



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

JAN 25 2013

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Final Report No. 13-1-0054  
“Audit of EPA Fiscal 2012 and 2011 Consolidated Financial Statements,” dated  
November 15, 2012

**FROM:** Barbara J. Bennett  
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 U.S. Environmental Protection Agency’s overall position, along with its position on each of the report recommendations. For those report recommendations with which the agency agrees, we have provided high-level intended corrective actions and estimated completion dates. For those report recommendations with which the agency does not agree, we have explained our position and proposed alternatives to the recommendations.

AGENCY’S OVERALL POSITION

The agency concurs with 22 of the 26 recommendations detailed in the report. We do not concur with the remaining four recommendations, and have provided explanations, as required by EPA Manual 2750 – Audit Management Procedures.

AGENCY’S RESPONSE TO REPORT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by FY
1	The Office of the Chief Financial Officer perform a thorough review of all posting models to ensure the proper accounts are impacted.	1.1.OCFO-Office of Financial Management identified posting models and/or business processing issues related to the use of posting models during FY 2012, which classified issues as high, medium or low priority. The priority level was based on the potential materiality impact to the financial statements.  1.2 OFM will continue to track and	11/15/2012 (Completed)          9/30/2013

		communicate status of posting model issues through the availability of the Lotus Notes Tracking System and through email. If OFM requires additional discussion with Finance Centers, OFM will organize accordingly.	(Ongoing)
2	OCFO correct activity in accounts incorrectly impacted by improper posting models.	2.1 OFM identified and corrected FY 2012 high priority posting model issues, and made any required general ledger adjustments.  2.2 OFM will address any outstanding FY 2012 medium and low priority posting model issues, and any new FY 2013 posting model issues.	11/15/2012 (Completed)  9/30/2013 (Ongoing)
3	OCFO develop internal control procedures to confirm the proper accounts are impacted for all transactions.	3.1 OFM will continue to evaluate and develop internal control procedures to confirm the proper accounts are impacted for all transactions.	3/31/2013
4	OCFO perform analytical reviews of account activity on a quarterly basis to verify account activity is reasonable.	4.1 OFM will continue to conduct analytical reviews of account activity on a quarterly basis and more frequently, if deemed necessary, based on the financial statement line. The analysis highlights unusual variances between fiscal years.	9/30/2013 (Ongoing)
5	OCFO identify Compass reporting problems and develop reports to provide users with accurate data on a timely basis.	5.1 OFM will continue to analyze the agency's financial reports, identify any concerns and develop new reports for users as needed.	9/30/2013 (Ongoing)
6	OCFO update EPA's policy for recognizing year-end accruals to require reconciliations of accruals and accrual reversals.	6.1 OFM updated its internal control by implementing an independent review of FY 2012 accruals and accrual reversals.  6.2 OFM will perform accrual reviews prior to the issuance of the FY 2013 quarterly financial statements.  6.3 OFM will update Policy Announcement Number No. 95-11, "Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals."	11/8/2012 (Completed)  9/30/2013 (Ongoing)  3/31/2013
9	OCFO reinforce procedures to monitor all tracking reports. Follow up with regional offices and the U.S. Department of Justice to obtain legal documents to ensure accounts receivable are recorded timely in the financial accounting system.	9.1 Cincinnati Finance Center will continue to utilize the DOJ Debt Assessed Report, DOJ 30 Day Tracking Reports and the Integrated Compliance Information System tracking reports to review and follow up on documents not received by CFC. CFC compares these reports to the Compass Data Warehouse to determine if receivables have been established. CFC will work with staff to	9/30/2013 (Ongoing)

		ensure these reports are reviewed timely and fully utilized in obtaining missing documentation.	
10	OCFO institute standard operating procedures for entering, tracking and monitoring accounts receivable, and ensure adherence to EPA policies and procedures for entering receivables timely and maintaining adequate and easily accessible source documentation.	10.1 CFC will develop SOPs for the various types of receivables managed within the office, and will ensure these procedures are in line with agency policy. CFC will clarify to staff the requirements for electronic files.	6/30/2013
12	OARM direct Office of Grants and Debarment Director to create guidance to ensure that grant final determination letters contain required provisions for late payment and a process for forwarding final determination letters to finance centers within 5 days of the effective date.	<p>12.1 OGD and OCFO addressed the issues raised by this recommendation in EPA Manual 2750 – Audit Management Procedures (See Part II, Section B.3. Assistance Agreements).</p> <p>12.2 As an interim step, OGD issued a memorandum to the agency’s Grants Management Officers entitled “Guidance on Unallowed Costs in Advance Administrative Monitoring Reviews and Single/OIG Audit Final Decisions.” The memo highlighted the importance of standard payment instructions and of copying the Las Vegas Finance Center on Management Decision Letters to recipients to ensure compliance with the 5-day requirement in Resource Management Directive System 2540-9-1.</p> <p>12.3 OGD will further address this recommendation in the revised Improper Payments Elimination and Recovery Act guidance.</p>	<p>9/28/2012 (Completed)</p> <p>11/16/2012 (Completed)</p> <p>9/30/2013</p>
14	OCFO require Office of Technology Solutions Director to work with the contractor that developed Compass to build defaults into the Compass software that will eliminate or minimize property record errors.	14.1 OCFO-OTS will continue working with the contractor to build the default into Maximo that will eliminate property record errors and will continue to do so. OARM submitted a remedy ticket to the Help Desk (Ticket #456982).	3/31/2013
15	OCFO correct the property data errors described above (i.e., identified in the audit report, Significant Deficiency	15.1 Agency Property Officers reconciled property records to ensure that the system reflected the correct location for the \$2.9 million in assets. Agency Property Officers	9/30/2012 (Completed)

	8).	will continue to manually monitor until the automated fix is implemented.  15.2 OARM conducted a system analysis to ensure that no other assets had the same discrepancy; none were discovered.	9/30/2012 (Completed)
16	OCFO develop procedures to reconcile capitalized property in the agency's financial system with Maximo.	16.1 OFM will develop procedures for reconciling capitalized property.	3/31/2013
17	OCFO direct the Senior Information Official to document a review of OCFO's processes for conducting vulnerability assessments and create oversight procedures for monitoring the service provider's testing of networked resources and the remediation of any identified weaknesses.	17.1 OCFO will develop and implement a memorandum of understanding with Office of Environmental Information-Enterprise Desktop Solutions Division that will describe oversight procedures for monitoring the service provider's testing of networked resources and the remediation of any identified weaknesses.	6/30/2013
18	OCFO direct the SIO to request and monitor to ensure that OEI provides a status update for all identified critical-risk, high-risk, and medium-risk vulnerabilities contained in this report. The status update should include the date when OEI will remediate all the identified vulnerabilities.	18.1 OCFO will develop and implement a MOU with OEI-EDSD that will help ensure that OEI provides a status update for all identified critical-risk, high-risk and medium-risk vulnerabilities contained in this report. The status update will include the date when OEI will remediate all the identified vulnerabilities.	6/30/2013
19	OCFO direct the SIO to request and monitor to ensure that OEI creates plans of action and milestones for all vulnerabilities that cannot be corrected within 30 days of this report.	19.1 OCFO will develop and implement a MOU with OEI-EDSD that will help ensure that OEI creates plans of action and milestones for all vulnerabilities that cannot be corrected within 30 days of this report.	6/30/2013
20	OCFO direct the SIO to request and monitor to ensure that OEI performs a technical vulnerability assessment test of the finance centers' network resources to confirm completion of remediation activities and provide written certification to OCFO that vulnerabilities have been	20.1 OCFO will develop and implement a MOU with OEI-EDSD that will help ensure that OEI performs a technical vulnerability assessment test of the finance centers' network resources to confirm completion of remediation activities and provide written certification to OCFO that vulnerabilities have been remediated.	6/30/2013

	remediated.		
21	OCFO direct the SIO to develop and implement a process to review System Security Plan information for accuracy and completeness.	21.1 OCFO uses the following process to address the OIG's concerns: The Application Security Officer prepares the SSP. The individual office Information Security Officer; e.g., OTS, reviews the document before it is forwarded to the OCFO Information Security Officer, Information Management Officer, and Senior Information Official for review and approval. OCFO will develop and issue a SOP, which formalizes the current process.	6/30/2013
22	OCFO direct the SIO to issue a memorandum to the Office of Technology Solutions Director outlining the roles and responsibilities for reviewing and maintaining the SSP documentation for financial applications formerly maintained by the Research Triangle Park Finance Center technical personnel.	22.1 The SIO will issue memorandum to the OTS Director outlining the roles and responsibilities for reviewing and maintaining the SSP documentation for financial applications formerly maintained by the RTPFC technical personnel.	3/31/2013
23	OCFO direct the SIO to document a review of the skills and qualifications of OCFO Information Security Officers and provide necessary specialized training that would equip them to perform their duties as required by federal government policy.	23.1 OCFO will conduct and document a review of the skills and qualifications of OCFO ISOs.  23.2 OCFO held a specialized workshop for its ISOs that will help them perform their duties as required by federal government policy.	6/30/2013  11/14/2012 (Completed)
24	OCFO direct the SIO to document a review of SSPs for all OCFO-owned and managed financial applications located at Research Triangle Park and have them updated to reflect current information as required by the National Institute of Standards and Technology.	24.1 OTS, as the system owner for the RTP systems, will document a review of the consolidated SSP for the payment systems and update as necessary.	4/30/2013
25	OCFO direct OTS Director to identify the critical business processes performed by the service provider upon which	OTS has identified the critical business processes performed by the service provider and is preparing a high-level document which demonstrates those processes and	2/23/2013 (Ongoing)

	EPA relies for financial reporting.	identifies applicable controls and to which review of controls they are subject; for example OTS' A-123 and CGI's Statement on Standards for Attestation Engagements No. 16.	
26	OCFO direct OTS Director to require the service provider to assess the identified critical business process controls and report the results as part of the annual review of controls over financial reporting.	OTS does require the service provider to assess controls over its critical business processes and report the results in its annual review of controls over financial reporting. Oversight will continue as described in the document being prepared in response to Recommendation 25.	9/30/2013 (Ongoing through annual process)

### Disagreements

No.	Recommendation	Agency Explanation/Response	Proposed Alternative
7	OCFO correct the Compass system limitations that allowed (a) payments to exceed the related obligation accounting lines, (b) transactions to post to an incorrect accounting period, and (c) a payment to impact a canceled appropriation.	In December 2011, OCFO updated proper controls and tolerance levels to prevent grant payments from exceeding the related obligation accounting lines. In May 2012, we corrected the issue of the improper posting of transactions to prior accounting periods. Lastly, we fixed the Compass table to prevent spending against canceled appropriations.	Per OIG, no further action is required of the agency.
8	Office of Enforcement and Compliance Assurance forward judicial documents to the financial center.	OECA disagrees that OECA and the Regions should be responsible for providing Cincinnati Finance Center with civil judicial documents in enforcement cases that require the payment of sums certain. Such a process would cause further delays because we would have to wait for the U.S. Department of Justice to send the EPA the documents before they could be sent to CFC. The better approach is for DOJ to have this responsibility. As noted in the agency's RMDS Number: 2540-9-P3, DOJ, which prosecutes all civil judicial enforcement cases arising under the EPA's enforcement authorities, provides supporting documentation to CFC for all penalty payments owed pursuant to civil judicial orders. Similarly, for all EPA-referred cases, DOJ is	OIG and OECA came to resolution and OECA has provided an alternative plan of action.  8.1 OECA will work with CFC to assess the timely transmission of civil judicial orders requiring payment of sums certain to CFC on a quarterly basis, and will meet with DOJ management as needed.  Time frame: Beginning the 2nd quarter of FY 2013 through the end of 2nd quarter of FY 2014.  8.2 To make the agency's policies consistent and reflect current practice on providing penalty documentation to

		<p>responsible for providing to CFC all judicial orders that provide for the payment of other sums certain (e.g., cost recovery payments and cash-outs under the Comprehensive Environmental Response, Compensation, and Liability Act).</p> <p>OECA takes responsibility for working with the regions and headquarters offices, where applicable, to ensure that administrative penalty documentation is provided to the finance office within 5 business days. OECA will concentrate additional efforts on those regions whose performance needs improvements.</p>	<p>CFC for civil judicial actions, OECA intends to work with the OCFO-OFM to revise RMDS 2550D-14-T1 in order to remove the requirement for Regional Legal Enforcement Offices to forward copies of executed "judicial" settlement agreements to the CFC within five workdays.</p> <p>Time frame: By the end of FY 2013.</p>
11	OCFO ensure proper separation of duties by having separate individuals perform billing and collection functions.	<p>OCFO believes its current process is effective. On 10/11/12, CFC obtained a waiver for Interagency Agreement staff to input reimbursable billing and collection documents. This waiver was based on the fact that reimbursable collections do not involve physical cash or checks; they are processed through the Intergovernmental Payment and Collection System. There are controls in place to ensure that IPAC collections are recorded in Compass correctly and that the SF-224 is not out of balance.</p>	<p>OFM will provide OIG with the agency's risk assessment and analysis for determining that the compensating controls are sufficient via email with this response.</p>
13	OCFO require OFM Director to correct the Compass accounting and posting model errors so that users have the ability to process Fund Balance with Treasury transactions to clear Statement of Differences accurately and timely.	<p>OCFO performed a comprehensive review of Compass accounting and posting models. In December 2011, OCFO proactively discovered and disclosed all of the issues cited by the OIG. Early in the year, the Finance Centers experienced a high volume of rejects because of tighter budget controls and project notebook edits that occur in Compass. The Centers are now proficient at resolving rejects and as a result clear cash difference more timely. OCFO also designed new</p>	<p>OCFO corrected the posting model errors and addressed OIG's concerns on 11/15/12.</p> <p>OFM will provide OIG with validation on what was performed via email with this response.</p>

		<p>reports to assist our accountants in performing the reconciliation. In July 2012, the accounting model was updated and by end of September 2012, the agency resolved the backlog of all the transactions that required clearing and submitted SF-224 reports to Treasury. The majority of the SOD differences were the result of timing differences (i.e., difference in reported month of activity) rather than dollar differences. Since the reported values in the financial reports agreed exactly with the Treasury balance, the discrepancies in the SOD did not affect the accuracy of the financial reports.</p>	
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**CONTACT INFORMATION**

If you have any questions regarding this response, please contact Stefan Silzer, Director of the Office of Financial Management on (202) 564-5389 or Sandy Dickens of the Financial Policy and Planning Staff on (202) 564-0606.

**Attachment**

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