

MANAGEMENT CHALLENGES AND INTEGRITY WEAKNESSES

Management challenges and integrity weaknesses represent vulnerabilities in program operations that may impair EPA's ability to achieve its mission and threaten the Agency's safeguards against fraud, waste, abuse, and mismanagement. These areas are identified through internal Agency reviews and independent reviews by EPA's external evaluators, such as the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and EPA's Office of Inspector General (OIG). EPA's senior managers remain committed to maintaining effective and efficient internal controls to ensure that program activities are carried out in accordance with applicable laws and sound management policy. EPA leaders meet periodically to review and discuss progress the Agency is making to address issues raised by OIG and other external evaluators, as well as progress in addressing current weaknesses and emerging issues.

This section includes two components: (1) a brief discussion of EPA's progress in addressing its FY 2007 integrity weaknesses, and (2) a discussion of the top ten management challenges identified by EPA's OIG and the Agency's response.

EPA'S PROGRESS IN ADDRESSING FY 2007 WEAKNESSES

(Prepared by EPA)

Under the Federal Managers' Financial Integrity Act (FMFIA), all federal agencies must provide reasonable assurance that policies, procedures, and guidance are adequate to support the achievement of their intended mission, goals, and objectives. (See Section I, *Management's Discussion and Analysis*, for EPA's assurance statement.) Agencies also must report any material weaknesses identified through internal and/or external reviews and their strategies to remedy the problems.

In FY 2007, EPA reported three new material weaknesses and corrected a number of its less severe internal control deficiencies. This section discusses the weaknesses and significant deficiencies closed in FY 2007 as well as those for which corrective actions are still underway.

MATERIAL WEAKNESSES

Value of Delinquent Receivables

In FY 2006, EPA implemented Office of Management and Budget (OMB) Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, for delinquent receivables that were currently not collectible. EPA's policy required that receivables over 2 years delinquent with no past collections be written-off and reclassified to a memo account or closed out when there was uncertainty about collection. Consistent with its policy, the Agency wrote-off and reclassified \$725 million. Prior to the reclassification of these receivables in FY 2006, EPA had no material collections for them.

Any receivable having documented payment evidence would remain on the Agency's books with an adequate allowance until the collections become immaterial. During FY 2006, EPA collected less than \$1.5 million or less than 1 percent (immaterial amount) of this debt. In FY 2007, the Agency collected material amounts (approximately \$150 million or 20 percent) on the outstanding reclassified debts.

Based on these material collections, EPA re-evaluated its operating practice of reclassifying receivables. The Agency determined that it cannot forecast collections with absolute certainty due to the nature and unpredictability of external factors that impact a debtor's ability to pay EPA. Therefore, EPA discontinued reclassifying its receivables at least 2 years old and standardized its approach to ensure consistency. As a result, EPA has restated its FY 2006 financial statements to reflect the value of the previously reclassified receivables.

Key Applications Lack Security Requirements

According to the OIG, two critical applications at the Cincinnati Finance Center (CFC), the Billing & Reimbursable Accounting Information Network System (BRAINS) and the Relocation Expense Management System (mLINQS), lack key security planning documents. The applications need documented security plans and security controls.

- **mLINQS:** To remedy this deficiency, a security plan for mLINQS has been approved; a contingency plan will be developed by December 31, 2007; and a formal risk assessment will be conducted by an independent source by December 31, 2007. mLINQS is currently registered in ASSERT as a major application and was included in the final Agency ASSERT report for FY 2007.
- **BRAINS:** A General Support System (GSS) Security Addendum documenting controls will be prepared and made an attachment of the Norwood LAN security plan. The User Manual will be updated to reflect the actual business process, detailing the monthly reconciliation procedures. BRAINS will be removed from ASSERT. All actions will be completed by December 31, 2007.

EPA's FY 2007 Weaknesses and Significant Deficiencies

Material Weaknesses

1. Value of Delinquent Receivables*
2. Key Applications Lack Security Requirements
3. Physical Security of Critical IT Assets

Agency -level Weaknesses

1. Safe Drinking Water Information System (SDWIS)*
2. Clean Water Act Section 305(b) Reporting*
3. Assistance Agreements*
4. Human Capital
5. Homeland Security
6. Permit Compliance System
7. Implementation of Data Standards

Significant Deficiencies

1. Timely Capitalization of Assets*
2. Personal Property Oversight*
3. Disposition of Contractor Held Property*
4. Abnormal General Ledger Balance*
5. Quarterly Treasury Reports on Receivables*
6. Interagency Agreements*
7. Superfund Cost Recovery and Cashouts*
8. Data Security (Contracts)*
9. Data Security (Payroll)*
10. Allowance for Doubtful Accounts
11. SF State Share Cost (Improved Quarterly Cost Reporting)
12. IFMS Suspense Table

* All corrective actions associated with these weaknesses or significant deficiencies were completed in FY 2007

Physical Security of Critical IT Assets

Physical security and environmental controls need to be improved and previously identified weaknesses need management's attention. To remedy this deficiency, controls over visitor and general access to the server room will be established and physical security enhanced with improved technology. A new camera will be installed within the existing server room; a video recording system will be installed for all cameras; and a card reader system will be installed outside the server room by December 31, 2007. A new file server room will be constructed and is expected to be operational by July/August 2008, and installation of temperature, humidity, and water sensors will be incorporated into its design. A water shield for the servers and uninterruptible power supply (UPS) will also be provided in the new server room.

Handling of critical business data, monitoring of key technology assets, and server room access controls need to be improved, and CFC needs to have documented procedures. To remedy this deficiency, standard operating procedures (SOPs) will be in place by December 31, 2007, with the verification and validation process incorporated into the performance review of the performance-based contract currently in place to support this activity. Controls over visitor and general access to the server room will be established and physical security enhanced with improved technology. A new camera will be installed within the existing server room; a video recording system will be installed for all cameras; and a card reader system will be installed outside the server room by December 31, 2007. Written formal procedures for reviewing the card reader log for the server room will be completed by November 30, 2007. Servers will be monitored for known vulnerabilities; log files will be reviewed for violations of established standards; and Agency-provided tools will be used as appropriate.

AGENCY WEAKNESSES

Safe Drinking Water Information System (SDWIS)

SDWIS data quality has been an Agency concern since 1998. Over the years, EPA worked diligently to improve the quality, accuracy, and completeness of data in SDWIS. In September 2005, we completed modernization efforts which successfully addressed three historical data quality issues: difficulty getting data into SDWIS; high costs for data processing and storage; and difficulty getting data out of SDWIS. Additionally, EPA has assessed data quality and outlined improvements in its triennial Data Reliability Implementation/Action Plan. In collaboration with states and the Association of State Drinking Water Administrators (ASDWA), we are now implementing a comprehensive data quality improvement plan. EPA and ASDWA have agreed on a data quality goal of 90 percent for health-based violation data by the 2008-2010 triennial evaluation period: 10 states have already met this goal, and the Agency is tracking progress through its annual performance goals and measures.

EPA has focused its efforts to improve data quality on two objectives: (1) ensuring that the system that receives and maintains the data is technologically robust and user friendly and (2) ensuring that the compliance decisions made at the state level are appropriate and accurately entered into the data system. EPA has undertaken considerable effort in the last several years to modernize the SDWIS/FED database and improve the SDWIS/STATE application. The Agency has identified completeness of data as an important issue affecting

data quality. On-site data verifications (DVs) have proven critical to identifying data quality gaps and potential root causes. EPA has adhered to a robust data verification audit process; it conducted 15 DV audits in FY 2005, 2006, and 2007 and plans an additional 15 in 2008. **The Agency has completed all corrective actions associated with this weakness and will use the goals and measures established to monitor the program on an on-going basis.**

Clean Water Act Section 305(b) Reporting

EPA has worked with states, federal agencies, and others in the monitoring community to improve the quality of water monitoring data and information and to improve reports on water quality that are needed by decision-makers and the public to judge progress toward CWA goals. The Agency's corrective action strategy to close this weakness focused on (1) strengthening state water quality monitoring programs, (2) promoting the use of multiple monitoring approaches to answer questions about different water body types at the national, regional, and state watershed levels to support good management decisions, (3) improving reports on water quality conditions at the national, regional, and state levels, and (4) ensuring that data management systems contain the needed water quality information and are accessible to decision-makers and the public.

The Agency has made progress in each of the areas; for instance, all states have submitted and are now implementing their comprehensive water quality monitoring strategies. Additionally, the Agency received funds to collaborate with states on a series of statistically-valid assessments nationwide that will be used to track trends in water conditions, guide key water management decisions, and provide information on whether our nation's pollution programs are effectively improving water quality. **The Agency has completed all corrective actions associated with this weakness.**

Improved Management of Assistance Agreements

For the past several years, OIG and GAO have raised concerns about the Agency's grants management practices. In FY 2003, EPA established a long-term Grants Management Plan, with associated performance measures, that serves as a road map of the Agency's approach for improving grants management. The Plan includes five strategic goals: (1) enhance skills of personnel involved in grants management; (2) promote competition in the award of grants; (3) leverage technology to improve program performance; (4) strengthen EPA oversight of grants; and (5) support identifying and realizing environmental outcomes.

EPA has taken substantial actions to improve its management of assistance agreements through updated policies, increased training, and improved accountability. While grants management will continue to require sustained management attention, the Agency has in place an infrastructure responsive to the concerns identified by OIG and GAO. **The Agency has completed and validated the effectiveness of all corrective actions associated with this weakness.**

Human Capital Implementation Strategy / Employee Competencies

In FY 2001, EPA acknowledged human capital (HC) as an Agency-level weakness. Over the years, the Agency has made significant progress in strengthening its HC program. This included developing a robust HC accountability program, improving the HC audit program,

and expanding the Agency's leadership development programs to enhance skills and ensure continuity of leadership. Despite these accomplishments, the Agency continues to face challenges in addressing the workforce planning component of its human capital weakness. To address the workforce planning concerns identified by OIG and GAO, EPA developed a workforce planning/competency management system that gauges skill gaps and guides the design of strategies for closing the gaps. Additionally, EPA is working closely with OMB and the Office of Personnel Management (OPM) to align the Agency's Human Capital Strategy to meet the objectives outlined in the PMA as it relates to the Strategic Management of Human Capital. **EPA is committed to addressing its human capital challenges and expects to complete all final corrective actions related to this weakness by FY 2008.**

Agency Efforts in Support of Homeland Security

To respond to new Homeland Security Presidential Directives (HSPDs) and the increasing complexity of its contribution to homeland security, EPA established the Homeland Security Collaborative Network (HSCN). The HSCN coordinates and directly addresses high priority, cross-Agency technical and policy issues related to day-to-day homeland security policies and activities.

To address OIG's concern that EPA improve processes for identifying, obtaining, maintaining, and tracking response equipment necessary for Nationally Significant Incidents, EPA created and convened the Homeland Security Policy Coordinating Committee (PCC). The PCC serves as an executive committee that is activated after a homeland-security-related attack and acts to ensure that the Agency's senior political leadership is brought together to provide policy direction to responders. **Correction is scheduled for FY 2008.**

Implementation of Data Standards

The Agency has made progress in addressing the implementation of data standards. In FY 2007, EPA completed the remaining corrective actions associated with this weakness. However, we will continue to monitor ongoing activities, such as tracking program implementation of data standards, to validate the effectiveness of our actions. The validation strategy will include continuous monitoring of implementation of data standards within the Registry of EPA Applications and Databases and publish the semi-annual Data Standards Report Card. **Correction is scheduled for 2010.**

Permit Compliance System (PCS)

EPA has developed and successfully implemented a modernized, national information system designed to meet the needs of today's NPDES permitting and enforcement program. In conjunction with the states, the Agency completed three major initiatives: (1) PCS Modernization for direct user states, (2) Interim Data Exchange Format (IDEF), and (3) Electronic Reporting to address these problems and improve the usefulness of PCS as a management tool.

In conjunction with the states, EPA has now completed three major initiatives: PCS Modernization; the Interim Data Exchange Format (IDEF); and Electronic Reporting to address these problems and improve the usefulness of PCS as a management tool. Each of these efforts incorporated extensive state involvement and defined interim milestones and expected outcomes. The initiatives were carefully coordinated to adhere to all Agency data standards,

including facility identification and locational data standards. The Agency carefully monitored its progress in meeting the key project milestones and gauged success by the level of state participation, improvements in the quality and comprehensiveness of the data, and reliability of the analyses generated. EPA is redesigning PCS to better address current requirements of the NPDES permitting and enforcement program, such as tracking pollutant loadings, capturing information on storm water sources, and assessing the health of individual watersheds.

In FY 2007, EPA began to build the batch component for ICIS-NPDES to allow the remaining states to electronically transfer data into the new system. The development of the batch component of the new system will allow for the submission of NPDES data from state systems to ICIS-NPDES in the Extensible Mark-up Language (XML) format via the National Environmental Exchange Network and EPA's CDX. As this is completed over the next few years, these states will be migrated from PCS to the ICIS-NPDES.

When development of the batch component of ICIS-NPDES is completed, both the states and EPA will be able to use the new system to ensure complete and accurate NPDES permit discharge data. **The completion date for this weakness is FY 2013 and is based on various assumptions that extend over the next 6 years¹.**

SIGNIFICANT DEFICIENCIES

Timely Capitalization of Real Assets

The Agency identified timely capitalization of real assets as a significant deficiency under A-123 in FY 2006. **The Agency has completed all corrective actions for this significant deficiency.** The Agency will continue to periodically run reports to ensure timely and accurate project updates.

Formal Guidance on and Implementation of Personal Property Oversight

The Agency identified personal property oversight as a significant deficiency under A-123 in FY 2006. **All corrective actions for this significant deficiency have been completed.** The Agency will continue to conduct periodic internal/external reviews of property management programs.

Formal Guidance on Disposition of Contractor-held Property

The Agency identified the disposition of contractor-held property as a significant deficiency under A-123 in FY 2006. In April 2007, the Agency issued and implemented its revised Contract Management Manual, Chapter 45, *Government-Furnished Property*. **All corrective actions for this significant deficiency have been completed.**

Abnormal General Ledger Balance

The Agency identified abnormal general ledger balance as a significant deficiency under the FY 2007 internal controls over financial reporting review. **The Agency developed a strategy to address this significant deficiency, and all corrective actions have been completed.**

Quarterly Treasury Report on Receivables

The Agency identified quarterly treasury report on receivables as a significant deficiency under the FY 2007 internal controls over financial reporting review. **The Agency developed a strategy to address this significant deficiency, and all corrective actions have been completed.**

Interagency Agreements

The Agency identified interagency agreements as a significant deficiency under the FY 2007 internal controls over financial reporting review. **The Agency developed a strategy to address this significant deficiency, and all corrective actions have been completed.**

Superfund Cost Recovery and Cashouts

The Agency identified Superfund cost recovery and cashouts as a significant deficiency under the FY 2007 internal controls over financial reporting review. **The Agency developed a strategy to address this significant deficiency, and all corrective actions have been completed.**

Data Security (Contracts)

The Agency identified data security (contracts) as a significant deficiency under the FY 2007 internal controls over financial reporting review. **The Agency developed a strategy to address this significant deficiency, and all corrective actions have been completed.**

Data Security (Payroll)

The Agency identified data security (payroll) as a significant deficiency under the FY 2007 internal controls over financial reporting review. **The Agency developed a strategy to address this significant deficiency, and all corrective actions have been completed.**

Allowance for Doubtful Accounts, Fiscal Year 2007 Financial Statement Audit

According to the OIG, the CFC did not properly update or apply percentages on computing the fiscal 2007 allowance for doubtful accounts and did not properly calculate the 2nd and 3rd quarter allowance for doubtful accounts. The CFC response indicated agreement with certain recommendations, provided an explanation of the way CFC computed the allowance based on current policies and procedures, and identified where guidance referenced by OIG was not issued or current. **Corrective actions for this significant deficiency have been completed.** EPA will continue to work with OIG to clarify any remaining issues.

SF State Cost Share (Improved Quarterly Cost Reporting)

The Agency identified improved quarterly cost reporting as a significant deficiency under A-123 in FY 2006. The deficiency relates to how efficiently EPA tracks Superfund State Cost Share (SSC) contributions and matches them to expenses each quarter. The Agency has taken steps to centrally automate the manual SSC accrual process as part of consolidating accounts

receivable functions that were previously dispersed across the Agency in the CFC. EPA Headquarters is working with the last region to move its accounts receivable functions to CFC. In FY 2008, the Agency will develop and test an automated process and then evaluate the results of automation. **Correction is scheduled for FY 2009.**

Increased Controls Over the Integrated Financial Management System (IFMS) Suspense Table (SUSF)

Increased controls over the IFMS SUSF are needed. To remedy this, the Agency will no longer systematically purge aged data from IFMS. The Agency's policy will be updated to reflect the applicable Office of Management and Budget system requirements. **Steps to address this deficiency have been initiated, and correction is scheduled for FY 2008.**