



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Agreed-Upon Procedures on EPA's Fiscal Year 2011 Third Quarter Financial Statements

Report No. 11-2-0699

September 23, 2011

Report Contributors:

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Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal year
GL	General ledger
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RGLTS	Report of General Ledger Balance by Treasury Symbol
SFFAS	Statement of Federal Financial Accounting Standards

Hotline

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At a Glance

Catalyst for Improving the Environment

Why We Performed These Agreed-Upon Procedures

We performed agreed-upon procedures on the U.S. Environmental Protection Agency's (EPA's) Fiscal Year (FY) 2011 Third Quarter Financial Statements. We did so to assist EPA in evaluating whether its quarterly financial statements were compiled consistently with the Treasury United States Standard General Ledger Crosswalk, and to identify significant fluctuations in financial line item balances from the previous year.

Background

Agencies submit unaudited interim financial statements to the Office of Management and Budget 21 days after the end of each of the first three quarters of the fiscal year. Comparative interim financial statements are limited to a Balance Sheet, Statement of Net Costs, and Statement of Budgetary Resources.

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

The full report is at:
www.epa.gov/oig/reports/2011/20110923-11-2-0699.pdf

Agreed-Upon Procedures on EPA's Fiscal Year 2011 Third Quarter Financial Statements

What We Found

We performed certain agreed-upon procedures on the Agency's FY 2011 Third Quarter Financial Statements. We compared the statements with EPA's crosswalk, recomputed them for mathematical accuracy, and compared them with balances separately generated by us.

Below are the results of our performance of the agreed-upon procedures:

- The financial statements generated by the Office of Inspector General agreed with EPA's FY 2011 Third Quarter Financial Statements for the Consolidated Balance Sheet, Consolidated Statements of Net Cost, Net Cost by Goal, Consolidating Statement of Changes in Net Position (including Earmarked Funds), Combined Statement of Budgetary Resources, and Statement of Custodial Activity.
- The Agency identified 13 fluctuations in its financial statements and submitted them to the Office of Management and Budget. Our analysis identified 12 additional significant variances.
- We found that EPA's Treasury Symbols were in compliance with Statement of Federal Financial Accounting Standards 27.
- We found that the on-top entry to record child agency balances agreed with the child trial balance support.
- We found that the Agency properly reversed the FY 2010 on-tops in FY 2011.
- The elimination and consolidation entries appear reasonable and complete.
- No differences were found in the comparison of the FY 2011 beginning balances to the FY 2010 ending balances.

The agreed-upon procedures do not constitute an audit of the quarterly financial statements or any part thereof, the objective of which would be the expression of an opinion on the quarterly financial statements or any part thereof.



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

THE INSPECTOR GENERAL

September 23, 2011

SUBJECT: Agreed-Upon Procedures on EPA's Fiscal Year 2011
Third Quarter Financial Statements
Report No. 11-2-0699

FROM: Arthur A. Elkins, Jr.
Inspector General

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", is written over the printed name and title.

TO: Barbara Bennett
Chief Financial Officer

The U.S. Environmental Protection Agency (EPA), Office of Inspector General, conducted these agreed-upon procedures on EPA's Fiscal Year 2011 Third Quarter Financial Statements. This report is provided solely to assist you in evaluating whether the Fiscal Year 2011 Third Quarter Financial Statements were compiled in a manner consistent with the Treasury United States Standard General Ledger Crosswalk, and to identify significant fluctuations in financial line balances from the previous year.

Our report is intended solely for your information and use, and should not be used by those who have not agreed to the procedures or taken responsibility for the sufficiency of the procedures for their purposes. No written response to this report is required.

If you have any questions, please do not hesitate to contact Paul Curtis at (202) 566-2523 or curtis.paul@epa.gov, or Bob Smith at (202) 566-2531 or smith.robertl@epa.gov.

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Purpose

We performed these agreed-upon procedures at the request of the Office of the Chief Financial Officer (OCFO). We did so to assist the U.S. Environmental Protection Agency (EPA) in evaluating whether its Fiscal Year (FY) 2011 Third Quarter Financial Statements were compiled consistently with the Treasury United States Standard General Ledger Crosswalk and to identify significant fluctuations in financial line item balances from the previous year.

Background

According to Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, interim unaudited financial statements, without notes, are required on a quarterly basis. Agencies submit unaudited interim financial statements to OMB 21 days after the end of each of the first three quarters of the fiscal year. Comparative interim financial statements are limited to a Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources. Agencies should include management's explanation of significant variances in types or amounts of assets, liabilities, costs, revenues, obligations, and outlays, along with the submitted statements. The analysis should be only on the significant variances between the current quarter and the same quarter from the prior year. Management has discretion on what constitutes a significant variance.

EPA prepares consolidated comparative interim financial statements for submission to OMB. In addition to the three required interim statements, EPA prepares and submits a comparative Consolidated Statement of Net Cost by Goal, Consolidating Statement of Changes in Net Position, and Statement of Custodial Activity.

Scope and Methodology

We performed certain agreed-upon procedures, enumerated below, on EPA's unaudited consolidated FY 2011 Third Quarter Financial Statements. The adequacy of these procedures is the OCFO's responsibility. Consequently, we make no representation regarding the sufficiency of the procedures. The agreed-upon procedures do not constitute an audit of the quarterly financial statements or any part thereof, the objective of which would be the expression of an opinion on the quarterly financial statements or any part thereof. Accordingly, we do not express such an opinion. Were we to perform additional procedures, other matters might come to our attention that we would report to assist the OCFO.

This agreed-upon procedures engagement was conducted using applicable generally accepted government auditing standards, which incorporate attestation standards issued by the American Institute of Certified Public Accountants. These standards provide guidance for performing and reporting the results of agreed-upon procedures.

We performed the agreed-upon procedures from August 8 to September 7, 2011. We based our procedures on EPA's FY 2011 Third Quarter Financial Statements and supporting schedules, general ledger (GL) balances, and manual on-top adjustments.

Results of Agreed-Upon Procedures

Procedure 1

Obtain EPA's third quarter financial statements, adjusted trial balance, on-top entries, and support for the statements (including Earmarked Funds). Import the Report of General Ledger Balance by Treasury Symbol (RGLTS); enter the Agency's on-top entries into ProSystem; and generate an adjusted trial balance, Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidating Statement of Changes in Net Position.

Results of Procedure 1

We obtained the Agency's third quarter financial statements, adjusted trial balance, on-top entries, and support for the statements (including Earmarked Funds and Child Agency Trial Balances). We imported the RGLTS and entered the Agency's on-top adjusting entries to beginning balances into Prosystem to generate an adjusted trial balance, Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidating Statement of Changes in Net Position.

Procedure 1.a

Compare the ProSystem-generated adjusted trial balance to the Agency's adjusted trial balance and note any differences.

Results of Procedure 1.a

We compared the Prosystem-generated adjusted trial balance based upon the Agency's support to the Agency's adjusted trial balance. The Agency's adjusted trial balance for the FY 2011 third quarter agreed with our Prosystem-adjusted trial balance amounts, except for immaterial rounding differences. We verified that the statements complied with and are in accordance with EPA's crosswalk.

Procedure 1.b

Compare the ProSystem-generated financial statements to EPA's financial statements and note any differences.

Results of Procedure 1.b

We compared the Prosystem-generated financial statements to EPA's financial statements (Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidating Statement of Changes in Net Position). We did not note any differences.

Procedure 1.c

Enter the FY 2011 and 2010 GL balances and on-top entries into Excel spreadsheets. Prepare the Combined Statement of Budgetary Resources and Statement of Custodial Activity, compare to the Agency's statements, and note any differences.

Results of Procedure 1.c

We entered the FY 2011 GL balances and on-top adjustment entries into an Excel spreadsheet. We prepared and compared the Office of Inspector General (OIG) Combined Statement of Budgetary Resources and Statement of Custodial Activity to the Agency's statements.

Combined Statement of Budgetary Resources:

The Agency's balances for the FY 2011 third quarter agreed with our amounts for this statement except for immaterial rounding differences.

Statement of Custodial Activity:

The Agency's balances for the FY 2011 third quarter agreed with our amounts for this statement except for immaterial rounding differences.

Procedure 1.d

Extract GL ending balances for Earmarked Funds from the RGLTS using Interactive Data Extraction Analysis and enter into ProSystem. Enter on-top entries, generate a Consolidating Statement of Changes in Net Position–Earmarked Funds, and compare to EPA's Consolidating Statement of Changes in Net Position–Earmarked Funds.

Results of Procedure 1.d

We extracted the GL ending balances from the RGLTS for Earmarked Funds, generated a Consolidating Statement of Changes in Net Position–Earmarked Funds, and compared it to EPA's Consolidating Statement of Changes–Net Position for Earmarked Funds. We did not note any differences.

Procedure 1.e

Compare the Agency's third quarter Consolidated Statement of Net Cost by Goal to the consolidated totals from the Consolidated Statement of Net Cost and note any differences.

Results of Procedure 1.e

We compared the Agency's third quarter Consolidated Statement of Net Cost by Goal to the consolidated totals (total costs, total earned revenue, and net cost of operations) from the Consolidated Statement of Net Cost. The amounts agreed.

Procedure 1.f

Mathematically verify accuracy of the Consolidated All Other column on the Consolidating Statement of Changes in Net Position in the Agency's financial statements.

Results of Procedure 1.f

We mathematically verified the accuracy of the Consolidated All Other column in the Agency's financial statements on the Consolidating Statement of Changes in Net Position in the Agency's financial statements.

Procedure 1.g

Identify significant fluctuations in balances by comparing current year balances to prior year balances. (Criteria: Percentage change of 10 percent or more and dollar change exceeding \$50 million.)

Results of Procedure 1.g

The Agency identified 13 significant fluctuations in the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Combined Statement of Budgetary Resources. Our analysis identified eight additional significant fluctuations in these statements. We also identified four significant fluctuations in the Consolidating Statement of Changes in Net Position (a nonrequired statement). OIG- and Agency-identified fluctuations are detailed in appendix A.

Procedure 2

Obtain and compare EPA's identified Earmarked Treasury Symbols to Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, for compliance.

Results of Procedure 2

We obtained and compared EPA's identified Earmarked Treasury Symbols to SFFAS 27. We found that EPA's Treasury Symbols are in compliance with SFFAS 27. Earmarked Treasury Symbols consist of the following trust funds: Hazardous Substance Superfund; Federal Insecticide, Fungicide, and Rodenticide Act Fund; Revolving Fund for Certification and Other Services; Licenses and Other Services; Environmental Services; Exxon Valdez Settlement Fund; Pesticide Registration Improvement Act Fund; Oil Spill Response Fund; Contributed Funds; and Leaking Underground Storage Tank Trust Fund.

Procedure 3

Obtain and compare FY 2011 and 2010 Child Trial Balances to the child on-top entry.

Results of Procedure 3

We obtained and compared EPA's FY 2011 and 2010 Child Trial Balances to the child on-top entry. We found that the on-top entry to record child agency balances agreed with the child trial balance support.

Procedure 4

Compare the FY 2011 reversals to the FY 2010 on-top adjustments and EPA's Closing Instructions to assess whether EPA followed the guidance in the instructions.

Results of Procedure 4

We compared the FY 2011 reversals to the FY 2010 on-top adjustments and to EPA's closing instructions to assess whether EPA followed the guidance in the instructions. We found that the Agency reversed the FY 2010 on-tops properly in FY 2011.

Procedure 5

Compare the RGLTS FY 2011 beginning balances to the FY 2010 ending balances and note any differences.

Results of Procedure 5

We compared the RGLTS FY 2011 beginning balances to FY 2010 ending balances and found no differences

Procedure 6

Review elimination and consolidation entries prepared by the Reporting and Analysis Staff for reasonableness and completeness.

Results of Procedure 6

We reviewed elimination and consolidation entries prepared by the Reporting and Analysis Staff. The elimination and consolidation entries appeared reasonable and complete.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
No recommendations							

**OIG-Identified Significant Fluctuations
Between 06/30/11 and 06/30/10**
(Dollars in thousands)

Notes for each table are as follows:

¹ EPA-identified significant fluctuation also identified by OIG in the third quarter analysis reported to OMB.

² OIG-identified significant fluctuation not identified by EPA in the third quarter analysis reported to OMB.

Consolidated Balance Sheet

	FY 2011	FY 2010	Difference	%
ASSETS				
Fund Balance With Treasury ¹	\$14,697,168	\$17,447,250	(\$2,750,082)	-15.76%
Accounts Receivable, Net ¹	\$405,444	\$352,427	\$53,017	15.04%
Property, Plant and Equipment ¹	\$933,104	\$823,207	\$109,897	13.35%
NET POSITION				
Unexpended Appropriations – Other Funds ¹	\$13,425,540	\$16,353,716	(\$2,928,176)	-17.91%
Cumulative Results of Operations – Other Funds ²	\$661,080	\$585,867	\$75,213	12.84%

Source: FY 2011 Financial Statements provided by EPA.

Consolidating Statement of Changes in Net Position

	FY 2011 All Other Funds	FY 2010 All Other Funds	Difference	%
CUMULATIVE RESULTS OF OPERATIONS				
Budgetary Financing Resources				
Trust Fund Appropriations ²	(\$1,156,073)	(\$1,280,570)	\$124,497	-9.72%
BUDGETARY FINANCING RESOURCES				
Appropriations Received ²	\$8,583,237	\$10,180,421	(\$1,597,184)	-15.69%

Source: FY 2011 Financial Statements provided by EPA.

Consolidating Statement of Changes in Net Position

	FY 2011 Consolidated Earmarked Funds	FY 2010 Consolidated Earmarked Funds	Difference	%
CUMULATIVE RESULTS OF OPERATIONS				
Budgetary Financing Resources				
Trust Fund Appropriations ²	\$1,156,073	\$1,280,570	(\$124,497)	-9.72%

Source: FY 2011 Financial Statements provided by EPA.

Combined Statement of Budgetary Resources

	FY 2011	FY 2010	Difference	%
BUDGETARY RESOURCES				
Recoveries of Prior Year Unpaid Obligations ²	\$205,369	\$277,201	(\$71,832)	-25.91%
Appropriation ¹	\$8,658,352	\$10,255,083	(\$1,596,731)	-15.57%
Collected ¹	\$436,415	\$741,526	(\$305,111)	-41.15%
Advance Received ¹	\$85,831	\$293,563	(\$207,732)	-70.76%
Without Advance from Federal Sources ¹	(\$24,680)	(\$99,295)	\$74,615	-75.14%
Anticipated for Rest of Year, Without Advances ¹	\$185,190	\$277,346	(\$92,156)	-33.23%
Permanently Not Available ¹	(\$157,556)	(\$41,500)	(\$116,056)	279.65%
STATUS OF BUDGETARY RESOURCES				
Reimbursable ²	\$501,800	\$451,208	\$50,592	11.21%
Apportioned ¹	\$8,548,673	\$9,587,875	(\$1,039,202)	-10.84%
Unobligated Balances Not Available ²	\$185,731	\$433,916	(\$248,185)	-57.20%
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations, Brought Forward, October 1 ¹	\$13,872,909	\$15,788,389	(\$1,915,480)	-12.13%
Less: Recoveries of Prior Year Unpaid Obligations, Actual ²	(\$205,369)	(\$277,201)	\$71,832	-25.91%
Change in Uncollected Customer Payments from Federal Sources ²	\$4,494	\$69,953	(\$65,459)	-93.58%
Unpaid Obligations ²	\$10,304,328	\$12,232,169	(\$1,927,841)	-15.76%
Less: Uncollected Customer Payments from Federal Sources ²	(\$435,462)	(\$503,871)	\$68,409	-13.58%
NET OUTLAYS				
Less: Offsetting Collections ¹	(\$545,191)	(\$1,062,830)	\$517,639	-48.70%

Source: FY 2011 Financial Statements provided by EPA.

Distribution

Chief Financial Officer

Deputy Chief Financial Officer

Director, Office of Financial Management, Office of the Chief Financial Officer

Director, Reporting and Analysis Staff, Office of the Chief Financial Officer

Director, Office of Financial Services, Office of the Chief Financial Officer