



At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

We performed this audit in accordance with the Government Management Reform Act, which requires the U.S. Environmental Protection Agency (EPA) to prepare, and the Office of Inspector General to audit, the Agency's financial statements each year. Our primary objectives were to determine whether:

- EPA's consolidated financial statements were fairly presented in all material respects.
- EPA's internal controls over financial reporting were in place.
- EPA management complied with applicable laws and regulations.

Background

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.

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

To view the full report, click on the following link:

www.epa.gov/oig/reports/2007/20061115-2007-1-00019.pdf

Audit of EPA's Fiscal 2006 and 2005 Consolidated Financial Statements

EPA Receives Unqualified Opinion

We rendered an unqualified, or clean, opinion on EPA's Consolidated Financial Statements for fiscal 2006 and 2005, meaning that they were fairly presented and free of material misstatement.

Internal Control Reportable Conditions Noted

We noted the two following reportable conditions:

- EPA implemented two accounting processes in fiscal 2006 that led to misstatements of the Agency's fiscal 2006 bad debt expense, revenue, contra revenue, advance accounts, and unearned revenue accounts. The processes included reclassifying receivables older than 2 years as currently not collectible, and transferring the receivables and related allowance accounts from regional financial management offices to financial management centers.
- EPA did not properly account for advance funding agreements with other Federal Government agencies. EPA recorded advances disbursed under Interagency Agreements as expenses instead of as assets. As a result, EPA overstated expenses and understated assets by \$55,982,983.

Noncompliance With Laws and Regulations Noted

EPA is in noncompliance with regulations relating to reconciling intragovernmental transactions. The Agency did not reconcile material activity and balances with the Department of Health and Human Services during the year, and had out of balance situations with many other agencies.

Agency Comments and Office of Inspector General Evaluation

In a memorandum received on November 13, 2006, from the Chief Financial Officer, the Agency agreed with the issues raised and indicated it will take needed corrective actions.