U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA Should Continue Efforts to Reduce Federal Advances and Federal Special Accounts

Report No. 10-P-0093

March 31, 2010

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Abbreviations

CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
GL	General Ledger
IA	Interagency Agreement
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
ORBIT	OCFO Reporting and Business Intelligence Tool
OSWER	Office of Solid Waste and Emergency Response
SA	Special Account

U.S. Environmental Protection Agency
Office of Inspector General

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At a Glance

Catalyst for Improving the Environment

Why We Did This Review

Our purpose was to determine whether the U.S. Environmental Protection Agency (EPA) effectively manages funds advanced from federal agencies under interagency agreements (Advance IAs) and federal special accounts (SAs). The objectives of our review were to determine: (a) EPA's policies, procedures, and practices for managing amounts advanced from federal agencies; and (b) the current balances of advances from federal agencies that could potentially be used in lieu of appropriated funds.

Background

EPA receives advance funding from federal sources through Advance IAs and Superfund SAs. Advance IAs and SAs are components of intragovernmental transactions, which occur between EPA and its federal trading partners. Approximately $60 million in Advance IAs and $28 million for federal SAs remained outstanding as of September 30, 2009.

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/2010/20100331-10-P-0093.pdf

EPA Should Continue Efforts to Reduce Federal Advances and Federal Special Accounts

What We Found

We found that a $1.1 million advance from the U.S. Capitol Police remained open because an accounting adjustment had not been completed. The Agency recorded the adjustment in December 2009. In addition, we found three federal SAs that included incorrectly recorded receipts and/or expenditures totaling about $2.5 million as of February 2009. The Agency corrected $2 million during the audit in February and April 2009.

EPA issued Superfund Special Account Guidance on July 16, 2002. The guidance provided accounting procedures for recording and tracking special account funds. However, that guidance does not address spending federal versus non-federal special account funds. Without clear guidance, programs expended non-federal funds before federal funds when both SA funds were available. As a result, amounts advanced by other federal agencies remained outstanding after the project was completed and some SA account receipts and/or expenditures remain misclassified. This included $579,126 in receipts and expenditures for the Johnny Cake Road Farm site being incorrectly recorded as non-federal. Outstanding federal SAs and misclassified SA funds complicate EPA's efforts to reconcile and reduce trading partner differences.

What We Recommend

We recommend that the Office of the Chief Financial Officer record the $579,126 in SA funds on the Johnny Cake Road Farm site in the correct fund, and request the Office of Solid Waste and Emergency Response and the regional Superfund program offices to verify that special account receipts and expenditures are recorded in the proper fund code. The Agency concurred with our findings and recommendations.

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

OFFICE OF
INSPECTOR GENERAL

March 31, 2010

MEMORANDUM

SUBJECT: EPA Should Continue Efforts to Reduce Federal Advances and Federal Special Accounts
Report No. 10-P-0093

FROM: Melissa M. Heist
Assistant Inspector General for Audits

TO: Barbara Bennett
Chief Financial Officer

This is our report on the audit of advances from federal agencies under interagency agreements and federal special accounts, conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is $320,000.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed upon actions, including milestone dates. We have no objections to the further release of this report to the public. This report will be available at http://www.epa.gov/oig.

If you or your staff have any questions regarding this report, please contact Paul Curtis 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

The purpose of this audit was to determine whether the U.S. Environmental Protection Agency (EPA) is effectively managing funds advanced from federal agencies. The objectives of our review were to determine:

- EPA's policies, procedures, and practices for managing amounts advanced from federal agencies.
- The current balances of advances from federal agencies that could potentially be used in lieu of appropriated funds.

Background

EPA receives advance funding from federal sources through interagency agreements (Advance IAs) and Superfund Special Accounts (SAs). Approximately $60 million for Advance IAs and $28 million for federal SAs remained outstanding as of September 30, 2009.

Federal Advances

The EPA Office of the Chief Financial Officer (OCFO) defines IAs as agreements in which EPA provides goods or services to another federal agency or to a State or local government and is reimbursed for its expenses. EPA records advances from other agencies for Advance IAs in general ledger (GL) account 2315 – Other Advances, Federal. This account establishes EPA's liability for unearned revenue. The Agency recognizes earned revenue and reduces the liability when it incurs expenses against the IA.

Federal Special Accounts

Superfund Special Accounts are site-specific, interest-bearing sub-accounts within the Superfund Trust Fund. The Comprehensive Environmental Response, Compensation, and Liability Act authorizes EPA to retain and use funds from SAs to address response actions under the Act. *Superfund Special Account Guidance*, issued by OCFO on July 16, 2002, establishes financial management guidance for classifying special account proceeds and provides the accounting guidelines to separately track amounts retained in Special Accounts. EPA should record amounts received under a non-federal Cash-Out for future costs to be incurred in fund TR2 – Non-Federal Special Accounts. Federal Cash-Out settlement costs should be recorded in fund TR2A – Federal Special Accounts to be incurred in the future. Past cost collections, late payment interest collections, and interest revenue should be recorded in fund TR2B – Special Accounts. EPA records Superfund SA advances from other federal agencies in GL account 2316 – Advances, Cash Outs, Federal. The Agency recognizes earned revenue and reduces the liability when it incurs expenses on SAs.

Federal Trading Partners

Advances from other federal agencies (both IAs and Superfund SAs) are components of intragovernmental transactions. Intragovernmetal transactions occur between EPA and its

Federal Trading Partners. EPA reports these transactions in its financial statements in accordance with Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements,* which states: "The intergovernmental assets of an agency are separately reported on the face of the balance sheet. Non-entity assets, which may be intragovernmental or governmental (i.e., non-Federal), are separately disclosed in the notes… The intragovernmental liabilities of an agency are separately classified on the face of the balance sheet."

Government-wide Reporting Issue

The *Treasury Financial Manual* requires verifying agencies to confirm and reconcile intragovernmental transactions with their trading partners. In our *Audit of EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements* (Report No. 10-1-0029), issued November 16, 2009, we noted that EPA reported $183 million in unreconciled differences with 47 trading partners. Of that amount, Treasury reported $51 million as material differences. Advances from other Agencies are a part of these differences. EPA has difficulty reconciling these differences, primarily because of differing accounting treatments and accrual methodologies between federal agencies. For example, when other agencies recognize an expense when an advance is provided to EPA and EPA does not recognize revenue until the funds are expended, it creates a timing difference.

Noteworthy Achievements

We identified the following noteworthy achievements related to the management of Advance IAs and federal SAs:

- The Cincinnati Finance Center (CFC) has improved communication with program offices, which has improved the federal IA management, monitoring, and close-out process.
- EPA has developed an SA Senior Management Committee.
- Each region has a lead SA coordinator that serves as a primary point of contact in each region for special accounts.

Scope and Methodology

We conducted the audit in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

We conducted our audit from January 2009 to March 2010. We drew our samples from CFC's reports of advance account balances by federal agency at September 30, 2008. These reports provided the details by federal agency for GL accounts 2315 and 2316. The population of federal advances GL account 2315 was 47 agreements. The population of federal SAs in GL account 2316 was 37 sites. We randomly selected 10 federal Advance IA agreements and 10 federal SA samples to review. We interviewed Agency officials from CFC; the Office of Solid Waste and Emergency Response (OSWER); other program offices; and Regions 2, 3, 6, 7, 8, 9,

and 10 to determine the Agency's policies and practices for managing Advance IAs and SA funds. We reviewed IAs, consent decrees, SA reports, and Agency financial records to determine how the Agency uses those funds. Further details on our scope and methodology are in Appendix A.

Results of Review

A $1.1 million advance to EPA had remained open since 2002 because the Agency had not completed an accounting adjustment to reclassify appropriated funds to reimbursable funds. The Agency spent appropriated funds on part of the project. An adjustment was necessary to reclassify these appropriated expenditures to the reimbursable Superfund appropriation. The appropriated funds had not been moved to the reimbursable appropriation. The Agency recorded the adjustment in December 2009.

We also found that three federal SAs included misclassified receipts totaling $2.5 million as of February 2009. The Agency corrected $2 million during the audit, in February and April 2009. The Agency established separate fund codes for federal SAs and past costs when it issued its *Superfund Special Account Guidance* on July 16, 2002. However, EPA did not reclassify the funds after EPA issued the guidance. The guidance provides accounting procedures for recording and tracking SA funds, but does not address spending federal versus non-federal SA funds. Without clear guidance, programs expended non-federal funds before federal funds when both SA funds were available. Outstanding federal SAs and misclassified SA funds complicate EPA's efforts to reconcile and reduce trading partner differences.

Federal Advances

During the audit, we found an instance where $1.1 million of a $12.5-million advance from the U.S. Capitol Police remained open because expended appropriated funds had not been reclassified to the reimbursable appropriation. The obligation was related to a contract to provide services to the Capitol Police. The project's performance period was from October 16, 2001, to June 13, 2002. CFC and the program office delayed the deobligation or reclassification of the advance because they did not follow EPA procedures for closing out the IA. EPA's policy is to deobligate remaining funds on an IA when a project is complete. For Advance IAs (funds-in) the Agency can then close the IA and return the remaining funds to the other agency. Funds can also be used to reclassify previous site expenditures from appropriated funds. In December 2009, OSWER and CFC reclassified $1.1 million of expenditures from appropriated funds to reimbursable expenditures as a result of our audit. This allowed for an additional $1.1 million of appropriated funds to be used for other purposes.

Federal Special Accounts

Settlement funds received under SA authority are placed in interest-bearing SAs to perform response action work at sites in accordance with terms of the settlement agreement (e.g., consent decree). The OCFO *Superfund Special Account Guidance* provides guidance on recording the billing and collection of funds in SAs. It describes how the funds collected are placed in fund codes TR2 (non-federal), TR2A (federal), or TR2B (past costs), depending on the agreement.

We found that while the Agency has guidance on recording SA funds, there is no guidance describing the protocol for expending amounts from the three funds. EPA should use federal funds before non-federal funds on sites that have both federal and non-federal funds, to minimize trading partner differences.

We found three federal SAs that contained receipts and/or expenditures recorded in the wrong fund code. The Agency has since corrected these entries for two SAs.

Special Account #026M - Johnny Cake Road Farm. EPA incorrectly recorded $505,229 of receipts from the U.S. Marshals Service as non-federal receipts. Expenditures totaling about $73,897 were also incorrectly recorded as non-federal expenditures, for a total of $579,126. From our analysis of the consent decree and our interview with the Region 2 Special Account Coordinator in OSWER, we found that all receipts for the Johnny Cake Road Farm SA were from the U.S. Marshals Service and should have been recorded as federal receipts. Region 2 recorded the receipts and expenditures as non-federal based on the available guidance at the time and did not subsequently rerecord them to federal fund codes when the July 2002 SA guidance was issued. CFC is currently working with Region 2 to reclassify the entries.

Special Account #06GW - Tex Tin. EPA recorded receipts for the Tex Tin SA in both the federal (TR2A) and non-federal (TR2) fund codes. However, EPA recorded all obligations and expenditures for this site in the non-federal fund code. As a result, the non-federal fund expenditures exceeded collections, creating a negative balance of $1,427,284. Originally, Region 6 had obligated the funds in the non-federal fund code in accordance with the guidance in place for SAs at that time. Because Region 6 obligated the funds in a non-federal fund, they also expended the funds from the non-federal fund. When the guidance changed, Region 6 correctly recorded the federal receipts in the federal fund code. Since the disbursements were still recorded in the non-federal fund code, the Tex Tin SA was left with the $1,427,284 negative balance in the non-federal fund code. Region 6 and CFC correctly adjusted the balances in fund codes TR2 and TR2A in April 2009.

Special Account #07S2 - Hastings Groundwater. EPA originally recorded receipts of $223,163 and expenditures of $100,000 from the U.S. Department of Agriculture in the federal fund code TR2A. According to the consent decree, the receipts were for past costs incurred and not for future response costs at the site. Therefore, these funds should have been recorded in fund code TR2B. Region 7 and CFC corrected the entries in February 2009.

When the SAs were originally established, only fund code TR2 existed to record both federal and non-federal SA receipts and expenditures. However, new SA guidance was established in July 2002, which established separate SA funds for Federal Cash-Out Settlement Future Costs (TR2A), Non-Federal Cash-out Settlement Future Costs (TR2), and Past Costs (TR2B). When the new guidance was issued, the regions did not initiate corrective actions to have the finance office reclassify the applicable receipts and expenditures from the non-federal TR2 to the federal

TR2A SA fund account because the regions were not aware of the distinction between federal and non-federal SA fund codes. Therefore, the receipts and expenditures remained recorded as non-federal.

Recommendations

We recommend that the Office of the Chief Financial Officer:

1. Record the $579,126 in federal SAs for the Johnny Cake Road Farm site in the correct fund codes.

2. Request OSWER and the regional Superfund program offices to perform:

    a. A baseline review of consent decrees to verify that special account receipts and expenditures are recorded in the proper fund codes.

    b. Annual reviews of SAs with negative balances and adjust receipts and/or expenditures as necessary.

Agency Response and OIG Evaluation

In a discussion held on March 24, 2010, the Agency concurred with our findings and recommendations.

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
1	5	Record the $579,126 in federal SAs for the Johnny Cake Road Farm site in the correct fund codes.	O	Office of the Chief Financial Officer	3/31/11		
2	5	Request OSWER and the regional Superfund program offices to perform: a. A baseline review of consent decrees to verify that special account receipts and expenditures are recorded in the proper fund codes. b. Annual reviews of SAs with negative balances and adjust receipts and/or expenditures as necessary.	O	Office of the Chief Financial Officer	3/31/11		
-	-	NOTE: OSWER reclassified $1.1 million of appropriated expenditures to federal advance expenditures as a result of our review.	C	Office of Solid Waste and Emergency Response	7/15/2009	$1,100	$1,100

[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

Details on Scope and Methodology

During our audit, we analyzed the Agency's process for establishing, monitoring and using federal advances and SA funds. We reviewed files for federal advance and federal SAs. We conducted interviews with OCFO and program officials.

GL 2315 Reconciliation: CFC Support to General Ledger Balance (9/30/2008)

A total of $14.7 million for 47 IAs was outstanding in GL 2315 as of September 30, 2008. We selected a random sample of 10 advances from this population of federal advances. We reviewed the Advance IAs and interviewed project officers to determine how they manage the advances. We used Financial Data Warehouse queries and the IA files to determine the financial status of each advance. The agreements selected were:

Table A-1: Selected Federal Advance Agreements at September 30, 2008

Agreement #	Advance	Expenses	Amount
RW95939709	$12,500,000.00	($11,365,311.80)	$1,134,688.20
RW89939695	4,346,601.67	(2,931,205.88)	1,415,395.79
RW70955756	937,031.00	-	937,031.00
RW11948130	785,500.00	(781,779.42)	3,720.58
RW17939930	187,900.10	(151,296.27)	36,603.83
RW89922435	483,432.00	(399,206.20)	84,225.80
RW86922259	75,000.00	(71,281.95)	3,718.05
RW47921617	414,318.09	(295,000.00)	119,318.09
RW97922256	99,800.00	(99,791.09)	8.91
RW19922450	1,440,000.00	(238,235.38)	1,201,764.62

Source: OIG internally generated data.

GL 2316 Reconciliation: CFC Support to General Ledger Balance (9/30/2008)

A total of $42 million for 37 SAs was outstanding for GL 2316 as of September 30, 2008. We selected a random sample of 10 sites from this population of SAs. We reviewed the consent agreements, and interviewed Superfund officials in Regions 2, 3, 6, 7, 8, 9, and 10 to determine how they manage the special account funds. We used the Financial Data Warehouse, the OCFO Reporting and Business Intelligence Tool (ORBIT) standard SA checkbook reports, and

SA by fund code reports to determine the financial status of the federal SAs. The federal SAs selected were:

Table A-2: Selected Federal SAs at September 30, 2008

Site Name	Federal Agency	Site #	Balance
Johnny Cake Road Farm	U.S. Marshals Service	026M	$72,499.68
Post Office/Air Force	Post Office/Air Force	03BD	38,580.89
Tex Tin	General Services Administration	06GW	2,812,500.00
Hastings Groundwater	U.S. Department of Agriculture	07S2	123,163.33
Wellington Mine	U.S. Forest Service	085F	199,309.48
Milltown Reservoir	U.S. Department of Treasury	0823	6,684,508.99
Midvale Slag	U.S. Department of Treasury	0871	2,204,946.00
Newmark Wellfield	U.S. Department of Justice	09J5	6,500,000.00
Baldwin Park Unit	Treasury Judgment Fund	09M4	490,000.00
Navy	Navy	10K3	40,000.00

Source: OIG internally generated data.

Internal Control Structure

In planning and performing our audit, we reviewed management controls related to our audit objectives. We examined EPA's Fiscal Year 2008 Federal Managers' Financial Integrity Act Annual Assurance Letters issued by the Regional Administrators and Assistant Administrators. In Fiscal Year 2008, Region 8 identified a finding in the negative available balances by fund code for the Superfund SAs in Region 8. Region 8 stated corrective actions would be planned by the end of Fiscal Year 2008 to resolve this issue. As of January 2010, the negative balances had been corrected. In addition, we examined EPA's review in compliance with the Office of Management and Budget Circular A-123, Appendix A, to identify any weaknesses related to federal advances and SAs. EPA identified no material weaknesses in its A-123, Appendix A, review of internal controls related to federal advances and federal SAs.

Appendix B

Recommended Accounting Adjustments

Table B-1: Johnny Cake Road Farm - SA# 026M

Receipts			
Fund	**Current Balance**	**Reclassify Amount**	**Corrected Balance**
TR2	$505,229	($505,229)	$0
TR2A	72,500	7,500	80,000
TR2B	153,946	497,729	651,675
Total	**$731,675**	**$0**	**$731,675**
Expenditures			
Fund	**Current Balance**	**Reclassify Amount**	**Corrected Balance**
TR2	$73,897	($73,897)	$0
TR2A	0	7,500	7,500
TR2B	0	66,397	66,397
Total	**$73,897**	**$0**	**$73,897**

Source: Agency Financial Records (ORBIT Special Account Report by Fund)

Appendix C

Distribution

Office of the Administrator
Chief Financial Officer
Assistant Administrator for Solid Waste and Emergency Response
Deputy Chief Financial Officer
Agency Follow-up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Audit Follow-up Coordinator, Office of the Chief Financial Officer
Audit Follow-up Coordinator, Office of Solid Waste and Emergency Response
Acting Inspector General