



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

OFFICE OF
INSPECTOR GENERAL

April 10, 2013

MEMORANDUM

SUBJECT: Notification of Audit of EPA's Fiscal Year 2013 Financial Statements

FROM: *Melissa M. Heist*
Melissa Heist, Assistant Inspector General
Office of Audit

TO: Maryann Froehlich
Acting Chief Financial Officer

We plan to begin our audit testing of the U.S. Environmental Protection Agency's financial statements during April 2013. We are beginning preliminary work earlier than in prior years so that we can evaluate the impact of Compass in our audit steps and to obtain an understanding of current internal controls. We are providing this memorandum to: (1) continue our mutual efforts to establish a high level of expectations and commitments that will be needed by all offices for providing timely and accurate information in support of the financial statements and certain other information included in the EPA's Annual Financial Report, and (2) help ensure a mutual understanding of our respective roles and responsibilities during the audit.

High Level of Expectations and Commitments

We appreciate the level of commitment and cooperation exhibited by staff and managers from your office in assisting us to complete our audit of the EPA's Fiscal Year 2012 financial statements by the November 15, 2012 deadline. We encourage you to continue your efforts to strengthen the agency's coordination and quality control processes to ensure accurate data is timely available to prepare the annual financial statements and that such statements and supporting documentation are made available in a timely manner for audit. For the fiscal year 2013 financial statements, we plan to issue an audit report with our opinion in accordance with our mutually agreed-upon schedule regardless of the readiness of the agency's financial statements.

To help ensure that we meet the agreed-upon date for submitting audited financial statements, we are asking that each office responsible for providing information supporting the financial statements provide

the highest possible level of commitment from senior officials and staff. We will keep you informed of any delays in meeting our milestones as they occur. By promptly informing you of any missed milestones, we hope to keep our respective staff and the staff from other program offices on target to meet the due date for submitting audited financial statements to the Office of Management and Budget. We will be glad to assist you in keeping office directors informed of the progress and status of the audited financial statements, including briefing senior officials if necessary.

It is extremely important that any new processes or procedures developed be provided to us in a timely manner—especially any new processes involving Compass or changes in controls as a result of changes to the system. If such processes or procedures are provided late in the audit, it may complicate or prevent the development of audit procedures to audit such information in time to meet the agreed-upon deadline. Because the EPA has been working to make changes or to improve Compass, we will begin our audit process earlier and will continue to need support from your staff as we update our documentation of your controls.

OIG Responsibilities

Our audit will include coverage of the EPA's agencywide financial statements, which will include a Statement of Net Cost presented by goal; and Superfund payments, obligations and reimbursements, as required by the Superfund Amendments and Reauthorization Act. During the course of this audit, we will do some audit work to support the separate financial statement audits of the Pesticides Reregistration and Expedited Processing Fund, as required by the Food Quality Protection Act; and the Pesticide Registration Fund, as required by the Pesticide Registration Improvement Act. However, concentrated work on those audits will not begin until after this audit is concluded, and we will hold a separate entrance conference at that time for those audits.

The objectives of our audit will be to determine whether:

- (1) The financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles.
- (2) The EPA's internal control structure over financial reporting related to the financial statements is in place and provides reasonable assurance that:
 - (a) Financial transactions are executed in compliance with applicable laws and regulations.
 - (b) Assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
 - (c) Transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements.
- (3) The agency complied with laws and regulations that would have a direct and material effect on the financial statements, including determining whether the agency substantially complied with the Federal Financial Management Improvement Act provisions.
- (4) The information and manner of presentation contained in the Management's Discussion and Analysis and any other accompanying information is materially consistent with the information contained in the principal statements.

We will conduct our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to the financial audits contained in the *Government Auditing Standards* (2011 Revision) issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The standards require that we plan and perform our audits to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Our audit is not designed to detect errors or fraud that are immaterial to the financial statements that might exist due to error, fraudulent financial reporting, or misappropriation of assets. The standards call for the audit organization and the individual auditor to be free both in fact and appearance from personal, external and organizational impairments to independence. Accordingly, we are limited in the support we can extend to you in the preparation and analysis of your accounts and financial statements.

As part of our audit, we will review the agency's control activities related to the financial statements, including its FMFIA process, and its analytical reviews and account analyses. We have expressed our interest to your staff in their restarting the quarterly analyses in 2013 to help speed up the audit process and help ensure the accuracy of the financial statements. These efforts will assist us in determining the agency's compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*.

Agency Responsibilities

The financial statements are the responsibility of the EPA's management. Management is also responsible for:

- (1) The selection and application of the accounting policies.
- (2) Implementing and maintaining financial management systems that substantially comply with federal financial management system requirements, federal accounting standards, and the United States Standard General Ledger at the transaction level.
- (3) Establishing and maintaining effective internal control over financial reporting and financial reports.
- (4) Designing and implementing programs and controls to prevent and detect fraud.
- (5) Identifying and ensuring that the EPA complies with the laws and regulations applicable to its activities.
- (6) Making sure all financial records and related information are available to us in a timely manner.

As in past financial statement audits, we will request that key senior managers provide us "Management Representation Letters" at the conclusion of our field work. Among other things, the letters will confirm management's responsibility for: (1) preparing the financial statements in conformity with the federal financial accounting standards and applicable reporting requirements; (2) providing financial records and related data; (3) communicating to us all matters that pertain to EPA's possible liability on legal matters that might impact on the finances and operations of EPA; (4) providing assurances, to the best of

their knowledge and belief, of the absence of fraud involving management or those employees who have a significant role in the entity's internal controls; (5) complying with federal financial management system requirements and other applicable laws and regulations; and (6) establishing and maintaining systems of internal controls for both financial and performance data.

Audit work will be performed at all EPA finance centers and, as needed, at other financial and program offices in both headquarters and the regions. We will contact the offices where audit work will be performed to let them know when we will be performing audit work in their offices. For those offices where we do not plan to perform onsite work, we may contact these offices to obtain information.

Planning and Coordination of Audit Work

We plan to conduct an entrance conference with your office before transaction testing begins. The estimated timetable for the audit and the types of assistance needed will be discussed at that time. We will continue to have discussions with your staff regarding the necessary milestones to meet the agreed-upon date, and hope we will be able to finalize these in the near future. We understand that EPA is again expecting to prepare an annual financial report for fiscal year 2013, which will include the audited comparative financial statements and other information required by OMB. The milestones will include a mutually agreeable schedule by which we can expect to receive financial statements, including the Management Discussion and Analysis, footnotes, and supplemental schedules and statements. Timely and accurate completion of this information will facilitate the completion of our audit.

To expedite the audit, we request that you provide the following data:

1. The most current Compass business process reengineering maps.
2. The most current posting models.
3. Any policies or procedures on posting transactions in Compass (including, but not limited to, spending adjustment documents developed by CGI, current crosswalks, etc.)
4. Any variance analysis or analytical reviews performed.
5. Support for all journal vouchers recorded in the first quarter.

Please provide this data to Sheila May by May 1, 2013.

We will work closely with your staff to ensure our audit meets the OMB deadline. We welcome your comments and suggestions on our proposed audit work. If you know of issues you would like us to address during the audit, or have suggestions about how we should approach our work, we would like to discuss these issues at the entrance conference. We will do our best to include your input in our planning for this audit.

Should you or your staff have any questions, please contact Robert L. (Bob) Smith, project manager for the fiscal year 2013 financial statement audit, at (202) 566-2531 or smith.robertl@epa.gov; or Paul C. Curtis, director, financial audits, at (202) 566-2523 or curtis.paul@epa.gov.

cc: Deputy Administrator
Assistant Administrator for Administration and Resources Management
Assistant Administrator for Air and Radiation
Assistant Administrator for Enforcement and Compliance Assurance
Assistant Administrator for Environmental Information and Chief Information Officer
Assistant Administrator for International and Tribal Affairs
Assistant Administrator for Chemical Safety and Pollution Prevention
Assistant Administrator for Research and Development
Assistant Administrator for Solid Waste and Emergency Response
Assistant Administrator for Water
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for External Affairs and Environmental Education
Associate Administrator for Policy
Deputy Assistant Administrator for Administration and Resources Management
Deputy Assistant Administrator for Air and Radiation
Deputy Assistant Administrator for Enforcement and Compliance Assurance
Deputy Assistant Administrator for Environmental Information and Chief Information Officer
Deputy Assistant Administrator for International and Tribal Affairs
Deputy Assistant Administrator for Chemical Safety and Pollution Prevention
Deputy Assistant Administrator for Research and Development
Deputy Assistant Administrator for Solid Waste and Emergency Response
Deputy Assistant Administrator for Water
Deputy Associate Administrator for Congressional and Intergovernmental Relations
Deputy Associate Administrator for External Affairs and Environmental Education
Deputy Associate Administrator for Policy
Regional Administrators, Regions 1–10
Deputy Regional Administrators, Regions 1-10
General Counsel
Deputy Chief Financial Officer
Associate Chief Financial Officer
Director, Office of Financial Management, OCFO
Director, Office of Planning, Analysis, and Accountability, OCFO
Director, Office of Regional Operations, Office of the Administrator
Director, Office of Administration, OARM
Director, Office of Grants and Debarment, OARM
Director, Office of Acquisition Management, OARM
Director, Office of Human Resources, OARM
Director, Office of Administration and Resources Management, Cincinnati, Ohio, OARM
Director, Office of Administration and Resources Management, Research Triangle Park,
North Carolina, OARM
Director, Office of Site Remediation Enforcement, OECA
Director, Office of Technology Operations and Planning, OEI
Director, Office of Emergency Management, OSWER
Director, Office of Budget, OCFO
Director, Grants and Interagency Agreements Management Division, OARM
Director, Facilities Management and Services Division, OARM/OA

Director, Enterprise Desktop Solutions Division, OEI/OTOP
Director, National Computer Center, Research Triangle Park, North Carolina
Director, Office of Financial Services, OCFO
Director, Office of Technology Solutions, OCFO
Director, Program Costing Staff, OCFO/OFM
Director, Applications Management Staff, OCFO/OTS
Acting Director, Financial Policy and Planning Staff, OCFO/OFM
Regional Comptrollers
Director, Research Triangle Park Finance Center, Research Triangle Park, North Carolina
Director, Cincinnati Finance Center, Cincinnati, Ohio
Director, Las Vegas Finance Center, Las Vegas, Nevada
Director, Reporting and Analysis Staff, OCFO/OFM
Director, Payroll Management and Outreach Staff, OCFO/OFS
Director, Accountability and Control Staff, OCFO/OFS
Chief, Architecture, Engineering, and Asset Management Branch, OARM/OA
Agency Audit Follow-Up Coordinator
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Administration and Resources Management
Audit Follow-Up Coordinator, Office of the Enforcement and Compliance Assurance
Audit Follow-Up Coordinator, Office of the Environmental Information
Audit Follow-Up Coordinator, Office of Air and Radiation
Audit Follow-Up Coordinator, Office of Water
Audit Follow-Up Coordinator, Office of Research and Development
Audit Follow-Up Coordinator, Office of Chemical Safety and Pollution Prevention
Audit Follow-Up Coordinator, Office of Solid Waste and Emergency Response
Audit Follow-Up Coordinator, Office of Financial Management, OCFO
Audit Follow-Up Coordinator, Office of Financial Services, OCFO
Audit Follow-Up Coordinator, Office of Technology Services, OCFO
Audit Follow-Up Coordinator, Office of the Technology Operations and Planning, OEI
Audit Follow-Up Coordinator, Office of Grants and Debarment, OARM
Audit Follow-Up Coordinators, Region 1–10
Inspector General
Deputy Inspector General
Counsel to the Inspector General
Chief of Staff, OIG
Assistant Inspector General for Mission Systems
Assistant Inspector General for Program Evaluation
Assistant Inspector General for Investigations
Deputy Assistant Inspector General for Audit
Director, Financial Audits, OIG
Director, Information Resources Management Assessments, OIG