



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA's Fiscal Years 2019 and 2018 Hazardous Waste Electronic Manifest System Fund Financial Statements

Report No. 21-F-0045

January 5, 2021



Report Contributors:

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Abbreviations

e-Manifest Act	Hazardous Waste Electronic Manifest Establishment Act
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OIG	Office of Inspector General

Cover Image: Trucks transporting hazardous waste. The EPA collects user fees to cover the costs of operating the e-Manifest system, which tracks off-site shipments of hazardous waste from a generator’s site to the site of the receipt, as well as the disposition of hazardous waste. (EPA photo)

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At a Glance

Why We Did This Audit

We performed this audit pursuant to the Hazardous Waste Electronic Manifest Establishment Act, known as the e-Manifest Act. The Act requires the U.S. Environmental Protection Agency to prepare and the Office of Inspector General to audit the accompanying financial statements of the EPA's e-Manifest Fund. Our primary objectives were to determine whether:

- The financial statements were fairly stated in all material respects.
- The EPA's internal controls over financial reporting were in place.
- EPA management complied with applicable laws and regulations.

Launched on June 30, 2018, the e-Manifest system tracks off-site shipments of hazardous waste from a generator's site to the site of the receipt, as well as the disposition of hazardous waste.

This report addresses the following:

- *Operating efficiently and effectively.*

This report relates to a top EPA [management challenge](#):

- *Fulfilling mandated reporting requirements.*

Address inquiries to our public affairs office at (202) 566-2391 or OIG_WEBCOMMENTS@epa.gov.

List of [OIG reports](#).

EPA's Fiscal Years 2019 and 2018 Hazardous Waste Electronic Manifest System Fund Financial Statements

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's fiscal years 2019 and 2018 e-Manifest Fund financial statements, meaning that the statements were fairly presented and free of material misstatement.

We found the fund's financial statements to be fairly presented and free of material misstatement.

Material Weaknesses Noted

We noted the following material weaknesses:

- The EPA made errors in its financial statement preparation process.
- The EPA improperly recorded accounts receivable and earned revenue.
- An EPA posting error creates the appearance of an Antideficiency Act violation.

Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements

We did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements.

Recommendations and Planned Agency Corrective Actions

We make six recommendations to the Agency, including that it strengthen and improve the preparation and management review of the financial statements so that errors and misstatements are detected and corrected; analyze adjustments and corrections to the financial statements so that such adjustments are appropriate, accurate, and properly supported by documentation; analyze billings and accounts receivable at the end of the fiscal year so that activity, account balances, and respective accounts are reported accurately and in the appropriate fiscal year; and correct the unexpended appropriations balance and establish accounting models to properly record expenses from e-Manifest fees.

The Agency concurred with all six of our recommendations. For four of the recommendations, the Agency provided acceptable planned corrective actions and estimated completion dates, and we consider those four recommendations resolved with corrective actions pending. The Agency completed corrective actions for the remaining two recommendations.



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

OFFICE OF
INSPECTOR GENERAL

January 5, 2021

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2019 and 2018 Hazardous Waste Electronic Manifest System Fund
Financial Statements
Report No. 21-F-0045

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

A handwritten signature in black ink that reads "Paul C. Curtis".

TO: David Bloom, Deputy Chief Financial Officer

Peter Wright, Assistant Administrator
Office of Land and Emergency Management

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit is [OA&E-FY20-0115](#). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer and the Office of Land and Emergency Management are responsible for the recommendations presented in this report.

This report contains six recommendations. In accordance with EPA Manual 2750, your offices provided acceptable planned corrective actions and estimated milestone dates in response to Recommendations 1, 2, 3, and 4. These recommendations are resolved. The Office of the Chief Financial Officer also implemented corrective actions in response to Recommendations 5 and 6, and we consider those recommendations completed. No final response to this report is required. If you submit a response, however, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epa.gov/oig.

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Inspector General's Report on EPA's Fiscal Years 2019 and 2018 Hazardous Waste Electronic Manifest System Fund Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency's Hazardous Waste Electronic Manifest System Fund, known as the e-Manifest Fund. These statements comprise the balance sheets as of September 30, 2019, and September 30, 2018; related statements of net cost and changes in net position; the statement of budgetary resources for the years then ended; and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the comptroller general of the United States; and Office of Management and Budget Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the U.S. Environmental Protection Agency's Hazardous Waste Electronic Manifest System Fund as of and for the years ended September 30, 2019 and 2018, in accordance with accounting principles generally accepted in the United States.

Report on Internal Control over Financial Reporting

Opinion on Internal Control. In planning and performing our audit, we considered the fund's internal control over financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and to comply with Office of Management and Budget's audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in Office of Management and Budget Bulletin 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act of 1982.

Material Weaknesses and Significant Deficiencies. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted three matters that we consider to be material weaknesses. These issues are summarized below and detailed in Attachment 1.

Material Weaknesses

EPA Made Errors in Its Financial Statement Preparation Process

We found multiple errors and misstatements in the e-Manifest Fund financial statements. The Office of Management and Budget requires that information in the financial statements be presented in accordance with generally accepted accounting principles. Agency personnel prepared the e-Manifest Fund financial statements and did not detect and correct, during their financial statement preparation process, various errors and misstatements. Not properly recording financial transactions and exercising due diligence in preparing the e-Manifest Fund financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

EPA Improperly Recorded Accounts Receivable and Earned Revenue

We found that the Agency made two material errors in recording accounts receivable and earned revenue. The Agency improperly recorded \$1.187 million in billings during fiscal year 2019. We also found that the Agency did not record \$1.338 million of September 2019 billings until October 2019. Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize revenue when services are provided. Federal standards for internal control require accurate recording of transactions and events. The Agency recorded accounts receivable and earned revenue without analyzing the e-Manifest bills, erroneously compounding its monthly billings. Also, the Agency believed that the September 2019 billings represented FY 2020 accounts receivable and earned revenue. While these two errors offset to only approximately \$151,000, the compounding effect of the errors, if left undetected, could materially distort e-Manifest accounts receivable and earned revenue, as well as decrease confidence in the quality of its financial statements.

EPA's Posting Error Creates Appearance of Antideficiency Act Violation

We found that the Agency inappropriately recorded expenses totaling \$573,000, materially misstating the e-Manifest appropriations in its FY 2019 financial statements. Federal standards for internal control require accurate recording of transactions and events. The Agency did not have accounting models to properly record expenses from e-Manifest fees and inappropriately reduced the e-Manifest appropriations accounts beyond the available balance. If this error is not corrected, the resulting misstatement could raise concerns

because it will appear that the Agency violated the Antideficiency Act by authorizing expenditures that exceeded the available appropriations.

Comparison of EPA's Federal Managers' Financial Integrity Act Report with Our Evaluation of Internal Control

Office of Management and Budget Bulletin 19-03 requires the Office of Inspector General to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's report. The Agency's report is prepared and submitted at the consolidated level, of which the e-Manifest Fund is a component. Accordingly, there are no findings to report at the e-Manifest Fund level.

Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

EPA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency and the fund. As part of obtaining reasonable assurance about whether the fund's financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the fund's financial statements.

Opinion on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The objective of our audit, including our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

We did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements.

Specific Audit Requirements of the Hazardous Waste Electronic Manifest Establishment Act

The Hazardous Waste Electronic Manifest Establishment Act, known as the e-Manifest Act, 42 U.S.C. § 6939g, requires the OIG to perform an analysis, which is included below, of (1) the fees collected and disbursed, (2) the reasonableness of the fee structure in place as of the date of the audit to meet current and projected costs of the system, (3) the level of use of the system by

users, and (4) the success to date of the system in operating on a self-sustaining basis and improving the efficiency of tracking waste shipments and transmitting waste shipment data.

Fees Collected and Disbursed. The EPA began collecting e-Manifest user fees in August 2018. As required by the e-Manifest Act, the EPA deposited fee collections into the e-Manifest Fund. The EPA received a total of \$15.7 million in fee collections in FY 2019. The EPA is required, under the Consolidated Appropriations Act, 2019, to reduce the appropriation provided by Congress for necessary expenses to carry out the e-Manifest system by the amount of offsetting collections. The Agency reimbursed the U.S. Department of the Treasury for e-Manifest fee collections totaling \$8.0 million in FY 2019.

Reasonableness of the Fee Structure to Meet Current and Projected Costs. The EPA established fees for each manifest type (fully electronic, hybrid, data plus image upload, scanned image upload, and mailed paper) based on a fee model that focuses on the marginal labor cost of processing each manifest type. Additionally, the EPA made a management decision to adjust the raw output of this formula to distribute the costs across manifest types. Table 1 lists the fees per manifest that were effective during FY 2019.

Table 1: FY 2019 fees by manifest type

Manifest type	Fee per manifest
Fully electronic and hybrid	\$5.00
Data plus image upload	6.50
Scanned image upload	10.00
Mailed paper	15.00

Source: FY 2019 fee rates published on EPA's website. (EPA OIG table)

Level of Use of the System. The EPA launched the e-Manifest system on June 30, 2018. A total of 632 registered facilities submitted 2.1 million manifests through the e-Manifest system in FY 2019 (Table 2).

Table 2: Total manifests submitted through the e-Manifest system in FY 2019

Manifest type	Total manifests	Percentage
Fully electronic and hybrid	5,204	0.25%
Data plus image upload	1,625,310	77.75
Scanned image upload	353,060	16.89
Mailed paper	106,841	5.11
Total	2,090,415	100.00%

Source: OIG analysis of EPA data. (EPA OIG table)

The EPA estimated that it would receive approximately three million manifests annually.

Success to Date of the System in Operating on a Self-Sustaining Basis. The e-Manifest system did not operate on a self-sustaining basis during FY 2019. The Agency had not accumulated enough fees by the beginning of FY 2019 to cover all e-Manifest costs. The Agency covered most of these costs through carryover appropriations.

Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management. We obtained information from the fund's management about its methods for preparing the Management's Discussion and Analysis, and we reviewed this information for consistency with the financial statements.

We did not identify any material inconsistencies between the information presented in the fund's financial statements and the information presented in the Management's Discussion and Analysis.

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the fund's Management's Discussion and Analysis.

Prior Audit Coverage

During our prior year e-Manifest Fund financial statement audit—*EPA's Fiscal Years 2018 and 2017 Hazardous Waste Electronic Manifest System Fund Financial Statements* (Report No. [20-F-0244](#)), issued August 10, 2020—we reported two significant deficiencies and one issue related to compliance with laws and regulations:

1. Improperly recorded e-Manifest receivables and earned revenue.
2. Misclassified e-Manifest user fee revenue.
3. Improperly calculated e-Manifest fees.

The Agency agreed with those findings and recommendations. The estimated completion date for the corrective actions related to the improper recording of receivables and earned revenues is September 30, 2021. The EPA has already completed all corrective actions related to the misclassified fees and the e-Manifest fee calculation error.

Agency Response and OIG Assessment

The Agency concurred with our recommendations but disagreed with the finding of three material weaknesses. The Agency stated that these three findings are related to the financial statement preparation and should be reported as one

material weakness. We disagree. As previously stated, a material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The three findings are material individually and identify deficiencies in different processes, not only in the preparation of financial statements.

The Agency also disagreed with the statement that the program is not sustainable. We stand by our statement the e-Manifest system did not operate on a self-sustaining basis during FY 2019. After the Agency began collecting e-Manifest fees in August 2018, it had not accumulated enough fees to cover all program costs by the beginning of FY 2019. The EPA therefore had to rely on carryover appropriations. As a result, the program did not operate on a self-sustaining basis during FY 2019.

Appendix B contains the Agency's response to our draft report. The Agency provided acceptable corrective actions and estimated completion dates for four of our six recommendations. We consider these four recommendations resolved with corrective actions pending. The Agency completed corrective actions for the remaining two recommendations.



Paul C. Curtis
Certified Public Accountant
Director, Financial Directorate
Office of Audit
Office of Inspector General
U.S. Environmental Protection Agency
August 27, 2020

Material Weaknesses

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1 – EPA Made Errors in Its Financial Statement Preparation Process

We found multiple errors and misstatements in the e-Manifest Fund financial statements. The Office of Management and Budget requires that information in the financial statements be presented in accordance with generally accepted accounting principles. Agency personnel did not detect and correct, during their financial statement preparation process, various errors and misstatements. Not properly recording financial transactions and exercising due diligence in preparing e-Manifest Fund financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, Section II.3.1, requires that information in the financial statements be presented in accordance with generally accepted accounting principles for federal entities issued by the Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards. The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. Management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal controls. Management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standard for control activities additionally requires the accurate and timely recording of transactions and events.

We found that the Agency misreported accounts receivable, earned revenue, and accrued liabilities in its FY 2019 e-Manifest Fund financial statements. We also found various errors in the financial statements. The EPA:

- **Understated accounts receivable and earned revenue.** We found errors in the posting of accounts receivable and earned revenue that netted to an understatement of approximately \$151,000.
- **Understated contract accruals.** We estimated that the Agency understated FY 2019 e-Manifest contract accruals by approximately \$183,000.
- **Did not include all the FY 2019 activity in the financial statements.** The Agency did not include approximately \$110,000 in activity for accounting period 15 (part of the year-end closing process) in its FY 2019 e-Manifest Fund financial statements.
- **Omitted two footnotes related to exchange revenue.** The Agency omitted footnote disclosures on exchange revenue as they relate to the Statement of Net Cost and intragovernmental costs. Agency staff stated that the omission was an oversight.
- **Posted adjustments that contained errors.** We found that two out of four adjustments that the Agency posted for the FY 2019 e-Manifest Fund financial statements contained

errors. We found that the Agency's calculation for its payroll accrual was overstated and the amounts were not posted to their proper accounts.

- **Used an incorrect indirect cost rate.** We found that the Agency used an incorrect indirect cost rate to calculate expenses and income from other appropriations in FY 2018. After various OIG inquiries about why the FY 2019 and FY 2018 indirect cost rates were the same, Agency staff stated that the rate used in FY 2018 was incorrect.

Agency personnel did not detect and correct, during their financial statement preparation process, the errors and misstatements stated above. After we conducted account analyses of the activity and questioned the Agency, staff stated that the EPA would prepare additional adjustments and revise the current adjustments to correct the errors and misstatements we found. Had it not been for the intensive inquiry by our auditors, material errors would have impacted the e-Manifest Fund financial statements. These issues highlight the need for the Agency to strengthen its processes so that amounts and accounts are accurate, are properly posted, and comply with federal accounting standards.

Failure to properly record accounting transactions and exercise due diligence in the preparation and management review of the e-Manifest Fund financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

Recommendations

We recommend that the chief financial officer:

1. Strengthen and improve the preparation and management review of the financial statements so that errors and misstatements are detected and corrected.
2. Analyze adjustments and corrections to the financial statements so that such adjustments are appropriate, accurate, and properly supported by documentation.

Agency Response and OIG Assessment

The Agency concurred with our recommendations and provided acceptable planned corrective actions with an estimated completion date of September 30, 2021. The Agency's response to our draft report is included in Appendix B.

2 – EPA Improperly Recorded Accounts Receivable and Earned Revenue

We found that the Agency made two material errors in recording accounts receivable and earned revenue. The Agency improperly recorded \$1.187 million in billings during FY 2019. We also found that the Agency did not record \$1.338 million of September 2019 billings until October 2019. Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize revenue when services are provided. Federal standards for internal control require accurate recording of transactions and events. The Agency recorded accounts receivable and earned revenue without analyzing the e-Manifest bills, erroneously compounding its monthly billings. Also, the Agency believed that the September 2019 billings represented FY 2020 accounts receivable and earned revenue. While the two errors offset to only approximately \$151,000, the compounding effect of the errors, if left undetected, could materially distort e-Manifest accounts receivable and earned revenue, as well as decrease confidence in the quality of the fund's financial statements.

Statement of Federal Financial Accounting Standards 1, *Accounting for Selected Assets and Liabilities*, states:

A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

Statement of Federal Financial Accounting Standards 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states:

Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. The standard for control activities requires the accurate and timely recording of transactions and events.

The Office of Land and Emergency Management sends monthly invoices to treatment, storage, and disposal facilities, as well as to users of the e-Manifest system, based on the total manifests processed through the e-Manifest system during the previous month. These invoices are cumulative and include any outstanding fees and penalties owed to the EPA in prior months. The delinquent fees are added to all subsequent invoices until they are paid. The e-Manifest system is not integrated with Compass, the EPA's financial system; therefore, the Office of Land and Emergency Management compiles monthly aggregate billings by facility, such as current fees owed in addition to any outstanding fees and penalties, and provides them to the Office of the Chief Financial Officer. The Office of the Chief Financial Officer records a monthly standard

voucher, based on the billings, to recognize the accounts receivable and earned revenue for services provided.

During our test work, we found that the Agency improperly recorded \$1.187 million in accounts receivable and earned revenue by erroneously compounding its monthly billings. The Agency erred by recording the entire invoice, which includes prior months' outstanding amounts, instead of recording only the current fees. The Agency did not analyze e-Manifest bills to determine the appropriate amount to record in its accounts receivable and earned revenue. By recording the entire outstanding amount on the bills each month, the EPA inappropriately increased accounts receivable and earned revenue.

We also found that the Agency did not record \$1.338 million of September 2019 billings until October 2019, misstating the FY 2019 e-Manifest Fund financial statements. The Agency believed that the September 2019 billings represented FY 2020 accounts receivable and earned revenue. By not recording the September 2019 bills in the appropriate fiscal year, the Agency misstated the FY 2019 e-Manifest Fund financial statements.

While the two errors we found offset to only approximately \$151,000, this amount was coincidental, and the difference could have been much larger. The compounding effect of the errors, if left undetected, could materially distort e-Manifest accounts receivable and earned revenue, as well as decrease confidence in the quality of the fund's financial statements.

Recommendations

We recommend that the chief financial officer:

3. Record accounts receivable and earned revenue in the appropriate fiscal year.

We recommend that the chief financial officer, in coordination with the assistant administrator for Land and Emergency Management:

4. Analyze e-Manifest billings so that accounts receivable and earned revenue are recorded accurately.

Agency Response and OIG Assessment

The Agency concurred with our recommendations and provided acceptable planned corrective actions with an estimated completion date of September 30, 2021. The Agency's response to our draft report is included in Appendix B. In our draft report, we addressed Recommendations 3 and 4 to the chief financial officer. Upon further discussions with the Agency, we agreed that Recommendation 4 should be addressed by the chief financial officer in coordination with the assistant administrator for Land and Emergency Management.

3 – EPA’s Posting Error Creates Appearance of Antideficiency Act Violation

We found that the Agency inappropriately recorded expenses totaling \$573,000, materially misstating the e-Manifest appropriations in its FY 2019 financial statements. Federal standards for internal control require the accurate recording of transactions and events. The Agency did not have accounting models to properly record expenses from e-Manifest fees and inappropriately reduced the e-Manifest appropriations accounts beyond the available balance. If this error is not corrected, the resulting misstatement could raise concerns because it will appear that the Agency violated the Antideficiency Act by authorizing expenditures that exceeded the available appropriations.

The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. The standard for control activities requires the accurate and timely recording of transactions and events.

The Antideficiency Act, at 31 U.S.C. § 1341(a)(1)(A), states:

[A]n officer or employee of the United States Government ... may not ... make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.

We found that the Agency erroneously impacted e-Manifest appropriations general ledger accounts when it recorded \$573,000 in operating expenses during FY 2019. This posting error created a negative unexpended appropriations balance of \$204,000 in the financial statements. The Agency used e-Manifest fees collected from the public, not funds received through appropriations acts, to pay for these expenses. The Agency records the appropriations received and the e-Manifest fee collections separately under different general ledger accounts. The e-Manifest fee collections do not impact the appropriations general ledger accounts.

Because of a lack of appropriate accounting models, the Agency increased the expended appropriations general ledger account and reduced the unexpended appropriations account regardless of the source of the funds used to pay for e-Manifest expenses. The unexpended appropriations in the financial statements represent the balance of available appropriations for the year presented. A negative unexpended appropriations balance indicates that the Agency made erroneous charges or violated the Antideficiency Act by exceeding its appropriations. Agency staff did not believe that the negative unexpended appropriations balance was unreasonable until we made further inquiries. By not having appropriate accounting models, the Agency made erroneous charges that created a negative unexpended appropriations balance in its financial statements.

Due to the posting error, the Agency materially misstated its financial statements. If this error is not corrected, the resulting misstatement could raise concerns because it will appear that the Agency violated the Antideficiency Act by authorizing expenditures that exceeded the available appropriations.

Recommendations

We recommend that the chief financial officer:

5. Correct the expended and unexpended appropriations balance.
6. Establish accounting models to properly record expenses from e-Manifest fees.

Agency Response and OIG Assessment

The Agency concurred with our recommendations and stated in its response to our draft report that all corrective actions were completed on August 3, 2020. Upon further analysis of the Agency's support for their corrective actions, however, we determined that the corrective actions for Recommendation 5 were completed on September 29, 2020, when the Agency corrected the expended and unexpended appropriations balance in Compass, the EPA's financial system.

The Agency's response to our draft report is included in Appendix B.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	10	Strengthen and improve the preparation and management review of the financial statements so that errors and misstatements are detected and corrected.	R	Chief Financial Officer	9/30/21	\$293
2	10	Analyze adjustments and corrections to the financial statements so that such adjustments are appropriate, accurate, and properly supported by documentation.	R	Chief Financial Officer	9/30/21	
3	12	Record accounts receivable and earned revenue in the appropriate fiscal year.	R	Chief Financial Officer	9/30/21	
4	12	In coordination with the assistant administrator for Land and Emergency Management, analyze e-Manifest billings so that accounts receivable and earned revenue are recorded accurately.	R	Chief Financial Officer	9/30/21	\$151
5	14	Correct the expended and unexpended appropriations balance.	C	Chief Financial Officer	9/29/20	\$573
6	14	Establish accounting models to properly record expenses from e-Manifest fees.	C	Chief Financial Officer	8/3/20	

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

***For the Fiscal Years Ending September 30, 2019 and
2018 Hazardous Waste Electronic Manifest System
Fund (e-Manifest) Financial Statements***

**For the Fiscal Years Ending September 30, 2019 and 2018
Hazardous Waste Electronic Manifest System Fund (e-Manifest)
Financial Statements**



*Produced by the U.S. Environmental Protection Agency
Office of the Chief Financial Officer
Office of the Controller*

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Management's Discussion and Analysis

Introduction

The Hazardous Waste Electronic Manifest System fund (e-Manifest) was established as a result of the Hazardous Waste Manifest Establishment Act (Public Law 112-195, October 5, 2012). The e-Manifest Act requires the United States Environmental Protection Agency ('EPA' or 'the Agency') to establish and own a hazardous waste electronic manifest program information technology ('IT') system that will enable electronic manifesting as a means to augment or replace the use of paper manifests for tracking hazardous waste shipments. The e-Manifest Act requires that the e-Manifest system:

1. Meets the needs of the user community;
2. Attracts sufficient user participation and service revenues to ensure the viability of the system (the e-Manifest Act authorizes EPA to collect reasonable user fees); and
3. Decreases the administrative burden on the user community.

Current EPA RCRA Manifest Program

The EPA Office of Land and Emergency Management (OLEM) provides policy, guidance and direction for the Agency's emergency response and waste programs. The Office of Resource Conservation and Recovery (ORCR) within OLEM works to protect human health and the environment by ensuring responsible national management of hazardous and nonhazardous waste. Working with delegated state waste programs, ORCR implements the 1976 Resource Conservation and Recovery Act (RCRA), and ensures that the resource conservation, recovery and waste management goals of RCRA are met. All states with the exception of Iowa and Alaska have been delegated RCRA authority, meaning that states implement many if not all aspects of RCRA policy.

The manifest program as implemented by EPA and the states ensures that hazardous waste shipments are consistently tracked, and that hazardous wastes in fact arrive at permitted waste management facilities. The manifest program is based on both RCRA and Department of Transportation (DOT) hazardous materials law (The Hazardous Materials Transportation Act (HMTA)). These laws together require uniformity in the content and use of the hazardous waste manifest form.

Launched at the end of June of 2018, e-Manifest now receives about 5,000 hazardous waste manifests a day and generates more than \$1 million in fees each month to support the system. EPA estimates that e-Manifest will save state and industry users, on average, \$50 million annually, once electronic manifests are widely adopted.

e-Manifest System Planning Activities

Discussion of the e-Manifest system itself has taken place over many years; beginning back in the 1990's when the concept of an electronic manifest system was first taking shape. Further activities continued over the years to envision the e-Manifest system through various stakeholder discussions and pilots. For more information EPA's efforts prior to the passage of the e-Manifest Act in 2012, please visit <http://www.epa.gov/osw/hazard/transportation/manifest/e-man-pastmeetings.htm>.

In early calendar year (CY) 2013, EPA conducted various stakeholder requirements meetings to reengage with the user community. The purpose of these meetings was to build on past e-Manifest work to determine high level system functional requirements. Following this, a system alternatives analysis was conducted to look at various system implementation approaches, all assuming (among other things) a full electronic mobile workflow. The alternatives analysis recommended that EPA leverage cloud hosting for initial system development and system launch, and for long term operations and maintenance (O&M), consider re-negotiating the cloud contract model or potentially migrate to an on-premise hosting model to keep costs down.

Also, as a part of the planning work, a system Concept of Operations (CONOPS) was completed that, at a high level, outlines both what the current manifest process entails for highway and rail transporters as well as what the future system may look like. The CONOPS document provides a process and conceptual model for how data will flow from stakeholder to stakeholder and through the system during the manifest workflow.

The technical architecture for e-Manifest was completed in FY 2015. This architecture includes the specific components and data flows as currently defined to illustrate a technical solution for the e-Manifest system. In doing so, it defines the specific boundaries of the e-Manifest system and how the different parts of the system work together to provide the required services based on current requirements. For example, areas such as system Cross-Media Electronic Reporting Regulation (CROMERR) integration, paper manifest processing and manifest data quality assurance (QA) were analyzed as a part of this effort.

As a part of this technical architecture planning work, EPA conducted targeted meetings with states and industry separately in order to further flesh out current processes as well as expectations for the above areas. The meetings were more detailed than previous discussions, and provided critical information to inform system requirements.

The technical architecture work completed in FY 2015 serves as baseline for the current manifest program and provides very strong foundation for future system buildout. It meets user needs and provides flexibility for future iterations of the system.

Building on FY 2015, in FY 2016 the e-Manifest program realized significant progress while leveraging existing ORCR software applications. EPA initially conceived e-Manifest as a standalone system and allowed the system architects to consider a broad range of approaches without inherent constraints from an existing system design. However, as designs matured, it was recognized that the e-Manifest technical solution aligned closely with RCRAInfo in terms of end user functionality, data integration, and required technical infrastructure. These factors led to the decision to implement e-Manifest as a unique module of RCRAInfo.

Many of the new capabilities of e-Manifest can be implemented in RCRAInfo using the existing modular architecture present in RCRAInfo. In addition, some of the more innovative design aspects of e-Manifest could also be incorporated into RCRAInfo, improving both systems. Furthermore, by leveraging e-Manifest and RCRAInfo modules, opportunities for reuse of existing technology investments were present, reducing the burden of e-Manifest implementation.

These factors led to the decision to develop e-Manifest and RCRAInfo modules as distinct, but interrelated entities which will meet the current and future needs of Industry, Government and Public.

Acquisition Strategy Change

The EPA's system development work is focused on ensuring user needs are met from day one of national system deployment. To accomplish this, the agency is conducting user-centered design and development, and is utilizing agile software development methodologies. This approach embodies continuous improvement

EPA's FY 2019 e-Manifest Financial Statements.

2.

through pilots and testing, using iterative processes, and continued regular engagement with users and stakeholders throughout the process to provide on-going opportunities for input.

Instead of locking in on one source, the new e-Manifest Program services contract (multi-vendor indefinite delivery/indefinite quantity (IDIQ)) will utilize a variety of vehicles for the following segments of the system:

- Project management including integration services.
- Paper manifest processing.
- User help desk and User training.
- Quality assurance for manifest data amongst industry, states, and the EPA.
- Services to calculate, collect, and support reporting of user fees for paper and electronic manifest processing.
- Support for stakeholder communication, including outreach and meeting support.

Research has shown that using this type of lean start-up methodology, with agile techniques, lowers the cost of system development by addressing uncertainties promptly, and by ensuring that the work being completed brings real value to users.

The agency will continue to work closely with users, adding more functionality in an incremental manner and providing continuous improvement for the lifetime of the system. By taking this iterative approach the EPA will refine remaining uncertainties from our architecture planning work in the most cost-effective manner.

e-Manifest System Development

As a follow-on to the completed technical and conceptual architecture, e-Manifest embarked on a pilot to create initial system functionality with the General Service Administrations (GSA) 18F consulting shop. 18F provided the IT expertise to create the foundation of e-Manifest and also provided agile project management support. Specifically, 18F:

- introduced user-centered design/development, which engages industry/state users in the early phases of development,
- created the development platform and hosting environment for e-Manifest,
- leveraged open source technologies (Trello, GitHub, biweekly online meetings showcasing recent system updates) to allow users and other stakeholders to follow and participate in system development.

As part of the agile development focus, in September 2015, EPA, in partnership with 18F, completed an initial system demonstration. This focused on a key aspect of the system: the transaction at the end of the chain-of-custody when the hazardous waste arrives at the designated waste management facility, and that facility signs the electronic manifest to verify that all the hazardous waste types and quantities were received. Getting the system to properly electronically execute this all-important manifest transaction was a critical first step. EPA worked with several industry users to complete this initial system functionality.

Although not as straightforward as standard government IT development projects, this course correction from traditional lifecycle system development (“waterfall”) methodology to agile will ultimately deliver a better system in a quicker, more value-added method going forward.

Starting with this initial system, EPA has been adding more functionality in an incremental manner. Research has shown that using this type of lean start-up methodology with agile techniques lowers the cost of current and future system development by addressing uncertainties sooner rather than later. Therefore, EPA has been

conducting user-centered design and development, starting with the small-scale demonstration phase. Open source code and project engages industry and state users in the early phases of development, creation of development platform, and hosting environment. EPA will expand engagement efforts to all users over time (e.g., states with no systems, large and small generators, etc.).

The agile software development methodology embodies continuous improvement through iterative development and delivers software in sprints. Agile embraces change, continuous and regular feedback and improvement, value-driven delivery, full-team collaboration, and learning through discovery. Agile techniques cannot eliminate the challenges intrinsic to high-discovery software development but by focusing on continuous delivery of incremental value and shorter feedback cycles, they expose challenges as early as possible to allow for immediate correction.

EPA has adopted the lean start-up product development strategies with agile, user-centered software design/development methodologies and as implemented the following:

- Two-week sprint intervals
- Using modular development practices, relying heavily on available off-the-shelf software modules, by building individual working pieces of the system and integrating them into the whole
- Addressing uncertainties that arose during the initial architecture planning work, and engaging early with users and stakeholders
- Bringing down the cost of current and future development by addressing risk upfront and ensuring that the work being completed brings actual value to stakeholders and users
- Continuously improving, using iterative processes, and engaging regularly with users and stakeholders throughout the life of the program.

EPA has made every effort to involve industry users in the development process to build the strongest possible system. During the system development phase, the e-Manifest team is working alongside industry, states, and other stakeholders, by focusing on issues raised and addressing the issues, including the following:

- How the national e-Manifest system will connect with state and industry systems
- User testing of the web application
- Addressing state data access needs

The e-Manifest team communicates regularly with states, industry, and related stakeholders about ongoing developments (i.e., continued release and testing of system iterations), updates on e-Manifest related rules (i.e., user fees for the e-Manifest system and amendments to manifest regulations), and the national launch of the e-Manifest system.

Our primary methods of communication include the following:

- The e-Manifest website
- User testing
- Conferences
- Site visits
- Regional implementation working groups
- Listserv (general interest and development-focused)
- Public webinars
- Blog posts
- GitHub – code repository and project management
- FACA Meetings
- Meetings with stakeholders.

e-Manifest will follow this path of milestones to system launch and beyond

- September 2015– initial system functionality completed.
- Spring of 2016 – minimal viable product development.
- Spring through fall of 2016 – early full-scale development.
- Fall of 2016 through winter of 2018 – rolling iterative releases/testing of system.
- Winter 2018 – finalize user fee rule.
- June 30, 2018 - System Launch.
- Continued development, enhancements and user outreach.
- Summer 2019 – update user fees.

Principal Financial Statements

U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Balance Sheet
 As of September 30, 2019 and 2018
 (Dollars in Thousands)

	2019	2018
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 8,029	\$ 4,294
Other (Note 4)	55	39
Total Intragovernmental	8,084	4,333
Accounts Receivable, Net (Note 3)	1,338	1,781
General Property, Plant and Equipment, Net (Note 6)	5,008	6,389
Total Assets	\$ 14,430	\$ 12,503
 LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 5)	\$ 58	\$ 72
Other (Note 7)	3	10
Total Intragovernmental	61	82
Accounts Payable and Accrued Liabilities (Note 5)	748	393
Payroll and Benefits Payable (Note 10)	143	117
Total Liabilities	952	592
 NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections	186	3,851
Cumulative Results of Operations - Funds from Dedicated Collections	13,292	8,060
Total Net Position	13,478	11,911
Total Liabilities and Net Position	\$ 14,430	\$ 12,503

The accompanying notes are an integral part of these financial statements.
 EPA's FY 2019 e-Manifest Financial Statements

U.S. Environmental Protection Agency
Hazardous Waste Electronic Manifest System Fund
Statement of Net Cost
For the Fiscal Years Ended September 30, 2019 and 2018
(Dollars in Thousands)

	2019	2018
COSTS		
Gross Costs	\$ 13,896	\$ 1,799
Expenses from Other Appropriations (Note 11)	2,139	281
Less:		
Earned Revenue	15,265	2,192
NET COST OF OPERATIONS (Note 14)	\$ 770	\$ (112)

The accompanying notes are an integral part of these financial statements.
 EPA's FY 2019 e-Manifest Financial Statements

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U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Statement of Changes in Net Position
 For the Fiscal Years Ended September 30, 2019 and 2018
 (Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ 8,060	\$ 3,025
Budgetary Financing Sources:		
Appropriations Used	3,665	4,529
Transfers In/Out	8	-
Income from Other Appropriations (Note 11)	<u>2,139</u>	<u>281</u>
Total Budgetary Financing Sources	5,812	4,810
Other Financing Sources (Non-Exchange)		
Imputed Financing Sources	<u>190</u>	<u>113</u>
Total Other Financing Sources	190	113
Net Cost of Operations	\$ (770)	\$ 112
Net Change	<u>5,232</u>	<u>5,035</u>
Cumulative Results of Operations	<u>\$ 13,292</u>	<u>\$ 8,060</u>
	<u>2019</u>	<u>2018</u>
Unexpended Appropriations:		
Net Position - Beginning of Period	\$ 3,851	\$ 5,143
Budgetary Financing Sources:		
Appropriations Received	-	3,237
Appropriations Used	<u>(3,665)</u>	<u>(4,529)</u>
Total Budgetary Financing Sources	(3,665)	(1,292)
Total Unexpended Appropriations	<u>186</u>	<u>3,851</u>
TOTAL NET POSITION	<u>\$ 13,478</u>	<u>\$ 11,911</u>

The accompanying notes are an integral part of these financial statements.
 EPA's FY 2019 e-Manifest Financial Statements

U.S. Environmental Protection Agency
Hazardous Waste Electronic Manifest System Fund
Statement of Budgetary Resources
For the Fiscal Years Ended September 30, 2019 and 2018
(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
BUDGETARY RESOURCES		
Unobligated Balance From Prior Year Budget Authority, Net (discretionary and mandatory)	\$ 931	\$ 2,539
Appropriations (discretionary and mandatory)	-	3,237
Spending Authority from Offsetting Collections (discretionary and mandatory)	<u>15,581</u>	<u>437</u>
Total Budgetary Resources	<u>\$ 16,512</u>	<u>\$ 6,213</u>
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward adjustments (total)	\$ 14,486	\$ 5,379
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,764	659
Unapportioned, Unexpired accounts	-	(4)
Expired Unobligated Balance, End of Year	<u>262</u>	<u>179</u>
Unobligated Balance, End of Year (total): (Note 8)	<u>2,026</u>	<u>834</u>
Total Status of Budgetary Resources	<u>\$ 16,512</u>	<u>\$ 6,213</u>
OUTLAYS, NET		
Outlays, Net (total) (discretionary and mandatory)	\$ (4,147)	\$ 4,785
Distributed Offsetting Receipts (-)	<u>-</u>	<u>-</u>
Agency Outlays, Net (discretionary and mandatory)	<u>\$ (4,147)</u>	<u>\$ 4,785</u>

The accompanying notes are an integral part of these financial statements.
 EPA's FY 2019 e-Manifest Financial Statements

U.S. Environmental Protection Agency
Hazardous Waste Electronic Manifest System Fund
Notes to the Financial Statements
Fiscal Years Ended September 30, 2019 and September 30, 2018
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The EPA was created in 1970 by executive reorganization from various components of other federal agencies to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates - air, water, waste, pesticides, and toxic substances.

The Hazardous Waste Electronic Manifest System Fund (e-Manifest) was authorized by the establishment of the Hazardous Waste Electronic Manifest System Act. The act mandates that the Agency, within three years, establish a hazardous waste electronic manifest system that can be accessed by any user. The act authorized the administrator to impose users' fees to pay the costs incurred in developing, operating, maintaining, and upgrading the system, including any costs incurred in collecting and processing data from paper manifests submitted to the system after the date on which the system enters operations.

The e-Manifest fund charges some administrative costs directly to the fund, and charges the remainder of the indirect administrative costs to Agency-wide appropriations. These amounts are included as "Income from Other Appropriations" on the Statement of Changes in Net Position and as "Expenses from Other Appropriations" on the Statement of Net Cost.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the EPA for the e-Manifest Fund in accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the EPA in accordance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the EPA pursuant to OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of fiscal year 2019 cost factors for calculating imputed costs for Federal civilian benefits programs. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

C. Budgets and Budgetary Accounting

For fiscal year 2019 the e-Manifest fund was funded through offsetting collections. For fiscal year 2018 the e-Manifest fund was funded through appropriations and offsetting collections.

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government and the American Institute of Certified Public Accountants (AICPA). The financial statements are prepared in accordance with GAAP for federal entities.

U.S. Environmental Protection Agency
Hazardous Waste Electronic Manifest System Fund
Notes to the Financial Statements
Fiscal Years Ended September 30, 2019 and September 30, 2018
(Dollars in Thousands)

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with OMB directives and the U.S. Treasury regulations.

E. Revenues and Other Financing Sources

For fiscal years 2019 and 2018 EPA received funding from fees collected and recognized revenues from collections to the extent that expenses were incurred during the fiscal year.

F. Funds with the Treasury

The e-Manifest fund deposits receipts and processes disbursements through its operating account maintained at the U.S. Department of Treasury.

G. General Property, Plant, and Equipment

General property, plant and equipment for e-Manifest consists of software in development. Internal use software includes purchased commercial off-the-shelf software, contractor developed software and software that was internally developed by Agency employees. In fiscal year 2017, EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets and increased capitalization threshold from \$250 thousand to \$5 million to better align with major software acquisition investments. The \$5 million threshold will be applied prospectively to software acquisitions and modifications/enhancements placed into service after September 30, 2016. Software assets placed into service prior to October 1, 2016 were capitalized at the \$250 thousand threshold. Internal use software is capitalized at full cost (direct and indirect) and amortized using the straight-line method over its useful life, not exceeding five years. The Hazardous Waste Electronic Manifest System was placed into production August 23, 2018.

H. Liabilities

Liabilities represent the amount of monies or other resources that are more likely than not to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections authorized for retention. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

I. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Annual leave earned but not taken at the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Balance Sheet as a component of "Payroll and Benefits Payable." Sick leave earned but not taken is not accrued as a liability. It is expensed as it is used.

U.S. Environmental Protection Agency
Hazardous Waste Electronic Manifest System Fund
Notes to the Financial Statements
Fiscal Years Ended September 30, 2019 and September 30, 2018
(Dollars in Thousands)

J. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits, and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

K. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, including environmental and grant liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

L. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised June 28, 2019. As a result, Net Adjustments to Unobligated Balance Brought Forward, Oct. 1 has been omitted in the Statement of Budgetary Resources.

U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Notes to the Financial Statements
 Fiscal Years Ended September 30, 2019 and September 30, 2018
 (Dollars in Thousands)

Note 2. Fund Balance With Treasury (FBWT)

Fund Balance with Treasury as of September 30, consists of the following:

	2019			2018		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Revolving Funds:						
E-Manifest	\$ 8,029	\$ -	\$ 8,029	\$ 4,294	\$ -	\$ 4,294
Total	\$ 8,029	\$ -	\$ 8,029	\$ 4,294	\$ -	\$ 4,294

Status of Fund Balances:

	2019	2018
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 2,580	\$ 982
Obligated Balance not yet Disbursed	5,449	3,312
Total	\$ 8,029	\$ 4,294

Note 3. Accounts Receivable, Net

Accounts Receivable as of September 30, 2019 and 2018, consist of the following:

	2019	2018
Non-Federal:		
Accounts & Interest Receivable	\$ 1,338	\$ 1,781
Total	\$ 1,338	\$ 1,781

Note 4. Other Assets

Other Assets as of September 30, 2019 and 2018, consist of the following:

	2019	2018
Intragovernmental:		
Advances to Working Capital Fund	\$ 55	\$ 39
Total	\$ 55	\$ 39

U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Notes to the Financial Statements
 Fiscal Years Ended September 30, 2019 and September 30, 2018
 (Dollars in Thousands)

Note 5. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2019 and 2018:

	2019	2018
Intragovernmental:		
Accounts Payable	\$ 2	\$ -
Accrued Liabilities	<u>56</u>	<u>72</u>
Total	<u>\$ 58</u>	<u>\$ 72</u>
	2019	2018
Non-Federal:		
Accounts Payable	\$ -	\$ 266
Advances Payable	(2)	-
Other Accrued Liabilities	<u>750</u>	<u>127</u>
Total	<u>\$ 748</u>	<u>\$ 393</u>

Note 6. General Property, Plant and Equipment, Net

The e-Manifest system was moved into production August 23, 2018 with a total capitalized cost of \$6,907.

As of September 30, 2019 and 2018, General PP&E consisted of the following:

	2019			2018		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
Software (production)	\$ 6,907	\$ (1,899)	\$ 5,008	\$ 6,907	\$ (518)	\$ 6,389
Total	<u>\$ 6,907</u>	<u>\$ (1,899)</u>	<u>\$ 5,008</u>	<u>\$ 6,907</u>	<u>\$ (518)</u>	<u>\$ 6,389</u>

Note 7. Other Liabilities

Other Liabilities consist of the following as of September 30, 2019:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current			
Employer Contributions & Payroll Taxes	\$ 3	\$ -	\$ 3
Total Intragovernmental	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 3</u>

U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Notes to the Financial Statements
 Fiscal Years Ended September 30, 2019 and September 30, 2018
 (Dollars in Thousands)

Other Liabilities consist of the following as of September 30, 2018:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current			
Employer Contributions & Payroll Taxes	\$ 10	\$ -	\$ 10
Non-Current			
Total Intragovernmental	\$ 10	\$ -	\$ 10

Note 8. Unobligated Balances Available

Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, Unobligated Balances and Unobligated Balances Not Available. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

The unobligated balances available consist of the following as of September 30, 2019 and 2018:

	2019	2018
Unexpired Unobligated Balance	\$ 1,764	\$ 659
Unapportioned, Unexpired Accounts	-	(4)
Expired Unobligated Balance	262	179
Total	\$ 2,026	\$ 834

Note 9. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2019 and 2018, were \$4,654 and \$2,844, respectively.

Note 10. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years September 30, 2019, and 2018, consist of the following:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2019 Payroll and Benefits Payable			
Accrued Funded Payroll and Benefits	\$ 47	\$ -	\$ 47
Accrued Unfunded Annual Leave	-	96	96
Total - Current	\$ 47	\$ 96	\$ 143

U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Notes to the Financial Statements
 Fiscal Years Ended September 30, 2019 and September 30, 2018
 (Dollars in Thousands)

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
FY 2018 Payroll and Benefits Payable			
Accrued Funded Payroll and Benefits	\$ 34	\$ -	\$ 34
Accrued Unfunded Annual Leave	-	83	83
Total - Current	<u>\$ 34</u>	<u>\$ 83</u>	<u>\$ 117</u>

Note 11. Income and Expenses from Other Appropriations

The Statement of Net Cost reports the program costs that include the full cost of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During FYs 2019 and 2018, the the indirect rate was 15.60%.

As illustrated below there is no impact on e-Manifest's Statement of Changes in Net Position.

	<u>2019</u>	<u>2018</u>
Income from Other Appropriations	\$ 2,139	\$ 281
Expenses from Other Appropriations	2,139	281
Net Effect	<u>\$ -</u>	<u>\$ -</u>

Note 12. Exchange Revenues, Statement of Net Cost

For FYs 2019 and 2018, the exchange revenues reported on the Statement of Net Cost include both Federal and non-Federal amounts.

Note 13. Intragovernmental Costs and Exchange Revenue

	<u>2019</u>	<u>2018</u>
Costs:		
Intragovernmental	\$ 2,837	\$ 2,370
With the Public	11,059	(571)
Expenses from Other Appropriations	2,139	281
Total Costs	<u>\$ 16,035</u>	<u>\$ 2,080</u>
Revenue:		
With the Public	15,265	2,192
Total Revenue	15,265	2,192
Net Cost of Operations:	<u>\$ 770</u>	<u>\$ (112)</u>

Intragovernmental costs relate to the source of the goods or services not the classification of the related revenue.

U.S. Environmental Protection Agency
 Hazardous Waste Electronic Manifest System Fund
 Notes to the Financial Statements
 Fiscal Years Ended September 30, 2019 and September 30, 2018
 (Dollars in Thousands)

Note 14. Reconciliation of Net Cost of Operations to Budget

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2019</u>
NET COST	\$ 2,837	\$ (2,067)	\$ 770
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(1,381)	(1,381)
Expenses from Other Appropriations	-	(2,140)	(2,140)
Increase/(Decrease) in Assets:			
Accounts Receivable	-	(443)	(443)
Other Assets	16	-	16
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	14	(355)	(341)
Payroll and Benefits Payable	-	(26)	(26)
Other Liabilities	7	-	7
Other Financing Sources:			
Transfer Out (In) Without Reimbursement	8	-	8
Other Imputed Financing	190	-	190
Total Components of Net Cost That Are Not Part of Net Outlays	3,072	(6,412)	(3,340)
Other Temporary Timing Differences	-	(807)	(807)
NET OUTLAYS	\$ 3,072	\$ (7,219)	\$ (4,147)

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The reconciliation explains the relationship between the net cost of operations and net outlays by presenting components of net cost that are not part of net outlays (e.g. depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities), components of net outlays that are not part of net cost (e.g. acquisition of capital assets), other temporary timing difference (e.g. prior period adjustments due to correction of errors). The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

September 25, 2020

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA&E-FY20-0115 "*Audit of EPA's Fiscal Years 2019 and 2018 Hazardous Waste Electronic Manifest System Fund Financial Statements*" dated August 27, 2020

FROM: David A. Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

DAVID
BLOOM

Digitally signed by
DAVID BLOOM
Date: 2020.09.25
16:29:42 -04'00'

TO: Paul C. Curtis
Financial Directorate
Office of Audit and Evaluation
Office of Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. The following is a summary of the U.S. Environmental Protection Agency's overall position, along with its position on each of the report's recommendations. The draft report contained six recommendations for the Office of the Chief Financial Officer and no recommendations for the Office of Land and Emergency Management.

AGENCY'S OVERALL POSITION

The OCFO concurs with the Office of Inspector General's recommendations and has provided proposed corrective actions, which have been reviewed by the Office of Land and Emergency Management.

However, the OCFO strongly disagrees with the OIG's finding of three material weaknesses. All three issues relate to financial statement preparation and should be reported as one material weakness. In addition, the agency disagrees with the statement in the audit that the program is not sustainable.

The fee structure was reviewed during this fiscal year's Biennial User Fee Review. The comment is not supported with long-term data, which shows that the fee structure does support the implementation of the program.

Below is additional information regarding the OCFO's position.

OIG STATEMENT

We found multiple errors and misstatements in the e-Manifest financial statements. The Office of Management and Budget requires that information in the financial statements be presented in accordance with generally accepted accounting principles. Agency personnel prepared the e-Manifest financial statements and did not detect and correct, during their financial statement preparation process, various errors and misstatements. Not properly recording financial transactions and exercising due diligence in preparing e-Manifest financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

AGENCY RESPONSE

The agency concurs with the OIG statement and has developed internal checklists to assist with the financial statement preparation and review process and to find and prevent errors. In FY 2021 and going forward, the agency will prepare and release all component financial statements together, early in the second quarter to allow for uniform footnote disclosures and to ensure that adjustments are applied in the same manner for all statements.

OIG STATEMENT

We found that the Agency made two material errors in recording accounts receivable and earned revenue. The Agency improperly recorded \$1.187 million in billings during FY 2019. We also found that the Agency did not record \$1.338 million of September 2019 billings until October 2019. Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize revenue when services are provided. Federal standards for internal controls require accurate recording of transactions and events. The Agency recorded accounts receivable and earned revenue without analyzing the e-Manifest bills, erroneously compounding its monthly billings. Also, the Agency believed that the September 2019 billings represented FY 2020 accounts receivable and earned revenue. While the two errors offset to approximately \$151,000, if left undetected, the compounding effect of the errors could materially distort e-Manifest accounts receivable and earned revenue as well as decrease confidence in the quality of its financial statements.

AGENCY RESPONSE

The agency concurs and made both adjustments prior to issuance of the final financial statements. The agency will continue to work with other agency stakeholders to develop a more efficient process to ensure accounts receivables are recorded completely and timely. This work is outlined in our FY 2020 *Federal Managers' Financial Integrity Act* Assurance Letter.

OIG STATEMENT

We found that the Agency inappropriately recorded expenses totaling \$573,000, materially misstating the e-Manifest appropriations in its FY 2019 financial statements. Federal standards for internal controls require accurate recording of transactions and events. The Agency did not have accounting models to properly record expenses from e-Manifest fees and inappropriately reduced the e-Manifest appropriations accounts beyond the available balance. If this error is not corrected, the misstatement could raise concerns because it will appear that the Agency violated the *Antideficiency Act* by authorizing expenditures that exceeded the available appropriations.

AGENCY RESPONSE

The agency concurs that the accounting model was incorrect. The accounting model has been corrected to prevent this error in the future and an adjustment was made to properly record the expenses from e-Manifest fees prior to the issuance of the final financial statements. Because expenditures did not exceed the available balance, there was not an *Antideficiency Act* violation.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	Assigned to:	High-Level Intended Corrective Action(s)	Estimated Completion Date
1	Strengthen and improve the preparation and management review of the financial statements so that errors and misstatements are detected and corrected.	OCFO	The agency has implemented numerous actions in FY 2020 which will improve the preparation and review of financial statements, including a new financial statement preparation checklist and software package. The agency will continue to review its processes for preparing financial statements and identify additional improvements to strengthen the preparation process further. In addition, the agency will prepare and release all component statement audits at the same time in order to	9/30/2021

			allow for uniform footnote disclosures and to ensure that accrual adjustments are applied in the same manner for all statements.	
2	Analyze adjustments and corrections to the financial statements so that such adjustments are appropriate, accurate, and properly supported by documentation.	OCFO	The agency makes every effort to ensure that adjustments and corrections appropriate, accurate, and properly supported, however, in addition to the actions taken under recommendation one, we will continue to review with staff the need to include more of the supporting analysis and rationale behind the adjustments made and the accounting basis for them. Management reviews of journal vouchers will continue, and additional training will be provided as needed.	9/30/2021
3	Record accounts receivable and earned revenue in the appropriate fiscal year.	OCFO	The FY 2019 adjustments were completed prior to issuance of the final financial statements. Monthly reconciliations will be performed to ensure the accounts receivable and earned revenue are recorded in the appropriate period.	9/30/2021
4	Analyze e-Manifest billings so that accounts receivable and earned revenue are recorded accurately.	OCFO	Monthly reconciliation will be performed to ensure the accounts receivable and earned revenue are recorded accurately.	9/30/2021

5	Correct the expended and unexpended appropriations balance.	OCFO	The agency has corrected the unexpended appropriations balance.	Completed 08/03/2020
6	Establish accounting models to properly record expenses from e-Manifest fees.	OCFO	The agency has updated the accounting model to properly record expenses from e-Manifest fees.	Completed 08/03/2020

CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761 or the OLEM Audit Follow-up Coordinator, Kecia Thornton, at thornton.kecia@epa.gov or (202) 566-1913.

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