




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

OFFICE OF
INSPECTOR GENERAL

May 8, 2019

MEMORANDUM

SUBJECT: Project Notification:
Audit of EPA's Fiscal Year 2019 Financial Statements
Project No. OA&E-FY19-0201

FROM: Paul C. Curtis, Director 
Financial Directorate
Office of Audit and Evaluation

TO: Holly Greaves, Chief Financial Officer

We will begin our audit testing of the U.S. Environmental Protection Agency's (EPA's) fiscal year 2019 financial statements during May 2019. We are providing this memorandum to (1) continue our mutual efforts to establish a high level of expectations for and commitments by all offices to provide timely and accurate information in support of the financial statements and 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. We include more details about our respective responsibilities in Attachment 1, *Audit Expectations*.

High Level of Expectations and Commitments

We appreciate the continued level of commitment and cooperation exhibited by staff and managers from your office during our audit of the EPA's fiscal year 2018 financial statements. Their support allowed us to complete the audit by the deadline. We encourage you to continue your efforts to strengthen the agency's coordination and quality control processes to ensure that accurate data are available in a timely manner to prepare the annual financial statements and that these statements and supporting documentation are made available in a timely manner for our audit. For the fiscal year 2019 financial statements, we will issue an audit report with our opinion in accordance with the OMB deadline, 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 ask that the senior officials and staff of each office responsible for providing information in support of the financial statements offer the highest possible level of commitment. We will keep you promptly informed of any delays, with the goal of keeping our respective staffs on target to meet the OMB deadline for submitting audited financial statements. We will also be glad to assist you in updating office directors regarding 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 modifications to the system. If such processes or procedures are provided late in the audit, it may complicate or prevent the development of procedures to audit such information in time to meet the deadline. If the EPA has made substantial changes to Compass, we will need additional support from your staff to update our documentation of your controls.

Planning and Coordination of Audit Work

We will 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 understand that the EPA is again expecting to prepare an annual financial report for fiscal year 2019 that will include the audited comparative financial statements and other information required by OMB.

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 in their offices. We may also contact offices where we do not plan to perform on-site work to obtain information.

We request that you provide the following data as soon as possible but no later than 2 weeks from the date of this notification memo. Furthermore, we request that you continue to provide this information throughout the audit as it is developed:

1. The most current Compass business process reengineering maps.
2. The most current posting models at the general ledger account entry level.
3. Recent policies or procedures on posting transactions in Compass (including, but not limited to, spending adjustment documents developed by the Compass contractor, current crosswalks, etc.).
4. A list of any new accounts in fiscal year 2019.
5. A list of new document types/transaction types, general ledger accounting entries and standard vouchers.
6. A list of changes to existing document types/transaction types and/or standard vouchers.
7. Any general ledger account variance analysis or analytical reviews performed.
8. The most current cumulative Compass contractor change request list.
9. The most current cumulative schedule of posting model changes “Reference Table Updates.”
10. Briefings to the Office of the Chief Financial Officer (OCFO) senior management on subjects such as the quarterly variance analysis.

In addition to the items listed above, we will request separately a list of additional items to be provided by the agency.

We are aware that the EPA will be closing the Las Vegas Finance Center in fiscal year 2020 and moving its operations. To the extent that any operations are moved during the current fiscal year, we would need to be provided details of such moves in advance so we can properly design our audit work.

We respectfully note that the Office of Inspector General (OIG) is authorized by the Inspector General Act of 1978, as amended, to have timely access to personnel and all materials necessary to complete its

objectives. We will request your resolution if an agency employee or contractor refuses to provide requested records to the OIG or otherwise fails to cooperate with the OIG. We may report unresolved access matters to the Administrator and include the incident in the *Semiannual Report to Congress*.

Please provide all requested documents to Sheila May at may.sheila@epa.gov and Wanda Arrington at Arrington.Wanda@epa.gov. We will work closely with your staff to ensure that the audit meets the OMB deadline. If you know of issues you would like us to address during the audit, we can discuss them at the entrance conference.

cc: Andrew Wheeler, The Administrator
Henry Darwin, Associate Deputy Administrator and Chief of Operations
Ryan Jackson, Chief of Staff
Michael Molina, Deputy Chief of Staff
Assistant Administrators
Deputy Assistant Administrators
Matthew Leopold, General Counsel
Troy Lyons, Associate Administrator for Congressional and Intergovernmental Relations
Tate Bennett, Associate Administrator for Public Engagement and Environmental Education
Corry Schiermeyer, Associate Administrator for Public Affairs
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Kathy Sedlak O'Brien, Director, Office of Planning, Analysis and Accountability, OCFO
Maria Williams, Acting Director, Office of Budget, OCFO
Meshell Jones-Peeler, Acting Director, Office of Technology Solutions, OCFO
Donna Vizian, Principal Deputy Assistant Administrator, Office of Mission Support (OMS)
Wesley Carpenter, Deputy Assistant Administrator for Administration and Resources Management, OMS
Vaughn Noga, Deputy Assistant Administrator for Environmental Information and Chief Information Officer, OMS
Lynnann Hitchens, Acting Director, Office of Resources and Business Operations, OMS
Dan Coogan, Deputy Director, Office of Resources and Business Operations, OMS
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Denise Polk, Director, Office of Grants and Debarment, OMS

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Margaret Hiatt, Project Manager, Financial Directorate, OIG
Mairim Lopez, Project Manager, Financial Directorate, OIG
Demetrios Papakonstantinou, Project Manager, Financial Directorate, OIG
Albert Schmidt, Project Manager, Information Resources Management Directorate, OIG

Audit Expectations

We will audit the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA) as of September 30, 2019, and September 30, 2018; the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. We confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements and 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, regulations, contracts and grant agreements.
 - 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 has complied with laws, regulations, contracts and grant agreements that have a direct and material effect on the financial statements, including determining whether the agency has 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 are materially consistent with the information contained in the principal statements.

Auditor's Responsibilities

We will conduct our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in the *Government Auditing Standards* (2011 Revision) issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 19-01, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform our audits to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with the standards.

In making our risk assessments, we consider internal control relevant to the EPA's preparation and fair presentation of the financial statements, including its Federal Managers' Financial Integrity Act process, to design audit procedures that are appropriate in the circumstances. We will not express an opinion on the effectiveness of the EPA's internal control. We will communicate with you in writing concerning any significant deficiencies or material weaknesses in internal control that we identify and that are relevant to the audit of the financial statements.

Management's Responsibilities

The financial statements are the responsibility of the EPA's management. Our audit will be conducted on the basis that EPA management acknowledges and understands that it has responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. For the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.
3. For 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.
4. To provide the OIG with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters.
 - b. Additional information that we may request from management for the purpose of the audit.
 - c. Unrestricted access to persons within EPA from whom we determine it necessary to obtain audit evidence.
5. For the selection and application of the accounting policies.
6. To identify and ensure that the EPA complies with the laws, regulations, contracts and grant agreements applicable to its activities.
7. To make sure all financial records and related information are available to us in a timely manner.

We will request that key senior managers provide us Management Representation Letters at the conclusion of our fieldwork. Among other things, the letters will confirm management's responsibility for:

- Preparing the financial statements in conformity with the federal financial accounting standards and applicable reporting requirements;
- Providing financial records and related data;
- Communicating to us all matters that pertain to the EPA's possible liability on legal matters that might impact the finances and operations of the EPA;
- Providing assurances, to the best of their knowledge and belief, of the absence of fraud involving management and those employees who have a significant role in the entity's internal controls;
- Complying with federal financial management system requirements and other applicable laws and regulations; and
- Establishing and maintaining systems of internal controls for both financial and performance data.

Reporting

We will issue a written report upon completion of our audit of the EPA's fiscal year 2019 consolidated financial statements 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 19-01, *Audit Requirements for Federal Financial Statements*.

Our report will be addressed to the EPA's management. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph(s). We will issue our audit report with our opinion in accordance with the OMB deadline, regardless of the readiness of the agency's financial statements.

Please sign and return a copy of this memorandum to indicate your acknowledgement of and agreement with the arrangements for our audit of the EPA's fiscal years 2019 and 2018 financial statements, including our respective responsibilities.

Holly Greaves
Chief Financial Officer

Date