



# 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 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/2006/20051114-2006-1-00015.pdf](http://www.epa.gov/oig/reports/2006/20051114-2006-1-00015.pdf)

## ***Audit of EPA's Fiscal 2005 and 2004 Consolidated Financial Statements***

### **EPA Receives Unqualified Opinion**

We rendered an unqualified, or clean, opinion on EPA's Consolidated Financial Statements for fiscal 2005 and 2004, meaning that they were fairly presented and free of material misstatement.

### **Internal Control Reportable Conditions Noted**

EPA converted to a new payroll system in fiscal 2005. While EPA was able to resolve many issues arising from the conversion, we noted several reportable conditions. Most significantly, EPA made inappropriate payments to separated (transferred, retired, or resigned) employees and made excess salary payments to current employees. These conditions occurred because EPA's automated controls and manual processes were not effective in identifying and preventing these overpayments, or alerting EPA officials to take corrective actions in a timely manner.

In addition to these conditions, we noted seven other reportable conditions including overstated State Superfund Contract unearned revenue and unbilled Superfund oversight costs, improperly adjusted general ledger accounts, inadequate documentation for adjustments made to entries in EPA's Integrated Financial Management System (IFMS), and uncorrected data that IFMS rejected.

### **Noncompliance With Laws and Regulations Noted**

The Agency still is in noncompliance with laws and regulations relating to implementing the cost accounting standard and reconciling intragovernmental transactions, though we do not consider EPA to be in substantial noncompliance.

### **Agency Comments and Office of Inspector General Evaluation**

In a memorandum received on November 10, 2005, from the Chief Financial Officer, the Agency agreed with the issues raised and stated it has begun to evaluate the best methods to address each issue to achieve a timely resolution.