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Financial Management Status Report And Five-Year Plan

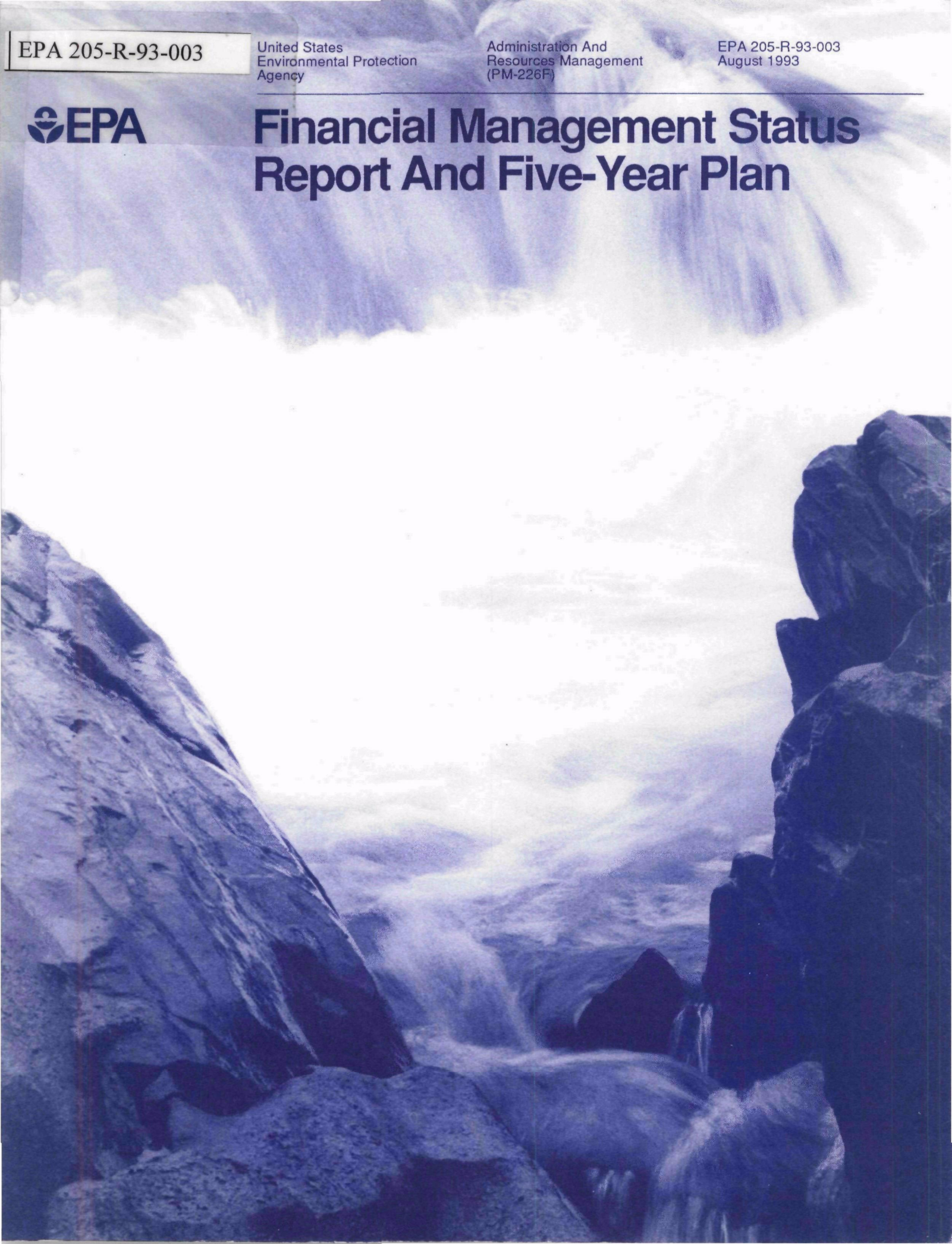


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EXECUTIVE SUMMARY

INTRODUCTION

The FY 1993 - 1997 Financial Management Status Report and Five-Year Plan provides the Environmental Protection Agency (EPA) with an opportunity to: articulate a bold, long-range vision for financial management; and begin developing a strategy, complete with goals and milestones, that will serve as a roadmap for achieving that vision. The initiatives set forth in this plan range from a full-fledged organizational review of EPA's financial management framework and technology, to the integration of financial management into the strategic planning, budgeting and program evaluation process that guides the Agency's program management and investment decisions.

The Five-Year Plan was developed against the backdrop of unprecedented Agency and government-wide focus on improving financial management, as well as top management's commitment to strengthen accountability and financial management practices throughout EPA. The Plan focuses on the opportunity to integrate the implementation of key pieces of Congressional legislation (e.g., the CFO Act, the Government Performance and Results Act and the Federal Managers' Financial Integrity Act). This will enable EPA to provide clear and comprehensive financial, budget and program management information in support of sound, fact-based public policy decisions in the environmental arena.

With this mandate, EPA's Chief Financial Officer (CFO) has developed a Five-Year Plan that embraces the initiatives already underway to improve financial management, while challenging the Agency to position itself for the resource management demands of the next century. The intentions of the Plan are to:

- Develop a comprehensive financial management program which will enhance EPA's ability to attain its environmental goals through more effective resource management; and
- Insure that the American public and Congress have access to specific information on EPA's financial stewardship and on the effectiveness and efficiency of the Agency's programs in improving the quality of the Nation's environment.

Following the guidance provided by the Office of Management and Budget, EPA's Five-Year Plan is divided into nine chapters. In the first chapter, the CFO provides a conceptual framework for the development and implementation of the Plan. The subsequent chapters focus on eight specific financial management functional areas within financial management. Each of these chapters contains: a general goal statement; a status report; a discussion of planned activities; and milestone charts. A lexicon explaining all acronyms and EPA-specific terms as well as several other attachments are also included.

CFO'S CONCEPTUAL FRAMEWORK

The CFO envisioned five key themes which guided the development of the blueprint for meeting the future challenges of financial management. These themes--integration, infrastructure, balance, accountability and continuous improvement--must be cultivated in order to develop a comprehensive financial management program which will ensure more effective management of the Agency's resources and also will support attaining EPA's environmental goals. With this conceptual framework of financial management in mind, the CFO has established five key long-range goals for EPA's financial management operations. The goals are as follows:

1. Establish Agency-wide accountability for financial management operations and activities.
2. Provide complete, reliable, timely and useful financial information and services to Agency managers, central agencies and the Congress.
3. Cultivate program and regional partnerships to effectively and efficiently manage resources in support of Agency goals.
4. Support an integrated approach to Agency-wide strategic planning, budgeting, financial accounting and program evaluation.
5. Define future skill needs and establish a strategy for recruitment and training of financial management personnel.

The experiences EPA has gained during the past year have provided opportunities to identify and plan for the initiatives and activities needed to fulfill the requirements of the CFO Act and to meet these goals. Those plans are detailed in the eight prescribed chapters of the status report and five-year plan.

SUMMARY OF FUNCTIONAL FINANCIAL MANAGEMENT AREAS

Financial Management Organization

Status: In FY 1993, EPA initiated a number of organizational actions designed to strengthen Agency-wide financial management. The Agency accomplished the following:

- Reorganized the Office of Administration and Resources Management to recognize the importance of key management functions and financial integrity to the successful operation of the Agency;
- Established two councils under the Administrator--the Senior Leadership Council and the Resource Management Committee--to focus Agency-wide senior management attention on improving resources management and accountability; and
- Held an Agency-wide "CFO Planning Session" as an initial step to engage program and regional managers in CFO financial management initiatives.

Planned: In the period covered by the Plan, the Agency anticipates additional actions to strengthen EPA's financial management organization. EPA will:

- Use the Senior Leadership Council to address the Agency's material weaknesses as identified in the Integrity Act Report to the President and Congress;
- Revise the Delegations of Authority to clarify the CFO's oversight authority over Agency-wide financial management operations and strengthen that authority by establishing financial management performance measures and reporting procedures;
- Establish an internal CFO Advisory Council to provide advice to the CFO and other senior managers on financial management operations, and to address cross-cutting financial management issues such as program performance measures and financial management performance reporting; and
- Conduct broad-based reviews of the existing financial management organization and core operations, and develop action plans to position the Agency to meet the financial management needs of the next century.

Accountability Standards

Status: The Agency has begun the process of defining expectations for financial management performance and developing appropriate measures to assess achievement. In FY 1993, the Agency:

- Revised and updated several aspects of its accounting and policy procedures, including requirements for documenting financial transactions and reconciling accounts receivable;
- Assisted OMB in developing government-wide financial management performance measures through the CFO Council's Operations Group; and
- Developed initial financial management performance measures which will serve as a basis for assessing the strengths and weaknesses of core financial management operations as well as of key CFO-related activities performed in each of the program and regional offices.

Planned: In the next few years, the Agency will lay the foundation for establishing appropriate accountability standards for EPA's financial management. The Five-Year Plan indicates that the Agency will:

- Develop and implement a strategy to consolidate and revise existing accounting policies and procedures and issue them in the Resources Management Directives System;
- Implement OMB's government-wide performance measures for financial management, and continue to identify and refine appropriate measures to gauge financial management performance Agency-wide; and

- Issue a revised Quality Assurance (QA) Manual to: reflect current QA procedures; increase the use of statistical sampling as a quality control technique; and reflect the Agency's approach to Total Quality Management.

Financial Management Personnel

Status: The Agency completed a number of actions in FY 1993 to develop the skills and meet the training needs of financial management personnel. Under the direction of the CFO, staff have:

- Reviewed performance agreements of financial management personnel and integrated language to strengthen accountability for financial management functions;
- Developed a core curriculum for financial management personnel to guide employees in the development of their training plans; and
- Provided employees with hands-on experience using financial systems and guidance to implement several key processes including timekeeping, travel reimbursements, tracking of interagency agreements, and Superfund accounting policies.

Planned: The Agency must work to cultivate a financial management staff that can fulfill the financial management needs of the Agency, both now and in the future. To develop staff to meet the challenges of the next century, EPA will:

- Continue to refine its financial management training curriculum to address employee needs in the full scope of financial management functions, including clerical, professional and managerial;
- Coordinate ongoing training initiatives, establish standard programs for training conducted in multiple sites, evaluate existing training programs and issue a calendar listing training opportunities for financial management employees; and
- Initiate a certification and recognition program tying related financial management training to organizational objectives and employee skill enhancements.

Financial Systems

Status: EPA's financial management system includes one integrated accounting and budget system, an integrated personnel/payroll system, two ad hoc reporting systems, and six management information systems which feed or contain limited financial data. In FY 1993, EPA completed several key activities related to improvements in IFMS and the financial systems arena. Major accomplishments include:

- Completing the development of the IFMS Strategic Plan and Master Work Plan;
- Implementing two releases of IFMS to streamline the payment certification process and to correct our long standing problems with accounts receivable interest, handling and penalty charges;

- Developed and implemented a comprehensive financial systems training plan and provided training to more than 300 users at various regional sites in IFMS (Data Entry and Using IFMS Tables), ADCR (New User Training) and MARS (New User and Refresher training);
- Formed a dedicated IFMS 5.1e project team to manage the implementation of the latest release of EPA's off-the-shelf financial system. The team has been able to make a significant impact on keeping the project in focus and staying within the project plan; and
- Developed project plans and initiated efforts to eliminate legacy systems. Progress has been made for ADCR elimination with a pilot group selected for conversion to IFMS in FY 1994. Training plans and training materials have been developed for this effort.

Planned: In the next five years, EPA hopes to meet all CFO requirements and other legislative mandates pertaining to the performance of EPA's automated financial systems. The Agency will:

- Eliminate reliance on predecessor systems--the Financial Management System, the Automated Document Control Register and the Resources Management Information System;
- Expand the capacity of financial information systems to provide better tracking and reporting of program costs and closer linkages with program performance information;
- Electronically bridge the Integrated Financial Management System (IFMS) with other Agency financial and administrative systems to eliminate duplicative data entry and inconsistent application of terms;
- Maximize benefits of "off-the-shelf" software by coordinating development efforts closely with other federal agencies; and
- Review EPA's current business practices in the context of financial systems and begin systems re-engineering to improve efficiency, effectiveness and service delivery.

Management Integrity

Status: The Agency completed several actions to streamline and strengthen audit management and Integrity Act implementation during FY 1993. EPA has:

- Reorganized the Resource Management Division to more effectively execute functions related to both the Office of the Inspector General (OIG) and General Accounting Office audit management and for Integrity Act implementation;
- Implemented steps to link Integrity Act implementation with planning and budgeting cycles;
- Created a Financial Audit Division within the Office of the Inspector General to address the Chief Financial Officers Act requirement concerning audits of EPA's financial statements; and
- Conducted quality action team reviews of both audit management and Integrity Act implementation to review processes and develop recommendations for improved performance.

Planned: Following through on recommendations of the two quality action teams, the Agency plans to initiate a number of actions designed to strengthen the management integrity functions, make the processes more effective and focus attention on correcting systemic weaknesses. EPA will:

- Refer appropriate financial management issues to the Accountable Officials--a group of senior career officials accountable for correcting the material weaknesses in the Agency's annual Integrity Act reports;
- Streamline and combine Integrity Act requirements and automate the reporting process to reduce the documentation burden of identifying and monitoring weaknesses; and
- Mandate stronger linkages between planning, budget and management integrity to ensure investment in correcting Agency management weaknesses.

Asset Management

Status: EPA has placed a high priority on asset management. Among its significant improvements in FY 1993, EPA has:

- Implemented recommendations of an EPA task force on accounts receivable, which included issuing of Office of the Comptroller policies, improving Headquarters/region communications, and strengthening internal controls;
- Established a task force, which included representation from the Office of the General Counsel, to review debt collection documentation, prepare correspondence advising debtors of upcoming collection activity, and ensure that regulations are published in the *Federal Register*;
- Reduced the number of invoices paid late by 29.2 % and interest penalties by 5.4 %;
- Converted payment of cash incentive awards to electronic fund transfer for those employees receiving salary checks by DD/EFT;
- Expanded the use of the small purchases bankcard program to accelerate the procurement process and reduce the amount of money handled by petty cashiers; and
- Supported a quality action team (QAT) effort to review the tracking and accounting of Agency property. The QAT recommended implementation of a single fully integrated fixed asset sub-system.

Planned: As outlined in the Plan, the Agency will continue to expand programs in asset management in order to maximize financial resources and safeguard Agency property. EPA will:

- Install an automated accounts receivable module into the IFMS to improve the management of accounts receivable;

- Participate in the Federal Salary Offset and the Federal Tax Refund Offset programs to recover outstanding debts owed to EPA;
- Test and implement a third party draft system to improve the Agency's cash management;
- Implement a select statistical sampling process to enhance the Agency's quality assurance efforts and improve the quality of prompt pay data;
- Continue to aggressively identify and pursue options for using electronic funds transfer;
- Automate tracking of third party billings and payments to manage significantly increasing workloads;
- Implement an integrated fixed asset sub-system for property management; and
- Implement an automated system to assist with information and reporting requirements of the Federal Credit Reform Act.

Audited Financial Reporting

Status: EPA prepared and submitted FY 1992 financial statements for the following trust and revolving funds and commercial activities: Superfund; Leaking Underground Storage Tank (LUST); Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund); Revolving Fund for Certification and Other Services (Tolerance Fund); and the Loan Portion of the Asbestos Loan and Grant Program. As part of this effort, EPA:

- Prepared initial performance measures and other program information for incorporation into the Overview section of the report;
- Supported and responded to the audits of the five CFO-covered funds; and
- Evaluated the process and explored options for improving the timeliness and accuracy of future financial statements.

Planned: Based on a review of this year's process for developing the financial statements, EPA believes that it can improve both the timeliness and quality of the financial statements in the next few years. The Agency has committed to:

- Accelerate its schedule for the preparation of FY 1993 financial statements;
- Continue to explore options for streamlining the preparation of the financial statements and building in quality assessment measures to document the accuracy of the financial statement data;
- Refine procedures and enhance systems used to produce the audited financial statements;

- Continue to work with the Office of Policy, Planning and Evaluation, and program and regional offices in developing outcome measures reflecting program results and accomplishments;
- Respond, as appropriate, to audits which will be accelerated by the OIG; and
- Prepare and submit to the OIG Agency-wide principal financial statements beginning in FY 1996 (i.e., the FY 1995 financial statements);

Administration of EPA Assistance Programs

Status: Improvements to EPA's grants administration process in FY 1993 has strengthened the grants management function. EPA has:

- Elevated the grants administration function to office-level status;
- Conducted training for State and local officials regarding various grant and cooperative agreement requirements;
- Participated in and provided support to the State Capacity Task Force which issued recommendations to the Administrator on how to augment State capacity to respond to environmental mandates;
- Strengthened controls over grants administration, including issuing new policies such as grant versus contract determination, timely awards and closeout; and
- Developed several new grant training programs.

Planned: Several grants management initiatives currently underway should be accomplished in the next few years, while other activities are in development. During the five-year period covered under the Plan, EPA will:

- Streamline EPA's Grants Process;
- Conduct grants administration training for EPA grants project officers;
- Update EPA grants policies to reflect emerging issues and anticipated OMB revisions to key circulars;
- Evaluate State efforts in conducting risk assessments to set the stage for establishing a multi-media assistance program; and
- Review possible options to give States more flexibility in implementing their assistance programs, such as allowing States to "pool" their media-specific funds.

CONCLUSION

EPA's 1993 Financial Management Status Report and Five-Year Plan serves as a compendium of the Agency's financial management accomplishments during FY 1993 and a diagram of its goals and initiatives for FYs 1994 - 1997. The Agency has made great strides in developing this plan by offering not only a vision for the future of financial management within EPA, but also by establishing benchmarks, goals and specific milestones by which its progress can be measured in future years.

The plan takes financial management far beyond the traditional core functions and operations, and strives to introduce an Agency-wide awareness of and momentum for financial management improvement. The plan is a beginning; it provides the underpinnings for future plans in what will be an evolutionary process. The ultimate goal is to secure a partnership of financial and program managers making informed programmatic and resource decisions, and guiding the Agency to achieve its environmental mission and meet its fiduciary responsibilities.

CHAPTER 1

THE CFO'S CONCEPTUAL FRAMEWORK

The Environmental Protection Agency's (EPA) FY 1993-1997 Financial Management Status Report and Five-Year Plan has been developed against a backdrop of unprecedented Agency and government-wide focus on improving financial management practices. Among the key factors influencing EPA's current financial management priorities and out-year plans are: the preparation of EPA's first audited annual financial statements under the Chief Financial Officers (CFO) Act; the increasing Congressional scrutiny of EPA's management practices; the efforts of the National Performance Review Teams; the management improvement initiatives of Administrator Carol Browner; and the recent enactment of the Government Performance and Results Act.

CFO'S THEMES FOR FINANCIAL MANAGEMENT

Within the basic context of "reinventing government" and ensuring more rigorous accountability, the first and foremost priority for EPA's CFO is to position the Agency's financial management organization, services and operations to meet the challenges of the future. The CFO envisioned five key themes which guided the development of the conceptual framework and blueprint for meeting the future challenges of financial management. These themes, which follow, are interwoven throughout the plan.

- Integrating financial management into the Agency's decision-making process.
- Providing an infrastructure of financial management information, systems and services that supports and enhances the Agency's mission and programs.

- Achieving an Agency-wide balance between stewardship for the environment and stewardship for public resources.
- Instilling greater Agency-wide accountability for financial management.
- Striving for continuous improvement by setting goals, evaluating performance, marking progress and continually pushing forward to achieve excellence.

Integration

The first step in positioning the Agency's financial management organization, services and operations to meet the challenges of the future requires an Agency-wide shift in the way financial management is perceived. Financial management can no longer be thought of as an isolated accounting and payment function. Instead, financial management must become recognized in its broader perspective--as an interconnected set of management operations, services and tools through which the Agency

obtains, manages and accounts for its fiscal resources in order to achieve its environmental mission.

This broader perspective of financial management encompasses Agency-wide fiscal responsibilities and operations, and requires that financial management become an integral part of the process that guides the Agency's program management and investment decisions. Financial management personnel and environmental program managers must work in partnership to achieve EPA's mission. In addition, financial management must be linked in one comprehensive process with strategic planning, budgeting and program evaluation to optimize resource utilization. This integration will require Agency-wide cultural and operational changes.

Infrastructure

Financial management information, services and systems must be designed to support the Agency's program managers. The CFO must provide program and regional managers with the tools they need--financial systems, useful information, policy guidance, training and technical assistance--to effectively perform their financial management responsibilities and to achieve the Agency's environmental mission. Realizing this vision will require that financial management become more streamlined, efficient, effective and customer oriented.

Balance

All managers must strive to balance their stewardship for the environment with their stewardship for public resources. When making resource decisions, the Agency's senior managers must balance their commitment to achieving the Agency's mission with their commitment to financial and management integrity. Both commitments are critical to success. Certainly over the long term, the Agency's ability to achieve its environmental

mission requires the execution of its programs in a manner that complies with applicable legislative and administrative requirements.

Similarly, financial managers must recognize their dual roles of providing services to the Agency's program managers and serving as stewards of public resources--roles which sometimes conflict. While the CFO's staff must fulfill the function of serving as the Agency's honest broker, it also must meet the needs of its customers--senior and program managers--by providing them with the technical assistance and information needed to achieve their program goals within applicable legal and administrative guidelines.

Accountability

The CFO must communicate to the Agency's senior and program managers the critical importance of ensuring sound financial management and management integrity in the Agency's programs and operations. Further, the CFO must ensure that all managers acknowledge their responsibilities for financial and management integrity within their own organizations, recognizing that accountability is not an issue pertaining only to the CFO's immediate organization. Fulfilling this vision will require the continued leadership of the CFO in management forums and the personal involvement and commitment of senior management.

Continuous Improvement

Improving financial management must be recognized as a long-term iterative process; change in the federal bureaucracy comes slowly. Enormous amounts of political will, management commitment and hard work will be required to fully achieve the ideals espoused within this conceptual framework. In addition, changing conditions such as technological advancements, new legislation and efforts to "reinvent" government will require the Agency to adjust

and sometimes redirect its efforts. However, regardless of the conditions, management must remain committed to setting goals, evaluating its performance, marking its progress and continually pushing forward to attain excellence. The five-year plan offers a baseline and a scorecard for tracking that progress.

CFO'S GOALS FOR FINANCIAL MANAGEMENT

Each of these themes--integration, infrastructure, balance, accountability and continuous improvement--must be cultivated in order to develop a comprehensive financial management program which will ensure more effective management of the Agency's resources and also support attaining EPA's environmental goals. With this conceptual framework of financial management in mind, the CFO has established five key long-range goals for EPA's financial management operations. The goals are as follows:

1. Establish Agency-wide accountability for financial management operations and activities.
2. Provide complete, reliable, timely and useful financial information and services to Agency managers, central agencies and the Congress.
3. Cultivate program and regional partnerships to effectively and efficiently manage resources in support of Agency goals.
4. Support an integrated approach to Agency-wide strategic planning, budgeting, financial accounting and program evaluation.
5. Define future skill needs and establish a strategy for recruitment and training of financial management personnel.

The experiences EPA has gained during the past year have provided opportunities to identify and plan for the initiatives and activities needed

to fulfill the requirements of the CFO Act and to meet these goals. Those plans are detailed in the eight prescribed chapters of this status report and five-year plan.

FACTORS INFLUENCING FINANCIAL MANAGEMENT IMPROVEMENT

Meeting the CFO Act requirements alone, however, is not sufficient. The CFO also must take a broader look at the emerging management trends and initiatives in order to develop long-range plans and make prudent investment decisions in these times of increasing fiscal constraint. For example, the CFO's plans for working with Agency managers to develop program performance information must consider the future program performance measures requirements of the Government Performance and Results Act (GPRA). Although the implementation plans for GPRA are not yet final, the CFO has developed this five-year plan anticipating the need to closely link the Agency's implementation of the CFO Act and GPRA--to avoid duplication of effort or working at cross-purposes.

The CFO's plan also reflects Administrator Browner's declared intentions to build a far more rigorous system of accountability for the management of the Agency's resources. The Administrator already has demonstrated her commitment to accountability and management integrity by establishing a cadre of senior managers--Senior Resource Officials--who are responsible for all aspects of resource management within their respective regional and Headquarters offices. In addition, the Administrator has established a permanent executive-level council to serve as an oversight and decision-making body for EPA's management integrity and resource management responsibilities.

EPA's 1993 Financial Management Status Report and Five-Year Plan reflects these factors and initiatives, however, the impact of even

more financial management improvement initiatives, such as the National Performance Review and the internal agency reviews, were not available in time to be incorporated into the 1993 planning process. The CFO anticipates factoring the specific effects of these initiatives and GPRA into the Agency's next five-year financial management plan.

CONCLUSION

EPA's 1993 Financial Management Status Report and Five-Year Plan serves as a compendium of the Agency's financial management accomplishments during FY 1993 and a diagram of its goals and initiatives for FYs 1994 - 1997. The Agency has made great strides in developing this plan by offering not only a vision for the future of financial

management within EPA, but also by establishing benchmarks, goals and specific milestones by which its progress can be measured in future years.

The plan takes financial management far beyond the traditional core functions and operations, and strives to introduce an Agency-wide awareness of and momentum for financial management improvement. The plan is a beginning; it provides the underpinnings for future plans in what will be an evolutionary process. The ultimate goal is to secure a partnership of financial and program managers making informed programmatic and resource decisions, and guiding the Agency to achieve its environmental mission and meet its fiduciary responsibilities.

CHAPTER 2

FINANCIAL MANAGEMENT ORGANIZATION

A principal intent of the Chief Financial Officers (CFO) Act is to establish financial management organizations that will facilitate financial management improvements and accountability. EPA must accomplish this through: the leadership and influence of the CFO; partnerships with other Agency organizations and managers; and more effective and efficient financial management operations.

A. STATUS OF FINANCIAL MANAGEMENT ORGANIZATION

LEADERSHIP AND INFLUENCE OF THE CFO

CFO Organizational Plan

The Environmental Protection Agency (EPA) is organized into fifteen Headquarters Offices under the direction of the Administrator, and the Assistant and Associate Administrators, and into ten Regional Offices under the direction of Regional Administrators (see Attachment A, U.S. EPA Organizational Chart). In addition, there are 52 EPA laboratories and field offices located throughout the United States and its territories.

Headquarters Assistant and Associate Administrators serve as national program managers for one or more environmental programs or administrative and management support areas. Regional Offices, however, provide the full range of environmental programs, services, and administrative and management support—including financial management—for the geographic locations under their jurisdiction.

EPA's designated CFO is the Assistant Administrator (AA) for Administration and

Resources Management. Consistent with the CFO Act, the CFO/AA is a Presidential appointee who reports directly to the Administrator. The CFO has responsibility for managing the Agency's financial management activities including budget formulation and execution, management of contract and grants administration, and Agency-wide management controls and audit follow-up. In addition, the CFO serves as the Agency's senior information resources and human resources management official.

In FY 1993, EPA's Office of Administration and Resources Management (OARM) re-organized to improve the management and accountability of the Agency's complex contracts, grants and financial management activities. Since the AA for OARM also serves as EPA's CFO, the OARM re-organization dictated modifications to EPA's CFO Organizational Plan. The revised plan was submitted to the Office of Management and Budget (OMB) for approval in July 1993.

Key to the OARM re-organization was the establishment of the Deputy Assistant Administrator (DAA) for Finance and Acquisition, who also serves as EPA's Deputy

CFO (see Attachment A, OARM Organizational Chart). This is a change from EPA's previous organizational structure in which the Comptroller served as the Deputy CFO (DCFO). The new DAA/DCFO structure was designed to:

- Raise the visibility and devote more structured management attention to financial management and acquisition;
- Recognize the importance of key management functions and financial integrity to the successful operation of the Agency;
- Develop strong programs which ensure that the Agency will conduct itself with high business, government and ethical standards; and
- Provide strong oversight to the full spectrum of the Agency's fiscal responsibilities.

Establishing the DCFO position at the DAA level provides the DCFO with increased authority and effectiveness to work with EPA's program and regional offices in providing direction, management and oversight of the Agency's financial management personnel, activities and operations. In addition, EPA is working to strengthen the effectiveness of the Agency's financial management personnel, activities and operations through a variety of initiatives, including:

- The development and implementation of an Agency-wide organizational financial management performance measures process (see pages 15 - 17);
- The development of model language for critical job elements, position descriptions and skills factors for financial management personnel (see page 21); and
- The development of a financial management core training curriculum, which will provide appropriate training to all of the Agency's

senior managers, as well as to financial management staff and managers (see pages 23- 25).

Because the CFO does not have direct line authority over financial management personnel in the Program and Regional offices, the CFO must establish a strong partnership role in working with these staff and managers to ensure good Agency-wide financial management practices. In addition to networking at the various staff and management levels, EPA's strategy for achieving more effective Agency-wide financial management requires the focused attention and support of senior managers on key financial and resource management issues.

Senior Management Attention on Financial Management

EPA Administrator Carol Browner has identified the effective management of the Agency's resources as one of the key priorities of her administration. During FY 1993, the Administrator has taken a number of actions to focus Agency-wide senior management attention on improving resources management and accountability, as envisioned by the CFO Act. The Administrator's actions include establishment of two new senior management councils:

- **The Senior Leadership Council (SLC)** - a permanent council, comprised of the Agency's senior political and career managers, that provides advice and counsel to the Administrator on a broad range of management issues. The SLC meets quarterly or more frequently upon request of the Administrator.

Two Agency-wide initiatives under the direct supervision and guidance of the SLC are of critical importance to the successful implementation of the CFO Act and the implementation of the Government Performance and Results Act (GPRA)--the

Environmental Goals Project and STARS II. These collaborative efforts are designed to provide EPA with the capability to report program performance information in terms of environmental results, consistent with the requirements of both the CFO Act and the GPRA. Both of these initiatives are discussed more fully in Chapter 7, "Audited Financial Reporting" (see pages 71 - 72).

- **The Resource Management Committee** - a committee of senior managers charged with strengthening Agency-wide resource management practices, including procurement and contracts management, grants management, and program financial management. The Resource Management Committee is chaired by the CFO. Committee members are representatives of the Senior Resource Officials (SROs), a cadre of senior managers recently designated to be responsible for all aspects of fiscal resources management in their respective regional and headquarters office.

The Resource Management Committee will provide high level leadership for the Agency's overall resource management responsibilities, including programmatic financial management issues. To ensure the continued involvement of the SROs in appropriate financial management concerns, the CFO will provide them with periodic updates on financial management initiatives. At the operational level, the CFO Advisory Council (see page 9) will provide advice to the CFO and other senior managers on overall financial management operations and related CFO issues.

Revised Delegations of Authority to the CFO

In October of 1991, EPA's Administrator signed the Agency's initial Delegations of Authority to the CFO. These delegations granted the CFO certain personnel authorities over the Agency's key regional and program

managers who have responsibility for financial management functions within their organizations.

For regional financial managers--the Assistant Regional Administrators--the Delegations formalized an existing relationship with the CFO and the responsibilities for financial management functions that those managers traditionally have performed. For the Headquarters program office financial managers--the Senior Budget Officers (SBOs)--the Delegations represented a significant departure from their previous working relationship with the CFO. Further, this relationship was not consistent with the varied roles, responsibilities and organizational placement of the SBOs. For the program offices, revised Delegations of Authority were needed to establish appropriate accountability for financial management at a higher level of authority--the Assistant Administrators.

PARTNERSHIPS WITH OTHER AGENCY ORGANIZATIONS AND MANAGERS

CFO Implementation Task Force

During FY 1993, EPA's CFO Implementation Task Force continued to provide oversight for implementation of the CFO Act, including the preparation of the Agency's first audited financial statements and the first CFO's Annual Report. With the completion of these activities in FY 1993, the Task Force is concluding its work of guiding the Agency in the initial implementation of the CFO Act requirements. Prior to disbanding in early FY 1994, the Task Force will prepare a report summarizing the CFO implementation accomplishments, and providing recommendations on next steps for the future CFO Advisory Council (see page 9).

CFO Planning Session

In April 1993, EPA held its first agency-wide gathering concerning the CFO Act--the CFO Orientation and Planning Session. More than 125 Regional and Headquarters staff and

managers participated in the two-day session which provided: 1) an orientation and update on CFO Act implementation at EPA; and 2) presentations and discussions on key CFO Five-Year Plan issues such as financial management accountability and program performance measures.

The CFO Orientation and Planning Session was a first step in the CFO's strategy for engaging program and regional managers in financial management initiatives. Two immediate outcomes of the Orientation and Planning Session were:

- The establishment of an FY 1994 financial management performance measures pilot program to report on financial management operations not addressed by the OMB required measures; and

- Monthly teleconferences between Headquarters Financial Management Division managers and financial managers in the Agency's ten Regional Offices to strengthen communications and provide a forum for addressing cross-cutting financial management issues.

In addition, the Planning Session provided an opportunity to secure the participation of regional and program managers in the development of the CFO's Five-Year Plan. As follow-up to the Planning Session, the CFO will transmit the Financial Management Status Report and Five-Year Plan to the Agency's senior managers, as well as to program and regional financial management staff and managers. Distribution of the plan will serve as an initial step to communicate the CFO's goals and expectations for financial management to the Agency's staff and managers.

B. PLANS FOR FINANCIAL MANAGEMENT ORGANIZATION

LEADERSHIP AND INFLUENCE OF THE CFO

Senior Management Attention on Financial Management

As the Chair of the Resource Management Committee, the CFO will continue to provide leadership to ensure that the Agency's senior managers focus attention on critical financial management issues. Specific actions planned include defining the responsibilities and functions of the Senior Resource Officials (SROs) and examining the linkages between the SROs' duties and responsibilities and the performance of CFO-related functions in the regional and program offices.

In addition, the CFO will bring pertinent financial management and related issues to the attention of the SLC. For example, the SLC

will provide oversight for two Agency-wide initiatives--the Environmental Goals Project and the STARS II Project--that are integral to successfully meeting the goals of both the CFO Act and the GPRA. These and other management/programmatic initiatives will present an opportunity to integrate key pieces of legislation so that EPA has a coherent, integrated strategic and program planning, budgeting, program evaluation and financial accounting process that allows senior managers and policy officials to make informed, fact-based decisions in the environmental arena. (For additional information on the Environmental Goals Project and STARS II, see Chapter 8, "Audited Financial Reporting," pages 71 - 72.)

Clarify Delegations of Authority to the CFO

As noted above, efforts to work with program financial managers--SBOs--during the past year

revealed a need to clarify key elements of the Delegations of Authority. The objective of the CFO Implementation Task Force in revising the Delegations is to issue a clearly stated policy that defines the CFO's role in overseeing financial operations both within the CFO organization and within other organizational components of the Agency.

The revised delegations require the CFO to provide feedback to the Regional Administrators (for their regional offices) and the Deputy

Administrator (for Headquarters offices) on the performance of financial management within the Agency's various component organizations. This feedback will be based on mutually accepted financial management performance measures and standards for EPA's Headquarters and regional offices. The revised delegations are scheduled to be issued in mid FY 1994. The financial management performance measures will be piloted in FY 1994, and are scheduled for Agency-wide implementation in FY 1995.

MILESTONES FOR DELEGATIONS OF AUTHORITY

MILESTONE	EXPECTED COMPLETION DATE
Conduct review and concurrence of Delegations	2/94
Issue Final Delegation	3/94

PARTNERSHIPS WITH OTHER AGENCY ORGANIZATIONS AND MANAGERS

CFO Advisory Council

In FY 1994, EPA plans to establish an internal CFO Advisory Council to provide advice to the CFO and other senior managers on financial management operations and related CFO issues. The purpose of the Council will be to forge a partnership with the operational program and regional financial management communities and to address cross-cutting financial management issues such as program performance measures and financial management performance reporting.

The Council will assist the CFO to identify ways to strengthen the "dotted line " authority between the CFO and the regional and program offices; to develop and provide complete, reliable, timely and useful financial management

information to Agency managers; and to enhance the CFO's financial management operations and infrastructure.

Proposed tasks for the Council include the following:

- Provide guidance on the development and implementation of the CFO's Five-Year Plan;
- Strengthen financial management accountability through the institutionalization of financial management performance measures and reporting;
- Develop a prototype structure for performing financial management functions within program offices;
- Develop an Agency-wide recruitment and training strategy to ensure the appropriate mix

of knowledge, skills and abilities for key financial management staff and managers;

- Delineate and define the financial management information needs of program and regional managers; and
- Advise the CFO on linking planning and program performance information with budget and financial management data.

EPA expects to establish the CFO Advisory Council in mid-FY 1994. One of the Council's first tasks will be to develop its charter and action plan for FYs 1994 and 1995. The CFO anticipates that the Council will be instrumental in evaluating the organization and operations, and improving the effectiveness of Agency-wide financial management.

MILESTONES FOR CFO ADVISORY COUNCIL

MILESTONE	EXPECTED COMPLETION DATE
Establish CFO Advisory Council	3/94
Develop Charter and Action Plan	6/94
Provide guidance for 5-Year Plan	9/94

Financial Management Performance Measures

The objective of EPA's financial management performance measures process is to establish standards and goals to measure how well the Agency's various Headquarters and regional offices are performing key financial management functions. Regional and Headquarters' program financial operations are not under the direct supervision of the CFO; however, the CFO has the authority to measure how well financial management activities are being conducted in these offices. Organizational performance will be measured against these established standards and improvement plans will be initiated where organizations are not meeting the standards. (For additional information on financial management performance standards, see Chapter 3, "Accountability Standards," pages 15 and 17.)

MORE EFFECTIVE AND EFFICIENT FINANCIAL MANAGEMENT OPERATIONS

Analyze the Effectiveness of Existing Financial Management Organization and Resources

In its 1992 Five-Year Plan, EPA indicated there was a need to analyze the effectiveness of available EPA resources to accomplish the workload associated with the CFO legislative mandates and subsequent OMB requirements. While the Congressional and administrative requirements for financial management have increased in recent years, the Agency's financial management resources have remained essentially the same. Although EPA has met the requirements of the CFO Act to date, it has done so largely by re-directing resources from other financial management operations and priorities.

To continue operating in this manner will compromise EPA's ability to perform its critical, core financial management activities. To address this problem, in FY 1994, the CFO will undertake several reviews of the existing financial management organization and core operations. These reviews will be designed to determine what specific changes are required to take advantage of new technology and re-engineering to improve financial management operations and services and promote more efficient and effective use of the Agency's resources. Specific plans include the following:

- Conduct a special review of EPA's financial management operations in cooperation with the Agency's OIG;
- Initiate an internal review of EPA's financial management operations centers to identify

opportunities for streamlining and consolidating operations and services;

- Enlist the assistance of a consultant to review the central financial management organization--the Financial Management Division (FMD)--and to provide impartial recommendations on technological, operational, functional and staffing changes needed to ensure the future effectiveness and efficiency of the FMD; and
- Develop implementation plans to address the recommendations of the National Performance Review and EPA's internal financial management review.

The results of these reviews and subsequent action plans will be incorporated into the 1994 status report and five-year plan.

MILESTONES FOR REVIEW OF FINANCIAL MANAGEMENT OPERATIONS

MILESTONE	EXPECTED COMPLETION DATE
Complete CFO/OIG review of financial management	12/93
Develop follow-up action plan	3/94
Complete internal financial operations review	3/94
Develop follow-up action plan	4/94
Receive recommendations report from consultant	6/94
Develop follow-up action plan	9/94

CHAPTER 3

ACCOUNTABILITY STANDARDS

To define the expectations for financial management in EPA, and to enable an objective and reliable assessment of the achievement of these expectations, EPA needs clear, comprehensive and consistent accounting standards and financial management performance measures.

A. STATUS OF ACCOUNTABILITY STANDARDS

ACCOUNTING STANDARDS

Financial Policies and Procedures

All of EPA's financial management guidance, including its accounting policies and procedures, are contained in the Resources Management Directives System (RMDS), which is part of the Agency's overall directives system. As the need to issue new or revised financial management guidance arises, EPA issues Comptroller Policy Announcements (PAs) or Comptroller Transmittal Notices (TNs). These single-issue policy documents then are incorporated into the RMDS at a later date. In order to improve the availability of the Agency's RMDS guidance, all issued RMDS chapters, as well as PAs and TNs issued since 1987, are available on an electronic bulletin board known as FMD SAGE. This on-line, local-area system is available Agency-wide.

In FY 1993, EPA revised and updated several aspects of its accounting policies and procedures, including requirements for adequately documenting Agency financial transactions and reconciling accounts receivable. In addition, the Agency issued 23 Comptroller Transmittal Notices on a variety of financial management issues. Following these policies and procedures will greatly improve the reliability of the Agency's accounting data. For example,

transactions recorded in the Integrated Financial Management System (IFMS) will be adequately documented and will agree with the documentation referenced. In addition, the Agency's accounts receivable will reconcile with the detailed records.

Superfund Policies Update

An area of particular interest in financial policies is the updating of RMDS 2550-D, Financial Management of Superfund. RMDS 2550-D contains all Superfund specific financial management and accounting policy for the Agency. Since Superfund is unique in its cost accounting requirements, these policies must be current and complete to ensure effective financial management practices of the Superfund program.

EPA also is updating its Superfund guidance documents for other Federal agencies and for States. In keeping with the partnership theme, other Federal agencies and States play a key role in Superfund. These financial guidance documents will assist those organizations in practicing sound financial management for the Superfund program and will assist the Agency in its cost recovery efforts.

Because of the unique cost accounting requirements of Superfund, addressing emerging

issues is an important aspect of EPA's financial policies. Although most of the Agency's Superfund financial policies were developed after the 1987 reauthorization, the Superfund program has continued to evolve significantly. As a result of this evolution, many new issues have not been explicitly addressed and other areas need more detailed explanations. These issues include cashouts, receipt of stock from bankruptcies, cost documentation (the documentation requirements have changed), site accounting, and other cost accounting practices. In order to meet its goal of sound financial management, the Agency plans to identify and address these emerging issues in a timely fashion by issuing the appropriate policy and guidance.

Superfund Cost Accounting

Indirect Cost Rate: The initial indirect cost rates for fiscal years 1983 through 1988 were based on a study by the accounting firm of Ernst & Whinney (now Ernst & Young). In implementing the methodology, EPA made conservative policy decisions to exclude certain costs from the indirect cost pools, and made other decisions which significantly limited recovery of certain indirect costs. Selection of this indirect cost allocation methodology was not based on the premise that those indirect costs were not recoverable, but rather was based on a consideration of efficient administration of this methodology by the Agency's previous financial management system (FMS).

In June of 1989, EPA made the decision to change the indirect cost rate methodology to a full cost recovery methodology. The Agency determined that the approach for making this change would be to propose a federal regulation establishing a full cost recovery methodology. In November 1990, EPA completed its process of developing the regulation package and submitted it to the Office of Management and Budget (OMB). In July 1992, OMB released the regulation, and it was published for comment in the Federal Register in August 1992.

The principal methodology change is the provision for full cost recovery, including those indirect costs previously excluded under EPA's conservative policy. Under the rule, all indirect costs would be recoverable at sites associated with viable responsible parties. It is the Agency's intention to make the cost recovery rule rates (full cost approach) effective retroactively for cost recovery actions initiated after the regulation is established. The final rule is scheduled to be issued February 1994.

Annual Allocation: The purpose of the Annual Allocation Reporting Process is to enable the Agency to capture all Superfund site-related costs consistently and accurately for purposes of cost recovery and external reporting. Superfund site contractors invoice site-specific direct costs incurred in performing cleanup work at sites on an ongoing basis. The Annual Allocation Reporting Process is the means by which administrative and other non-site costs associated with the contractors' direct site work are redistributed to the appropriate sites.

The process requires contractors to follow a sound and documented methodology for allocating certain non-site costs to sites and to submit an annual allocation report. EPA's role is to prescribe a standard allocation methodology, to assist contractors in report preparation, to review contractor reports for completeness and accuracy, and to process completed reports for inclusion in cost recovery efforts. The annual allocation process has multiple steps which require several months to complete. During the entire process, FMD tracks the progress on each contract using an internal database and manages the process by dealing with project officers, contracting officers and contractors to ensure that the process is successful.

Since the Annual Allocation project entered its implementation phase in FY 1993, approximately 30 out of 150 reports have been completed and the process for another 60

contracts has been started. The expected recovery from these 150 reports is \$700 million. Once the remaining 120 reports are completed, the backlog will be eliminated. The reports will then be completed on an annual basis.

Federal Accounting Standards Advisory Board

During fiscal year 1993, the Federal Accounting Standards Advisory Board (FASAB) issued two accounting standards exposure drafts, and a draft concept statement on the objectives of federal financial reporting. The first exposure draft pertained to accounting for direct loans and loan guarantees under the Credit Reform Act of 1990. The second exposure draft contained accounting requirements for inventories held for operations or for resale to others. Generally, the standard requires that inventories be valued at cost, except when circumstances indicate that they should be valued at a lower amount.

While EPA does have a loan program (the Asbestos Loan Program) and maintains inventories for its operations, neither proposed accounting standard will have much of an impact on EPA. The primary reason for this is that neither item is material to EPA's overall operations. In addition, the loan program has never had a default, and Agency accounting policies for inventories are generally in agreement with the FASAB's recommended accounting requirements.

EPA provided extensive comments on the FASAB's first draft concept statement on the objectives of federal financial reporting, expressing the need for FASAB to develop a conceptual framework before it begins developing detailed accounting standards. A conceptual framework answers, or at least raises, fundamental questions such as: 1) who are the intended and/or expected users? and 2) what are their expected information needs? Answers to these and similar questions are critical to providing the foundation for the development of detailed accounting standards.

FINANCIAL MANAGEMENT PERFORMANCE MEASURES

EPA assisted OMB in developing government-wide financial management performance measures through active participation in the CFO Council Operations Group's effort. Reporting on these mandatory measures is scheduled to begin in late FY 1993.

In addition, as part of EPA's overall strategy to improve financial management, the CFO has initiated a project to implement additional, objective financial management performance measures to gauge how well financial management is carried out within EPA. The purpose of this initiative is to establish performance measures and standards to evaluate the core financial management operations administered by the CFO as well as to evaluate key CFO-related activities performed in the program and regional offices.

The performance measures and standards will provide the CFO and Agency managers with a basis for assessing the strengths and weaknesses of EPA's financial management. The performance results of the Agency's financial activities measured against these standards also will provide the CFO with feedback on how well the CFO's staff is meeting the financial requirements of its customers and other stakeholders. Several pilots for using these measures will be implemented in FY 1994.

QUALITY ASSURANCE PROGRAM

EPA implemented its current Quality Assurance (QA) Program in 1986. The primary focus was to implement an efficient, continuous process for evaluating financial managers' compliance with management control standards and with appropriate accounting principles and standards, as prescribed by OMB and the General Accounting Office (GAO). The framework and procedural guidance for

implementing and maintaining the program is contained in the Agency's QA Guide.

EPA had planned to revise the QA Guide in FY 1993 in order to: reflect changes in EPA operations resulting from the 1989 implementation of IFMS; expand the use of

statistical sampling as a quality control technique for validating the integrity and reliability of the financial processes; and to reflect the Agency's philosophy and approach to Total Quality Management. Due to other priorities, these revisions to the QA program were delayed until FY 1994.

B. PLANS FOR ACCOUNTABILITY STANDARDS

ACCOUNTING STANDARDS

EPA's goal is to have relevant, comprehensive, understandable, and up-to-date written accounting and financial reporting policies and procedures that are accessible to all Agency financial management personnel. Having such accounting and financial reporting policies and procedures in place will help to ensure that the Agency's financial transactions are properly recorded and reported. As a result, the Agency will be able to provide consistent, reliable, timely and useful financial information to Congress, the President, Agency managers, and the general public for evaluating EPA's programs and performance.

Revising the Agency's accounting and financial reporting policies and procedures is an ongoing task. As new accounting and financial reporting requirements emerge--either from new legislation, central agency directives and requirements, or changes in EPA's operations and financial management information needs--EPA develops and issues Comptroller PAs or Comptroller TNs. These PAs and TNs are single-issue policy documents which are subsequently integrated into the Agency's RMDS.

EPA expects to consolidate and revise its existing accounting policies and procedures, as appropriate, and issue them in the Accounting Policies section of the RMDS. Among the

functional areas being addressed by the updated directives are payroll, accounting, Superfund and cash management. Detailed procedures for entering financial transactions into IFMS will be contained in the IFMS Users' Manual. This manual is currently being developed and will be issued when EPA installs version 5.1e of IFMS in the spring of 1994. Both the RMDS and the IFMS User Manual will be updated as needed.

Additionally, the Agency will issue the remaining 31 unissued RMDS chapters, and revise as appropriate those 86 chapters that already have been issued. Development and issuance of the unissued RMDS chapters is a long-term effort, since many of the directives deal with complex subjects and require considerable coordination among the various EPA offices involved. Also, all new directives and revisions to existing directives must go through an Agency-wide review and approval process.

Superfund Policy

As indicated previously, the Agency anticipates implementing its full cost recovery of indirect costs after the final rule is issued. The issuance is scheduled for February 1994. In addition, the backlog of 120 contracts must still be completed under the Annual Allocation project. Sixty of these have been initiated. When the entire backlog is addressed, new reports will be addressed on an annual basis.

FASAB

Finally, as part of EPA's ongoing government-wide effort to stay abreast of emerging policy issues and to influence their policy and process, EPA intends to remain an active

participant on interagency workgroups. For example, the Agency will continue to keep current on the FASAB's work and provide comments on their exposure drafts and draft concept statements.

MILESTONES FOR ACCOUNTING STANDARDS

MILESTONE	EXPECTED COMPLETION DATE
Issue Payroll Directive, RMDS 2550A, Part II (7 chapters)	9/93
Issue IFMS Users Handbook	3/94
Issue Revised EPA Travel Manual	9/94
Issue RMDS 2530 Accounting Policies (8 chapters)	12/94
Issue Revised Superfund Directive, RMDS 2550D	12/94
Issue Remaining RMDS 2540 Cash Management (11 chapters)	12/95
Issue Remaining RMDS Chapters	12/96
Update issued RMDS Chapters	Ongoing
Attend FASAB Meetings	Ongoing
Respond to FASAB exposure drafts and draft standards	Ongoing
Implement New Accounting Requirements	Ongoing

FINANCIAL MANAGEMENT PERFORMANCE MEASURES

The objective of EPA's financial management performance measures process is to establish standards and goals to measure how well the Agency is performing key financial management functions within the CFO's organization as well as within other Headquarters offices and regional offices. Regional and program financial

operations are not under the direct supervision of the CFO; however, the CFO does have the authority to measure and provide feedback on how well financial management activities are being conducted in those offices. This measurement of organizational financial management performance will be gauged against established objective standards, and improvement plans will be initiated where organizations are not meeting those standards.

EPA's action plan for implementing financial management performance measures is designed to build consensus from the staff and managerial levels on what needs to be measured, what the goal or standard should be, and how information should be collected and validated. The program will also feature improvement strategies and goals for meeting customer expectations. The strategy includes developing a four-tiered comprehensive measurement process.

- Implement the external OMB Government-wide efficiency measures to provide a composite indicator of EPA's basic financial management performance. These measures will apply to the CFO's organization and the field finance offices.
- Develop additional indicators of internal efficiency and quality which are applicable to the CFO's organization as well as field and Headquarters financial offices.
- Develop agency-wide indicators for other financial management performance areas, applicable to program and finance offices in

Headquarters and the regions.

- Encourage all offices to develop additional internal financial management measures which office managers may find useful in operating their offices effectively and efficiently.

The CFO will develop a periodic reporting process measuring performance against standards. Using these reports, the CFO will provide feedback to the heads of each office and to the Deputy Administrator on how well financial management is being conducted in EPA.

The CFO also will solicit input from field and program offices for improving the CFO's operations and will institutionalize a continuing improvement process as a result of this measurement strategy. Additionally, the Deputy Administrator and the Regional Administrators will use the CFO's feedback on organizational financial management performance in formulating their performance appraisals of senior managers under their supervision.

MILESTONES FOR PERFORMANCE MEASURES

MILESTONE	EXPECTED COMPLETION DATE
Implement OMB Government-wide Measures	10/93
Develop internal measures for core operations	10/93
Conduct pilots for internal measures	3/94
Address issues to implement internal measures Agency-wide	6/94
Develop program financial management performance measures	9/94
Implement Agency-wide financial management performance measures and reporting	10/94
Monitor and provide feedback on financial management performance and improvement	Ongoing

QUALITY ASSURANCE PROGRAM

During FY 1994, EPA plans to expand the scope of its QA Program to encompass the establishment and monitoring of financial management organizational performance measures and standards as part of its implementation of the CFO Act. The QA program will also be revamped to: reflect changes in EPA operations resulting from the implementation of an upgraded IFMS; expand the use of statistical sampling as a quality control technique for validating the integrity and reliability of its financial processes; and to reflect the Agency's philosophy and approach to Total Quality Management.

Essential elements of the initial QA program guidance are still applicable. However, important aspects of the program need to be refined and updated in order to:

- Reflect new requirements imposed by the CFO Act, with particular emphasis on the requirement for annual audited financial statements;

- Incorporate changes in the Agency's management control event cycles resulting from system and policy changes; and
- Identify opportunities for performing QA reviews in a more efficient manner.

The goal of the quality assurance initiative is to update the Agency's QA Program to reflect changes in EPA's financial operations and to ensure compliance with the objectives of the CFO Act. Specific objectives of the initiative include the following:

- Achieve and maintain effective control systems as an ongoing function of management;
- Provide a framework for monitoring the success of EPA's financial organizations in achieving financial management performance goals;
- Implement improved quality control procedures and techniques.

MILESTONES FOR IMPROVED QUALITY ASSURANCE

MILESTONE	EXPECTED COMPLETION DATE
Develop internal core financial measures	10/93
Implement automated statistical sampling system	6/94
Issue revised <i>Financial Managers' Quality Assurance Guide</i>	9/94

CHAPTER 4

FINANCIAL MANAGEMENT PERSONNEL

Highly skilled financial management personnel are essential for accomplishing the fundamental reforms called for in the Chief Financial Officers (CFO) Act. EPA needs to be able to hire the best qualified financial management personnel, train them well, and provide a work environment that challenges and rewards them appropriately.

A. STATUS OF FINANCIAL MANAGEMENT PERSONNEL

CFO PERSONNEL WORKGROUP

In FY 1992, EPA's CFO Implementation Task Force established a Personnel Workgroup, comprised of Headquarters and Regional financial and human resources management staff and representatives from the Office of the Inspector General (OIG). The workgroup was tasked to develop and execute short-term action plans for implementing the personnel requirements of the CFO Act.

The CFO implemented a number of workgroup recommendations in FY 1993. In general, these recommendations were designed to: strengthen accountability for financial management functions; and develop training and awareness programs.

The following is a list of summary accomplishments in these areas:

Financial Management Accountability

- Implemented procedures specifying financial management criteria in merit promotion announcements and position descriptions for all newly filled Assistant Regional Administrators--the Senior Executive Service

(SES) financial managers in the Agency's 10 regional offices.

- Updated the Agency's Performance Management and Recognition System (PMRS) to include model financial management performance agreement language for all GM-13 through GM-15 supervisors and managers.
- Included mandatory financial management performance standards for the FY 1994 performance agreements of regional SES financial managers.

Core Training and Awareness Programs

- Developed a core training curriculum for financial management personnel working in the Agency's central finance office--the Financial Management Division (FMD). The curriculum was endorsed by FMD management, which recommended that employees review and follow curriculum recommendations in the development of their Individual Development Plans (IDPs). An IDP outlines an employee's goals for expanding his/her knowledge and skills, while identifying training and developmental

opportunities to help the employee achieve those goals. IDPs are required for all FMD employees.

- Developed new employee orientation courses targeted at various levels of staff and managers within the Agency, ranging from all new GS employees to new Presidential appointees and career SES managers. Agency staff presented the first courses for new employees in June and August 1993, and conducted the initial SES training during July 1993.

Systems and Operational Training

- Conducted hands-on training to improve knowledge of and skills on various automated systems and software packages related to EPA's Integrated Financial Management System (IFMS). For example, Agency-wide financial management staff were provided training on use of the Management and Reporting System (MARS), the Automated Document Control Register (ADCR), and IFMS.
- Addressed ongoing needs for Agency-wide training in several financial management functions, such as: managing bankcard log sheets and reconciling accounts; completing travel forms; preparing and managing time and attendance forms; and establishing interagency agreements and tracking their expenses and disbursements/reimbursements.

Superfund-related Training

- Conducted a session for EPA and Department of Justice representatives on EPA Cost

Recovery and Finance Procedures. Session leaders described financial procedures and cost documentation and recovery processes.

- Implemented hands-on training using the Superfund Cost Recovery Image Processing System (SCRIPS) and the Superfund Cost Organization and Recovery Enhancement System (SCORES).
- Provided an overview of Superfund, and Superfund Response Agreements and Enforcement Actions, including policies and procedures for procurement and closeout of Cooperative Agreements.
- Held the Annual Superfund Financial Management Technical Workshop to disseminate information and discuss current critical issues requiring attention.

As a "next step" to these FY 1993 accountability and training initiatives, EPA has established a long-range goal of developing a human resources program that will nurture and support a workforce capable of addressing the Agency's current and future financial management personnel needs. Recognizing the multifaceted nature of financial management, the CFO is dedicated to recruiting and training a diverse staff with a broad range of knowledge, skills and abilities. In addition, the Agency must ensure that those engaged in financial management--staff and managers throughout EPA--have the aptitude, flexibility and training needed to meet the constantly changing and growing challenges of managing the Agency's financial resources.

B. PLANS FOR FINANCIAL MANAGEMENT PERSONNEL

While the Agency has made progress in promoting training opportunities for financial management personnel—for example, the establishment of FMD's core training curriculum--much work still remains. Training opportunities and requirements need to be more readily identified for staff and more closely monitored by management. Training courses developed and delivered by EPA staff and managers also need to be evaluated to determine if the expected outcomes have been achieved (i.e., does IFMS training reduce number of erroneous data entries?).

EPA's plans for financial management personnel include activities that not only address the Agency's current financial management staffing needs but also will position the Agency to be an effective organization in the future. The plans focus on the following areas: identifying and standardizing financial management training; establishing evaluation criteria for financial management training; and establishing a financial management certification program.

Financial Management Training

Throughout the period of the plan, the Agency will continue to review its financial management training program. An Agency-wide training calendar will be developed to provide financial management staff with an easy-to-access guide to financial management training opportunities. The calendar, which will be updated periodically, will project training dates for a full year to allow long-term planning. The calendar will list courses on financial management-related topics offered by: the EPA Institute, FMD, regional offices, and other federal agencies.

The calendar will include specialized training opportunities. For example, several Superfund Accounting courses currently are planned for a

variety of EPA financial management audiences. These include courses to: ensure consistent approaches across regional offices for site accounting and appropriate use of ZZ accounts; provide information on what is included in Annual and Historic Allocation reports and how to include them in cost recovery packages; discuss the proper completion of Superfund timesheets, using the correct site identification numbers and describing account structures; and describe site invoicing guidance including proper site accounting to project officers.

The publication of an Agency-wide EPA financial management training calendar will help to identify training areas which may require closer coordination among Headquarters and regional offices. For example, time and attendance training is provided in several locations, but the courses have not been evaluated to ensure that they cover the same material or provide similar instruction. The Agency will review ongoing and multi-site training programs to ensure a more consistent, standardized approach.

In addition, EPA needs to avoid a duplication of effort in the development and implementation of financial management training courses provided in the Agency's various offices nationwide. Better coordination between Headquarters and regional offices may be necessary to: standardize the types of training courses being provided; ensure consistency in the training materials used and the information being communicated; and eliminate any unnecessary duplication of effort such as "re-creating" already existing courses, developing new courses and updating curriculums.

Evaluation Criteria for Financial Management Training

When EPA trains an employee, it makes an investment in that employee. As a result, the

Agency has a legitimate reason to expect better performance. Training programs, therefore, need to be evaluated based on their efficacy to improve employee performance.

In FY 1994, EPA will develop criteria for evaluating targeted financial management training programs. The criteria will be closely tied to the objectives of the training courses. For example, time and attendance training may

be evaluated on the basis of improvement observed between pre-training and post-training performance. Evaluations also will help to assess which types of training (e.g., instructor training versus self-paced training) yield greater benefits. Training programs that do not result in improved performance will be revamped, and successful programs will serve as models for new training in other functional areas.

IMPROVING FINANCIAL MANAGEMENT TRAINING COORDINATION

MILESTONE	EXPECTED COMPLETION DATE
Develop and publish training calendar	3/94
Establish evaluation criteria for targeted training programs	6/94
Evaluate and update new employee orientation programs	6/94
Develop action plan to identify and eliminate inconsistencies between training programs	7/94
Provide feedback to employees participating in core curriculum courses	10/94

Financial Management Certification Program

To ensure that the Agency is able to meet the financial management demands of the future, efforts to develop the personnel capacity to meet those demands need to intensify. As part of the independent review of EPA financial management operations discussed in Chapter 2, "Financial Management Organization," the independent management consultant will be requested to: assist the CFO to assess the Agency's financial management personnel needs for the year 2000 and beyond; evaluate EPA's current personnel structure against those needs; and recommend actions the Agency could take to improve potential performance in the next

century. In addition, EPA will review the training and certification efforts of other federal agencies (e.g, the Department of Energy). Based on these reviews, EPA will develop appropriate long-term training and certification strategies.

Through certification and recognition programs, the Agency hopes to build a culture of continuous improvement and personal growth where employees clearly identify the relationship between self-development and job performance and pursue both equally. The certification program will be designed to motivate financial staff to acquire the financial management skills needed to support the Agency's financial

management infrastructure. It also will provide them with a common body of knowledge of finance and federal accounting procedures.

The two key components to EPA's financial management certification program will be achievement and recognition. Employees need to know that if they acquire skills relevant to organization goals, they will be recognized.

The certification program will initially follow the core curriculum developed for finance personnel. The core curriculum will be refined as EPA's financial management organization matures and becomes future-focused. Every employee involved in financial management in the Agency will be encouraged to participate in courses at appropriate levels.

**ESTABLISHING A FINANCIAL MANAGEMENT CERTIFICATION PROGRAM TO HELP
MEET FUTURE ORGANIZATIONAL NEEDS**

MILESTONE	EXPECTED COMPLETION DATE
Evaluate findings and recommended actions of the independent review of financial management operations	11/94
Institute financial management certification program	1/95
Develop and issue strategy for meeting the long-term needs of the EPA "future organization"	1/96

CHAPTER 5

FINANCIAL SYSTEMS

Good management requires that financial and program managers be accountable for program results and proper control over government resources. Financial management must therefore provide information essential for budgetary integrity, effective operating performance, stewardship, and prevention of fraud, waste and abuse. To meet these needs, EPA's financial systems must process, track and provide complete, reliable, timely and useful information on financial activity in the most cost effective and efficient manner.

A. STATUS OF FINANCIAL SYSTEMS

The Chief Financial Officers (CFO) Act requires EPA and other agencies to: 1) eliminate obsolete or inefficient financial management systems; 2) provide complete, reliable, timely and useful financial information to decision-makers; 3) report costs and measure performance; and 4) integrate financial and mixed systems. In addition to the explicit CFO requirements, EPA must also be prepared to: respond to new legislation which would necessitate modifications to the Agency's Integrated Financial Management System (IFMS); keep pace with technological changes so that IFMS does not become obsolete and that EPA can capitalize on new technologies or software efficiencies; and ensure that the Agency's workforce is effectively trained in IFMS operations.

This chapter of EPA's five year plan describes the Agency's strategies for meeting the CFO Act and other legislative mandates affecting EPA's systems. Following OMB's guidance, the discussion of financial systems information is divided into the following sections:

I. Baseline of financial and mixed systems.

II. Future target for financial and mixed systems.

III. Projects required to move from the baseline to the target.

BASELINE OF FINANCIAL AND MIXED SYSTEMS

This section of the plan summarizes the current status of EPA's financial and mixed systems. Attachment B Exhibit I provides a schematic of these systems. EPA's baseline includes one integrated accounting and budget system, an integrated personnel/payroll system, two ad hoc reporting systems, and six management information systems which feed or contain limited financial data. The six mixed systems are as follows: the Contracts Payment System; the Personal Property Accountability System; the Grants Information Controls System; the Automated Procurement Document System; the Contract Information System; and the Integrated Contract Management System.

- **Integrated Financial Management System (IFMS)** - IFMS is EPA's integrated accounting and budget system, which

performs core functions for general ledger, budget preparation, budget execution/funds control, accounts payable, accounts receivable, purchasing, travel and standard reporting. IFMS was implemented in 1989, and has since been enhanced through several sub-releases.

- **Financial Management System (FMS)** - FMS is EPA's predecessor accounting system and is still maintained in order to access both historical data for ad hoc accounting reports (via software known as SPUR) and payroll information. FMS also augments IFMS for certain accounting and data editing functions, and exchanges data electronically with IFMS. As discussed below, EPA is taking steps to eliminate FMS and replace these functions in IFMS and MARS.
- **EPA Payroll System (EPAYS)** - EPAYS is the Agency's integrated personnel and payroll system. EPAYS sends data electronically to IFMS, via FMS.
- **Combined Payroll Redistribution and Reporting System (CPARS)** - EPAYS sends summarized payroll accounting data to IFMS via an interfacing system called CPARS. CPARS also provides an automated process for making payroll adjustments.
- **Management and Accounting Reporting System (MARS)** - MARS provides ad hoc reporting against data contained in IFMS.
- **Contracts Payment System (CPS)** - CPS supports EPA's contract payment function. Contract obligations and invoices are recorded in CPS. EPA also uses CPS to schedule and transmit contract payment to Treasury. CPS obligation and disbursement data are electronically posted to IFMS daily.
- **Automated Document Control Register (ADCR)** - ADCR supports program office funds management through the commitment (i.e., reservation) of appropriated funds.

ADCR also allows the electronic recording of travel obligations and transfers commitment data to IFMS. As discussed later, ADCR functions are slated to be incorporated into IFMS.

- **Resources Management Information System (RMIS)** - RMIS supports the budget formulation functions. RMIS transfers budget preparation data to IFMS. As discussed later, RMIS functions are slated to be incorporated into IFMS.
- **Personal Property Accountability System (PPAS)** - PPAS maintains inventory database of EPA personal property valued at \$1,000 or more. This system currently does not have an automated interface with IFMS, but options are being considered to either interface PPAS with IFMS, or use an IFMS module to perform functions now in PPAS.
- **Grants Information Control System (GICS)** - GICS maintains a database of Agency grants, assistance programs and loans. This system currently interfaces electronically with IFMS for Headquarters grants; EPA plans to expand that interface to include all Agency grants in the future.
- **Automated Procurement Document System (APDS) and Contract Information System (CIS)** - APDS and CIS are related systems that perform contracts document preparation and recording of current and historical contracts data, respectively. Plans are being developed to replace APDS and CIS with the **Integrated Contract Management System (ICMS)**, which will have the capability to exchange financial data on contracts between itself and IFMS.
- **Superfund Cost Recovery Image Processing System (SCRIPS) AND Superfund Cost Organization and Recovery Enhancement System (SCORE\$)** - SCRIPS and SCORE\$ are systems used by the finance offices in the

documentation of Superfund site costs. SCRIPS is an imaging system which stores Superfund site documents. SCORE\$ is a PC-based networked database system used to generate Superfund site costs in an easy-to-read manner. SCORE\$ downloads Superfund site transactions on a monthly basis from the Agency's accounting system.

In FY 1993, EPA completed several key activities related to improvements in IFMS and the financial systems arena. Major accomplishments include:

- Completed the development of the IFMS Strategic Plan and Master Work Plan;
- Implemented two releases of IFMS to streamline the payment certification process and to correct our long standing problems with accounts receivable interest, handling and penalty charges.
- Developed and implemented a comprehensive financial systems training plan. More than 300 users were provided training at various regional sites in IFMS (Data Entry and Using IFMS Tables), ADCR (New User Training) and MARS (New User and Refresher training);
- Formed a dedicated IFMS 5.1e project team to manage the implementation of the latest release of EPA's off the shelf financial system. The team has been able to make a significant impact on keeping the project in focus and staying within the project plan;
- Developed project plans and initiated efforts to eliminate legacy systems. Progress has been made for ADCR elimination with a pilot group selected for conversion to IFMS in FY 1994. Training plans and training materials have been developed for this effort.

B. PLANS FOR FINANCIAL SYSTEMS

FUTURE TARGET FOR FINANCIAL AND MIXED SYSTEMS

EPA has been charged with carrying out numerous laws to protect the Nation's environment. Under these authorities, EPA conducts research, enforces regulations, provides information to the public, and awards assistance to State and local governments, educational institutions and other organizations. The CFO Act increases the emphasis on effective financial management of the funds appropriated to EPA to carry out these functions.

In order to effectively manage EPA's funds and meet its environmental objectives, Agency managers must have consistent, reliable, timely and useful financial information. Since ADP technology now provides greater access to

various types of information, EPA's financial systems strategies are intended to use that technology to comply with CFO requirements and to meet the primary information needs of its managers to successfully direct their programs.

Over the next five years, EPA plans to meet the CFO requirements by:

- 1) Eliminating all reliance on the components of its Integrated Financial Management System (IFMS) that are based on the previous accounting system;
- 2) Creating system capacity to track agency project costs and to link them with program performance information;

- 3) Electronically linking IFMS with Agency "mixed" systems for the efficient and accurate exchange of data; and
- 4) Developing reporting capabilities that will enable staff and managers to readily obtain information at a level that is consistent with their roles and functions in their EPA component organizations.

EPA also will upgrade IFMS as needed to meet internal and external requirements, and will provide a continuing program of training to all levels of staff on the use and operations of IFMS.

Detailed below are a number of aggressive projects that define EPA's strategies for reaching these objectives over the next five years. An important consideration to keep in mind is that these projects are planned and initiated in a time of continued uncertainty, as technology continues to change rapidly and is often obsolete within five years. New external and internal requirements may cause the Agency to change direction or priorities. Certainly with major initiatives ongoing to "reinvent" government, there will be additional changes or requirements not currently anticipated. And, finally, continued fiscal constraints may delay the Agency's implementation of these plans.

As an overall strategy for operating in this environment, EPA must ensure that its staff is well-trained and well aware of the evolving technologies and management concepts. EPA's current vendor for its core financial software is American Management Systems, Inc. (AMS). As long as the Agency uses the AMS off-the-shelf software--Federal Financial Systems (FFS)--it must maintain an effective presence in the Federal Financial Systems User Group (FFSUG) to help guide future releases of that software. Also, through EPA's Systems Management Group and Executive Management Group, which provide oversight to the Agency's financial systems, the Agency can ensure that the

priorities set are those most needed to attain EPA's overall programmatic missions while meeting the requirements of the CFO Act, the Federal Managers' Financial Integrity Act (Integrity Act) and other pertinent legislation.

Exhibit II reflects the Agency's current vision of IFMS as of 1997. In that vision, FMS, SPUR, ADCR, RMIS, APDS, and CIS have been eliminated. PPAS may also be eliminated if the IFMS Fixed Assets Module is adopted in its place. The functions currently performed by those systems will be carried out in a more complete and robust IFMS, EPAYS and MARS. In addition, IFMS will have enhanced electronic interfaces with Agency administrative and "mixed" systems (e.g., GICS, ICMS) that include financial data to provide a complete picture of programmatic activities.

PROJECTS REQUIRED TO MOVE FROM BASELINE TO TARGET

Objective: Maximizing Benefits from "Off-the-Shelf" Software. EPA was one of the first agencies to "buy into," the "off-the-shelf" software concept. EPA's IFMS is based on a product called the Federal Financial System (FFS), developed by American Management Systems (AMS). As expected when any generic product is introduced into a complex operating environment, EPA has required AMS to make some modifications and enhancements to meet EPA-specific budgetary and organizational requirements. However, these customizations have not fundamentally altered EPA's reliance on the base, off-the-shelf software.

EPA's initial focus, during the first four years of IFMS operations, was on overcoming a number of performance and data integrity problems encountered when IFMS was implemented in March 1989. Subsequently, efforts have been directed at developing, testing and implementing several sub-releases necessary to meet critical EPA functional requirements and

new legislative requirements. By mid-FY 1994, the CFO will have implemented a major release of IFMS that will bring EPA current with the latest FFS software.

EPA will continue to analyze and address internal user needs of IFMS. However, another goal for the next four years is to become a major player in determining the direction of future FFS development, for example, developing the capacity for FFS to produce automated financial statements as required by the CFO Act and OMB Bulletin 93-02. The Agency's strategy to reach that goal is to ensure greater participation in the FFS User Group.

Clearly, if the benefits of off-the-shelf software are to be maximized for Federal users, all user agencies must work closely together to define the enhancements to be made to the FFS software. In addition, as new legislative, OMB or Treasury requirements (including automated transmission of agency data to the central agencies) are issued, the user agencies must ensure that AMS provides modifications timely and effectively in order to ensure compliance at minimum cost to the government. This effort is a subset of OMB's overall strategic efforts to reduce system costs by encouraging use of off-the-shelf core financial systems.

MILESTONES TO PARTICIPATE IN FFSUG

MILESTONE	EXPECTED COMPLETION DATE
Increase participation in FFSUG	Ongoing

Objective: Elimination of Predecessor Systems. EPA's Acting Comptroller announced in a March 1993 memorandum to Agency managers that a key objective for FY 1994 and FY 1995 is to eliminate all reliance on predecessor systems (FMS, RMIS, ADCR). The goal is to ensure that the ancillary functions now performed by those systems are successfully implemented in IFMS. As part of the strategy for achieving that objective, EPA workgroups have identified discrete actions that must be taken to ensure a successful transition.

The workgroups consist of members from the finance, budget, information resources management and program communities. In addition, contractual assistance was obtained in FY 1993 to perform the necessary analysis and

software coding, and to provide other needed support. The CFO also issued a survey letter to the FMS user community asking them to identify and report on any additional or specialized uses of FMS. To minimize impact on the user community, the CFO will work with user offices to ensure that acceptable alternatives to the existing FMS, RMIS and ADCR functions are provided through IFMS or other means.

Achieving this objective will improve financial management in EPA by reducing system support costs; by eliminating vulnerability created by use of obsolete and outdated systems; and by completing the integration of all accounting, funds management and budgeting activities within IFMS.

MILESTONES FOR FMS/RMIS ELIMINATION

MILESTONE	EXPECTED COMPLETION DATE
Conduct requirements analysis for historical data and payroll data	10/93
Complete cost/benefit and options analysis	2/94
Design system changes	5/94
Develop system coding	7/94
Complete system testing	11/94
Complete implementation	12/94

MILESTONES FOR ADCR ELIMINATION

MILESTONE	EXPECTED COMPLETION DATE
Conduct pilot using IFMS	9/94
Train all Agency users on IFMS	9/94
Replace all ADCR uses with IFMS	10/94

Objective: Improving Interfaces with "Mixed" and Administrative Systems. A major impediment in analyzing the financial operations of government agencies is the lack of data consistency among different systems. This government-wide problem is encountered by analysts and managers at the regional and headquarters office level, as well as in oversight offices within the central agencies (e.g., OMB and Treasury). There are several sources of these discrepancies, including: 1) duplicate data entry, where keying errors can occur; and 2) lack of standard data definitions for financial management data elements.

As a long term objective, EPA plans to provide, wherever feasible, electronic links between IFMS and the various "mixed" and

administrative systems that contain financial data. In addition, EPA will work with the central agencies in coordinating efforts to ensure standard data definitions government-wide and within EPA. IFMS will remain the "official" Agency system for requisite central agency, Congressional and CFO reports, but there will be greater assurance that the financial information contained in "mixed" or administrative systems is accurate.

In conjunction with the "Meeting Agency Financial Information Needs" objective described below (see page 36), the CFO will work toward improving the ease with which Agency financial data can be downloaded into other databases for analytical purposes, ensuring at the same time that proper security over the data is maintained.

MILESTONES TO BRIDGE EPA SYSTEMS

MILESTONE	EXPECTED COMPLETION DATE
Implement GICS interface for all grants	9/94
Implement PPAs interface (if not moved to IFMS)	9/95
Coordinate ICMS Interface	3/98

Objective: Expanded Systems Capacity for Tracking Agency Costs. EPA currently relies on a 10 position account number for tracking EPA expenditures against its appropriated and other funds. This 10 position number is a series of fields that include information on appropriations, programs, allowance holders, and cost data. That account number structure is no longer adequate to meet Agency needs.

For example, the Comptroller's Office has almost reached the point where it no longer can track new appropriations. It is running out of codes to track expenditures on Superfund sites, and it is unable to meet the increasing demands for better cost accounting of the Agency's programs and initiatives. With increased emphasis on performance measures under the CFO Act and the Government Performance and Results Act (GPRA), the ability to associate financial information with the Agency's programs and accomplishments becomes more critical.

IFMS currently has the capacity to use 41 characters in 6 discrete fields. However, the other financial related systems (e.g., EPAYS, CPS, GICS) with which IFMS interacts can only process the 10 digit account number at this time. The objective is to increase the capacity of other systems so that EPA can begin using up to 41 characters, as needed, to meet financial information requirements.

The account code strategy begins with identifying each of the Agency systems that use the 10 digit account number in order to avoid adversely affecting any current users of Agency financial data. The CFO also will work with program and administrative offices to define which positions are restricted for use in EPA's budget execution activities and which may have optional uses. Additional efforts include marketing activities to gain wide acceptance of the need for these changes and related efforts underway to revise policies, procedures and forms to align them with the new structure.

MILESTONES TO EXPAND SYSTEMS CAPACITY

MILESTONE	EXPECTED COMPLETION DATE
Complete ADP impact analysis	9/93
Define new account code positions	12/93
Revise policies, procedures and forms	10/94
Design system changes	2/94
Develop system coding	5/94
Complete system testing	9/94
Implement new account code structure	10/94

Objective: Installing Project Cost Accounting (PCAS). Building on the aforementioned project to expand the Agency's account number capacity, EPA is also exploring options to enable the Agency to track project costs, rather than simply accounting information that is of limited value to program managers. This effort is motivated in part by a longstanding desire of Agency managers to have this type of information to manage their projects more efficiently and effectively and, in part, by other factors such as plans to establish a Working

Capital Fund, and reporting requirements of the CFO Act and the recently enacted GPRA. In addition to enhanced project cost tracking capabilities that will be possible with the expanded account number, there is a project cost accounting module (PCAS) available in FFS that EPA will consider installing. The Agency will explore other options as well. This enhancement to IFMS will be coordinated with the Working Capital Fund initiative (see page 38) and other projects that will require improved project cost accounting.

MILESTONES TO INSTALL PROJECT COST ACCOUNTING

MILESTONE	EXPECTED COMPLETION DATE
Conduct requirements analysis	3/94
Evaluate options; select approach	9/94
Develop and implement system changes	3/95
Develop and issue procedures	3/95

Objective: Meeting Agency Financial Reporting Needs. EPA encountered a major obstacle to the use of IFMS when it was implemented because of a lack of an ad hoc reporting mechanism. AMS includes a reporting package, known as "Reporter," with FFS, which EPA had anticipated using. Unfortunately, in EPA's computing environment, Reporter had deleterious affects on system performance and was not easily learned by users. As a result, EPA was forced to develop its own ad hoc reporter, known as the Management and Accounting Reporting System (MARS). MARS has met many of the needs of IFMS users, although it does not allow access to all IFMS data elements and it has certain technical

limitations.

The Agency's long-term objective is to enhance MARS, and to develop other ancillary reporting mechanisms, that will improve the reporting of financial information. The end result will be reporting mechanisms that are easy to use throughout the Agency and that can provide different levels of summary data to meet the needs of various levels of Agency management and classes of users. In addition, as participants in the FFSUG, EPA will work towards enhancements of FFS that will enable the preparation of annual financial (principal) statements to be automated, or achieved with minimal manual intervention.

MILESTONES TO ADD MARS PAYROLL DATA AND TECHNICAL IMPROVEMENTS

MILESTONE	EXPECTED COMPLETION DATE
Design systems changes	9/93
Develop system coding	12/93
Complete system testing	2/94
Implement MARS sub-release	3/94

Objective: Improving Contracts Financial Management. EPA's contracts management practices have been the subject of recent Inspector General, GAO and Congressional reviews. The Agency already has taken a number of actions to improve contracts management. In the systems area, EPA's Office of Acquisition Management is using two out-dated and inadequate systems--APDS and CIS--to assist in the administrative and financial management of EPA's contract activities.

EPA has initiated a project to upgrade its contracts management systems as one of several steps toward more effective contracts management. The new system is the Integrated Contracts Management System (ICMS), which will interface with IFMS. The prototype for ICMS will be delivered in early FY 1994. Although other interim milestones must be determined, EPA's goal is to begin the Agency-wide phase-in of ICMS by mid-FY 1998.

MILESTONES FOR IMPROVING CONTRACTS SYSTEMS

MILESTONE	EXPECTED COMPLETION DATE
Delivery of prototype system	12/93
Phase in delivery of full ICMS	3/98

Objective: Implementing Electronic Data Interchange (EDI) Within EPA's Financial Community. EPA has made modifications to its Contract Payment System (CPS) to support the receipt of contract invoices through EDI and, once proper Agency approvals are made, to make payment to the vendor through the Automated Clearing House (ACH). The benefits to EPA are the elimination of costly and time consuming re-keying of data, and greater opportunities to take advantage of cost-effective discounts offered by vendors. For vendors, EDI speeds transmission of invoices to EPA, provides efficiencies through ACH payment and gives

them access to better information on payment status.

EPA placed its first vendor on EDI in August of 1993 and is working with a number of other vendors for subsequent EDI implementation. The Agency also plans to improve communications with vendors through procurement of technology known as a Value Added Network (VAN). VAN will permit EPA to provide supplemental payment-related information to vendors who submit contract invoices through EDI.

MILESTONES FOR IMPLEMENTING EDI

MILESTONE	EXPECTED COMPLETION DATE
Begin EDI Implementation	8/93
Procure VAN services	6/94
Begin 10% per year increase of EDI invoicing	9/98

Objective: More Cost Effective Administrative Services Through a Working Capital Fund (WCF)

A feasibility study completed in FY 1991 suggested that a WCF would be of significant benefit to EPA in acquiring and encouraging cost effective use of resources for certain support accounts and administrative services. Operations would be more business like as each Agency recipient of the services or goods covered by a

WCF would be charged according to the services used or the equipment purchased. A WCF increases accountability through increased involvement of service users in decisions affecting WCF services, and through the preparation of financial statements and performance measures for the fund. Automated data processing and telecommunications, major consumers of Agency resources, may be one of the first candidates to be included in the prototype WCF.

MILESTONES FOR A WORKING CAPITAL FUND

MILESTONE	EXPECTED COMPLETION DATE
Complete systems design for WCF	9/94
Test prototype WCF	9/95
Implement WCF Agency-wide	10/95 - Ongoing

Objective: Upgrade SCRIPS and SCORE\$, when necessary. As the Agency modifies and upgrades IFMS and other systems, and as improvements in technology occur, SCRIPS and SCORE\$ will continue to be upgraded. Currently, SCRIPS is based upon the AS/400 mini-computer platform. While meeting the Agency's needs, the technology will no longer be supported by the Agency during FY 1995. Because of the phase-out of AS/400 support, SCRIPS must migrate to another platform. The Agency currently has a PC-based imaging

system, which SCRIPS will probably use. SCORE\$ is currently on the Novell-token ring, and no platform changes are foreseeable.

The ultimate goal is the integration of SCRIPS and SCORE\$ into one cost-recovery system. The current process of SCRIPS and SCORE\$ is cumbersome, but is working well. When integrated, SCRIPS and SCORE\$ will provide an on-screen capability to produce and reconcile cost recovery packages. This on-screen capability will provide for a potential "paperless" cost recovery package.

UPGRADE SCRIPS AND SCORE\$

MILESTONE	EXPECTED COMPLETION DATE
Change SCRIPS Platform	10/94
Integrate SCRIPS and SCORE\$	10/95

Objective: Reviewing EPA Business Practices and "Re-engineering" Where Needed. EPA's current business practices are based in large part on technologies and practices developed in the past several decades. EPA has adapted certain technological advances (e.g., PCs, improved telecommunications, networking) into existing processes without adequately evaluating whether processes and organizational relationships need to be changed to make the most effective use of these advances. "Re-engineering" of the Agency's business practices may be appropriate to make system operations more cost-effective and better serve its clients.

As a beginning step, in FY 1994, the CFO is re-examining the feasibility and cost benefit

studies that accompanied the Agency's original decision to acquire off-the-shelf software, and is revising those studies as appropriate. IFMS system requirements will be updated.

In the FY 1995 to FY 1997 period, EPA will form an interdisciplinary group to evaluate the Agency's current processes in light of new business practices and currently available technologies and recommend changes, in addition to the specific projects described above, necessary to optimize the application of available knowledge. The team will develop a plan for implementing any changes approved by EPA's senior management.

MILESTONES FOR REVIEWING CURRENT PRACTICES

MILESTONE	EXPECTED COMPLETION DATE
Re-examine IFMS cost benefit studies	9/94
Establish workgroup to evaluate business practices and available technologies	9/95

CHAPTER 6

MANAGEMENT INTEGRITY

Taxpayers expect that the Environmental Protection Agency (EPA) will: accomplish its missions, goals and objectives efficiently and effectively; comply with laws, regulations and policies; safeguard its funds, property and other resources against fraud, waste or abuse; accurately account for its revenues and expenditures; and hold its executives and managers accountable for their performance. While these are entirely reasonable expectations, the Agency sometimes has failed to meet them, because of inadequate management controls.

A. STATUS OF MANAGEMENT INTEGRITY

Fiscal Year 1993 has been a year of significant change for the Agency's management integrity program as EPA, like all Federal agencies, gained new senior leadership. Administrator Carol Browner outlined her priorities for management integrity soon after her arrival, stating that "management integrity will be the cornerstone of [her] administration," with emphasis on sound management, accountability, and discipline. During her short time at EPA's helm, she already has overseen a number of changes affecting management integrity.

Notably, the Agency reorganized three of its Headquarters offices to more fully comply with requirements of the Federal Managers' Financial Integrity Act of 1982 (Integrity Act), the Chief Financial Officers (CFO) Act of 1990, the Inspector General (IG) Act Amendments of 1988, OMB Circular A-123, Internal Control Systems, and OMB Circular A-50, Audit Follow-up:

- The Office of Administration and Resources Management's (OARM) Resource Management Division (RMD)-- which has National Program Manager responsibility for management integrity-- created separate branches for implementation of: the Integrity Act and OMB Circular A-123; and audit management responsibilities required by the IG Act Amendments and OMB Circular A-50. This reorganization redirected staff resources and permitted more focused attention on critical management control and audit management issues.
- EPA transferred its General Accounting Office (GAO) liaison activities from the Office of Policy, Planning and Evaluation to OARM-RMD, which already had responsibility for Office of Inspector General (OIG) audit follow-up activities. This change will provide stronger accountability for audit management in the Agency.
- To address Section 304 of the Chief Financial Officers Act, concerning Financial Audits of the EPA's financial statements, EPA created the Financial Audit Division (FAD) within its Office of Inspector General (OIG). FAD is responsible for the audit of EPA's financial statements.

This improved focus on management integrity issues has enabled EPA to identify four primary management integrity goals for the coming years. These include:

- Streamlining and strengthening processes, requirements, and guidance of the Integrity Act and audit management;
- Linking the management integrity processes with the Agency's strategic planning and budgeting processes;
- Strengthening the Agency's review process for ensuring effectiveness of the controls which safeguard EPA programs and soundness of EPA audited financial statements; and
- Correcting EPA's systemic problems, such as material weaknesses and areas of concern included on OMB's High Risk List.

These goals are consistent with, and include, the planned actions that EPA reported in its FY 1992 CFO Five-Year Plan.

STREAMLINING AND STRENGTHENING MANAGEMENT INTEGRITY

Managers across the Federal Government perceive management integrity requirements as tedious and separate from their day-to-day responsibilities. Generally, managers at EPA are no exception and openly have expressed their frustration with the amount of paperwork, complex requirements, and confusing guidance associated with implementation of the Integrity Act. Many Agency managers have noted improvements over the past years, but indicate that progress remains to be made. As a result, during FY 1993, EPA continued its efforts to strengthen Agency-wide management control and audit management systems so that managers will want to use these processes as a routine part of their daily work and management practices.

Implementation of the Integrity Act

In August 1992, EPA's Deputy Administrator commissioned a Quality Action Team (QAT) to develop recommendations for improving the Agency's implementation of the Integrity Act. The QAT focused on streamlining and strengthening EPA's Integrity Act process, improving guidance and training, and garnering management buy-in. In FY 1993, the QAT completed its work and developed a number of recommendations to streamline and improve the management integrity process.

EPA already has implemented those recommendations which do not require field testing, such as improving the quarterly Management Control Coordinator (MCC) meetings; updating and distributing the MCC contact list every six months; coordinating with the OIG to ensure support of good Integrity Act practices; and referring ideas to integrate budget and Integrity Act processes to the Accountable Officials (AO)--senior career officials responsible for correcting material weaknesses, material non-conformances, and high risk areas in their programs and operations. In addition, EPA is currently piloting a new tracking report, the *Quarterly Progress Update*, which combines the *Corrective Action Tracking System* reports and the *Executive Summaries of Material Weaknesses* into one report.

Audit Management

The OIG conducted four special reviews of the Agency's audit follow-up program in September 1989, August 1990, March 1991, and September 1991. As a result of the OIG special reviews, EPA reported audit follow-up as a material weakness in its annual Integrity reports to the President and Congress. The reviews resulted in a total of 27 recommendations for EPA to adopt. To date, EPA has implemented 22 of the 27 audit follow-up recommendations.

Over the past four years, the Agency has implemented a number of important improvements to the audit follow-up program. EPA has: instituted an automated system for tracking audits and corrective actions; established a network of responsible audit management officials in Headquarters and regional offices; developed a quality assurance program that includes on-site reviews for validating data integrity; and reorganized the Resource Management Division to bring a sharper focus to audit management. The Agency continued to strengthen its audit management program by taking a number of significant actions in FY 1993.

- EPA hosted a national training session on audit management to provide the Agency's audit follow-up community with guidance and instruction on effective audit resolution and follow-up on corrective actions. In addition, EPA focused top management attention on audit issues by developing the *Agency Report on Significant Audits*. This monthly report pinpoints the most sensitive and highly visible audits and reviews underway as well as those in resolution and follow-up stages, capturing both the OIG and GAO data.
- EPA issued a modified version of the Management Audit Tracking System (MATS) which converted the data base to a more efficient local area network accessible to the 25 audit follow-up coordinators throughout the country. The Agency also established practices to reconcile discrepancies in the audit resolution data as reported in the OIG's Audit Tracking System and MATS.
- EPA created an Agency-wide Audit Management QAT to identify procedural changes that will result in an audit resolution process that is timely and fair to all involved, and will pinpoint management accountability for follow-up.

As a result of these steps, in the 1993 Integrity Act report, EPA plans to downgrade the audit follow-up program weakness from a material to an internal agency weakness. EPA will continue to track audit follow-up until all corrective actions have been completed and final validation reflects that the weakness has been completely corrected.

LINKING MANAGEMENT INTEGRITY WITH PLANNING AND BUDGETING

Historically, OMB Circular A-11, "Preparation and Submission of Budget Estimates," has required Federal agencies to identify funding levels for high risk areas. However, growing Congressional scrutiny of Federal agency management practices and program operations have underscored the need to link management integrity with planning and budgeting. Internal discussions of budget priorities must include consideration of those material weaknesses and high risk areas for which resources are necessary to ensure correction. Without strong linkage to institutional budget and planning processes, Agency compliance with the Integrity Act has been problematic.

In July 1992, OMB initiated efforts to overhaul and revamp its management integrity policy guidance by meeting with 22 of the CFO Federal agencies, including EPA. Motivated by agencies' comments for a changed and more meaningful integrity process, OMB drafted revisions to Circulars A-123 and A-50 that underscored management accountability for identifying emerging weaknesses, directing sufficient resources and taking prompt action to correct the problems. OMB urged the integration of agency integrity, budgeting and planning processes to secure up-front and ongoing top management attention to integrity issues and bottom-line results.

In FY 1993, EPA developed a methodology to assess the relative risk of each of its material weaknesses to provide decision-makers with a sense of priority in applying the Agency's limited resources to more effective solutions. In addition, the Agency's AOs identified the alignment of the Agency's Integrity process with budgeting and planning as one of their four FY 1993 goals.

During the FYs 1994 and 1995 budget processes, the EPA Administrator took significant steps to link funding decisions with actions needed to correct material weaknesses. The FY 1994 Budget Technical Call Memo requested Agency-wide data on resources targeted for management integrity. More notably still, Administrator Browner tasked her senior managers to provide information on funds directed to fixing material weaknesses during the FY 1994 Budget Passback. The Administrator also has provided this information, as well as noting EPA's progress in strengthening contracts management and overall resource management, in recent congressional testimony.

STRENGTHENING THE AGENCY'S INTEGRITY ACT REVIEW PROCESS

The Integrity Act requires Federal managers to not only establish management controls, but to evaluate them on a regular basis. EPA's OIG has noted in its special reviews of the Agency's implementation of the Integrity Act that "improvements are needed to ensure that FMFIA (Integrity Act) evaluative reviews are effectively planned and properly conducted."

Internal Agency Reviews

To address the OIG's repeated findings that EPA's Integrity Act reviews are flawed, the Agency has issued interim guidance for reviewing the effectiveness of controls. This guidance includes specific requirements for the frequency and timing of reviews for "assessable units at all risk levels." EPA has formed an

intra-agency workgroup to restructure the vulnerability assessment process, using a recommendation from the Integrity QAT as a launching point, and to develop definitive guidance for reviewing the effectiveness of controls.

It is EPA policy that MCCs are to play an active role in performing quality assurance of management control documents, such as Management Control Reviews and Alternative Management Control Reviews, to ensure that they meet established criteria and requirements. EPA reinforced this policy in training for MCCs conducted in June 1993. The Agency has been promoting this policy for many years in its written guidance as well.

Office of the Inspector General Audits and Reviews

The OIG reviewed the adequacy of management control systems and compliance with various statutes and regulations affecting the Agency as a whole. The OIG also has completed audits of the Integrity Act implementation in several regions. The objective of these audits was to determine if regions have effectively administered their management control programs to ensure that EPA has complied with the Integrity Act.

These audits disclosed that Agency management may not have: 1) developed proper Management Control Plans to schedule the necessary Management Control Reviews; 2) established controls over all program and administrative functions; 3) identified high risks areas and taken appropriate corrective action; and adequately trained staff in Integrity Act requirements. During the course of the audits, the regions gained a better understanding of the Integrity process, which should lead to more effective management control programs.

In addition to the management control reviews, following Section 304(3) of the CFO

Act, the OIG conducted the audits of EPA's FY 1992 financial statements for its trust funds, revolving funds and commercial activities.

Other Required OIG Management Control Review Directives

During FY 1993, the OIG carried out the following activities assigned to the OIG in EPA Resources Management Directive 2560 - Internal Control:

- Providing technical assistance in EPA's effort to evaluate and improve management controls;
- Performing audits and reviews of management control documentation and systems to determine whether they meet the appropriate guidelines;
- Recommending improvements to management control practices and procedures as a result of audits and reviews;
- Reporting to the Administrator each year whether the Agency's implementation of the Integrity Act is being carried out in a reasonable and prudent manner; and
- Investigating and reporting any instances of illegal conduct, wrongdoing, or fraud in accordance with this directive.

CORRECTING EPA'S SYSTEMIC WEAKNESSES

EPA recognized the need for increased attention to and monitoring of progress that Agency managers are making in eliminating systemic weaknesses. In FY 1992, EPA created the Accountable Officials (AO) Network, mentioned earlier, to ensure ongoing consistent top management attention to progress in correcting material weaknesses and to early warning reports of emerging vulnerabilities. In line with the Agency's four primary management integrity goals, the AO Network developed similar goals during 1993: correcting material weaknesses and non-conformances; aligning Integrity Act weaknesses with budgeting and planning; anticipating emerging issues; and strengthening the Integrity Act process.

Recently, the AOs reaffirmed fixing material weaknesses as their primary function. In June 1993, they reported on the status of correcting weaknesses scheduled for completion in 1993. In addition, they devised a risk-ranking methodology to determine how to apply EPA's limited resources to the outstanding 23 material weaknesses.

To strengthen the Integrity Act process, EPA: developed an executive summary of the QAT recommendations; briefed the AOs on the final recommendations; elicited AO volunteers for field testing; requested AO staff to act as consultants for the implementation process; and requested the AOs to "adopt a recommendation" to oversee in the implementation phase.

B. PLANS FOR MANAGEMENT INTEGRITY

STREAMLINING AND STRENGTHENING MANAGEMENT INTEGRITY

Implementation of the Integrity Act

The Agency has developed a multi-year plan for field-testing and implementing the QAT recommendations for streamlining and strengthening the Integrity process and requirements. Major recommendations that EPA will test-pilot and implement include the following:

- **Automate EPA's Integrity Process.** This Agency-wide automation effort goes beyond tracking and correction of weaknesses to encompass all facets of EPA's Integrity process, such as guidance and procedures, documentation of controls managers have implemented, and reviews to test the effectiveness of those controls. As a result, EPA's integrity data system will afford a meaningful tool in management decision-making.
- **Combine Integrity Requirements.** By combining related requirements--such as documentation of controls (event cycle documentation) and the schedule of reviews for testing controls (Management Control Plan)--the QAT believes that managers will be able to better understand their responsibilities and how requirements are linked. This recommendation also eliminates cumbersome and often duplicative reporting.
- **Develop a Management Control Coordinator (MCC) Certification Program.** This program will elevate the stature of individuals managing and coordinating the Integrity process across EPA and ensure a uniformly qualified cadre of professionals to perform those responsibilities.
- **Hold a National Management Integrity Conference.** A national conference would focus Agency attention on the importance of management integrity and provide a forum for EPA managers and MCCs to discuss Integrity issues and recognize significant accomplishments.
- **Develop a Long-Term Training Strategy.** EPA managers have demanded training on their responsibilities under the Integrity Act, and a strategy to address this need is essential.
- **Publicize Success Stories.** A forum for success stories will empower managers throughout the Agency and help eliminate the stigma associated with Integrity Act requirements.
- **Integrate the Budget and Management Integrity Process.** By linking planning, budgeting, and management integrity processes, managers will focus increased attention and adequately invest in correcting Agency material weaknesses. This integration is essential to strengthening management integrity as one of EPA's institutional decision-making processes.

Audit Management

- **Refine the Management Audit Tracking System.** EPA will continue to refine MATS to make it easier for Agency offices to report the status of audit resolution and follow-up. In addition, the report generation capability of the system is being strengthened to give Agency offices increased flexibility in developing reports for top management and using MATS as an effective management tool for tracking and monitoring audit status.

- **Implement Revised EPA Order 2750 - Management of EPA Audit Reports and Follow-up Actions.** After the Agency-wide QAT on Audit Management recommends revisions to EPA Order 2750, RMD will incorporate the revisions and coordinate the implementation of the new order. EPA management has requested the QAT to make recommendations ensuring that high priority is given to audit issues and that audit management is consistently implemented throughout the Agency. In addition, the new order will include specific provisions to improve the accuracy and reliability of data reported to Congress semiannually on EPA's audit activities.
- **Monitor Completion of Performance Audit Recommendations.** To improve the Agency's effectiveness in implementing actions committed to in management decisions, EPA will develop procedures to more closely monitor follow-up activities for performance audits.
- **Strengthen Completion of Corrective Actions Recommended by GAO.** In FY 1993, EPA linked GAO liaison activities with audit management to provide stronger accountability for implementation of GAO's recommendations. OARM staff will track implementation of report recommendations regularly. These procedures will emphasize that the completion of corrective actions be fully documented, and that action officials personally certify that the actions taken actually remedied the problem identified in the final audit report.
- **Develop Tracking System for GAO Audit Recommendations.** OARM will develop a tracking system to monitor implementation of GAO report recommendations. The system will clearly identify issues requiring program attention, milestones and completion dates. The tracking process will focus senior manager's attention on areas of concern. The computerized system will be direct, simple and provide meaningful information to programs.

MILESTONES FOR STRENGTHENING AUDIT MANAGEMENT

MILESTONE	EXPECTED COMPLETION DATE
Release new version of MATS	12/93
Prepare procedures to initiate monitoring of audit follow-up activities for performance audits	12/93
Issue green border concurrence package on revised EPA Order concerning management of EPA audit reports and follow-up actions	1/94
Prepare options paper for tracking implementation of GAO recommendations	3/94

LINKING MANAGEMENT INTEGRITY WITH PLANNING AND BUDGETING

Building on initial steps already taken, EPA is proceeding to carry out the following fundamental elements of its strategy to link Agency-wide integrity, budgeting and planning processes. In the FY 1995 President's Budget Request, EPA requested Headquarters and Regional Offices to identify FY 1994 and 1995 resources devoted to correcting existing material weaknesses and high risk areas. During the FY 1995 budget process, the Administrator will review these resources to ensure that the Agency is directing sufficient resources to correct its material weaknesses.

STRENGTHENING THE AGENCY'S INTEGRITY ACT REVIEW PROCESS

Internal Agency Reviews

- **Agency Vulnerability Assessment Workgroup.** EPA's vulnerability assessment workgroup is scheduled to complete its work during FY 1994. The workgroup will create a new Vulnerability Assessment tool with statistical internal reliability and validity.
- **MCC Certification Program.** In 1994, the Agency plans to establish an MCC certification program, mentioned above, to provide a stronger foundation for ensuring Agency-wide compliance and consistency in implementing the Integrity Act.

OIG Audits and Reviews

- **Accelerated Completion of Audits.** As EPA accelerates its production of CFO financial statements, the OIG will accelerate completion of the audits. Each audit is required by Government Auditing Standards to review and report on management controls and disclose any material weaknesses noted. The CFO will work with program offices to

strengthen management controls of the program systems that are the source of program performance data reported in the Agency's annual financial statements.

- **Quality Assurance Reviews.** Within the OIG, the Analysis and Evaluation staff is responsible for conducting quality assurance reviews which assure compliance with professional audit standards. FAD's financial statement audits and other reports are subject to OIG quality assurance reviews.

CORRECTING EPA'S SYSTEMIC WEAKNESSES

EPA's AO Network is proceeding to carry out its four goals:

- **Fixing Material Weaknesses and Non-conformances.** This entails improving the identification of agency-level weaknesses and material weaknesses and non-conformances, assessing the effectiveness of milestones for correcting weaknesses, establishing criteria for removing or reducing weaknesses, and developing a validation process to test the effectiveness of corrective actions.
- **Aligning Integrity Act Weaknesses with Budgeting and Planning.** In addition to integrating the Integrity Act, budgeting, and strategic planning calendars, the Agency will hold media and/or multi-media hearings/briefings, disseminate current data to the Senior Budget Officials, brief the Administrator for a programmatic review, and meet with the Director of the Strategic Planning and Management Division, in the Office of Policy, Planning and Evaluation.
- **Anticipating Emerging Issues.** The Agency will emphasize the importance of a culture for surfacing problems and will organize focus groups for various levels of management on:

- 1) Indicators of potential problems;
- 2) Processes for surfacing weaknesses; and
- 3) Processes for reducing functions and/or reallocating resources.

- **Strengthening the Integrity Act Process.**
The AOs will be involved in overseeing the implementation of efforts to streamline and improve management integrity throughout the Agency.

EPA plans to develop a guide for managers for identifying early warning issues.

MILESTONES TO IMPROVE INTEGRITY ACT IMPLEMENTATION

MILESTONE	EXPECTED COMPLETION DATE
Hold four meetings of the Accountable Officials Network	9/94
Develop prototype system to automate EPA's integrity process	9/94
Develop a Management Controls Coordinator Certification Program	9/94
Develop National Training Policy for Integrity	9/94
Hold a national management integrity conference	1/95
Develop standard management integrity training curriculum	6/95
Implement Agency-wide automated integrity system	6/96

CHAPTER 7

ASSET MANAGEMENT

The Environmental Protection Agency is committed to managing its financial assets effectively to ensure the efficient use of its resources. The Agency's goal is to have an asset management program that: ensures efficient collection of debts owed to the Agency; processing of payments and collections in a timely manner and through electronic means; cost-effective management of assets from acquisition to disposal; and effective administration of loan programs to avoid losses.

A. STATUS OF ASSET MANAGEMENT

MANAGING RECEIVABLES - COLLECTION OF DEBT

Accounts Receivable

During the 1989 conversion from the old accounting system (FMS) to the new Integrated Financial Management System (IFMS), EPA experienced significant problems with its accounts receivable module. Problems included the inability of IFMS to automatically perform the following functions: (1) compute interest, penalties and handling charges correctly; (2) produce accurate dunning letters; and (3) produce accurate and complete Treasury and Management reports.

In addition to the IFMS problems handling accounts receivable, several of EPA's ten regional finance offices continue to experience delays in recording receivables in IFMS. Most of the delays occur because Servicing Finance Offices are not receiving Consent Decree documentation from Regional Counsels in a timely manner. Consent Decrees represent environmental enforcement actions by the Department of Justice (DOJ) on behalf of EPA,

which result in receivables to EPA in the form of fines, penalties or cost recovery actions.

Current policy requires EPA's accounting offices to record the receivable within three days of its effective date. In some instances, it is physically impossible to deliver the Consent Decrees signed by the Judge to the accounting office within this three day time frame. The Agency is reviewing its policies in this area to determine more reasonable time frames and/or alternative procedures to ensure timely accounting.

Another facet of the accounts receivable problem is the appearance that EPA is not managing delinquencies. This appearance stems from the fact that many of the Agency's receivables are classified as delinquent because the debtors are in protracted legal action, in bankruptcy, or in a lengthy administrative appeals process. Under the Debt Collection Act, receivables over 30 days old are automatically classified as "delinquent" regardless of legal status. To compound the problem, financial reports on the status of EPA's receivables do not provide accurate and reliable data with which to

judge how well the Agency is managing its delinquencies; the milestone date for correcting this problem in IFMS is FY 1994.

EPA's problems with accounts receivables were reported as a material weakness in the Agency's 1992 Integrity Act Report. Additionally, IFMS accounts receivable module problems have been reported as an accounting system non-conformance and contributed to placing IFMS on the OMB High Risk list in 1990, where it still remains.

Since 1990, the Agency has initiated several projects designed to resolve the receivables accounting system and related financial management problems. First, in 1990 the Comptroller issued comprehensive policies and procedures governing the accounting and management of receivables. Secondly, in 1991 the Deputy Administrator established an Interdisciplinary Task Force to perform oversight reviews of all regional finance and program offices to determine compliance with policies and procedures governing receivables.

During 1993 the Task Force completed its review of the regional accounting offices and continued to institutionalize improvements in the communication links among programs, regional counsels and finance offices to ensure the timely recording and management of receivables. The June 30, 1993 audit report on FY 1992 financial statements showed improvements in the recording of Superfund receivables; the 1991 audit sample revealed that about 40% of receivables were recorded timely whereas the 1992 audit reported that about 75% were recorded timely.

During 1993, EPA strengthened its management controls to ensure more timely recording of receivables and to accurately record their delinquency status in IFMS. These controls will help the CFO to evaluate the Agency's management of delinquencies. In addition, in May 1993, IFMS enhancements

were installed providing the capability to: 1) perform debt servicing automatically, including the computation of interest, penalties, and handling charges; and 2) produce accurate dunning letters.

Use of Private Sector Collection Agencies

As a part of its asset management program, EPA will continue to refer delinquent debts to collection agencies on a monthly basis, using the General Service Administration Debt Collection contracts. The Agency refers delinquent Freedom of Information Act requests, civil penalties, travel advance and payroll debts to the contractors for collection. Although EPA has been using private collection agencies for two years, the contractors have recovered just more than \$92,000, before fees, from more than \$900,000 in principal amount referred by the Agency.

In FY 1994 EPA plans to expand the use of private sector collection agencies to include Superfund debts. The use of collection agencies is expected to be more beneficial to EPA once Superfund debts are made part of the program.

Implementation of Debt Collection Act Tools to Collect Delinquent Debt

The "Federal Claims Collection Act of 1966," as amended by the "Debt Collection Act of 1982," was passed to increase the efficiency of government-wide efforts to collect debts owed the U.S. Government, and to provide additional procedures or "tools" to collect those debts. Until a short time ago, Federal agencies could "voluntarily" implement debt collection tools, e.g., collection agencies, credit bureaus, etc. However, the "Cash Management Improvement Act Amendments of 1992," Public Law 102-589, passed during Fall 1992, requires all Federal agencies to refer delinquent debt to the Internal Revenue Service (IRS) for offset against individual tax refunds, beginning January 1, 1994. In addition, commercial debt must be

referred to the IRS beginning on January 1, 1995.

The CFO established a workgroup to ensure that EPA complies with P.L. 102-589. The workgroup is responsible for the implementation of the Tax Refund Offset Program and the implementation of all other debt collection tools and programs as required. The workgroup is required to work directly with the Department of the Treasury, Financial Management Service (FMS) to ensure that EPA meets all of its implementation requirements set forth by FMS and/or IRS, e.g., publish Agency regulations in the Federal Register, prepare memorandums of understanding (MOUs) and systems testing. The workgroup is also responsible for preparing all policy and procedures for each tool implemented.

A major portion of the work required to implement debt collection tools involves the preparation of legal documents. Consequently, the workgroup has worked closely with its Office of General Counsel (OGC) members to ensure that: EPA's debt collection regulations are published in the Federal Register; debtors' due process rights are defined and established; Privacy Act/Routine Use requirements are met; and MOUs are reviewed and approved.

A second workgroup comprised of various EPA staff from program offices, OGC and the CFO's office is currently developing policy and guidelines necessary to implement the use of debt collection tools within the Superfund program. A legal determination prepared by OGC, dated February 22, 1993, provides Superfund with the legal authority to use debt collection tools to pursue delinquent debt. However, the workgroup must prepare policies which explain its authority to use debt collection tools and the limitations of such authority. Guidance will also be prepared by the workgroup which defines the steps to be taken when making a determination that a Superfund debt truly exists and how to build a strong

record to support this determination.

The workgroup is preparing a model demand letter that will advise a debtor that if he/she fails to respond to a demand for payment, the matter will be referred to a debt collection agency, credit bureaus, for tax offset, etc., for collection. The workgroup is also developing criteria and guidelines which will support how and when an accounts receivable can be established.

Recognition of State Cost Share Revenue Earned

The recent audit of the EPA financial statements revealed that EPA has not been appropriately recognizing the revenue for the work being performed on Superfund State Contracts (SSCs). Whenever EPA has the lead for a Superfund remedial action, the State's role in this action is described in a SSC. The SSC is a joint, legally binding agreement that ensures State involvement as mandated under Section 121 of CERCLA, and obtains State assurances required under Section 104 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) prior to the start of the remedial action. Under this agreement, the State must share response action costs.

Under the SSC agreements, EPA must receive the funds from the State before EPA funds can be disbursed. This amount is recognized as an advance and is recorded in the advance account as deferred revenue. As EPA performs the cleanup, it "earns" the revenue. The proper accounting is to reduce the advance account and recognize the revenue.

EPA does not have an Agency policy and procedure to ensure proper handling of the advances for the SSCs nor the proper recording of the advances and revenues in the Integrated Financial Management System (IFMS). The current balance in the State Cost Share revenue account must be analyzed to determine the

correct balance and recognize revenue for work already performed. In order to correct this problem, a task force of Headquarters and regional personnel will review the different methods of handling the SSC advances and earned revenues and draft the policies and procedures that will be used by the Agency. The Task force will also review the balance of the deferred revenue account and determine the correct balance for the deferred revenue account and amounts to be recorded as earned revenue.

CASH MANAGEMENT - PROCESSING OF PAYMENTS

Cash Management Improvement Act (CMIA)

The Cash Management Improvement Act (CMIA) was signed into law in October 1990. Formerly known as the State/Federal Equity Program, CMIA culminates more than seven years of effort by both the States and the Federal Government to improve cash management practices. The purpose of CMIA is to ensure greater efficiency, effectiveness, and equity in the intergovernmental transfer of Federal funds to the States, the District of Columbia, and five territories.

The main objective of CMIA is for all parties to minimize the time elapsing between the transfer of Federal funds to States and the States' disbursements (liquidation) of those funds for program purposes. Interest is to be paid when the funds of one government entity are used in lieu of the other's. In other words, when a Federal agency is late in making a grant payment to a State, and the State must use State funds to finance the program, the Federal agency will owe interest on that amount until the payment is received by the State. Likewise, if a State draws down Federal funds before they are needed for program payments, then the State would owe interest to the Federal Government for use of the excess funds.

EPA's grant programs that are listed in the

Catalog of Federal Domestic Assistance (CFDA) are below the dollar thresholds for coverage of major Federal Assistance Programs by CMIA. No states have elected to include any EPA grant programs by lowering the threshold limits.

Although EPA's programs have been exempt from the first year's implementation of CMIA, EPA has been working on improving its overall grants administration. Through a Total Quality Management (TQM) effort, revised grants policies and procedures for continuing program grants were developed and implemented. These changes will help accelerate the grant award process and will help preclude, for the most part, States from having to use their own funds until reimbursed by EPA, notwithstanding delayed Congressional appropriation and OMB apportionments.

EPA expects that its programs listed in the CFDA and covered by CMIA will remain below States' thresholds for major Federal Assistance Programs through June 30, 1995. Therefore, EPA does not expect to be subject to the provisions of CMIA before July 1, 1995, unless: a program would have such increased funding that would exceed the threshold; a State reduces its overall threshold for all programs that would subsequently include EPA; or the Department of Treasury determines that EPA programs should be covered.

EPA continues to maintain a close working relationship with Treasury's FMS and actively participated on various workgroups and task forces concerning CMIA. EPA is working with Treasury staff regarding the development of the new Automated Standard Application for Payments (ASAP) System. It is a same-day payment, recipient initiated system. When implemented, the recipient (grantee) will initiate an on-line request to drawdown funds and the Federal program agency will approve or reject the request. If approved, a disbursement will be made to the requestor, either through a Fedwire or an automated clearinghouse payment system,

whichever meets the delivery time requirements of the payment request most economically.

Treasury currently expects to have ASAP available in October 1994. EPA has agreed to be the first Federal Agency to implement this fully automated same-day payment process.

Third Party Draft System

The Third Party Draft System (TPDS) is a guaranteed expense payment system that is being used by a number of Federal agencies to expedite the handling of expense checks for selected small purchase transactions. TPDS soon will be expanded government-wide; General Services Administration recently issued a TPDS statement of work with a projected implementation date of November 1993.

In a typical TPDS, drafts are written by authorized employees of an agency on a third party's (contractor's) bank account. In the case of EPA, an imprest fund cashier will write checks for authorized small purchases on the contractor's bank account. The contractor, on a daily basis, totals all of the checks cleared at its bank and notifies EPA of the amount due. EPA then immediately reimburses the third party by a single payment using electronic funds transfer (EFT).

The more significant advantages of TPDSs are centralized control, reduced administrative costs, improved internal controls, reduced imprest fund cash balances, and no advance funding required by the Agency. Although the charge per draft is greater than an EFT (excluding Fedwire), the cost is offset by a reduction in imprest fund cash, cash losses, audit time, prompt pay penalties, personnel, etc. In addition, since EFT is not appropriate for all creditors of the Government, TPDS provides the financial manager with an additional cash management tool to use when determining which payment mechanism best fits the situation.

EPA drafted an Agency directive which sets

forth the proposed policies, procedures, and internal controls for operation of TPDS. The draft directive was distributed to potential EPA test sites. Each potential pilot region formed a committee to review its Imprest Fund operations to determine the impact and potential benefits to be derived if a TPDS is implemented. Region 10 has been selected to be the pilot for TPDS and steps are underway to begin the test.

EPA is actively participating in the CFO Council's Asset Management Sub-committee's Cash Management Workgroup on third party drafts. Recommendations of the Sub-committee will be presented to the Treasury's FMS.

Prompt Payment

In FY 1992, EPA paid 97.4% of its invoices that are subject to the Prompt Payment Act on time. While the total number of invoices subject to the Act increased in FY 1993, the number of invoices paid late decreased by 29.2% and interest penalties paid decreased by 5.4%. EPA also reduced the number of early payments from 24 to one. Through the third quarter of FY 1993, EPA is paying 97.9% of its payments on time.

OMB Circular A-125 requires agencies to have a statistically valid Quality Control (QC) system in place to assure the accuracy of its prompt pay report. Since EPA's present Quality Assurance program (QA) does not require statistical sampling to verify the accuracy of its prompt pay report, OMB rated the Agency's QC system as "poor". In July 1993, EPA provided OMB with additional information relating to the effectiveness of its present QA program and the Agency's plans to implement statistically valid sampling beginning in FY 1995. With this assurance, OMB changed EPA's QC rating from "poor" to "planning."

Direct Deposit/Electronic Funds Transfer

Over the last four years EPA has consistently

worked to improve the Agency's use of Direct Deposit/Electronic Funds Transfers (DD/EFT) for various types of payments (salary/payroll related, travel/vendor payments, interagency payments). Use of DD/EFT improved the Agency's cash management controls and minimized staff time spent researching inquiries on checks that have been reported as lost, stolen or mutilated.

For example, since 1991 EPA has successfully converted several interagency payments to DD/EFT. In 1991, EPA began using the Retirement, Insurance, Transfer System (RITS) to make bi-weekly payments to the Office of Personnel Management (OPM) for retirement, health and life insurance. In 1992, the FEDTAX System was implemented to make payments to IRS for federal taxes, social security taxes and medicare.

For several years, EPA's primary method for salary/allotment payments has been DD/EFT. EPA currently has an 88% participation rate in the DD/EFT program and continues to work towards obtaining the goal of a 90% participation rate. While the Agency's primary method for salary/allotment payments is DD/EFT, cash incentive awards continued to be issued via check.

The practice of distributing award checks in the office continued to create an onerous burden for EPA's administrative personnel and the Department of Treasury. In October 1992 the Agency converted the payment of cash incentive awards to be consistent with the method of payment of the employee's salary (DD/EFT to the bank or check to the home address).

EPA will continue its efforts to convert payroll related payments to DD/EFT. Specifically, payments to state and local governments for state and city taxes, child support, alimony and tax levies will be reviewed.

In the area of travel and vendor payments EPA continued its pilot program to make travel reimbursements and one large vendor payment (Bankcard Program) using the Automated Clearing House (ACH) process. In February 1994 the Agency's accounting system will be modified to include the ability to make EFT payments to Agency travelers and vendors.

Small Purchases Bankcard Program

In 1988, the Environmental Protection Agency implemented the Small Purchases Bankcard Program, which allows Headquarters and field offices to make small purchases with a VISA charge card. The use of the charge card accelerates the procurement process by decentralizing some of the small purchases to the local offices.

The Agency has continued to expand the use of the small purchases bankcard since 1988 to a FY 1992 total of 550 cardholders making 18,335 purchases totaling \$5.6 million. The bankcard has resulted in more efficient use of the Agency's resources that are available for processing purchase orders and of imprest fund transactions for small purchases. Through the use of the bankcard, the Agency has been able to reduce the amount of funds held by some petty cashiers and eliminate the need to increase other imprest funds.

EPA has started to download the billing information directly from the bank into a database which is used to assist in the general audit of the charges made on the bankcard. Reports can be generated to identify questionable purchases, frequently used businesses, purchases within specific dollar limits and other audit scenarios. The Agency makes monthly payments to the bank electronically through the ACH process. Using ACH gives the Agency the maximum amount of time to process the payment and ensures proper credit to the Agency's account.

MANAGEMENT OF OTHER ASSETS

Property

Since 1983, EPA has reported a material non-conformance in its annual Integrity Act Report to the President, recognizing the need for reconciliation between its Personal Property Accountability System (PPAS) and the Agency's accounting system--the Integrated Financial Management System (IFMS). In addition to the reconciliation issue, there are several areas where the Agency is not in compliance with requirements for both physical and accounting control of property.

Currently, financial accounting for personal property which meets the capitalization threshold (\$5000 and expected life exceeding two years) is accomplished by a coordinated effort between the CFO's Financial Management Division (FMD) and the fourteen Servicing Finance Offices (SFOs). The SFOs record capitalization entries in IFMS based on a review of monthly equipment payments.

Physical accounting is managed by the CFO's Facilities Management and Services Division (FMSD) in coordination with the Agency's Property Management Officers who enter data in PPAS. Since Agency property information resides in both PPAS and IFMS, a reconciliation between the two systems must be performed. This reconciliation has proven to be burdensome and inaccurate. It takes approximately 40 hours a month to execute this reconciliation, which is performed by employees who are assigned to other principal duties.

Internal audits have shown that there are some property items in PPAS that are not in IFMS and vice versa. Even more troublesome, is the inability to specifically track an item from one system to the other. This inability is due to a variety of reasons, including the inherent difference in acquisition values between the two systems and the absence of key common data

elements.

In response to the difficulties in reconciling PPAS and IFMS, the CFO established a Quality Action Team (QAT) in March 1993. The QAT is comprised of representatives from all divisions within the CFO's office which are involved in financial and physical accounting for personal property.

Using the tools of Total Quality Management the QAT identified a problem statement, a mission statement and a set of goals for the team. A detailed flow chart of the current personal property process was used to identify the weaknesses in the current process. The QAT used the list of weaknesses along with Inspector General audit reports to prepare a requirements analysis for a property system.

The QAT studied several options and, from this study, reached a unanimous decision to recommend implementing a single fully integrated fixed asset subsystem in IFMS. This would be accomplished by installing an enhanced version of the Federal Financial System's (FFS) Fixed Asset Subsystem (FAS) in IFMS. Adoption of this enhanced version of the system, with limited modification, will meet all the requirements listed by the QAT in its requirements analysis, and will result in the elimination of PPAS and current PPAS/IFMS reconciliation problems.

ADMINISTRATION OF LOAN PROGRAMS

Federal Credit Reform Act - Asbestos Loan Program

EPA's Asbestos Loan Program is subject to the requirements of the 1990 Federal Credit Reform Act. The Credit Reform Act requires tracking and accounting for each loan at discrete "tranche" levels, based on the prevailing rates prescribed by Treasury. The Agency's accounting system, IFMS, does not have the capability to account for and report

disbursements and collections on each loan to determine the interest costs of the borrowings and the interest earnings on the collections.

A basic PC application used for tracking loans issued prior the Credit Reform Act is being revised to accommodate the requirements of the Act. The Asbestos Receivable Tracking System (ARTS) will be redesigned and programmed to satisfy Credit Reform requirements by segregating each disbursement and collection transaction into tranches that reflect prevailing interest rates paid on borrowings and earned on collections.

Due to Federal Credit Reform requirements, a single application is necessary because the Act requires different loan types to be tracked separately (i.e., loans under Credit Reform or

liquidating loans prior to the Act). The new system must calculate the funded subsidy portion and the Treasury borrowed portion of each loan disbursement and provide cumulative internal and external reporting information for management of loans under the Act. The redesign and programming effort is proceeding satisfactorily with some elements of the application currently in use.

The guidance of the Federal Credit Reform Act is still in the formative stages, causing some concerns and impact on current and future programming requirements. EPA anticipates the need to make adjustments and reprogrammings to incorporate future guidance, however, full implementation of ARTS is projected for September 1994.

B. PLANS FOR ASSET MANAGEMENT

MANAGING RECEIVABLES - COLLECTION OF DEBT

Accounts Receivable

EPA's plans to improve the management of its accounts receivable is designed to ensure more effective management of receivables and to minimize the risk of mismanagement through the following actions:

- The use of financial management performance measures to track, report and evaluate the Agency's effectiveness in managing receivables;
- The installation of an efficient accounts receivable accounting module in IFMS;
- Updating applicable policies and procedures to ensure timely accounting practices; and
- Strengthening of management controls.

MILESTONES FOR ACCOUNTS RECEIVABLE

MILESTONE	EXPECTED COMPLETION DATE
Implement OMB financial management performance standards	9/93
Update Superfund policies and procedures - RMDS 2550-D (see Chapter 3, "Accountability Standards")	12/93
Implement IFMS Reports: Aging Report Supplemental Report	12/93 6/94
Install IFMS enhancements Install Superfund requirements	2/94 3/95
Complete testing of IFMS accounts receivable enhancements	6/94
Complete training on accounts receivable process	8/94
Conduct quality assurance reviews	Ongoing

Use of Debt Collection Act Tools to Collect Delinquent Debt

EPA is mandated by P.L. 102-589 to implement the Federal Tax Refund Offset, Federal Salary Offset, and Credit Bureau Reporting Programs by January 1, 1994. These tools and programs will provide EPA with options currently not available to pursue delinquent debt that may otherwise remain uncollected and/or be written-off.

EPA currently has two debt collection tools in place, debt collection agencies and administrative offsets, which have been used infrequently and with limited success. Expanding the use of debt collection tools will enable EPA to become more

aggressive and visible when pursuing delinquent debt. In addition, the Superfund Cost Recovery Program could benefit by using the "commercial" aspect of the Federal Tax Refund Offset Program to recover delinquent corporate debt.

EPA's Credit Bureau Reporting Program is scheduled for implementation by September 1993. The Federal Salary Offset and the Federal Tax Refund Offset Programs are projected to be fully implemented by January 1994. Completion of the Agency's Superfund collection policy and guidelines are EPA targeted for January 1994, to enable the Agency to implement the commercial aspect of the Federal Tax Refund Offset Program by January 1995.

MILESTONES FOR DEBT COLLECTION

MILESTONE	EXPECTED COMPLETION DATE
Implement Credit Bureau Reporting Program	9/93
Implement Federal Salary Offset Program	1/94
Implement Federal Tax Refund Offset Program	1/94
Complete Superfund collection policy and guidelines	1/94
Implement the Federal Tax Refund Offset Program	1/95

Recognition of State Cost Share Revenue Earned

EPA must develop procedures for calculating Superfund State Cost Shares to properly recognize earned revenue as cleanup services are being performed. The deferred state cost share revenue account also must be analyzed to determine the proper balance with any recognized revenue to be transferred to the earned revenue account.

Currently, EPA does not have a detailed accounting record of the deferred revenue account by cost share agreement. There is also no EPA policy or procedure currently available

to calculate state cost share revenue obtained from SSCs while ensuring their timely posting to EPA's IFMS. Also connected to this issue is the need for EPA to develop policies and procedures for SSC revenue advances not received until after a site cleanup.

By the end of FY 1993, the CFO will form a task force, which will develop policies and procedures for calculating State Cost Shares to recognize earned revenue as cleanup services are performed. EPA will also analyze the deferred revenue account and determine the proper balance by April 1, 1994.

MILESTONES FOR STATE COST SHARE REVENUE

MILESTONE	EXPECTED COMPLETION DATE
Establish State Cost Share Revenue Task Force	9/93
Complete analysis and determine proper balance of deferred revenue account	4/94

CASH MANAGEMENT - PROCESSING OF PAYMENTS

Cash Management Improvement Act (CMIA)

Since no EPA grant programs are currently subject to the CMIA requirements, the Agency does not expect to implement CMIA until July 1995, at the earliest. At that time EPA will have the necessary monitoring systems in place to review the reasonableness of state interest certifications for EPA's grant programs, as required by the Act.

States are responsible for all recordkeeping and certification of interest liabilities both to the

States and to Treasury. Federal agencies are responsible only for reviewing the States' interest settlement reports for reasonableness. EPA will employ the latest available Treasury disbursing mechanisms in transferring funds to States in order to comply with the funding techniques to be agreed upon in the State/Treasury Agreements and work closely with Treasury in finalizing State/Treasury Agreements involving EPA programs.

EPA currently uses Treasury's Vendor Express, an automated clearinghouse (ACH) payment system for grant payments. Treasury has confirmed that this payment system will allow EPA to comply with each of five available

funding techniques that states may elect to use in funding their programs covered under CMIA, should EPA grant programs be subject to CMIA in the future.

EPA will continue to work closely with Treasury's FMS on the implementation of CMIA, particularly with regard to the development and implementation of ASAP in the Agency. Developmental milestones and Agency implementation will be driven by FMS's schedule. In the interim, EPA will continue to use the current ACH Vendor Express payment system.

The Agency will develop and implement a monitoring system to review the reasonableness of state interest certifications for EPA programs along with the relative policies and procedures. Because EPA does not expect to implement CMIA before July 1, 1995, as a prudent use of

time and resources, the Agency will develop its monitoring system after the successful monitoring systems implemented by agencies already under CMIA. New policies for the improvement of grants management will continue to be developed and implemented. However, the main focus of CMIA implementation will be to insure that payment systems and personnel comply with CMIA requirements up front in order to minimize any interest charges.

EPA has developed and continues to develop a number of grants policies to improve its grants management, which include policies on closeout, indirect costs and grant versus contract. The Grants Administration Division established a Customer Relations Council to better communicate all grants issues at a working level throughout the Agency. CMIA issues will be communicated through this council.

MILESTONES FOR CASH MANAGEMENT IMPROVEMENT

MILESTONE	EXPECTED COMPLETION DATE
Issue informational communications	Ongoing
Evaluate existing monitoring systems, including surveying other agencies	10/94
Complete systems development/modification and testing	2/95
Issue CMIA implementation policies and procedures	4/95
Review and comment on Treasury/State agreements	Ongoing

Third Party Draft System

EPA is continually striving to improve the Agency's cash management. TPDS is an effective cash management tool which will further this initiative. EPA's goal is to achieve Agency-wide implementation of TPDS in FY 1994.

Prior to full implementation of TPDS, a pilot test will be conducted in one or more regional finance offices. The pilot will put the policies, procedures, and internal controls proposed in the draft guidance, to a practical test and gauge

vendor support for TPDS.

The Agency-wide implementation of TPDS in FY 1994 will consist of three phases. Phase 1, testing, will consist of: site selection of the pilot(s); training of personnel; testing of TPDS operations; reviewing results; and refining operating procedures. Phase 2, refining, will incorporate testing of any revised operating procedures, and issuing a policy announcement of the final TPDS policy. Phase 3, implementation, will involve training of appropriate personnel and Agency-wide implementation of TPDS.

MILESTONES FOR A THIRD PARTY DRAFT SYSTEM

MILESTONE	EXPECTED COMPLETION DATE
Training of test site personnel	9/93
Begin Phase 1 test	10/93
Review Phase 1 test results	1/94
Refine operating procedures	2/94
Conclude Phase 2 test	3/94
Review Phase 2 results	4/94
Finalize TPDS operating procedures	5/94
Announce TPDS policy and issue final operating procedures	6/94
Begin Agency-wide implementation of TPDS	7/94

Prompt Pay

Currently, EPA lacks both the ability to select statistically valid samples of transactions and an independent process to verify the data submitted on the OMB Prompt Payment Report. EPA will use contractor support to obtain a statistical sample process to address the Prompt Payment Act requirement for independently verifying the data. The sampling process will improve the Agency's rating by OMB on the quality of prompt pay data, by providing an independent

verification process. The process also will provide the CFO with a tool to select statistically valid samples for transaction testing in other quality assurance and quality control reviews.

Plans are also in place to have the Agency's Integrated Financial Management System (IFMS) generate the Prompt Payment Report beginning in FY 1994. This step should further improve the quality control of Prompt Pay data and of asset management.

MILESTONES FOR PROMPT PAYMENT IMPROVEMENTS

MILESTONE	EXPECTED COMPLETION DATE
Obtain contractor support to establish a statistical sampling process	9/93
Secure independent verification of prompt payment data	5/94
Generate IFMS prompt payment reports	9/94

Direct Deposit/Electronic Funds Transfer

EPA will aggressively continue its efforts to convert salary and other types of payroll related

payments (i.e., state/city taxes, child support and alimony payments, etc.), travel and vendor payments to EFT over the next year.

MILESTONES FOR SALARY/PAYROLL RELATED PAYMENTS

MILESTONE	EXPECTED COMPLETION DATE
Send quarterly DD/EFT statistics to Servicing Finance and Personnel Office to encourage participation	Ongoing (quarterly)
Survey State/city governments and courts to determine feasibility of making DD/EFT payments	10/93
Target non-DD employees for DD/EFT campaign	11/93
Convert feasible government and court payments to DD/EFT	11/93
Review GSA's proposal to issue DD/EFT payments in advance of check issuance date	12/93
Implement OMB Bulletin on EFT	1/94

MILESTONES FOR TRAVEL/VENDOR PAYMENTS

MILESTONE	EXPECTED COMPLETION DATE
Implement ATM program for travel advances	9/93
Implement IFMS version 5.1e	2/94
Review and assess pilot program	4/94
Implement EFT/DD payment process for travel reimbursement payments	10/94
Implement payment process for vendor programs	12/94

MILESTONES FOR INTERAGENCY PAYMENTS

MILESTONE	EXPECTED COMPLETION DATE
Implement Electronic Certification System for voucher preparation, certification, transmission, and verification of payment schedules.	10/94

Small Purchases Bankcard Program

EPA plans to continue to expand the use of the small purchase bankcard. The increased volume of bankcard purchases will compel the Agency to expand the use of automation to process payments to the bank. The Agency currently

has automated the receipt of billing from the bank and uses the data to perform some audit functions. In order to ensure the timely payment of the bills, the Agency needs to develop other ways of using the data to facilitate payment of bills and tracking of disputed purchases.

MILESTONES FOR SMALL PURCHASE BANKCARD PROGRAM

MILESTONE	EXPECTED COMPLETION DATE
Develop D-base program to track cardholder transactions for payment	9/93
Develop D-base program to track disputes of prompt payment data	10/93
Automate dispute forms report	12/93

MANAGEMENT OF OTHER ASSETS

Property

The objective of the Property QAT is to recommend a solution for solving the inability to reconcile IFMS and PPAS property data. The QAT has recommended that the Agency implement a financial and physical accounting process that is fully integrated. Details of this process, and a detailed study of the current process, was the subject of the QAT's first deliverable presented to EPA senior management in July 1993. Once the decision on the recommendation has been made, the QAT will prepare its next, and final, deliverable--a

management and implementation plan. The timeline for developing policies and procedures, performing the necessary training, and actual implementation of the system will be determined in this deliverable.

The QAT also intends to work closely with Government-wide efforts to improve personal property accounting. Such groups include the Asset Management Committee's Personal Property Subcommittee, and the Federal Accounting Standards Advisory Board's Investment Project. Both of these groups will provide insight to the direction that the QAT should take.

MILESTONES FOR PROPERTY MANAGEMENT

MILESTONE	EXPECTED COMPLETION DATE
Determine decision on QAT recommendations	11/93
Develop detailed implementation strategy	3/94
Develop and issue revised policies and procedures effective with implementation of system	TBA
Provide necessary training	TBA
Implement integrated property system	TBA

ADMINISTRATION OF LOAN PROGRAMS

Federal Credit Reform Act - Asbestos Loan Program

With the completion of ARTS in FY 1994, EPA expects to establish a single data base that is subsidiary to the IFMS General Ledger and will achieve the following:

- Assist in the tracking of agreements and loan management;
- Fulfill the requirements of the Credit Reform Act;

- Provide information and reports to internal and external users; and
- Provide interface capability to update IFMS eliminating data entry duplication.

Currently portions of ARTS are being used to determine the amounts of subsidy and borrowing and grant necessary for issuing partial disbursements of an Assistance Agreement that is subject to the Credit Reform Act. Another feature currently used in production, on a limited basis, is the billing module which enables reminder notices and bills for collections to be generated as loans installments mature.

MILESTONES FOR ARTS

MILESTONE	EXPECTED COMPLETION DATE
Complete ARTS redesign and reprogramming	12/93
Develop additional Reporting Requirements	3/94
Interface ARTS with IFMS	8/94
Implement ARTS	9/94

CHAPTER 8

AUDITED FINANCIAL REPORTING

Audited financial statements prepared under the Chief Financial Officer (CFO) Act are a systematic means of accomplishing two critically important goals: strengthening Agency accountability for sound financial management practices; and providing accurate disclosure of programmatic and financial information that enables decision-makers to understand the implications of budgetary, policy and program issues.

A. STATUS OF AUDITED FINANCIAL REPORTING

ANNUAL FINANCIAL STATEMENTS

EPA prepared and submitted the FY 1992 financial statements in a timely fashion pursuant to the requirements of the CFO Act of 1990. The financial statements adhered to the provisions of the Office of Management and Budget (OMB) Bulletin 93-02, "Form and Content of Agency Financial Statements", and included the following trust funds, revolving funds, and commercial activities:

- Superfund;
- Leaking Underground Storage Tank (LUST) Program;
- Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund);
- Revolving Fund for Certification and Other Services (Tolerance Fund); and
- The Loan Portion of the Asbestos Loan and Grant Program.

In July 1993, EPA's financial management and Inspector General (IG) staff held a post-audit evaluation meeting to review the benefits and identify the problems associated with the

preparation of the FY 1992 financial statements and came to several positive conclusions. One of the most important benefits was the discipline imposed by the review and audit process. The results provided the Agency with a clear indication of the current soundness of its internal control, financial management, and accounting practices and established a baseline from which EPA can make future improvements.

In addition, close contact with auditors and program offices contributed to the Agency's refinement of the reporting process to keep Congress, the public, and oversight authorities fully informed of the financial condition of EPA. Also, regular communication and cooperation between the responsible parties, through scheduled meetings and coordinated communications, enabled EPA to prepare the financial statements as required by OMB and the CFO Act. These benefits have set the stage for greater teamwork for financial management throughout EPA and for meeting the goals of the CFO legislation.

EPA identified several other benefits derived from the initial preparation and submission of FY 1992 financial statements which will not only improve the Agency's processes, but also strengthen its accountability. First, the basic

format of the financial statements, the accompanying footnotes, and the manual worksheets supporting the financial statements now have been developed. EPA anticipates that this process will not be nearly as time-consuming in future years.

Second, the audit reports delineated specific weaknesses in the financial statement preparation process, which EPA is correcting in order to assure sound financial management practices. Third, EPA now has a better understanding of the roles and responsibilities required to ensure a more effective process for preparing financial statements under the CFO Act.

The evaluation process also revealed one major impediment to the preparation of the financial statements--EPA had to prepare the financial statements manually due to the inability of the Integrated Financial Management Systems (IFMS) to produce the reports in the format required by OMB's guidance. In addition, difficulties were encountered in interpreting OMB Bulletin 93-02, since the Standard General Ledger does not conform to the U.S. Standard General Ledger. Close communication with OMB was required to resolve the disparities.

Accelerated Submission of Financial Statements

OMB has issued guidance requiring all CFO agencies to accelerate the preparation of audited financial statements in FY 1994. EPA is accelerating its schedule to produce audited financial statements by April 1, 1994. Since the OMB due date is March 1, 1994, a request for a waiver is planned.

Audits of FY 1992 Financial Statements

The required audits of the FY 1992 financial statements were performed in accordance with the requirements of OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements". The scope of the audits included evaluations and tests of internal controls and EPA's compliance

with applicable laws and regulations. The audits also included a determination of whether the information in the Principal Statements, Notes to the Principal Statements and the Combining Statement was consistent with information presented in the Overview Section of the financial statements. The audits, which were completed by June 30, 1993, identified a number of improvements in EPA's financial systems and accounting practices that are needed so that financial statement preparation can be accelerated and more complete and accurate reports can be produced.

The auditors qualified their opinion on the Statements of Financial Position covering the Lust Trust Fund and the Asbestos Loan Program; and disclaimed an opinion on the Statements of Operation, Cash Flow and Budget and Actual Expenses for the Lust Trust Fund and the Asbestos Loan Program. They disclaimed opinions on the financial statements for the Superfund Trust Fund and the FIFRA and Tolerance Funds.

The auditors noted that improvements are needed in the recording of accounts receivable, property and equipment, state cost share revenue, accounts payable and accrued liabilities. Further, the auditors identified weaknesses in the supporting documentation maintained for material adjustments, and they found that some unliquidated obligations had not been reviewed.

In the area of program performance measures, the OIG currently has audit work underway to examine the Agency's Superfund performance measures. The objective of this audit work is to assess the adequacy of the Agency's systems and controls related to the reporting of Superfund performance measurement information.

Program Performance Information

Before beginning work on FY 1993 program performance measures, EPA evaluated the

process for developing program performance measures for FY 1992. Program performance measures were cited in the financial statement's *Overview* in the section "Program Results." Since this section is closely related to two other parts of the report's *Overview*, "Program Description" and "Financial Perspective," all three sections were evaluated.

The first step in evaluating the program performance measures process and related sections of the *Overview* was to reflect on the positive aspects of the FY 1992 submission. The early planning, development of a workgroup and coordination were cited as the most positive aspects of the process. Timely submission of the program performance measures by the responsible program offices was also a key factor in the success of the FY 1992 effort, enabling the Administrator to submit a complete unaudited financial statement package to OMB on March 31, 1993.

A discussion of the "special review" of Superfund program performance measures, conducted by the OIG, also was included in the evaluation of the program performance measures process. Using this report, EPA will be able to identify the weaknesses in the Superfund's existing CFO program performance measures and in the systems used to track the information used for these measures.

The final step in the evaluation process focused on the lessons learned in FY 1992. Improved coordination of the three sections of the *Overview* was discussed. The Agency is concentrating on improving both the program performance measures and financial analysis of the programs. Special attention will be given to coordinating these measures and linking them with the program descriptions so that the "Overview of the Reporting Entity" will be more cohesive. To meet this need, EPA expanded its Program Performance Measures Workgroup for FY 1993 to include a broader range of

participation by budget and financial analysts for the pertinent programs, and has further defined the roles and responsibilities of each office.

In addition, the workgroup established milestones for the preparation of the FY 1993 program performance information, with a goal of meeting the accelerated submission of FY 1993 audited financial statements to OMB by April 1, 1994. The most critical problem identified in meeting this accelerated schedule is that the Agency's program management information system--Strategic Targeted Activities for Results (STARS)--may not have final FY 1993 program data until late November. Existing STARS procedures need to be amended, changing current deadlines for entering final fiscal year information. While the Agency is striving to meet the accelerated schedule, normal business practices may impede its reaching this goal for the FY 1993 audited financial statements.

For FY 1993, one new program, the Oil Spills Trust Fund, will be added to EPA's financial statements. The program office has formulated several program performance measures for the fund. The Agency envisions little change in the FY 1993 performance measures for those program areas which were included in the FY 1992 financial statements. However, the Agency is beginning efforts to move in the direction of establishing more meaningful and verifiable measures of program achievement which will reflect the environmental results of EPA activities.

Current program performance measures information comes largely from STARS. An enhanced version of this system--STARS II--is currently being developed. STARS II will support the development and reporting of measurable environmental goals. This new system is discussed in further detail in the plans for program performance measures (see page 72).

Until STARS II is operational, EPA will continue to rely on the existing STARS system as a source of data for program performance measures. For FYs 1993 - 1997, the emphasis will be on: analyzing and modifying the current program performance measures; including more

detailed information on the existing measures, as it becomes available; and increasing the level of financial analysis related to the program performance measures and other programmatic information that is included in the financial statements.

B. PLANS FOR AUDITED FINANCIAL STATEMENTS

ANNUAL FINANCIAL STATEMENTS

EPA will prepare the annual CFO financial statements for future years (FYs 1994 - 1997) in accordance with the provisions of the CFO Act. This includes adhering to the provisions of OMB Bulletin 93-02, participating in Federal Accounting Standards Advisory Board (FASAB) activities, and adhering to supplementary policies regarding financial statements.

CFO financial statements for FY 1993 and FY 1994 will be prepared and submitted covering all trust and revolving funds and commercial activities which meet the criteria for inclusion under the CFO Act. Beginning in FY 1996 (i.e., the FY 1995 financial statements) EPA plans to prepare Agency-wide principal statements and submit them to the OIG for audit. Principal statements will continue to be prepared in a manual fashion until such time that IFMS has the capability to produce automated financial statements.

The process of completing the financial statements will be a coordinated effort through regularly scheduled meetings and structured communications with relevant parties, particularly the OIG and independent auditors. This will ensure timely and accurate completion of the financial statements.

Accelerated Submission of Financial Statements

OMB has accelerated the submission date for audited financial statements from June 30 to March 1 of each year. EPA has accelerated the

preparation of its FY 1993 audited financial statements to meet an April 1, 1994 target date. The Agency anticipates meeting the March 1 deadline with its FY 1994 statements, which will be submitted in FY 1995.

Meeting these accelerated deadlines will pose a challenge to EPA. With the continued requirements of Treasury's year-end reports, new systems and procedures must be refined to facilitate the accelerated preparation and submission of financial statements. The experience garnered from the submission of the FY 1992 and FY 1993 financial statements provides a foundation that will assist the Agency to meet the accelerated deadlines.

The implementation of the Department of the Treasury's Federal Agencies' Centralized Trial-Balance System (FACTS) project also may influence EPA's ability to accelerate the submission of CFO required financial statements. The FACTS project includes the potential requirement for government entities to provide the Treasury with a magnetic tape of their fiscal year general ledger(s) in lieu of the SF-220 series. Depending upon the final Treasury's requirements, less resources may be needed to fulfill the requirements for year-end reporting.

Audited Financial Statements

As the Agency accelerates its production of CFO financial statements, the OIG also will accelerate completion of the audits. The OIG is taking a number of steps to achieve this goal,

including starting the audits earlier and performing some of the audit testing before fiscal year-end. In addition, the OIG has created a new division whose staff is responsible for performing and overseeing the financial statement audits. Having a dedicated staff to perform the audits will eliminate much of the learning curve the OIG faced when conducting the audit of the FY 1992 financial statements, the first financial statements EPA prepared in response to the CFO Act requirements.

To improve the usefulness of the required audits, the OIG is working and will continue to

work with OMB, the General Accounting Office (GAO) and the Internal Revenue Service (IRS) to obtain audit assurances on financial statement line items that are not controlled by EPA, such as the trust fund balances which are maintained by Treasury and tax revenues which are collected by IRS.

New performance audits in those program areas where financial statements are required under CFO will include program performance measures in the scope of the audit. These steps are designed to meet the requirements of OMB Bulletin 93-06.

MILESTONES FOR AUDITED FINANCIAL STATEMENTS

MILESTONE	EXPECTED COMPLETION DATE
Prepare and submit annual financial statements to OIG for previous fiscal year	Annually each December
Issue audit reports on above financial statements	4/1/94, then Annually each March
Prepare and submit Agency-wide principal statements to OIG	Annually each December beginning 12/95

Program Performance Information

EPA will continue to evaluate and improve program performance measures for future year activities (FY 1994 - 1997). These improvements will require the continued coordination of EPA's various program offices covered by the CFO Act, the Office of Policy, Planning and Evaluation, and the CFO's finance and budget staff.

During FYs 1994 - 1997, the Agency will evolve toward reporting performance measures, along with associated costs if available, which link to higher level environmental results or outcome measures. This will be achieved

through improved cost accounting information (see "Project Cost Accounting," page 34) and through the Agency's efforts to establish an environmental results program performance measurement system.

EPA has two Agency-wide initiatives underway that are integral to successfully meeting the goals of both the CFO Act and the Government Performance and Results Act (GPRA). Although these projects--the Environmental Goals Project and the STARS II Project--were initiated independent of the CFO and GPRA legislation, the CFO is working closely with these efforts to ensure that both will meet the pertinent legislative requirements.

The Environmental Goals Project

EPA's Environmental Goals Project was established in FY 1992 for the purpose of developing a set of measurable environmental goals that will provide strategic direction for the Agency's long-term efforts to address modern environmental problems. Once goals are set, they provide clear direction for the design of effective, efficient government and private programs to fulfill national priorities.

The Agency has begun a process for developing national environmental goals. The goal development process--if it includes participation of the broad range of government agencies with environmental responsibilities, private stakeholders in environmental policy, and the public--is an opportunity to build national consensus on environmental priorities. The Environmental Goals Project is designed to ensure that the goals developed by EPA will reflect this broad consensus on what the Nation must achieve to sustain the quality of its environment and the prosperity of its people.

As part of this process, the Agency hopes to identify the potential roles of EPA and other organizations in achieving each goal. In the next several months, the Agency will invite Federal, state and local government agencies, the Congress, private stakeholders and the public to contribute to the development of measurable environmental goals for the Nation. In addition, EPA is developing strategic and programmatic goals that will guide the Agency's efforts to meet its statutory objectives, perform its programmatic responsibilities and support the Agency's efforts to attain success in meeting the national environmental goals.

Revamping STARS - (Strategic Targeted Activities for Results System)

Also, in FY 1992, EPA initiated a project to revamp its existing performance measurement system--STARS--which measures and reports program accomplishments at the activity or

output level. The new system will be designed to:

- Align the Agency's strategic planning, budgeting, program evaluation and financial accounting processes by using program performance and financial information to feed back into the annual planning and budgeting cycles;
- Enable the Agency to report on its programs and accomplishments in terms of environmental results; and
- Meet the Agency's CFO Act and GPRA program performance reporting requirements.

STARS II is based on a pyramid concept for aligning program measures and data to ensure that managers at all levels receive information that is consistent with their role or function in the organization (see Attachment C, "Hierarchy of Management Information"). The base or foundation of the pyramid--Activity Manager--will contain activity-level information needed by managers of individual programs. The second tier--Strategy Manager--will contain the multi-year strategies and information which guides EPA's program activities. At this level, the system will cluster activities which relate to a common programmatic goal. The final layer--Goals--will contain both national environmental goals and specific environmental program goals which support attaining the national goals.

Currently EPA has several workgroups underway which are studying various aspects of the overall STARS II model, including: linking financial data with program performance information; and linking program activities (outputs) to higher level environmental goals (outcomes). The workgroups also are conducting case studies to better understand the implications and requirements of the applied model. The STARS II implementation team will present its recommended implementation strategy for STARS II to senior management in early FY 1994.

MILESTONES FOR PERFORMANCE MEASURES

MILESTONE	EXPECTED COMPLETION DATE
Develop combined STARS II and GPRA Implementation Plan	12/93
Complete FY 1994 pilots testing specific aspects of the STARS II model	9/94
Expand STARS II/GPRA pilot programs	9/95 - 9/97
Implement PCAS module in IFMS	9/95

CHAPTER 9

ADMINISTRATION OF EPA GRANTS PROGRAMS

The Federal Government should simplify its regulatory requirements for Federal grant programs (grants and cooperative agreements) administered by state and local governments, colleges and universities, and non-profit organizations, and should provide managers with incentives to streamline and improve administrative operations. The Environmental Protection Agency (EPA) will take further actions to improve the Agency's communications and overall working relationship with its grantees.

A. STATUS OF COMMUNICATION WITH GRANTEEES

OFFICE OF MANAGEMENT AND BUDGET CIRCULARS

The OMB guidance for developing the Financial Management Status Report and Five-Year Plan requires Federal Agencies to ensure that provisions of the Office of Management and Budget (OMB) Circulars affecting grants and cooperative agreements are included in Agency regulations. In particular, the guidance asks that the Chief Financial Officer (CFO) ensure that provisions of the OMB Circulars are included in Agency regulations, as appropriate.

EPA has implemented all of the appropriate Circulars in its regulations governing grants management. Currently, however, OMB has plans to revise some of the grants management Circulars and is considering other actions which would impact these Circulars. Below is a brief description of the changes OMB is contemplating:

Single Audit Circulars (A-128 and A-133) -
The President's Council on Integrity and

Efficiency (PCIE) and the General Accounting Office (GAO) are currently evaluating the Single Audit area. While the focus of the reviews is on A-128 (audit requirements for State, local governments, and Federally recognized Indian tribes), the results of these evaluations may also affect audits required under Circular A-133 (audit requirements for institutions of higher education and other nonprofits).

In addition, the Single Audit Clearinghouse in the Department of Commerce has expanded its role to include tracking audits required by A-133, and will conduct desk reviews of audit reports as they are received.

Cost Principles - OMB revised the cost principles for institutions of higher education and other nonprofit groups (Circular A-21) in 1992, to curb abuses in educational institution practices involving indirect costs in government-funded research. In January 1993, the new Administration rescinded that revision to Circular A-21. OMB is currently

reviewing the Federal Government's policies and practices in awarding research grants, cooperative agreements, and contracts to universities, including policies for funding overhead costs. When OMB publishes the final revisions to A-21, EPA will implement the new requirements.

OMB also is reviewing the need to change the cost principles for State and local governments (A-87) and the cost principles for nonprofit organizations (A-122). They expect to complete the revisions to A-122 in 1993.

Administrative Requirements - OMB established a multi-Agency Task Force to revise the Common Rule, which contains the administrative requirements for State and local governments, based on changes to OMB Circular A-102. OMB anticipates issuing the revised circular and Common Rule in 1994.

OMB also established a multi-Agency Task Force to revise A-110, the Circular detailing the administrative requirements for universities and other nonprofits. OMB expects to issue any changes to A-110 in 1994.

Training on OMB Circulars - EPA conducts various training courses for its State and local government recipients which incorporate the various grant and cooperative agreement administrative requirements contained in these Circulars. Some examples of this would be the Superfund Response Agreements Seminar and Superfund Procurement Training provided for States, local governments, and Indian Tribes in the Superfund Program.

STATE CAPACITY TASK FORCE

In 1992, the Deputy Administrator established a State Capacity Task Force to identify ways in which States can augment their capacity to administer EPA's environmental programs. The

Task Force continued its work in 1993, exploring ways EPA can streamline its grants process. The Task Force is comprised of EPA staff, State environmental program directors, and representatives from State environmental organizations (such as the Association of State and Interstate Water Pollution Control Administrators).

The Task Force has focused on four areas, supported by four teams comprised of EPA and State officials:

- Improving State/EPA relations;
- Encouraging alternative financing mechanisms;
- Investing in State management infrastructure; and
- Streamlining the grants assistance process.

In June 1993, the Task Force issued a final report to the Administrator defining the issues and recommending solutions. The recommendations of the Task Force envision a long-term change process, motivated by continuous improvement. The recommendations set forth a policy framework to enhance State capacity; specific implementation actions will subsequently give tangible expression to each recommendation. The recommendations concerning streamlining the grants assistance process focused on providing States the flexibility to use alternative funding methods and reduce administrative requirements.

IMPROVING GRANTS MANAGEMENT

During FY 1993, EPA developed a 3-year action plan to strengthen management controls and improve EPA's grants practices. Some of actions completed include:

- Developed new policies, such as grant versus contract determination, timely award of

Continuing Environmental Grants, and closeout;

- Established a Grants Customer Relations Council for bringing important grants issues to the attention of EPA Headquarters program staffs;
- Developed a three-day basic grants training course for EPA Grants administrative personnel;

- Developed introductory grants training courses for new employees and new SES and Presidential appointees; and
- Drafted a training course on the administrative requirements for EPA Grants Project Officers and conducted three pilot sessions.

The Agency also has started an effort to review ways to streamline the EPA grants process.

B. PLANS FOR COMMUNICATION WITH GRANTEES

OMB CIRCULARS

Circulars A-128 and A-133. When the results of the President's Council on Integrity and Efficiency (PCIE) and GAO reports are released, EPA will evaluate them to determine any impact on EPA's management of single audits. The Agency also will participate in any Task Force OMB may convene to implement the recommendations in the two reports.

In addition, EPA will make appropriate changes to its Single Audit process, based on any changes Commerce makes to the Single Audit Clearinghouse.

Revised Cost Principles Circulars. EPA commented on the proposed revisions to A-21 and A-87. When these revisions are final, the Agency will make any necessary changes to its regulations.

Revised Administrative Circulars. EPA has been an active participant on the OMB Task Force revising A-102 and the Common Rule. When OMB finalizes both the Circular and the Common Rule, EPA will publish its implementing regulation (40 CFR Part 31) in the *Federal Register*.

EPA has also participated on the OMB Task Force which is revising A-110. When the changes to the Circular are final, the Agency will make the necessary changes to our implementing regulations (40 CFR Parts 30 and 33) and publish the regulations in the *Federal Register*.

STATE CAPACITY

In FY 1993, EPA provided seed money for a demonstration program in Colorado and Vermont to begin initiating multi-media projects based on the State's risk assessments. In FY 1994, the Agency will evaluate the success of the comparative risk demonstration projects in these States. The results of this analysis will help set the stage for establishing a multi-media program for States.

In FY 1994 and 1995, EPA will continue to look for ways of giving States more flexibility. The Agency will review the possibilities of using alternative funding techniques, such as allowing States to "pool" their media-specific funds and deciding where to use the funds based on each State's greatest need.

In FY 1994 and FY 1995, EPA plans to develop statutory language to establish a new

provision for States. This new provision will reduce the administrative burdens on States, where possible, and allow the States greater autonomy to make the environmental decisions within the State. The Agency plans to propose this statutory provision in the FY 1996 budget.

IMPROVING GRANTS ADMINISTRATION

In FY 1994 and 1995, EPA will continue to work on streamlining the grants process by reviewing ways to reduce the administrative burdens for small grants (under \$50,000). The

Agency will use the results to determine where it can improve and/or streamline administrative management of all awards regardless of size.

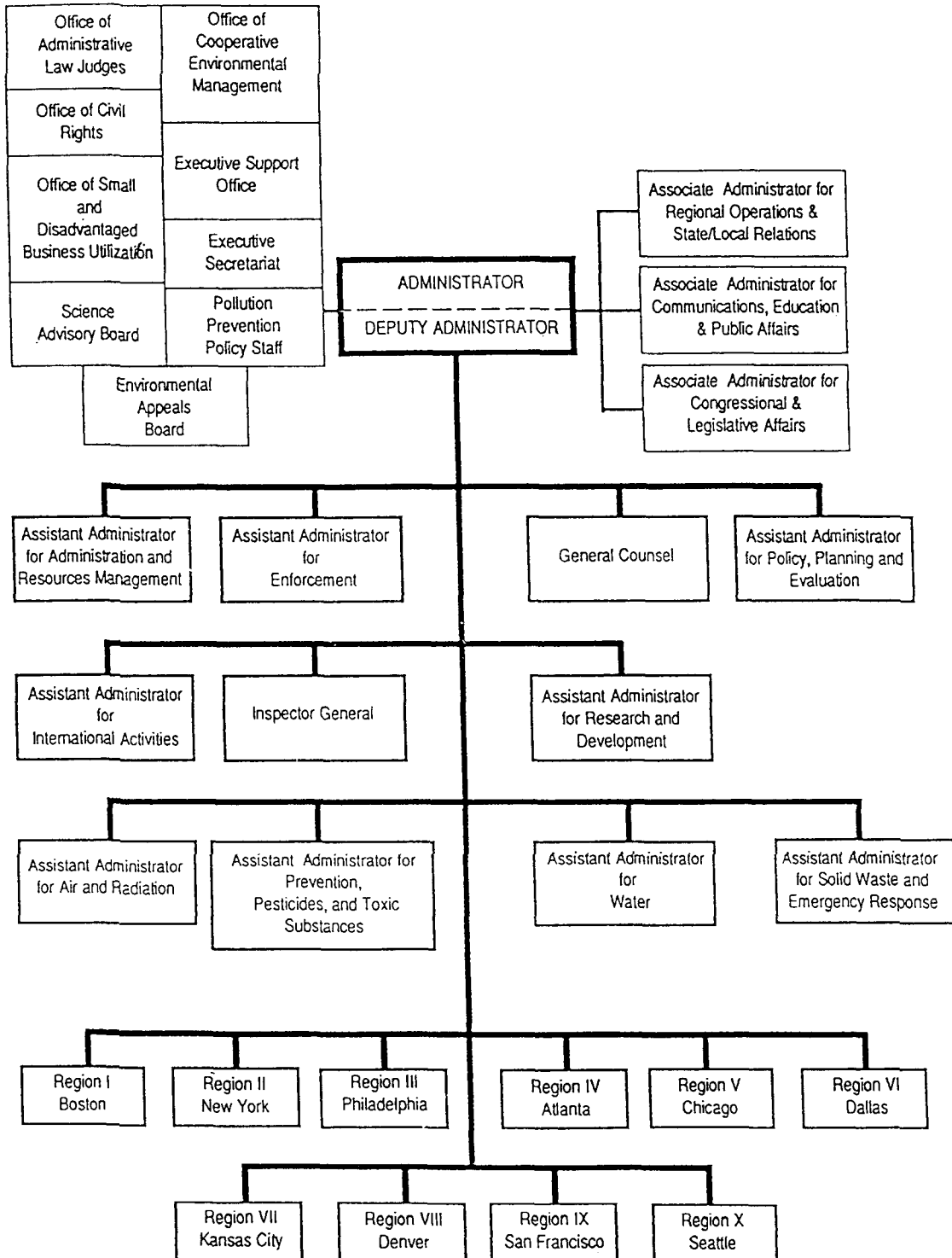
During FY 1994, EPA will complete the development of a training course began in FY 1993 for Project Officers assigned to grants, cooperative agreements, and Interagency Agreements. By the end of FY 1996, all EPA grant Project Officers will have been trained in their administrative roles and responsibilities under these agreements.

ADMINISTRATION OF GRANTS PROGRAMS

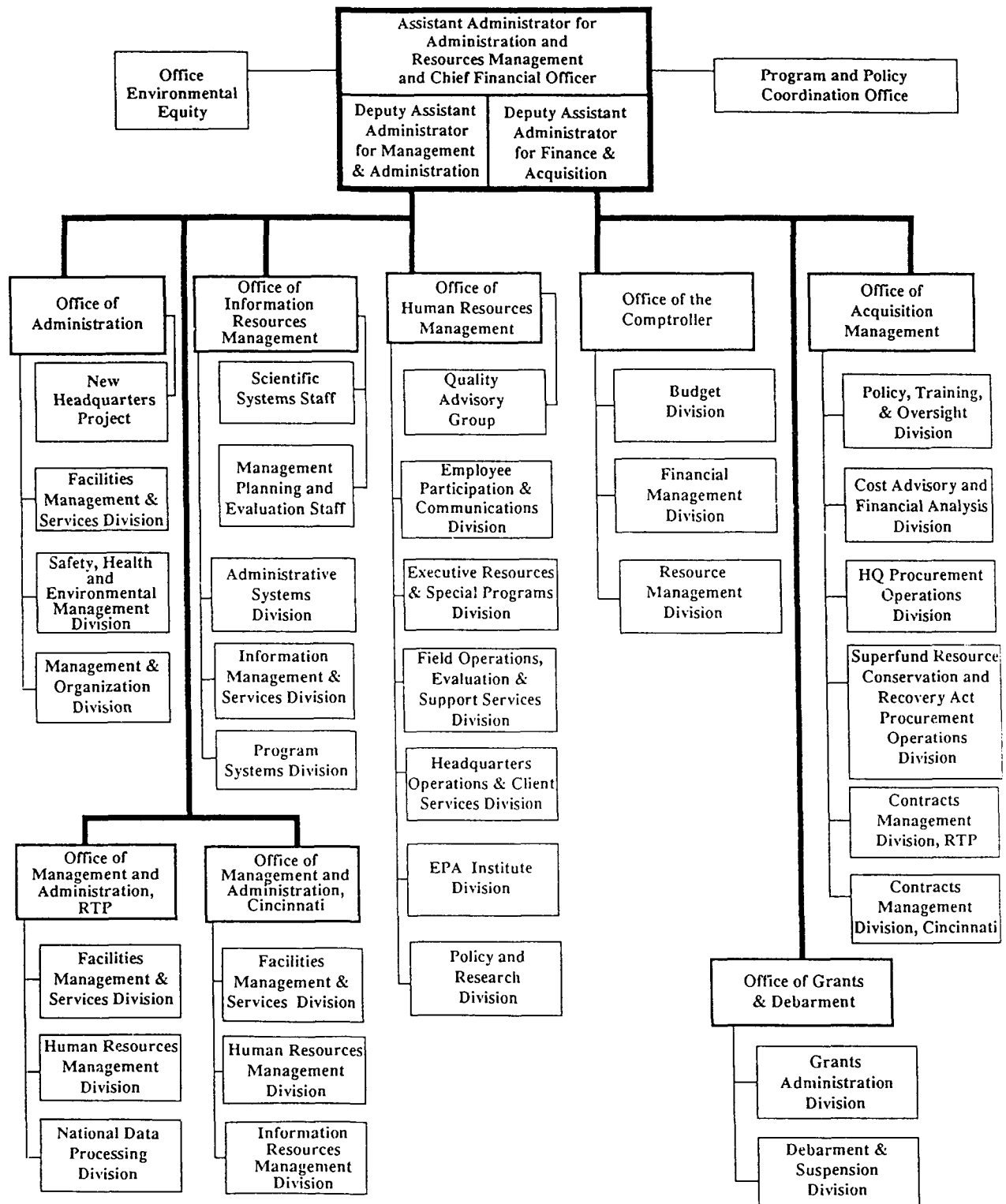
MILESTONE	EXPECTED COMPLETION DATE
Develop a training program for project officers of grants, cooperative agreements and interagency agreements	10/93
Propose statutory language to give States greater funding flexibility in grants	9/94
Identify and implement options for reducing the administrative burden of small grants	9/95
Complete training of all project officers	9/96

ATTACHMENT A - ORGANIZATIONAL CHARTS

U.S. Environmental Protection Agency



Office of Administration and Resources Management

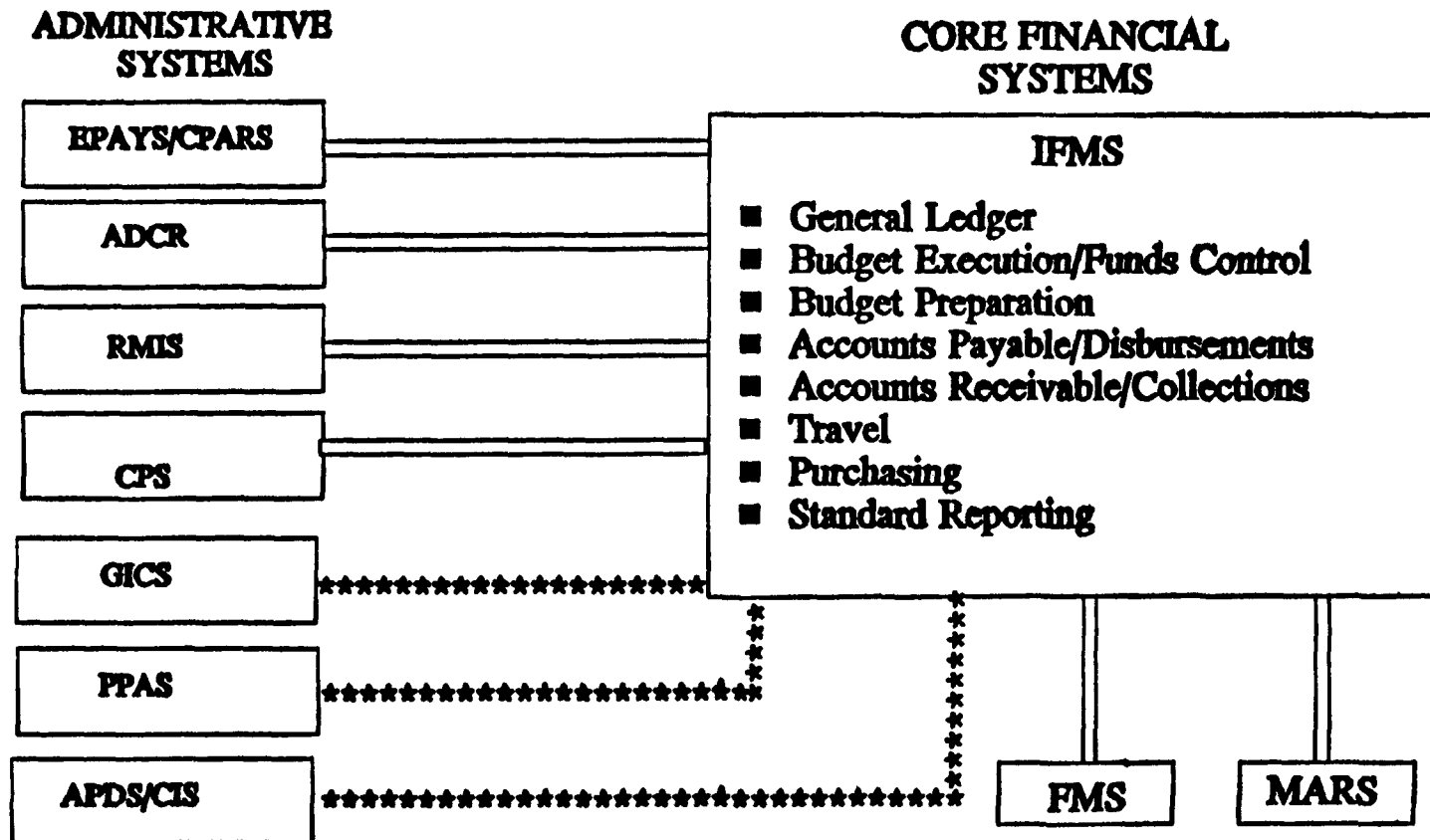


ATTACHMENT B - FINANCIAL & ADMINISTRATIVE SYSTEMS

EXHIBIT I

U.S. ENVIRONMENTAL PROTECTION AGENCY

BASELINE OF FINANCIAL AND ADMINISTRATIVE SYSTEMS



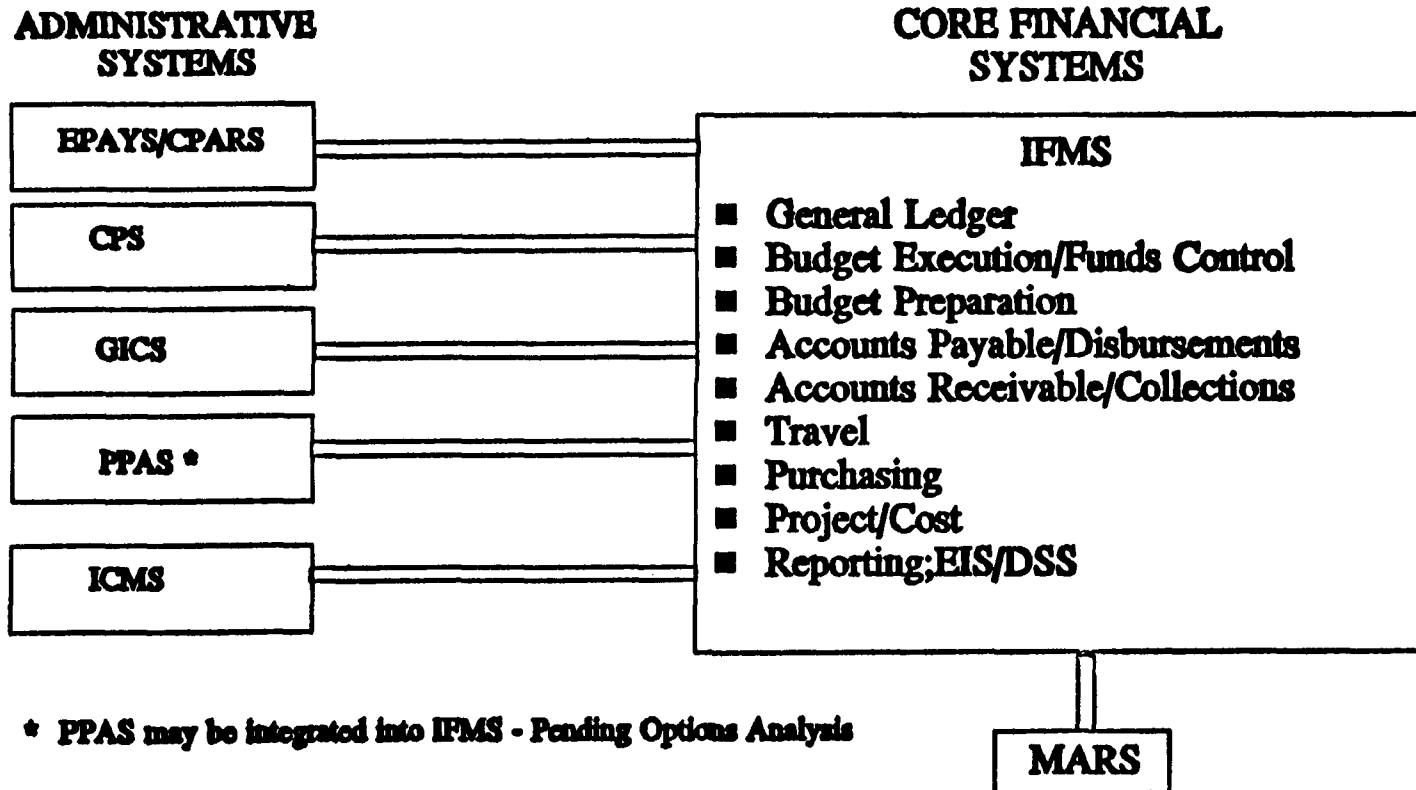
LEGEND



DIRECT LINK

DATA RE-ENTRY REQUIRED

EXHIBIT II
U.S. ENVIRONMENTAL PROTECTION AGENCY
TARGET FOR FINANCIAL AND MIXED SYSTEMS
BY FY1997



Legend **=====** **DIRECT LINK**

ATTACHMENT C - FINANCIAL MANAGEMENT SYSTEMS INVENTORY

FINANCIAL MANAGEMENT SYSTEMS INVENTORY

Part 1 of 3 Parts

Agency Name: EPA (0)

System Acronym	System Name	Dept Std	A137	SWMS	Application Reference	Application Name	Organization Name	Contact	Phone
ADCR	Automated Document Control Register	N	N	N	ADCR	Automated Document Control Register	Financial Management Division	Bob Clark	(202) 260-5107
AFDS	Automated Procurement Document System	N	N	N	AFDS	Automated Procurement Document Syst	Office of Acquisition Management	Jim Kravitz	(202) 260-8289
CIS	Contracts Information System	N	N	N	CIS	Contracts Information System	Office of Acquisition Management	Kathy Deberry	(202) 260-5085
CPARS	Combined Payroll Redistribution & Rptg Sys	Y	Y	N	CPARS	Combined Payroll Redistrib Rptg System	Financial Management Division	Bob Clark	(202) 260-5107
CPS	Contracts Payment System	Y	Y	Y	CPS	Contracts Payment System	RTP-Financial Management Center	Dennis Schatz	(919) 541-3842
EPAYS	EPA Payroll & Personnel System	Y	Y	N	EPAYS	EPA Payroll & Personnel System	Financial Management Division	Bob Clark	(202) 260-5107
FMS	Financial Management System	Y	N	N	FMS	Financial Management System	Financial Management Division	Bob Clark	(202) 260-5107
GICS	Grants Information and Control System	N	N	N	GICS	Grants Information and Control Syst	Grants Administration Division	Gary Fontaine	(202) 260-8638
ICMS	Integrated Contracts Management System	N	N	N	ICMS	Integrated Contracts Management Sys	Office of Acquisition Management	John Oliver	(202) 260-8288
IFMS	Integrated Financial Management System	Y	Y	Y	IFMS	Integrated Financial Management Sys	Financial Management Division	Bob Clark	(202) 260-5107
MARS	Management Accounting and Reporting System	Y	Y	Y	MARS	Mgmt Accounting & Reporting Sys	Financial Management Division	Bob Clark	(202) 260-5107
FPAS	Personal Property Accountability System	Y	N	N	FPAS	Personal Property Accountability Sy	Facilities Management and Services Divis	Ann Libonati	(202) 260-2110
RMS	Resource Management Information System	N	N	N	RMS	Resource Management Information Sy	Budget Division	Richard Blackman	(202) 260-3347

(0) (0) (0) (0) (0) (0) (0) (0)

FINANCIAL MANAGEMENT SYSTEMS INVENTORY

Part 2 of 3 Parts

Agency Name: EPA (1)

System Acronym	Appl Type	JFMSP Req	Description	Funsupport	Application Status	Future Plan	Replace	Impl. Date	Last Upgrade	End Life
ADCR	O	N	Supports funds management	BE	OPERATIONAL	R	IFMS	10/30/88	01/31/93	1994
AFDS	O	N	Supports the creation of contractual documents	FC	OPERATIONAL	R	ECMS	10/30/83	10/30/91	1997
CEB	O	N	Supports collection and reporting of historical contract data	FC	OPERATIONAL	R	ECMS	10/30/72	10/30/83	1997
CPARS	F	Y	Subsystem of EPAYS which redistributes payroll charges	LD CP TA PR	OPERATIONAL	U		07/19/89	/ /	0
CPS	C	Y	Supports contracts payment functions for entire Agency	GL DE AP ME AR FC	OPERATIONAL	U		03/30/87	12/30/92	0
EPAYS	F	Y	Supports payroll and personnel functions	PR TA LD CP	OPERATIONAL	U		10/30/84	/ /	0
FMS	C	N	Adhoc reporting & payroll cost function for historical financial	OT	OPERATIONAL	R	IFMS	12/30/78	/ /	1996
GICS	O	N	Supports Grants management and information	GM	OPERATIONAL	N		10/30/89	03/15/91	0
ICMS	O	N	Automated contracts preparation, tracking, management & reporting	FC	DEVELOPMENT	Y		09/30/97	/ /	2010
IFMS	C	Y	Provides an integrated database for accounting and budget functions	GL DE AP AR TR	OPERATIONAL	U		03/30/89	06/24/93	0
MARS	O	N	Provides adhoc reporting for financial data for IFMS	OT	OPERATIONAL	U		07/30/91	08/31/92	0
PPAS	I	N	Maintains inventory of EPA personal property	PP IN	OPERATIONAL	Y		10/30/86	09/30/91	0
RMS	O	N	Provides database for budget formulation and reporting	BF	OPERATIONAL	R	IFMS	01/30/71	10/30/79	1996

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FINANCIAL MANAGEMENT SYSTEMS INVENTORY

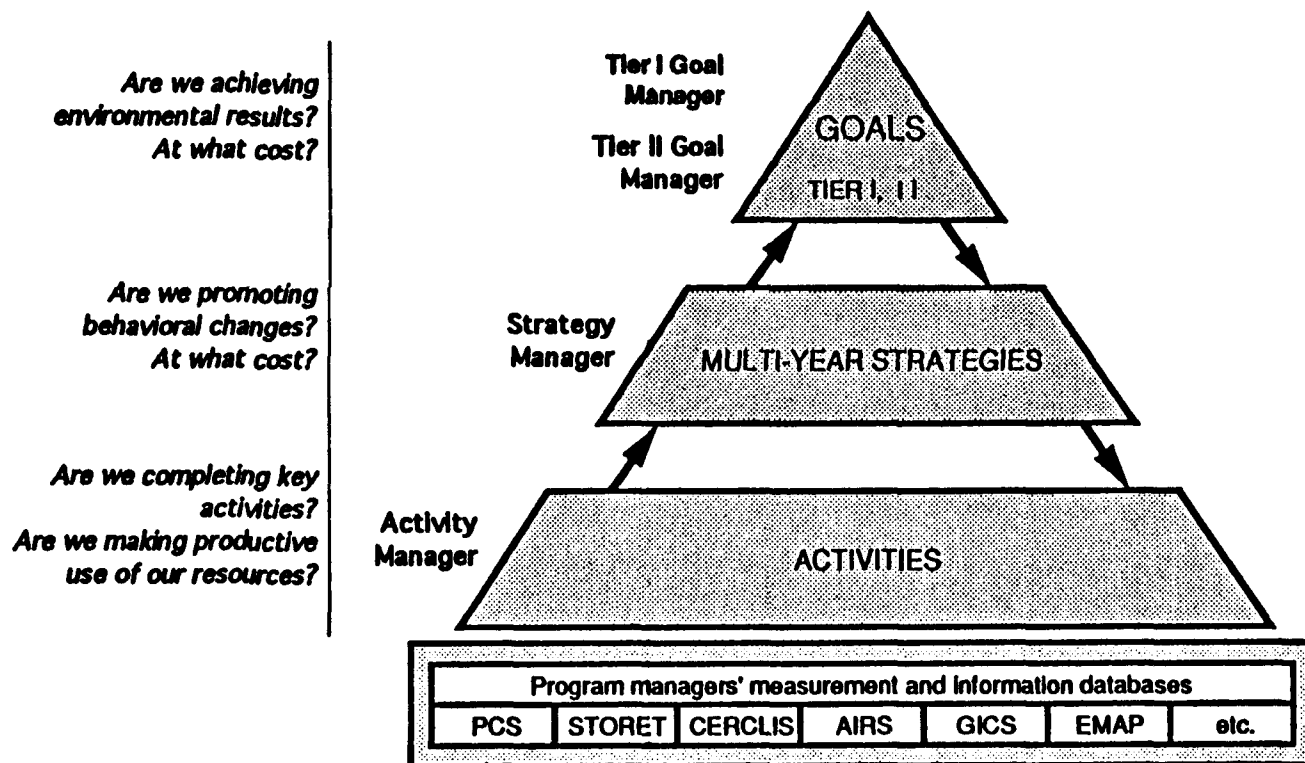
Part 3 of 3 Parts

Agency Name: EPA (1)

System Acronym	High Risk	FM-OR FIA Staff	Con- tact	User Cdr	Source	Provider CrossRef	Num Served	Std Data	Standard Gen Log	Est Rptg	Est Rptg	Proc- essing	Technical Environment	ADP Std	Date ADP Std	
ADCR	N	N	N	Y	NA	Planning Research Corporation	NA	0	C	NOTAFTL	A	N	N	Mainframe MVS ADABAS, PC	C	06/30/89
AFDS	N	N	N	Y	NA	Network Management Incorporated	NA	0	D	NOTAFTL	N	F	F	Prime Minicomputer COBOL	O	06/30/89
CBS	N	N	N	Y	NA	Computer Science Corporation	NA	0	J	NOTAFTL	M	N	F	Mainframe MVS System 2000	C	06/30/89
CPARS	N	N	N	Y	NA	Beco-Allen & Hamilton	NA	0	T	NOTAFTL	A	N	N	Mainframe MVS ADABAS	C	06/30/89
CTPS	N	N	N	Y	NA	Computer Science Corporation	NA	0	T	NOTAFTL	M	M	M	Mainframe MVS ADABAS	C	06/30/89
EPAYS	N	N	N	Y	NA	Obtained from DOI & Customized by CSC	EX	0	T	NOTAFTL	M	M	M	Mainframe MVS ADABAS, VSAM, FOCUS	C	06/30/89
FMS	N	N	N	Y	NA	Acquired from another Federal Agency	NA	0	D	NOTAFTL	N	N	N	Mainframe MVS Sequential files	O	06/30/89
GCS	N	Y	N	Y	NA	Planning Research Corporation	NA	0	A	NOTAFTL	M	M	M	Mainframe MVS ADABAS	C	06/30/89
KCMS	N	N	N	Y	NA	Science Application International Corporation	NA	0	T	NOTAFTL	M	M	M	PC/LAN DBM not determined	T	06/30/89
IFMS	Y	Y	Y	N	NA	American Management Systems-Federal Financial Sys	NA	0	T	FULLY	N	N	N	Mainframe MVS ADABAS	C	06/30/89
MARS	N	N	N	Y	NA	Beco-Allen & Hamilton	NA	0	C	NOTAFTL	A	N	N	Mainframe MVS ADABAS	C	06/30/89
FPAS	Y	Y	N	Y	NA	Network Management Incorporated	NA	0	A	NOTAFTL	N	N	N	PC & mainframe, FOCUS	C	06/30/89
EMIS	N	N	N	Y	NA	Developed by in-house staff	NA	0	C	NOTAFTL	M	M	M	Mainframe MVS Sequential files (COBOL)	O	06/30/89

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ATTACHMENT D - HIERARCHY OF MANAGEMENT INFORMATION



ATTACHMENT E - LEXICON

AA	Assistant Administrator	FAS	Fixed Asset Subsystem of the
ACDR	Automated Document Control Register		Federal Financial System
ACH	Automated Clearinghouse	FASAB	Federal Accounting Standards Advisory Board
ADCR	Automated Document Control Register	FEDTAX	Method of transmitting federal income tax, medicare and social security information to the Department of the Treasury
ADP	Automated Data Processing		
AMS	American Management Systems, Inc.	FFS	Federal Financial Systems
AO	Accountable Official	FFSUG	Federal Financial Systems User Group
APDS	Automated Procurement Document System	FMD	Financial Management Division
ARA	Assistant Regional Administrator	FMS	Financial Management System (predecessor to IFMS)
ARTS	Asbestos Receivable Tracking System	FMSD	Facilities Management and Services Division
ASAP	Automated Standard Application for Payments	FY	Fiscal Year
ATM	Automated Teller Machine	GAO	General Accounting Office
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980	GICS	Grants Information Control System
		GS	General Schedule
CFDA	Catalog of Federal Domestic Assistance	GM	General Managerial
		GPRA	Government Performance and Results Act
CFO	Chief Financial Officer		
CFO Act	Chief Financial Officers Act	GSA	General Services Administration
CIS	Contract Information System	IDP	Individual Development Plan
CMIA	Cash Management Improvement Act	ICMS	Integrated Contract Management System
CPARS	Combined Payroll Redistribution and Reporting System	IFMS	Integrated Financial Management System
CPS	Contracts Payment System		
DAA	Deputy Assistant Administrator	IRS	Internal Revenue Service
DCFO	Deputy Chief Financial Officer	LUST	Leaking Underground Storage Tank
DD	Direct Deposit	MARS	Management and Reporting System
DOJ	Department of Justice	MCC	Management Control Coordinator
ECS	Electronic Certification System		
EDI	Electronic Data Interchange	MOU	Memorandum of Understanding
EFT	Electronic Funds Transfer	NPR	National Performance Review
EPA	United States Environmental Protection Agency	OARM	Office of Administration and Resources Management (under the direction of the CFO)
EPAYS	EPA Payroll System		
FACTS	Federal Agencies' Centralized Trial-Balance System	OGC	Office of the General Counsel
		OIG	Office of the Inspector General
FAD	Financial Audit Division	OMB	Office of Management and Budget

OPM	Office of Personnel Management	SCORES	Superfund Cost Recovery Image
PA	(Comptroller's) Policy Announcement	SCRIPS	Processing System
PCIE	President's Council on Integrity and Efficiency	SBO	Superfund Cost Organization and Recovery Enhancement System
PMRS	Performance Management and Recognition System	SES	Senior Budget Officer
PPAS	Personal Property Accountability System	SFO	Senior Executive Service
QA	Quality Assurance	SLC	Servicing Finance Officers
QAT	Quality Action team	SPUR	Senior Leadership Council
QC	Quality Control		Software Package for Unique Reports
RITS	Retirement, Insurance, Transfer System	SRO	Senior Resource Official
RMD	Resource Management Division	SSC	Superfund State Contract
RMDS	Resources Management Directives System	STARS	Strategic Targeted Activities for Results System
RMIS	Resource Management Information System	TN	(Comptroller's) Transmittal Notices
SAGE	Electronic bulletin board listing EPA financial management policies and procedures including all RMDS chapters, PAs and TNs	TPDS	Third Party Draft System
		TQM	Total Quality Management
		TRANCH	Quarterly grouping of loans based on Treasury interest rates
		VAN	Value Added Network
		WCF	Working Capital Fund