



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 First Quarter Financial Statements

Report No. 11-2-0213

May 2, 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
USSGL	United States Standard General Ledger

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 (EPA) Fiscal Year (FY) 2011 First 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. 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.

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/2011/20110502-11-2-0213.pdf

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

What We Found

We performed certain agreed-upon procedures on the Agency's FY 2011 First 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 performing the agreed-upon procedures:

- The financial statements generated by the Office of Inspector General agreed with EPA's FY 2011 First 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.
- EPA's Financial Statement Preparation Guide for the 2011 financial statements needed to be updated in two places.
- General ledger account discrepancies were identified in our comparison of Treasury's financial statement crosswalk to the Agency's financial statement crosswalk.
- No differences were identified during our comparison of Treasury's Closing Instructions to EPA's Closing Instructions.
- EPA's Treasury Symbols were in compliance with Statement of Federal Financial Accounting Standards 27.
- The on-top entry to record child agency balances agreed with the support.
- The Agency properly reversed the FY 2010 on-tops in FY 2011.
- There were differences between the FY 2011 first quarter beginning balances and FY 2010 ending balances.
- The elimination and consolidation entries appear reasonable and complete.

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

May 2, 2011

MEMORANDUM

SUBJECT: Agreed-Upon Procedures on EPA's Fiscal Year 2011
First Quarter Financial Statements
Report No. 11-2-0213

FROM: Arthur A. Elkins Jr.
Inspector General

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", written over a light blue background.

TO: Barbara Bennett
Chief Financial Officer

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) conducted these agreed-upon procedures on EPA's Fiscal Year 2011 First Quarter Financial Statements. This report is provided solely to assist you in evaluating whether the Fiscal Year 2011 First 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 First Quarter Financial Statements were compiled consistently with the Treasury United States Standard General Ledger (USSGL) 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. Agencies are required to include management's explanation of significant variances in types or amounts of assets, liabilities, costs, revenues, obligations, and outlays, along with the submitted statements.

Scope and Methodology

We performed certain agreed-upon procedures, enumerated below, on EPA's unaudited consolidated FY 2011 First Quarter Financial Statements, to assist the OCFO in evaluating whether the quarterly financial statements were compiled consistently with Treasury's USSGL Crosswalk and to identify significant fluctuations in financial line item balances from the previous year.

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 February 14 to May 2, 2011. We based our procedures on EPA's first 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 first quarter financial statements, adjusted trial balance, on-top entries, and support for the statements (including Earmarked Funds). Import the Report of GL Balance by Treasury Symbol (RGLTS); enter the Agency's on-top entries into ProSystem; and generate an adjusted trial balance, Consolidated Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

Results of Procedure 1

We obtained the Agency's first 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, Statement of Net Cost, and Statement of Changes in Net Position.

Procedure 1.a

Compare the ProSystem-generated adjusted trial balance based on the Agency's support to the Agency's adjusted trial balance to verify the Agency's financial statement crosswalk 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 first 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 Net Position). We did not note any differences.

Procedure 1.c

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

Results of Procedure 1.c

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

Statement of Custodial Activity:

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

Combined Statement of Budgetary Resources:

The Agency's balances for the FY 2011 first 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 Consolidated Statement of Changes in Net Position for Earmarked Funds, and compare to EPA's Consolidated Statement of Changes in Net Position for Earmarked Funds.

Results of Procedure 1.d

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

Procedure 1.e

Compare the Agency's First Quarter Consolidated Statement of Net Cost by Goal to the consolidated totals from the Consolidated Statement of Net Cost by Goal.

Results of Procedure 1.e

We compared the Agency's First 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 12 fluctuations, and we also identified significant fluctuations in the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Office of Inspector General- and Agency-identified fluctuations are detailed in appendix A.

OMB A-136 states, “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.”

Procedure 2

Obtain and compare EPA’s Financial Statement Preparation Guide for the FY 2011 Financial Statements to OMB Circular A-136 for compliance and note any differences.

Results of Procedure 2

We obtained and compared EPA’s Financial Statement Preparation Guide to OMB Circular A-136. We found that the Agency’s Financial Statement Preparation Guide needed to be updated for the items shown in table 1. These items have no impact on the understandability of the guide and compliance with Circular A-136. After we brought this issue to the attention of Agency, it updated the Financial Statement Preparation Guide.

Table 1: Issues identified upon review of Financial Statement Preparation Guide

Page No.	Section	Item	Comment
17	5c	Figure 2	No figure 2 is presented.
18	5c	Adjustment Processing	Line 5c should state, “(see 6a through 6i)”

Source: OIG analysis of EPA data and OMB requirements.

Procedure 3

Obtain and compare EPA's Financial Statement Crosswalk to Treasury's USSGL Crosswalk and note any differences.

Results of Procedure 3

We obtained and compared Treasury's Financial Statement Crosswalk to the Agency's Financial Statement Crosswalk for the FY 2011 first quarter and identified the following discrepancies:

Balance Sheet:

- GL 5777 (USSGL 5790): Agency's crosswalk does not define it as Federal or Non-Federal; Treasury defines USSGL 5790 as Federal.

Statement of Custodial Activity:

- GL 2970: Account appears in the Agency's crosswalk; not in the USSGL crosswalk.

Statement of Net Position:

- GL 3312 (SGL acct 3310): GL 3312 included in the Other section and not in Line 1 Beginning Balance.
- GL 5FN0, 5FN1, 5PN0, and 5PN1: Agency crosswalk shows the accounts as USSGL accts 5990 and 5991. However USSGLS 5990 and 5991 are not shown in Treasury's Statement of Changes in Net Position crosswalk.

The Agency stated that the Financial Statement Crosswalks will be updated to reflect:

- The Federal attribute for account 5777.
- Account 2970 is a legacy account. The Statement of Custodial Activity crosswalk will be updated to remove this account.
- Account 3312 is a legacy account that is no longer used. The Statement of Changes in Net Position crosswalk will be updated to remove account 3312 from Line 15.
- The Statement of Changes in Net Position crosswalk will be updated to remove 5FN0, 5FN1, 5PN0, and 5PN1, since they are used for custodial activity only.

Procedure 4

Obtain and compare EPA's FY 2010 postclosing instructions to EPA's Year-End Account Closing Table and Treasury's Closing Instructions and note any differences.

Results of Procedure 4

We obtained and compared EPA's FY 2010 postclosing instructions to EPA's Year-End Account Closing Table and Treasury's Closing Instructions. We did not note any differences.

Procedure 5

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 5

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 6

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

Results of Procedure 6

We obtained and compared EPA's FYs 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 support.

Procedure 7

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

Results of Procedure 7

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

Procedure 8

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

Results of Procedure 8

We compared the RGLTS FY 2011 beginning balances to FY 2010 ending balances and found that the following balances did not agree:

Table 2: Comparison of EPA's FY 2010 Postclosing Balances to EPA's FY 2011 Beginning Balances

General Ledger Account	EPA OIG Balance 2010 Postclosing Balance	2011 Adjusted Agency Beginning Balance	Difference
1190	\$8,262,002.03	\$1,975,776.45	\$6,286,225.58
1191	\$0.00	\$6,286,225.58	(\$6,286,225.58)

Source: OIG analysis of EPA data.

The Agency stated that there is no impact on the FY2011 first quarter financial statements since GL Accounts 1190 and 1191 crosswalk to the same line on the balance sheet. The Agency will correct the difference for FY2011 second quarter reporting.

Procedure 9

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

Results of Procedure 9

We reviewed elimination and consolidation entries prepared by the Reporting and Analysis Staff for reasonableness and completeness. 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 12/31/10 and 12/31/09**
(Dollars in thousands)

Notes for each table are as follows:

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

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

Consolidated Balance Sheet

ASSETS	FY 2011	FY 2010	Difference	%
Fund Balance With Treasury ¹	\$16,196,867	\$22,755,923	(\$6,559,056)	-28.82%
Investments ¹	\$6,991,201	\$7,935,049	(\$943,848)	-11.89%
Accounts Receivable, Net ²	\$400,833	\$452,312	(\$51,479)	-11.38%
LIABILITIES				
Accounts Payable & Accrued Liabilities ¹	\$1,067,692	\$807,008	\$260,684	32.30%
NET POSITION				
Unexpended Appropriations - Other Funds ¹	\$15,025,415	\$21,424,167	(\$6,398,752)	-29.87%
Cumulative Results of Operations - Earmarked Funds ²	\$6,832,834	\$8,087,251	(\$1,254,417)	-15.51%

Source: FY 2011 Financial Statements provided by EPA.

Consolidated Statement of Net Cost

COSTS	FY 2011	FY 2010	Difference	%
Gross Costs ¹	\$3,234,000	\$2,527,518	\$706,482	27.95%
Earned Revenue ¹	\$157,585	\$229,231	(\$71,646)	-31.25%

Source: FY 2011 Financial Statements provided by EPA.

Consolidated Statement of Changes in Net Position

	FY 2011 Consolidated Total	FY 2010 Consolidated Total	Difference	%
CUMULATIVE RESULTS OF OPERATIONS:				
Budgetary Financing Sources:				
Appropriations Used ²	\$2,647,650	\$3,252,593	(\$604,943)	-18.60%
Transfers In/Out ²	\$7,745	\$818,379	(\$810,634)	-99.05%
BUDGETARY FINANCING SOURCES:				
Appropriations Received ²	\$4,328,531	\$10,180,413	(\$5,851,882)	-57.48%
Appropriations Used ²	(\$2,647,650)	(\$3,252,593)	\$604,943	-18.60%

Source: FY 2011 Financial Statements provided by EPA.

Consolidated Statement of Changes in Net Position—All Other Funds

	FY 2011 Consolidated All Other Funds	FY 2010 Consolidated All Other Funds	Difference	%
CUMULATIVE RESULTS OF OPERATIONS:				
Budgetary Financing Sources:				
Appropriations Used ²	\$2,647,650	\$3,252,593	(\$604,943)	-18.60%
Trust Fund Appropriations ²	\$0	(\$1,280,570)	\$1,280,570	-100.00%
BUDGETARY FINANCING SOURCES:				
Appropriations Received ²	\$4,328,531	\$10,180,413	(\$5,851,882)	-57.48%
Appropriations Used ²	(\$2,647,650)	(\$3,252,593)	\$604,943	-18.60%

Source: FY 2011 Financial Statements provided by EPA.

Consolidated Statement of Changes in Net Position—Earmarked Funds

	FY 2011 Consolidated Earmarked Funds	FY 2010 Consolidated Earmarked Funds	Difference	%
CUMULATIVE RESULTS OF OPERATIONS:				
Budgetary Financing Sources:				
Transfers In/Out ²	(\$7,881)	\$781,570	(\$789,451)	-101.01%
Trust Fund Appropriations ²	\$0	\$1,280,570	(\$1,280,570)	-100.00%

Source: FY 2011 Financial Statements provided by EPA.

Combined Statement of Budgetary Resources

BUDGETARY RESOURCES:	FY 2011	FY 2010	Difference	%
Appropriation ¹	\$4,371,961	\$10,255,076	(\$5,883,115)	-57.37%
Collected ¹	\$156,474	\$447,668	(\$291,194)	-65.05%
Advance Received ¹	\$20,968	\$288,161	(\$267,193)	-92.72%
Anticipated for Rest of Year, Without Advances ¹	\$510,525	\$267,267	\$243,258	91.02%
Nonexpenditure Transfers, Net, Anticipated and Actual ²	\$593,157	\$1,494,789	(\$901,632)	-60.32%
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred:				
Direct ¹	\$1,250,741	\$2,582,016	(\$1,331,275)	-51.56%
Apportioned ¹	\$4,739,232	\$11,328,280	(\$6,589,048)	-58.16%
Unobligated Balances Not Available ²	\$4,241,481	\$2,521,111	\$1,720,370	68.24%
CHANGE IN OBLIGATED BALANCE:				
Unpaid Obligations, Brought Forward, October 1 ²	\$13,872,909	\$15,788,390	(\$1,915,481)	-12.13%
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 ²	(\$439,956)	(\$573,824)	\$133,868	-23.33%
Obligations Incurred, Net ²	\$1,346,903	\$2,648,860	(\$1,301,957)	-49.15%
Less: Gross Outlays ²	(\$3,282,162)	(\$4,032,861)	\$750,699	-18.61%
Unpaid Obligations ²	\$11,911,677	\$14,356,684	(\$2,445,007)	-17.03%
NET OUTLAYS:				
Net Outlays:				
Gross Outlays ²	\$3,282,162	\$4,032,861	(\$750,699)	-18.61%
Less: Offsetting Collections ²	(\$183,426)	(\$745,340)	\$561,914	-75.39%
Less: Distributed Offsetting Receipts ²	\$4,947	(\$1,273,041)	\$1,277,988	-100.39%

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