



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 2009 Third Quarter Financial Statements

Report No. 09-2-0247

September 24, 2009

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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



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) 2009 Third Quarter Financial Statements. We did so to assist EPA in evaluating whether its quarterly Financial Statements were compiled consistent 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.

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

www.epa.gov/oig/reports/2009/20090924-09-2-0247.pdf

Agreed-Upon Procedures on EPA's Fiscal Year 2009 Third Quarter Financial Statements

What We Found

We performed certain agreed-upon procedures on the Agency's FY 2009 Third 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, and concluded that the amounts agreed.

During the first and second quarters of the Agreed-Upon Procedures, we identified a difference between the FY 2009 Report of General Ledger Balance by Treasury Symbol beginning balances and FY 2008 ending balances in general ledger account 4201, *Total Actual Resources*. The net difference of \$43,627 was the result of account 4165, *Allocation of Authority – Anticipated*, incorrectly closing to account 4201 instead of to account 4450, *Authority Available for Apportionment*. The Agency made an adjustment in the third quarter to correct the error.

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

OFFICE OF
INSPECTOR GENERAL

September 24, 2009

MEMORANDUM

SUBJECT: Agreed-Upon Procedures on EPA's Fiscal Year 2009
Third Quarter Financial Statements
Report No. 09-2-0247

FROM: Paul C. Curtis 
Director, Financial Statement Audits

TO: Maryann Froehlich
Acting 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 2009 Third Quarter Financial Statements. This report is provided to you solely to assist you in evaluating whether the Fiscal Year 2009 Third Quarter Financial Statements were compiled 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 me at 202-566-2523 or curtis.paul@epa.gov, or Meg Hiatt at 513-487-2366 or hiatt.margaret@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) 2009 Third 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, 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 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.

Scope and Methodology

We performed certain agreed-upon procedures, enumerated below, on EPA's unaudited consolidated FY 2009 Third 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 July 21, 2009 to September 15, 2009. We based our procedures on EPA's FY 2009 Third 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 FY 2009 Third Quarter Financial Statements, adjusted trial balance, on-top entries, and support for the statements (including Earmarked Funds). Import the Report of General Ledger Balance by Treasury Symbol (RGLTS) and 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 FY 2009 Third 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 for the accounting period 0909, 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 in order to verify the Agency's Financial Statement Crosswalk and note any differences.

Results of Procedure 1.a

We compared the ProSystem adjusted trial balance to the Agency's adjusted trial balance and the amounts agreed. 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, and Consolidated Statements of Net Cost and Changes in Net Position). We found that the amounts agreed.

Procedure 1.c

Enter the FY 2009 and FY 2008 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 2009 and FY 2008 GL balances and on-top adjustment entries into Excel spreadsheets and compared the OIG-prepared 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 2009 third quarter agreed with our amounts for this statement.

Combined Statement of Budgetary Resources:

The Agency's balances for the FY 2009 third quarter agreed with our amounts for this statement.

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 and 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 for Earmarked Funds from the RGLTS, 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. The balances agreed.

Procedure 1.e

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

Results of Procedure 1.e

We compared the Agency's Third 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 All Other column in the Agency's Financial Statements on the Consolidating Statement of Changes in Net Position.

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

We identified significant fluctuations in the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. OIG identified the same fluctuations as the Agency, as well as other fluctuations, which are detailed in Appendix A.

OMB Circular 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. Management is to provide variances for only the top three items with significant fluctuations." The Agency elected to identify seven fluctuations and submit them to OMB as follows:

Balance Sheet

- (1) The Agency reported to OMB that the \$5.8 billion increase in Fund Balance With Treasury is primarily due to the State and Tribal Assistance Grant program contained in the American Recovery and Reinvestment Act of 2009 (Recovery Act).
- (2) The Agency reported to OMB that the \$6.1 billion increase in Unexpended Appropriations is primarily due to the State and Tribal Assistance Grant program contained in the Recovery Act.
- (3) The Agency reported to OMB that the \$206 million decrease in Non-Federal Accounts Payable and Accrued Liabilities is primarily due to a decrease in Grantee Liability Accruals as a result of a lower statistical sample rate used in the FY 2008 fourth quarter compared to the rate used in the FY 2007 fourth quarter.

Statement of Budgetary Resources

- (1) The Agency reported to OMB that the \$8 billion increase in Appropriations is primarily due to the \$6.4 billion State and Tribal Assistance Grant program contained in the Recovery Act.
- (2) The Agency reported to OMB that the \$4.8 billion increase in Obligations is primarily due to the \$4 billion State and Tribal Assistance Grant program as well as the \$600 million Superfund program contained in the Recovery Act.
- (3) The Agency reported to OMB that the \$2.7 billion increase in Apportioned Unobligated Balance is primarily due to the State and Tribal Assistance Grant program as well as the Superfund program contained in Recovery Act.

Statement of Net Cost

- (1) The Agency reported to OMB that the decrease of \$100 million in current year Gross Costs is primarily due to a reduction in Grant expenses in FY 2009.

Procedure 2

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 2

We obtained and compared EPA's identified Earmarked Treasury Symbols to SFFAS 27. We found EPA's [Identified Earmarked] Treasury Symbols to be 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; and Contributed Funds; as well as Treasury Symbols established for the Recovery Act (Superfund and Leaking Underground Storage Tank).

Procedure 3

Obtain and compare FY 2009 and FY 2008 Child Trial Balances to the Child on-top entry.

Results of Procedure 3

We obtained and compared EPA's FY 2009 and FY 2008 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 4

Compare the FY 2009 reversals to the FY 2008 on-top adjustments and EPA's Closing Instructions to assess if EPA followed its guidance.

Results of Procedure 4

We compared the FY 2009 reversals to the FY 2008 on-top adjustments and to EPA's closing instructions to assess if EPA followed its guidance. We found that the Agency reversed the FY 2008 on-tops properly in FY 2009.

Procedure 5

Compare the RGLTS FY 2009 beginning balances to the FY 2008 ending balances and note any differences.

Results of Procedure 5

During the first and second quarter of the Agreed-Upon Procedures, we identified a difference in GL account 4201, *Total Actual Resources*. The difference between the FY 2008 ending and FY 2009 beginning balance of \$43,627 was a result of errors in the year-end closing process. GL account 4165, *Allocation of Authority – Anticipated*, incorrectly closed to GL account 4201 instead of to GL account 4450, *Authority Available for Apportionment*, according to the Year End Account Table. The Agency forced the closure to GL account 4201 to ensure that beginning balances on line 1 of the FY 2009 Statement of Budgetary Resources matched the ending balances of the year end FY 2008 Statement of Budgetary Resources lines 9 and 10. The Agency made an adjustment in the third quarter to correct the error.

Procedure 6

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

Results of Procedure 6

We reviewed the FY 2009 third quarter elimination and consolidation entries prepared by the Reporting and Analysis Staff for reasonable 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							

¹ O = recommendation is open with agreed-to corrective actions pending
 C = recommendation is closed with all agreed-to actions completed
 U = recommendation is undecided with resolution efforts in progress

Appendix A

***OIG-Identified Significant Fluctuations
between 06/30/09 and 06/30/08***
(Dollars in Thousands)

Consolidated Balance Sheet:

	FY 2009	FY 2008	Difference	%
ASSETS				
Intragovernmental:				
Fund Balance With Treasury	\$17,242,174	\$11,429,580	\$5,812,594	50.86%
Investments	\$7,226,402	\$6,301,983	\$924,419	14.67%
Other	\$205,207	\$85,245	\$119,962	140.73%
Accounts Receivable, Net	\$312,472	\$441,680	(\$129,208)	-29.25%
LIABILITIES				
Accounts Payable & Accrued Liabilities	\$661,007	\$867,056	(\$206,049)	-23.76%
NET POSITION				
Unexpended Appropriations – Other Funds	\$16,431,068	\$10,272,712	\$6,158,356	59.95%
Cumulative Results of Operations – Earmarked Funds	\$7,239,852	\$6,432,884	\$806,968	12.54%

Source: FY 2009 Financial Statements provided by EPA

Consolidated Statement of Net Cost:

	FY 2009 Consolidated	FY 2008 Consolidated	Difference	%
COSTS				
Earned Revenue	\$390,560	\$490,400	(\$99,840)	-20.36%

Source: FY 2009 Financial Statements provided by EPA

Consolidated Statement of Changes in Net Position:

	FY 2009 Consolidated	FY 2008 Consolidated	Difference	%
BUDGETARY FINANCING SOURCES				
Appropriations Received	\$14,406,297	\$7,197,712	\$7,208,585	100.15%
Other Adjustments	(\$10,000)	(\$117,285)	\$107,285	-91.47%

Source: FY 2009 Financial Statements provided by EPA

Consolidated Statement of Changes in Net Position - All Other Funds:

	FY 2009 Consolidated All Other Funds	FY 2008 Consolidated All Other Funds	Difference	%
CUMULATIVE RESULTS OF OPERATIONS				
Budgetary Financing Sources:				
Trust Fund Appropriations	(\$1,747,911)	(\$984,974)	(\$762,937)	77.46%
BUDGETARY FINANCING SOURCES				
Appropriations Received	\$14,406,297	\$7,197,712	\$7,208,585	100.15%
Other Adjustments	(\$10,000)	(\$117,285)	\$107,285	-91.47%

Source: FY 2009 Financial Statements provided by EPA

Consolidated Statement of Changes in Net Position - Earmarked Funds:

	FY 2009 Consolidated Earmarked Funds	FY 2008 Consolidated Earmarked Funds	Difference	%
CUMULATIVE RESULTS OF OPERATIONS				
Budgetary Financing Sources:				
Trust Fund Appropriations	\$1,747,911	\$984,974	\$762,937	77.46%

Source: FY 2009 Financial Statements provided by EPA

Combined Statement of Budgetary Resources:

	FY 2009	FY 2008	Difference	%
BUDGETARY RESOURCES				
Appropriation	\$15,277,062	\$7,263,159	\$8,013,903	110.34%
Advance Received	\$80,475	\$143,536	(\$63,061)	-43.93%
Without Advance from Federal Sources	(\$78,090)	\$11,248	(\$89,338)	-794.26%
Anticipated for Rest of Year, Without Advances	\$361,654	\$119,309	\$242,345	203.12%
Permanently Not Available	(\$11,000)	(\$118,284)	\$107,284	-90.70%
STATUS OF BUDGETARY SOURCES				
Direct	\$10,561,137	\$5,724,936	\$4,836,201	84.48%
Apportioned	\$9,144,656	\$6,462,859	\$2,681,797	41.50%
Unobligated Balances Not Available	\$1,086,308	\$373,594	\$712,714	190.77%
CHANGE IN OBLIGATED BALANCE				
Obligations Incurred, Net	\$10,968,569	\$6,111,701	\$4,856,868	79.47%
Change in Uncollected Customer Payments from Federal Sources	\$54,888	(\$12,460)	\$67,348	-540.51%
Unpaid Obligations	\$11,874,254	\$8,212,341	\$3,661,913	44.59%
NET OUTLAYS				
Less: Distributed Offsetting Receipts	(\$1,714,124)	(\$1,045,003)	(\$669,121)	64.03%

Source: FY 2009 Financial Statements provided by EPA

Appendix B

Distribution

Acting Chief Financial Officer

Acting Deputy Chief Financial Officer

Acting Director, Office of Financial Management, Office of the Chief Financial Officer

Director, Reporting and Analysis Staff, Office of the Chief Financial Officer

Acting Director, Office of Financial Services, Office of the Chief Financial Officer

Acting Inspector General