACS), OCFO will review and update, as needed, account management documentation and establish procedures for Compass financials.	December 31, 2017



	<p>b. Establish role conditions for system access privileges.</p> <p>c. Require approvals to create accounts.</p> <p>d. Monitor use of accounts.</p> <p>e. Notify account managers when accounts are removed or changed.</p> <p>f. Authorize access based on valid authorizations.</p> <p>g. Review accounts for appropriateness of current access privileges.</p>		
30	<p>Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures—specifically, periodic access reviews and proper access removal.</p>	<p>Concur. OCFO’s SIO will issue a memorandum emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.</p>	<p>March 31, 2016</p>
31	<p>Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.</p>	<p>Concur: The OCFO Primary Information Security Officer maintains a current inventory of all OCFO financial systems and ensures they are accurately entered into Xacta.</p>	<p>Completed, October 1, 2015</p>
32	<p>Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.</p>	<p>Concur. The OCFO PISO has implemented a process to notify the CFO of the status of corrective actions in Xacta. Specifically, the OCFO PISO conducts weekly reviews of Plan of Action and Milestones in Xacta. The OCFO PISO briefs the CFO and OCFO Senior Information Official quarterly on the status of all open POA&amp;Ms at the OCFO Senior Staff Meeting.</p>	<p>Completed, November 16, 2015</p>

33	Establish new procedures and update the OCFO Helpdesk Escalation Procedures to require validation of users before the distribution of passwords.	Concur. OCFO/ORIM will ensure the Helpdesk Escalation procedures for each OCFO system requires validating users before distributing passwords. Specifically, the procedures will require sending an encrypted email to the user's EPA email address to communicate the temporary password, while the Helpdesk analyst remains on the phone and verifies that the individual was able to log in.	March 31, 2016
35	Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.	Concur. OCFO contacted the GSA of OIG's finding that the required assessments are not being performed as required to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes. GSA has acknowledged receipt of the OIG's concern and indicated they are looking into the issue.	Completed, November 23, 2015
36	Complete the corrective actions previously identified.	See below for information for Recommendations 37 thru 39 for the agency's planned actions to complete these recommendations.	See dates for Recommendations 37 through 39.
37	Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.	Concur. On a daily basis, CFC staff analyze, review, and update Superfund receivables. As issues arise, help tickets are submitted. CFC pulled a sample of receivables and manually compared interest to what Compass accrued, and found that the differences were immaterial. CFC will continue to review interest on Superfund	September 30, 2016

		receivables and submit help tickets for any differences that may arise. After the new version of Compass is rolled out in 2016, CFC will complete a larger review of receivables to ensure that the new version of Compass is calculating interest appropriately.	
38	Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either through Compass automatic calculations or manual interest calculations prepared by CFC.	Concur. CFC will work with OTS to explore the level-of-effort needed for Compass to automatically accrue interest when a Superfund debt becomes delinquent. Until this is changed in Compass, staff will continue to manually uncheck the waiver flag once a debt becomes delinquent.	September 30, 2016
39	Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why: <ul style="list-style-type: none"> <li>■ Compass deletes Superfund interest and implement a correction.</li> <li>■ Compass stops calculating interest and implement a correction.</li> </ul>	Concur. Many of the causes for the Compass system problems related to Superfund will be resolved with the Compass version enhancement scheduled for implementation in 2016. OCFO will validate how the enhanced system handles Superfund and installment interest and submit requests for any further system adjustments that might be needed. In the interim, CFC will continue to monitor Superfund and installment interest calculations to ensure they are correct.	September 30, 2016

Disagreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
23	Develop accurate reports for accounts receivable principal and non-principal charges (such as interest, handling and penalties) to	Non-concur. The use of line numbers in the bill report designates interest, penalties and handling charges. This is necessary to ensure that the	N/A

	<p>reconcile such charges to the general ledger accounts.</p>	<p>proper calculation of these charges with applicable laws and agency policy in Compass. The bill report OFM/RAS uses clearly identifies the interest, handling and penalty amounts.</p> <p>Journal vouchers should also be included as bill detail. To the extent practical, the agency makes corrections within the individual billing documents. In other cases, in order to properly reflect balances in the general ledger accounts, journal vouchers are required to fairly state the accounts receivable balances.</p> <p>The agency continues to make progress on its efforts to reconciling the accounts receivable general ledger.</p>	
34	<p>Work with the contracting officer to update the EPA's task order with the Concur service provider to include a clause limiting visibility of credit card numbers for people with the Federal Agency Travel Administrator role.</p>	<p>Non-concur. After reaching out to GSA and doing our own analysis, OFS believes this finding is an oversimplification of what is going on in the system. FATAs manage the travel program as part of their daily work. This includes managing the credit card portion of traveler profiles. Removing or restricting their access would limit their ability to do their work. Contrary to the report, there are only about 40 or so FATAs in the agency that access credit card information for a large amount of people. About 20 of them work for the CFC who manages the Concur application for the agency. The remaining are regional FATAs (RFATAs) who manage the travel program for</p>	N/A

		<p>their region and can only see information for traveler in their region.</p> <p>The other 600 plus people are not FATAs at all, but are federal traveler arrangers. These people are travel preparers who prepare travel on behalf of someone else. They would only have access to credit card information for the people that they prepare travel for (usually less than 10 people). The traveler would have already trusted the credit card information to the preparer so that the prepared can book reservation for them. Access to the credit card information would be necessary in case the credit card needed to be updated.</p>	
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CONTACT INFORMATION

If you have any questions regarding this response, please contact Stefan Silzer, Director, Office of Financial Management on (202) 564-4905.

Attachment

- cc: Howard Osborne
- Charles Sheehan
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**Technical Comments Related to OIG's Final Audit Report No. 16-F-0040, "Audit of EPA's Fiscal 2015 and 2014 Consolidated Financial Statements," dated November 16, 2015**

**OIG Finding #7 - "EPA Did Not Record More Than \$8 Million in Accounts Receivable for a \$9 Million Superfund Judgment"**

**OIG Statement:** OIG stated that, "*EPA did not record as a Superfund accounts receivable more than \$8 million of a \$9 million judgment in a consent decree... CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document.*"

**Agency Position on Finding:** CFC reviews and records the accounts receivable per the payment terms of the settlement documents. For the settlement outlined above, there is not an account receivable due and owing in the amount of \$9 million from the settling defendant. All of the site costs (past and future) are a joint and several liability for all of the PRPs at the Portland Harbor site. However, when a PRP settles with the United States, both parties agree to a payment amount which is usually less than the full joint and several amount incurred by the EPA and the PRPs at any given site. Thus, the amount to be entered as an account receivable is the amount the settlement document says that particular PRP owes the United States as a payment, not the overall judgment amount. In certain instances, for purposes of recovering proceeds from a PRP's insurance policies, the PRP may confess to how much money it owes the EPA (the United States), which then allows the United States to pursue insurance proceeds based on that amount. The size of the confessed judgment is not indicative of the amount that the United States could recover from insurance, as that depends on various factors specific to the insurance policies on hand. If a PRP were to make a confession to judgment for a lesser amount, or not make a confession to judgment at all, then, due to how insurance law works, the insurance companies would have a good argument for reducing any possible payouts considerably, as they would argue that the PRPs remaining liability is limited to only that lesser amount. Any insurance recovery is always quite speculative. We may recover funds from the insurer(s), or not recover any at all.