United States
Environmental Protection
Agency

Administration And
Resources Management
(3303F)

April 1994

EPA'S FY 1993 ANNUAL FINANCIAL STATEMENTS

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MESSAGE FROM THE ADMINISTRATOR

I am pleased to present the *Fiscal Year 1993 Annual Financial Statements for the U.S. Environmental Protection Agency*. These statements were prepared by the Agency's Chief Financial Officer (CFO) and present a snapshot of the financial condition of EPA's trust funds, revolving funds and commercial activities. Since the financial statements help to evaluate the effectiveness of the Agency's systems and operational weaknesses, I consider them to be an integral part of my strategy for increasing accountability and strengthening management practices throughout the Agency.

This year we made considerable progress in preparing our financial statements. We reduced the timeframe for producing the statements by three months. In addition, as a direct result of improvements we made, EPA received more favorable opinions from the auditors on several of its funds, including an unqualified opinion on its newest fund, the Oil Spill Trust Fund.

The overall results of the audits attest to the continuing improvements in the Agency's internal controls, financial management and accounting practices. The audit results also measure our performance against the baseline we established last year. Finally, the partnership formed between our finance and program offices in preparing these financial statements has strengthened financial management and improved program performance throughout the Agency.

The requirement to produce annual financial statements provides the Agency with an opportunity not only to examine its financial systems and operations, but also to begin linking financial data with program performance information. We plan to use the financial statements as the foundation for achieving our long-term vision of results-oriented management and increased accountability. The statements play a key role in our ultimate goal of developing and implementing an integrated approach to Agency-wide strategic planning, budgeting, financial management and program evaluation. This approach will guide the Agency's program and investment decisions.

To implement this vision consistently across the Agency, we plan to integrate and coordinate key management initiatives including the CFO Act, new guidelines for the Federal Managers' Financial Integrity Act, provisions of the Government Performance and Results Act (GPRA) and the recommendations of the National Performance Review (NPR). In addition, we must ensure the availability of timely, reliable, accurate and useful financial and program information. At EPA, we recognize the value of this information and are putting in place the necessary infrastructure to improve our ability to measure program performance, track program costs and evaluate financial management practices.

As Administrator, I personally am dedicated to developing the most effective and responsive organization possible in order to meet the immense challenges set forth by our environmental mandate. Our goal is an integrated management system that supports effective environmental decision making. The production of these audited financial statements is an important step, among many, that will move us toward this goal.

In the last year, we took our first steps toward a new way of doing business, to management that focuses our resources most effectively on producing a cleaner, healthier environment. While I am extremely pleased with the progress we have made, what appeals to me even more is the promise of the coming years.

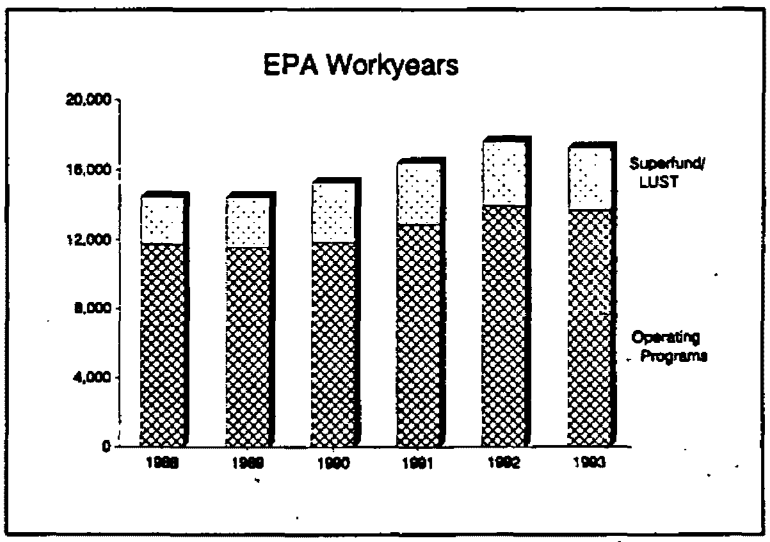
Carol M. Browner

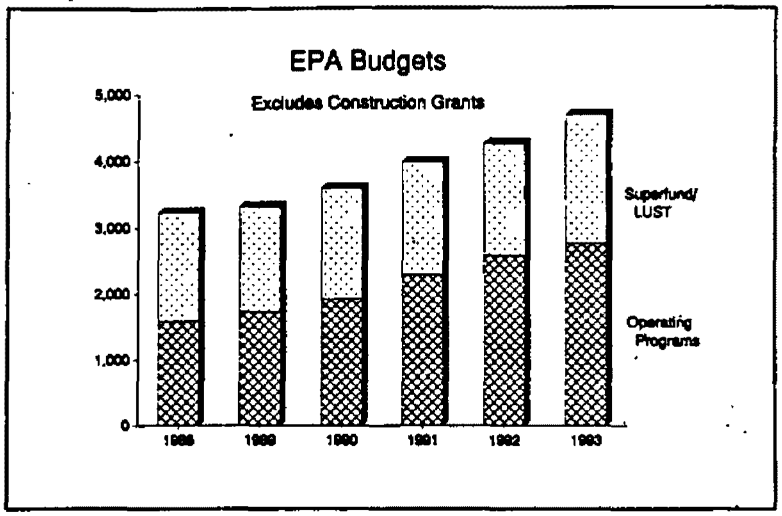
OVERVIEW OF EPA

Mission. Stated broadly, the job of the U.S. Environmental Protection Agency (EPA) is to improve and preserve the quality of the environment, both national and global. EPA works to protect human health and the natural resources on which all human activity depends. America's continuing growth and prosperity depend on its ability to find effective, creative solutions to environmental problems.

A Complex Growing Agency. When it was formed in 1970, EPA employed 5,400 people. It had a budget of approximately $1 billion and was responsible for a handful of major environmental laws. Today more than 17,000 highly skilled, culturally diverse people work for EPA; and the Agency has a budget of approximately $6 billion parceled out among programs implementing 16 major laws that Congress has passed to protect the environment:

- The Clean Air Act
- The Clean Water Act
- The Safe Drinking Water Act
- The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, or "Superfund")
- The Emergency Planning and Community Right-To-Know Act
- The Resource Conservation and Recovery Act
- The Federal Insecticide, Fungicide, and Rodenticide Act
- The Toxic Substances Control Act
- The Marine Protection, Research, and Sanctuaries Act
- The Uranium Mill Tailings Radiation Control Act
- The Indoor Radon Abatement Act
- The Ocean Dumping Ban Act
- The Coastal Zone Management Act
- The Pollution Prevention Act
- The Federal Facilities Compliance Act
- The Oil Pollution Act.





New Problems and New Solutions. Many of EPA's responsibilities originated in response to a new generation of environmental problems which surfaced in the 1980s. Most notable is the whole range of global environmental concerns: climate change, stratospheric ozone depletion, rainforest destruction, and acid rain. Also important are such domestic issues as pollution prevention, radon contamination of homes, food safety, and pollution carried by run-off from lawns, farms, and highways. In many ways, these new problems are both more widespread and more complex than those of the past.

EPA has responded to emerging environmental problems in bold and creative ways. In addition to its traditional regulatory approaches, the Agency is addressing environmental concerns by creating market incentives and encouraging voluntary actions. The Agency's goal is to anticipate the environmental needs of the next century and develop new policies and programs that will meet those needs.

In the last four years, EPA experienced an unprecedented amount of change. There has been increased emphasis on risk to human health and the ecology as one of the factors in environmental protection decisions. Both budget and workforce resources for the Agency's environmental programs have experienced growth. This expansion primarily has been accomplished in the air, water, hazardous waste, pesticides, enforcement and multimedia programs.

Effective Resource Management. One of the most significant areas of change in recent years has been in the management of the Agency's resources. Managers throughout the Agency directed their attention and support toward strengthening resources management. Improvements resulting from this concerted effort include:

- Strengthening accountability for resource management functions by designating Senior Resource Officers in each Headquarters and Regional office, who are responsible not only for procurement but other aspects of financial resource management as well;

- Continuing to diversify the Agency's workforce to ensure the greatest possible range of talent managing our resources;

- Providing additional funds in FY 1993 to strengthen our Integrated Financial Management System (IFMS) and allocating funds to correct the weaknesses identified in our FMFIA reporting.

- Reorganizing the Office of Administration and Resources Management (OARM) to increase accountability and control;

- Increasing emphasis on effective contracts management including substantially elevating the level of resources devoted to that effort;

- Proceeding with plans to correct our material weaknesses in financial management as well as nonconformances in our accounting system;

- Improving audit follow up and implementation by issuing, in conjunction with the General Accounting Office and the Inspector General, an early warning report of high priority audits requiring EPA action.

To the extent possible, EPA has implemented these changes in recent years in conjunction with establishing the structure and accountability measures required under the Chief Financial Officers (CFO) Act. The Agency CFO program accomplishments include the following:

- Issuing a comprehensive Financial Management Five-Year Plan which provides a blueprint for improving financial management throughout the Agency, complete with specific activities and milestones;

- Developing financial management performance measures for an FY 1994 pilot program in six offices for traditional financial management functions, including accounting operations, budget execution and management controls;

- Working with program office staff to continue the development of the program performance measures which are discussed in this report; and

- Preparing the CFO's Annual Report which highlights the financial status of the Agency and identifies existing and potential areas of concern.

OVERVIEW OF TRUST FUNDS, REVOLVING FUNDS, AND COMMERCIAL ACTIVITIES

The CFO Act of 1990 placed new emphasis on financial management in major federal agencies. One of the major requirements of the Act is the preparation of annual financial statements for each of the Agency's revolving and trust funds, and commercial operations.

EPA's financial statements for FY 1993 include the following trust funds, revolving funds, and commercial activities:

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

Of these, Superfund is by far the largest, as measured by monies spent (obligations) and EPA workyears used by the funds. The Oil Pollution Prevention Program will be included in the financial statements for the first time this year.

EPA Financial Statements. Under the CFO Act, financial statements are required to reflect the overall financial position of the funds, as well as the results of the operations of the funds and their activities or operations. Detailed financial information on EPA's trust funds, revolving funds and commercial activities is contained in the Principal Statements section of this report.

The first part of the financial statements is this overview prepared in accordance with OMB guidance. It contains a separate section on each of the six revolving fund, trust fund, and commercial activity programs reported on, including:

- a description of each program,
- a financial perspective of each program, and
- a discussion of program performance.

EPA's programs and activities not currently covered by the CFO Act are not included in the FY 1993 financial statements. The Agency plans to expand annual financial statements in future years to include additional EPA programs. The Agency currently is investigating options for tracking and reporting additional program performance and financial information in a manner that would be useful to those interested in knowing more about the results of EPA's programs.

The following paragraphs provide an overview of the organization, management, and authorizing legislation for each of the six programs.

Trust Funds. A trust fund is a fund established to account for receipts which are held in trust for use in carrying out specific purposes and programs in accordance with an agreement or statute. Three of the EPA programs covered by the CFO Act are trust funds and are housed primarily in the Office of Solid Waste and Emergency Response. These programs, which use trust fund revenues to finance the cost of cleaning up contaminated sites, are:

- the Superfund,
- the Oil Pollution Prevention Program and
- the Leaking Underground Storage Tank (LUST) Program.

The Office of Solid Waste and Emergency Response (OSWER) is headed by an EPA Assistant Administrator who is responsible for the Agency's waste management programs. The offices within OSWER are: Emergency and Remedial Response (with responsibility for Superfund and Oil Pollution Prevention), Underground Storage Tanks (with responsibility for LUST), Solid Waste (with responsibility for the solid and hazardous waste programs under the Resource Conservation and Recovery Act), and Waste Programs Enforcement (with responsibility for enforcement for all of OSWER's programs).

EPA has ten Regional offices which manage the day-to-day operations of these three programs. Over three quarters of the staff responsible for carrying out the Superfund, Oil Pollution Prevention and LUST programs reside in the Regions. The three programs are located in the Regional Waste Management Divisions (except in Regions 4 and 10 where the LUST program is in the Water Division and in Regions 1, 6 and 7 where the Oil Pollution Program is located in the Environmental Services Division).

While OSWER and the Regional Waste Management, Water and Environmental Services Divisions have lead responsibility for the Superfund, Oil Pollution Prevention and LUST programs, these programs are supported by staff in other Headquarters and Regional offices. These offices charge administrative and extramural expenses to the three programs, but primarily to Superfund.

In Headquarters, these support functions are carried out primarily by the Offices of Administration and Resources Management, Enforcement, Inspector General and Research and Development. In the Regions, support is provided by staff from the Office of Planning and Management and the Environmental Services Division, as well as in other Federal Agencies in the case of Superfund. Funding for these efforts is supported through an allocation of trust fund resources.

Revolving Funds. A revolving fund is a fund authorized by specific provisions of law to finance a continuing cycle of operations with receipts derived from such operations available in their entirety for use by the fund. Two EPA programs covered by the CFO Act are revolving funds and both of these are housed primarily in the Office of Prevention, Pesticides and Toxic Substances (OPPTS). These programs are:

- the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund), and
- the Revolving Fund for Certification and Other Services (Tolerance Fund)

EPA is charged by Congress with the job of regulating the use of pesticides and balancing the risks and benefits posed by pesticide use. The Agency regulates the use of pesticides through its Office of Pesticide Programs (OPP), within OPPTS. OPP consists of seven divisions and a staff office. Both appropriated and revolving funds are utilized by OPP in accomplishing its mission. The two revolving funds which supplement appropriated resources for OPP are: The Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund) and The Revolving Fund for Certification and Other Services (Tolerance Fund).

The mission of EPA's pesticide program is to serve the nation by safeguarding public health and the environment from risks posed by pesticides. The regulation of pesticides comes under the authority of two laws - the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and the Federal Food, Drug and Cosmetic Act (FFDCA). FIFRA gives EPA the authority and responsibility for registering pesticides for specified uses and the reregistration of existing pesticides that were registered prior to November 1, 1984. Pesticide regulatory decisions are based primarily on EPA's evaluation of the test data provided by applicants. Tolerance residue setting activities are authorized by FFDCA. EPA's pesticide regulations cover:

- 20,000 pesticide products
- 2,200 registrants
- 3,300 formulators
- 29,000 distributors and other establishments
- 40,000 commercial pest control firms
- 1 million farms
- 90 million households

Commercial Activities. The CFO Act requires reporting on programs performing substantial commercial functions and specifically identifies the making of loans as such an activity. EPA is reporting on one commercial activity which is administered under the Office of Pollution Prevention and Toxics (OPPT) within the Office of Prevention, Pesticides and Toxic Substances:

- the Asbestos Loan and Grant Program.

This overview covers the entire Asbestos Loan and Grant Program. However, the loan portion of the program is the only part that is a commercial activity and is the only part of the program covered by the audited financial statements. The Asbestos School Hazard Abatement Act (ASHAA) of 1984 directed EPA to create a loan and grant program to financially assist Local Education Agencies (LEAs) or school districts with asbestos abatement projects in public and nonprofit elementary and secondary schools. The Act was subsequently reauthorized in 1990 for an additional five years. The ASHAA loan and grant program is administered in the Chemical Management Division, Field Programs Branch of OPPTS.

Superfund

The Superfund program is administered under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) as amended by the Superfund Amendments and Reauthorization Act, 1986 (SARA) and the Omnibus Reconciliation Act of 1991. The program is primarily managed by the Office of Solid Waste and Emergency Response.

Program Description

CERCLA (Superfund) was enacted on December 11, 1980 to address public health and environmental threats from spills of hazardous materials and from sites contaminated with hazardous substances. The Superfund law established a comprehensive program to identify and clean up these spills and sites. EPA was authorized to use a trust fund (the Hazardous Substance Superfund) to pay for this work and to pursue recovery of expenditures from parties responsible for the contamination.

The law directs EPA to handle releases of hazardous substances by either compelling potentially responsible parties to respond or conducting a removal or Remedial Action using the Superfund. Removal actions are short-term responses to an immediate threat posed by the uncontrolled release of a hazardous substance, such as from a transportation accident or a fire. Remedial Actions are long-term, more permanent remedies taken at those sites where the risk to human health and the environment warrants placing the site on the National Priorities List (NPL).

Cleaning up a Superfund site is a multi-stage and multi-year process. In fact, the average site takes seven to ten years from discovery to start of cleanup. Prior to being placed on the NPL, EPA conducts a preliminary assessment of the site. Where warranted, this is followed by a site investigation. While EPA continues to seek ways to speed site cleanups, the work on complex sites can stretch into decades especially when ground water must be treated. EPA also conducts removal actions at non-NPL sites. Since 1980, approximately 3,400 short-term removal actions have been started (270 in FY 1993 alone), with the majority at non-NPL sites.

Once a site is listed on the NPL, EPA works with the community around the site to plan the long-term cleanup with a detailed study of the site and an evaluation of cleanup options. The planning process can take up to four years with an average cost of $1.35 million per site.

The actual cleanup (construction) work itself averages $22 million per site. Because of the high cost and limited Superfund resources, EPA's enforcement program emphasizes compelling responsible parties to conduct the cleanup actions. Responsible parties currently fund approximately 72 percent of NPL sites.

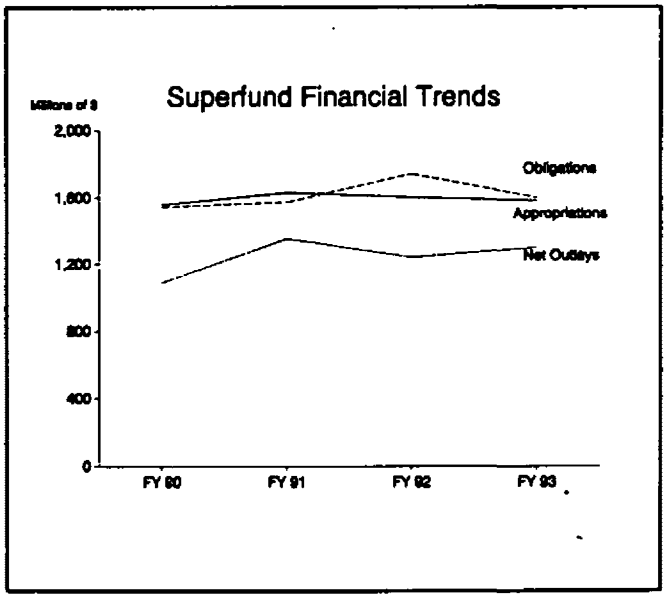
While the Superfund responsibilities cannot be delegated, at some sites the State, local government or Indian Tribe takes the lead in managing the site cleanup. At other sites, the State or local agency cooperates with EPA on handling a site cleanup.

Financial Perspective

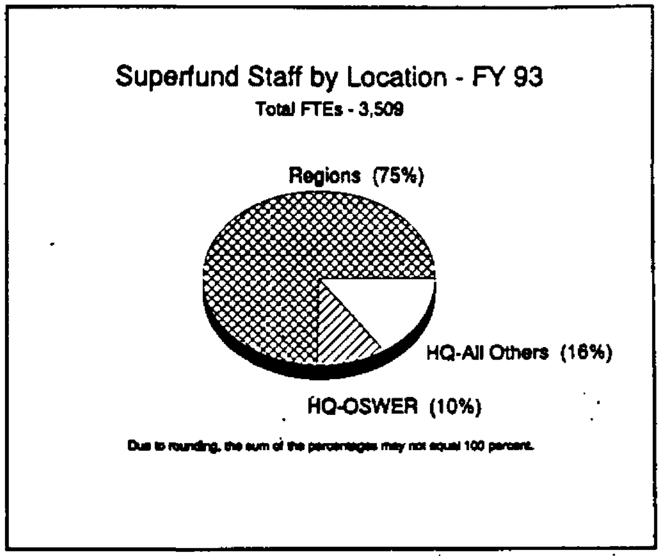
In 1980, the Congress established in the Department of the Treasury a trust fund entitled the "Hazardous Substance Response Trust Fund", which is known now as the Hazardous Substance Superfund. Congress also appropriated funding for five years totalling $1.6 billion. As the long-term nature and expense of site cleanup became more evident, Congress reauthorized the program in 1986 and the taxing authority for an additional five years of EPA funding totalling $8.5 billion. In 1990, Congress extended taxing authority for an additional three years adding $5.1 billion to EPA's funding.

The Department of Treasury's Hazardous Substance Superfund Trust Fund is the source of funding for EPA's Superfund account. Through annual and supplemental appropriations, Congress establishes the amount of the fund that EPA may use. EPA withdraws monies from the trust fund as needed to cover disbursements. At the end of FY 1993, the trust fund reflected an unappropriated balance of $2.1 billion. Congress could make these funds available to EPA in future appropriations.

The Superfund trust fund is supported primarily by taxes on crude and petroleum, on the sale or use of certain chemicals, and an environmental tax on corporations. Other sources of funding for Superfund include cleanup costs recovered from responsible parties, interest, fines and penalties paid by individuals and entities who violate the terms of the CERCLA provisions, and by general revenues.



Parties responsible for contaminating Superfund NPL sites are increasingly paying the cost of cleanup, saving the fund for those sites where parties are unable to contribute. Responsible party commitments to site cleanup have exceeded $1 billion in each of the past three years. In FY 1993, EPA achieved settlements for response actions at NPL sites valued at $910.3 million.



Superfund response program expenditures through FY 1993 total $8.7 billion. In EPA's most recent report to Congress, the Office of Solid Waste and Emergency Response estimated the remaining costs of cleaning up the 1,177 sites currently on the NPL to be $14.3 billion for FY 1994 and beyond. This estimate does not include the responsible party contribution.

Superfund appropriations, obligations and outlays have remained fairly constant from 1990 through 1993 as can be seen on the financial trends chart.

In FY 1993, the Superfund program was staffed by a total of 3,509 FTEs, and total Superfund obligations were approximately $1.6 billion. Further analysis of these numbers is provided in the following sections.

Superfund by Activity. The Agency has identified four major components of the Superfund program: Remedial Activities, Removal Activities, Enforcement Activities, and Other Activities. These activities were identified based upon the "Superfund Activity Code", which is the accounting process the Agency uses to identify Superfund activities with accounting transactions. Each of these components has various activities which are identified below.

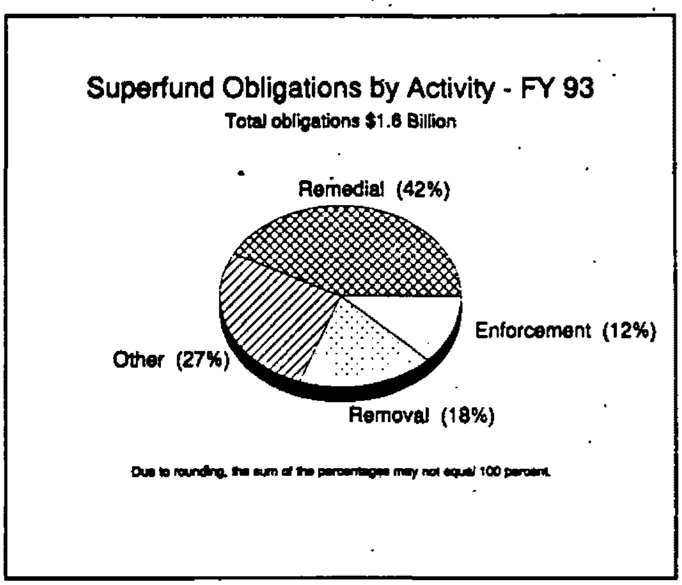
Remedial activities represent the long-term response at a Superfund site and include the Preliminary Analysis/Site Investigation (PA/SI), Remedial Investigation/ Feasibility Study (RI/FS), Remedial Design (RD), Remedial Action (RA), associated oversight and laboratory analysis activities, and remedial support and management.

Removal activities represent the short-term response and stabilization of hazardous substances and include the removal actions, associated oversight and laboratory analysis activities, expedited response actions, Technical Assistance Team activities, and removal support and management.

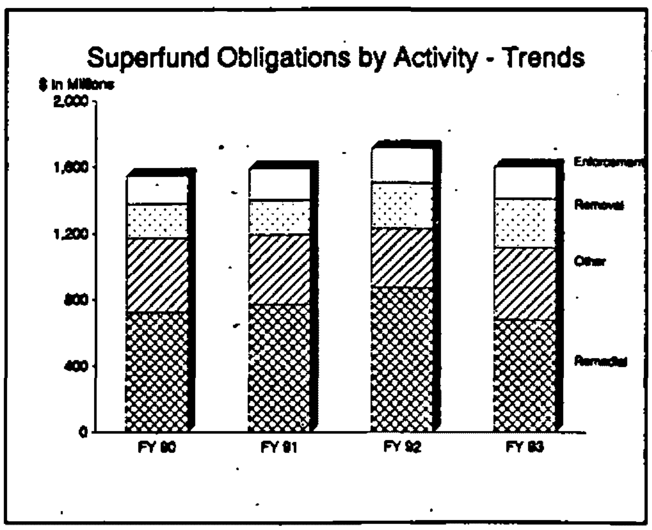
Enforcement activities represent the actions the Agency takes in the recovery of Superfund expenditures, settlement negotiations with responsible parties, and associated oversight.

Other activities represent activities of the Agency in supporting the Superfund program as a whole. These "Other" activities cross the remedial, removal, and enforcement program lines and are associated with remedial, removal and enforcement. "Other" activities include Research and Development, contract award and management, financial management, personnel activities, and rent and utility costs.

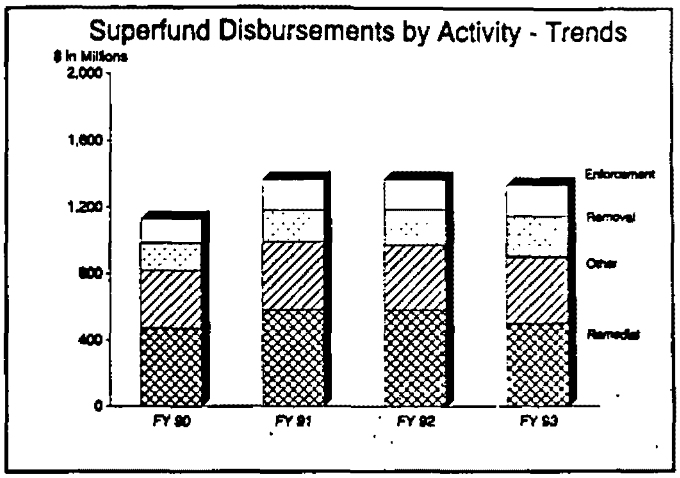
These charts provide a look at Agency spending patterns for the current fiscal year and the past three-year period. The spending patterns are identified for both obligations and disbursements. An obligation represents a commitment to procure and pay, and is funding for an activity. Obligations are not the same as actual cash disbursements. Disbursements (outlays) represent cash payments for products or services rendered. In general, for any given fiscal year, obligations are an indication of current and future activities and disbursements are indicative of completed activities.



Superfund Obligations by Activity. Remedial activities account for more than 40 percent of the



Superfund budget. Remedial Actions are taken at large sites requiring complex cleanups. Over 60 percent of the sites on the NPL have had design or construction for cleanup initiated, and most contract dollars (more than 60 percent in FY 1993) go for cleanup.



The "Other" category represents all infrastructure support costs, including rent and utilities, to both cleanup and enforcement as well as funds for other offices within EPA, such as Research and Development, and for other Federal agencies which support the Superfund program.

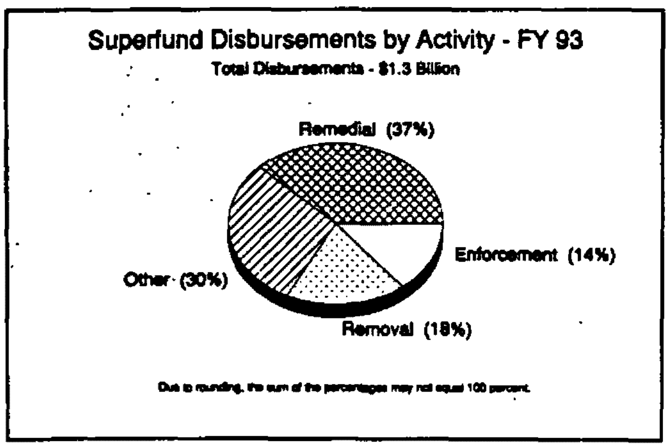
The Superfund program conducts a large number of short-term removal actions each year to control immediate threats, with over 2,500 of these completed by the end of FY 1993. Removals account for approximately 18 percent of the FY 1993 Superfund cleanup costs.

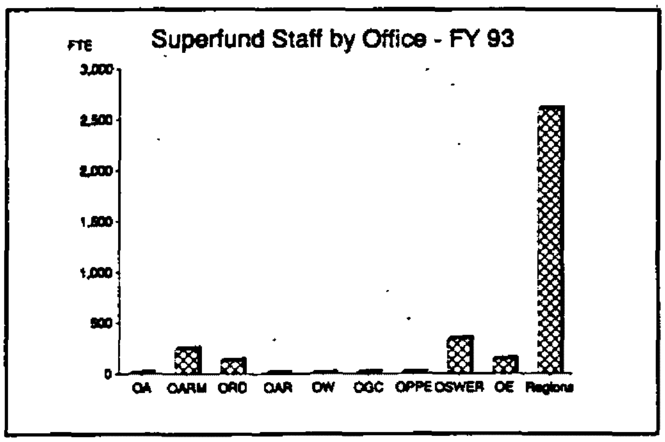
While enforcement represents the smallest part of the Superfund budget, the resources invested there have a large payoff. See Measures 6-9 and the summary discussion which follows.

The four-year trend chart of Superfund obligations indicates an increase in support (other) spending in FY 1993. Total funding has remained relatively constant.

Superfund Disbursements by Activity. Disbursements represent the actual payment for services. The type of expense (activity) will have an impact on how quickly an obligation is actually disbursed. For example, payroll costs are obligated and disbursed at one time. The same holds for travel. Contract activities are obligated at one time. However, the service may be performed over a period of time. The mix of payroll, travel, contracts, etc., will determine how closely obligations and disbursements match.

Superfund by Location. Superfund activity can be further broken down by location. Obligations and disbursements are displayed by Region, Headquarters (HQ) - Office of Solid Waste and Emergency Response (OSWER), and HQ - All Others. Much of the operational responsibility resides in the EPA regions. HQ - OSWER





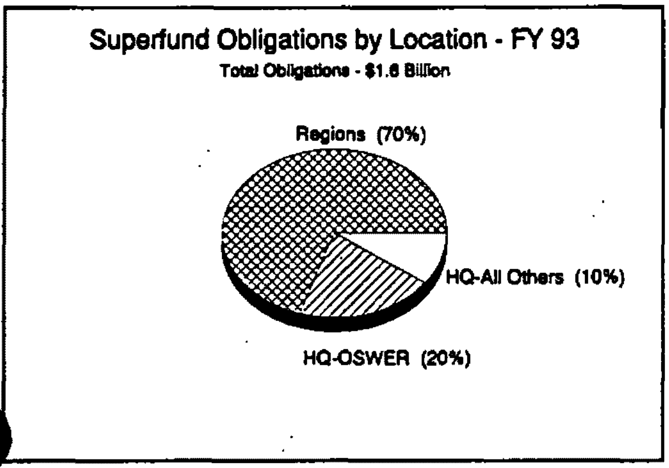
represents the Office of Emergency and Remedial Response and Office of Waste Programs Enforcement here at headquarters. HQ - All Others represents all other offices such as the Office of Enforcement, Office of Research and Development, and other offices which provide support to the Superfund program.

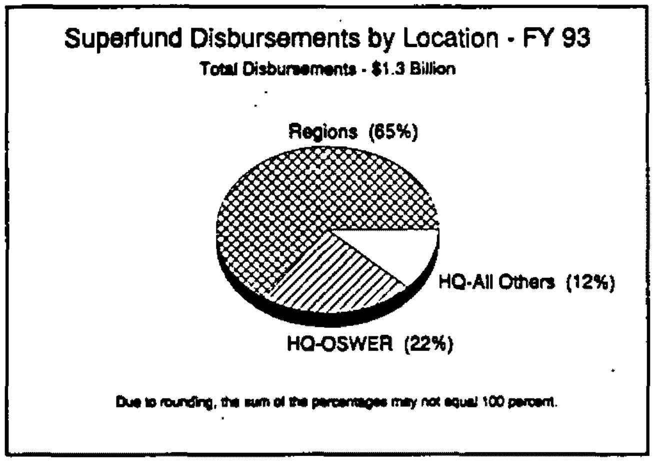
Superfund Staff by Location. Since most operational activity occurs in the regions, the largest numbers of staff positions are located in the regions.

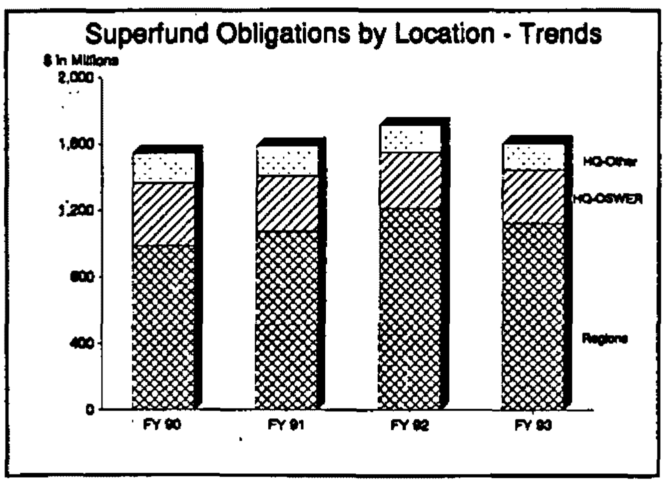
Superfund Obligations by Location. EPA headquarters is further broken down between Headquarters OSWER (Immediate Office - OSWER, Office of Emergency and Remedial Response, and Office of Waste Programs Enforcement) and all other remaining non-OSWER offices.

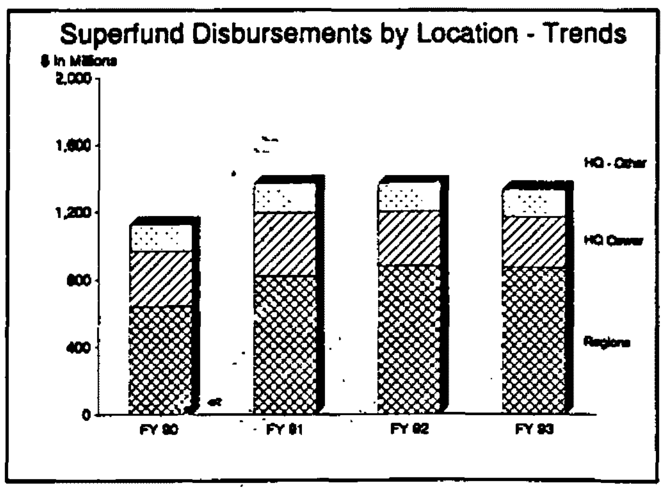
The bulk of the obligations occur in the regions. Agency strategy, in the past few years, has been to place more of the operational responsibility in the regions. As a result, most obligations occur in the regions.

Superfund Disbursements by Location. Current year disbursements follow the same pattern as current year obligations: Regional disbursements are the largest; HQ - OSWER disbursements are second; and HQ - All Others are last.









Disbursements closely mirror obligations by location except for the Regions.

Disbursements indicate completed activity while obligations represent future activity. Since a large portion of Superfund Remedial activity is long-term and is conducted in the Regions, all current year obligations will not be disbursed in the same fiscal year.

Program Results

The direct beneficiaries of the Superfund are those people living in the vicinity of the sites this cleanup program addresses. Indirect beneficiaries include those living further from the sites who might suffer degradation of their groundwater, drinking water, or air if these programs did not alleviate the risk of contamination before it became more widespread. Early action to contain impacted areas also lessens the potential liability of parties responsible for the contamination.

The net result of Superfund cleanup work at sites on the NPL has been to reduce risk from exposure to hazardous waste for approximately 25 million people who live within a four mile radius of these sites. For one million of these people, the program has eliminated threats posed by direct contact with hazardous substances.

The Superfund cleanup program to date has made significant strides in reducing risk from exposure to hazardous waste. Over 340 million gallons of liquid waste and 330 million gallons of surface water have been treated by the Superfund program. Seventy-five billion gallons of groundwater also have been treated in cleanup work. In addition, 23 million cubic yards of solid waste, 12 million cubic yards of soil and 200,000 cubic yards of sediment have been treated in conjunction with the thousands of persons that have been relocated from the vicinity of hazardous waste sites and supplied with alternative water.

Superfund program performance measures reported in the Agency's FY 1992 CFO Report included accomplishments attributable to the Federal facilities program. For FY 1993, accomplishments claimed by that program have been removed, and Federal facility sites are not included in the NPL universe. Since the purpose of the CFO Report is to relate program performance to the trust fund and the funds used to cleanup these sites do not come from the trust fund, this data has not been included in the report.

EPA's performance measures for the Superfund program for FY 1993 fall into two categories: site cleanup (Measures 1-5) and enforcement/cost recovery (Measures 6-9).

Cleanup. For site cleanup we measure not only the completion stage but also the critical steps in the cleanup process. Because the cleanup process can take a number of years, it is important to look at the "pipeline" of activities to get an accurate sense of progress .

Measure 1: Number of sites on the National Priorities List (NPL) where cleanup has started/total number of sites on the NPL.

Activities which count under this measure are short-term removal actions and the remedial investigation/feasibility study which assesses the nature and extent of contamination at the site and analyzes cleanup alternatives so that a remedy can be selected.

Results: In FY 1993, cleanup was started at 21 sites. Cumulative performance to date is 1,124 cleanups begun/1,177 sites on the NPL.

The number of cleanups started declined in FY 1991 through 1993 relative to earlier years as the Superfund program's emphasis has shifted to the later stages of the cleanup effort needed to complete work at a site. Also, cleanup has now begun at nearly all sites on the NPL. The 53 remaining sites have been evaluated for immediate threat, even though cleanup action has not yet begun.

Measure 2: The number of non-NPL sites with hazardous releases where EPA has begun a cleanup action.

Sites with confirmed hazardous releases, which do not score high enough to be included on the NPL or where an emergency exists, are eligible for a short-term Superfund removal action if they meet certain regulatory criteria. This measure counts the number of sites where a removal action has started.

Results: In FY 1993, cleanup actions were begun at 198 non-NPL sites, bringing the total number of sites addressed through such actions since program inception to 2,227.

Measure 3: The number of sites on the NPL where a decision has been made about how to proceed with the cleanup of at least a significant portion of the site/the total number of sites on the NPL.

Activities which count under this measure include the documentation of how to proceed with the remedial action - the signing of a Record of Decision (ROD) - or the documentation of the selection and authorization of a removal - an Action Memorandum. The ROD identifies the remedy that has been chosen for remediating the site (or portion thereof) and summarizes the site problems, the alternative remedies considered, and the public's involvement in the decision. The Action Memorandum substantiates the need for action, identifies the proposed action, and explains the rationale for the particular type of removal action selected. Action Memoranda were not included as measures in the FY 1992 financial statements; however, they are significant measures in the documentation of removal action progress and are included in this report for increased data accuracy.

Results: Cleanup decisions were made for 59 sites in FY 1993, resulting in a total to date of 891 sites of the 1,177 sites on the NPL.

Measure 4: Number of sites on the NPL where Remedial Action has been completed for at least a significant portion of the site/the total number of sites on the NPL.

This measure counts those NPL sites (or portions thereof) which have progressed through the Remedial Action phase. At this stage the construction work to implement the remedy is complete, and EPA has conducted a final inspection to determine that the remedy is functioning properly and performing as designed.

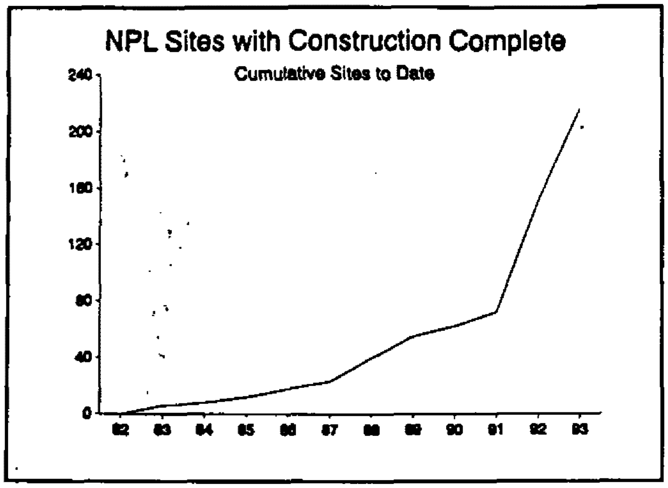
As indicated above, a site may have more than one Remedial Action.

Results: In FY 1993, 73 sites (or significant portions thereof) progressed through the Remedial Action cleanup phase. This brings the total number of such sites to 301 of the 1,177 sites on the NPL. [In the FY 1992 financial statements, seven of the sites that were reported as reaching remedial action were Federal facilities. This year's report excludes Federal facilities.

Measure 5: The number of sites on the NPL where cleanup construction is completed/the total number of sites on the NPL.

This measure counts the sites for which EPA has declared cleanup construction complete. Sites qualify for construction completion when:

1) any necessary physical construction is complete whether or not final cleanup levels or other requirements have been achieved;



2) EPA determines that the response action does not involve construction; or

3) the site qualifies for deletion from the NPL.

Additional clarification on the definition of site cleanup is described in the Federal Register, March 2, 1993.

Results: During FY 1993, cleanup was completed at 68 sites. The substantial increases in completions reflect management's increasing focus on completions, the maturing of sites already in the pipeline, and the streamlining of documentation requirements. Cumulative results for the program to date are 216 sites with cleanup construction completed of the 1,177 sites on the NPL. [In the FY 1992 financial statements, one site cleanup was attributable to a Federal facility. Federal facilities are excluded from this year's report.]

Enforcement

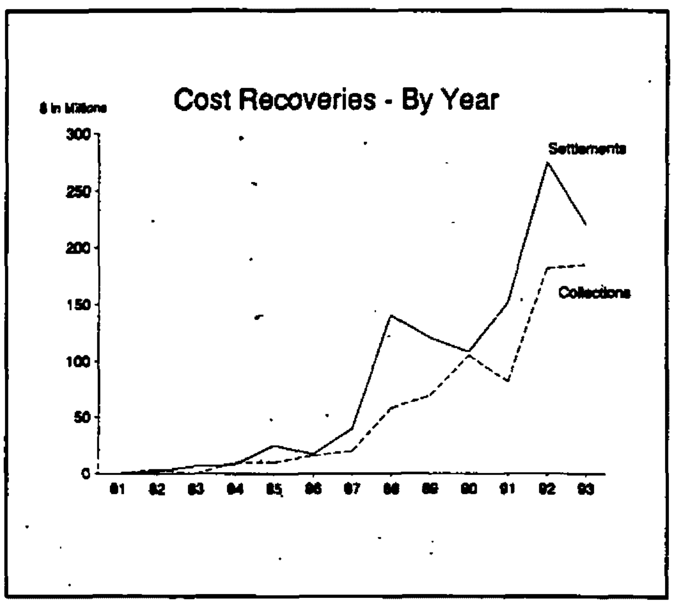
EPA's enforcement program seeks to involve those responsible for contaminating the Superfund site in its cleanup and pursues cost recovery of monies EPA expends from the trust fund.

Measure 6: The number of enforcement actions EPA has taken at sites on the NPL against the Potentially Responsible Parties (PRPs) for contaminating the site/the total number of sites on the NPL.

This measure counts the number of legal actions EPA has taken to involve responsible parties in site study and cleanup. These actions include administrative and judicial settlements, injunctive referrals and administrative orders for removal, site study, and Remedial Design and Remedial Action (RD/RA). It includes both those situations where parties voluntarily entered into a settlement with EPA and those where EPA uses its enforcement authority to compel responsible parties to conduct work.

Results: During FY 1993, 127 enforcement actions for site study and cleanup were taken at 115 sites of the 1,177 sites on the NPL. Seventy-eight of these actions were settlements for RD/RA (36 consent decrees and 42 unilateral administrative orders).

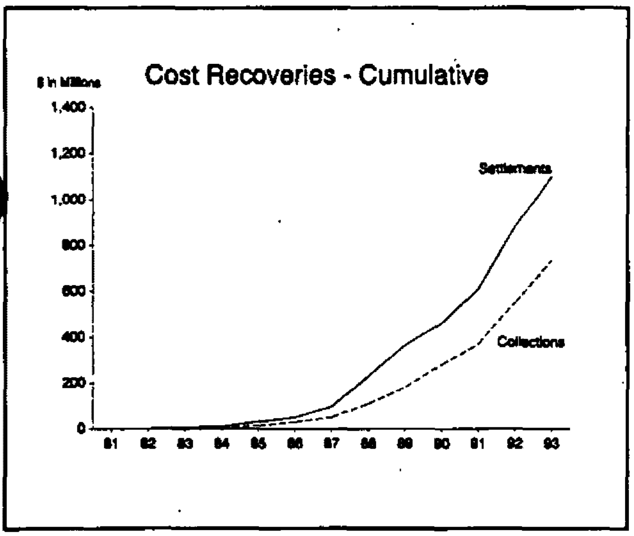
Since the inception of the Superfund program, EPA has achieved responsible party (RP) commitments to site response at 748 sites (64 percent) of the 1,177 non-Federal facility sites on the NPL with an estimated cumulative value of over $7.9 billion. In FY 1993, EPA achieved RP commitments to response work at 115 (10



percent) of the 1,177 NPL sites. The estimated value of the FY 1993 RP NPL cleanup commitment is $841.6 million.

Measure 7: Past costs achieved in settlement.

This measures provides the amount of cost recovery that has been achieved to date. A number of factors limit Superfund's ability to recover its past costs, including bankruptcy of PRPs, other litigation concerns, involvement of other Federal agencies as PRPs, the inability to identify financially viable PRPs, and the exclusion of certain indirect costs from cost recovery. Of the $8.7 billion in past costs, $4.8 billion are considered recoverable.



Results: Through FY 1993, Superfund has achieved settlement for $1.033 billion and is seeking another $944 million in ongoing cost recovery actions. Also, through FY 1993, Superfund has incurred approximately $4.8 billion in past costs which are considered recoverable.

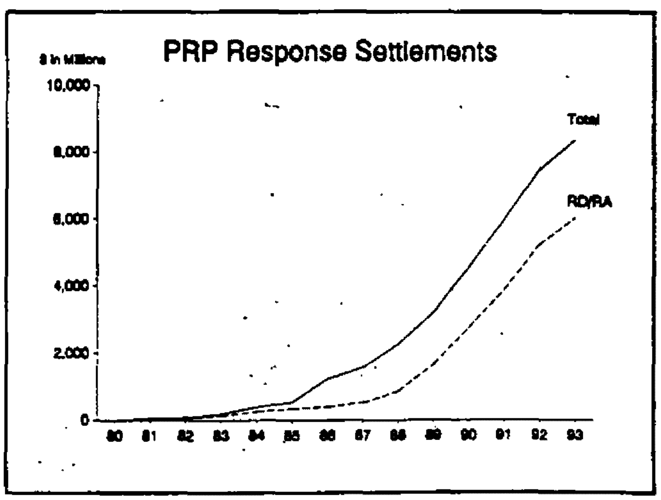
Future cost recovery actions will seek additional portions of the $4.8 billion in recoverable past costs. Cost recovery actions for individual sites are generally initiated in the year prior to the expiration of the statute of limitations.

Measure 8: The amount of money EPA has collected from parties responsible for contaminating sites on the NPL/the total amount achieved in settlements and judicial actions.

This measure totals the value of cost recoveries, penalties and damages collected during the fiscal year compared to the amount of cost recoveries actually achieved (assessed) in settlements and judicial actions.

There is frequently a delay between the date the settlement is reached (the day cost recovery is considered to be achieved) and the date the funds are collected. Because of the time required to file the necessary documents with the courts, delays of three months and longer are not uncommon. As a result, settlements reached in the second half of one fiscal year are frequently collected in the following year.

Results: In FY 1993, the Agency collected over $185 million in cost recoveries and reached settlements for the recovery of $221.7 million. Since the inception of the program, the Agency has collected over $731.7 million in cost recoveries. This represents 71 percent of the total value of cost recovery settlements reached by the program to date.



Measure 9: The estimated amount of money parties responsible for contaminating Superfund sites legally have committed to spend on site cleanup/the total amount of money spent by the Superfund on site cleanup.

This measure estimates the dollar value of cleanups responsible parties have agreed to perform at NPL and non-NPL sites. The estimate is derived from the Remedial Design or, where this is not available, from the Record of Decision. This estimate is then compared to the amount of funds expended from the trust fund to provide an order-of-magnitude contrast between EPA expenditures for site response versus private party expenditures for site response, recognizing that the actual outlay of funds takes place over several years. The resulting ratio is a measure of cost avoidance to the fund.

Results: In FY 1993, the Agency reached 199 settlements (NPL and non-NPL) for responsible party response worth an estimated $910.3 million. Response settlements may be broken out as follows:

- *Remedial Design/Remedial Action settlements- $811.0 million*
    - *Consent decrees referred to the Department of Justice - $366.3 million.*
    - *unilateral administrative orders - $420.6 million*
    - *Administrative Orders on Consent - $24.1 million*
- *Settlements for removal and site evaluation - $99.3 million.*

When the value of FY 1993 response settlements is added to the cost recovery settlements achieved of $221.7 million, the total ($1.13 billion) represents the amounts for which private parties committed to pay for site response. FY 1993 Superfund obligations totaled $1.6 billion. Compared to Superfund enforcement expenditures in FY 1993 ($189 million), these results represent a ratio of $6.00 in settlements for each dollar spent on enforcement.

Summary. The Superfund program exceeded most of the internal goals the Agency set for itself in FY 1993. The Agency exceeded its goal of 200 total sites by the end of FY 1993 by achieving 216 construction completions and expects to achieve a total of 650 by the year 2000.

The Superfund enforcement program also compiled an enviable record in FY 1993. Responsible parties contributions now account for a majority of the Superfund cleanup work. The value of responsible party settlements has risen dramatically in the past few years due to EPA's enhanced enforcement authorities and an "enforcement first" policy and now comprise 79 percent of the remedial actions initiated in FY 1993.

Building on the momentum of the Superfund revitalization program, in FY 1993 the Agency initiated a series of nine initiatives to improve the Superfund program without changing the current statute. These initiatives address enforcement fairness, streamlining response actions, enhancing environmental justice, community involvement, and enhancing the roles of the States in the Superfund program.

In addition, the program will continue its emphasis in accelerating cleanups through the Superfund Accelerated Cleanup Model, completing construction at NPL sites, pursuing cleanups done by PRPs and improving contract management.

Next Steps. One critical area we will continue to focus on is contracts management. Since the Superfund program is highly contract leveraged, an efficient and effectively managed contracts program is integral to Superfund's success. The Agency is implementing a long-term contracting strategy that projects Superfund's needs over the next decade and redesigns our portfolio of contracts to meet these. We are phasing in new contracts, most of which will be managed by the Regional offices. This strategy is now under Agency review.

EPA's Alternative Remedial Contracting Strategy (ARCS) Task Force recommended improving cost control in the ARCS contracts to reduce administrative expenditures. The ARCS Task Force recommended a target ratio be set at 20 percent for program management costs against total contract expenditures. This target was subsequently lowered by Congress in the VA-HUD appropriations bill language to 15 percent for FY 1992, 12 percent for FY 1993 and 11 percent for FY 1994. EPA's actions to control costs resulted in EPA achieving the program management Congressional targets for FY 1992 (with an actual ratio of 13.9 percent) and again in FY 1993 (with an actual ratio of 11.5 percent). The national target continues to decrease each year, encouraging contractors cleaning up sites to manage administrative costs wisely.

EPA also must continue to address weaknesses in our contracts program. Although the Agency has contracted substantially for policy and regulatory development support, this has been done out of necessity rather than choice. The Agency would prefer to have this work done by government employees. Due both to limits in staff resources and to the availability of contract funds, the Agency has contracted out these activities.

EPA also enhanced enforcement fairness via approximately 43 de minimis settlements in FY 1993 and by pursuing several other efforts such as the use of alternative dispute resolution to assist in cost allocation issues at approximately 35 sites. EPA also plans to issue guidance on soil screening levels for approximately 90 chemicals commonly found at Superfund sites and issue a policy regarding future land use of Superfund sites. The first 30 soil screening guidances are in draft and being piloted in the regions; the remaining 60 are in development. Additional guidance will also be issued for certain types of sites for presumptive/ standardized remedies which should speed the selection of remedies. In addition, 14 sites, 2 areas and 5 region-wide areas have been identified as pilots for special environmental justice emphasis.

EPA's efforts to convert base extramural resources to Agency FTE to perform these types of functions have been unsuccessful thus far. In lieu of substituting Agency staff for contractors to perform sensitive work, we are instituting more stringent Agency contracting procedures. However, as long as we continue to use contractors to handle such a large portion of the Superfund work, we remain vulnerable to potential problems.

Leaking Underground Storage Tank (LUST) Program

The Leaking Underground Storage Tank (LUST) program was authorized by the Resource Conservation and Recovery Act. The Office of Solid Waste and Emergency Response is responsible for implementation of the LUST program.

Program Description

The Resource Conservation and Recovery Act was amended in 1984 to give EPA the authority to regulate underground tanks storing petroleum products. In 1986, Congress set up a $500 million Leaking Underground Storage Tank (LUST) Trust Fund which is financed by a 1/10 of a cent tax on the sale of motor fuels. The trust fund was reauthorized for five years in 1990 with no cap on funds collected. The fund is used to oversee cleanups by responsible parties or to clean up LUSTs where the owner/operator cannot or will not do so, or where no owner/operator can be found.

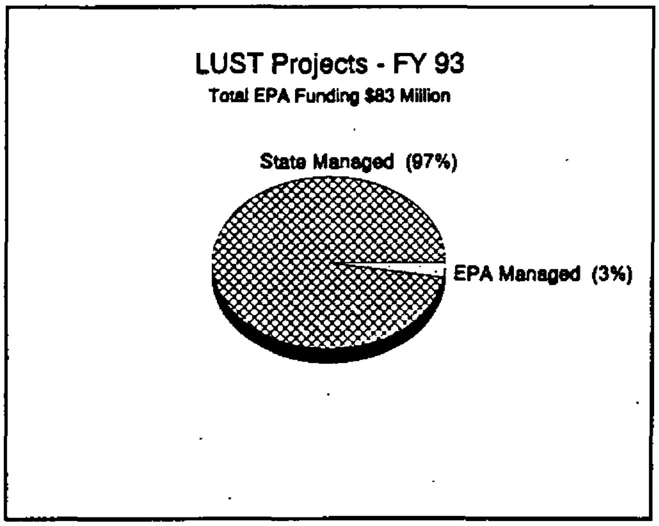
The U.S. has 5-7 million underground tanks storing petroleum products. Approximately 1.3 million of these are regulated by EPA; the rest - mainly on farms and at other locations that contain heating oil for on-site consumption - are exempt by law.

Underground storage tanks (USTs) are found at gas and service stations, convenience stores and non-marketer locations such as bus depots and government facilities. An estimated 15-25 percent of regulated tanks may be leaking. Leaks from USTs can cause fires or explosions, and some leaks contaminate groundwater.

Due to the large size and diverse nature of the regulated universe, EPA has set up a decentralized UST program. The Agency relies primarily on States and localities to carry out the underground storage tank program. EPA has formal agreements with all States to operate the UST program as EPA's agent (including inspections and enforcement). At the end of FY 1993, EPA had delegated program authority to 13 States, granting them formal approval to regulate USTs in lieu of EPA.

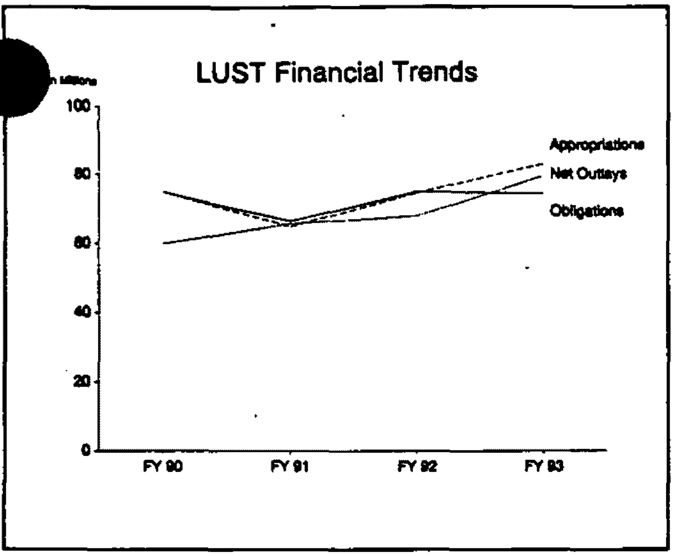
Financial Perspective

Since 1986, the Treasury managed LUST Trust Fund has collected $1.1 billion. This fund is the source of funding for EPA's LUST account. Through annual and supplemental appropriations, Congress establishes the amount of the fund that EPA may use. Congress has appropriated a total of $410 million to EPA through the end of FY 1993. EPA withdraws monies from the trust fund as needed to cover disbursements. At the



end of FY 1993, the trust fund had an unappropriated balance of $675 million. Congress could make these funds available to EPA in future appropriations.

Due to the decentralized nature of the LUST program, EPA has awarded 86 percent of its



appropriated funds to the States, since the program's inception.

In FY 1993, EPA utilized 82.7 FTE and $83 million to implement the LUST program. OSWER supported the LUST program with 67 FTE and $73 million, while approximately 16 FTE and $10 million were used by non-OSWER offices in Headquarters and the Regions. Responsible parties conducted 97 percent of the cleanups with State oversight.

The appropriated funds increased by $10 million in FY 1992 compared to FY 1991. The FY 1993 Appropriations Act kept funding at the same level as FY 1992, but a Midwest Flood Supplemental Appropriation provided an additional $8 million. Obligations decreased by almost $1 million in FY 1993 after an $8.6 million increase in FY 1992. However, net outlays continued to increase from FY 1990 through FY 1993. Since the LUST program is funded by no-year appropriations, obligations and outlays are funded by current-year appropriations as well as prior-year unobligated and unexpended balances respectively.

Program Results

The LUST program has initiated corrective actions at over 171,000 sites as of the end of FY 1993. These cleanup actions are protecting hundreds of thousands of people from the effects of leaking petroleum storage tanks.

For the LUST program, the FY 1993 performance measures count the number of sites with confirmed releases of petroleum products, the number of these where cleanup has been initiated and the number where it has been completed.

Measure 1: The number of sites nationwide where EPA and the States have found a petroleum leak from an underground storage tank.

This measure counts those sites where a release has been identified and confirmed by EPA or the designated State agency. It represents the potential universe of sites for cleanup by the LUST program. This measure does not count tanks on farms and at other locations exempted by law from the LUST program.

Results: During FY 1993, 53,000 USTs were added to the list of sites with confirmed releases. At the end of the fiscal year, a total of 237,000 sites were on this list.

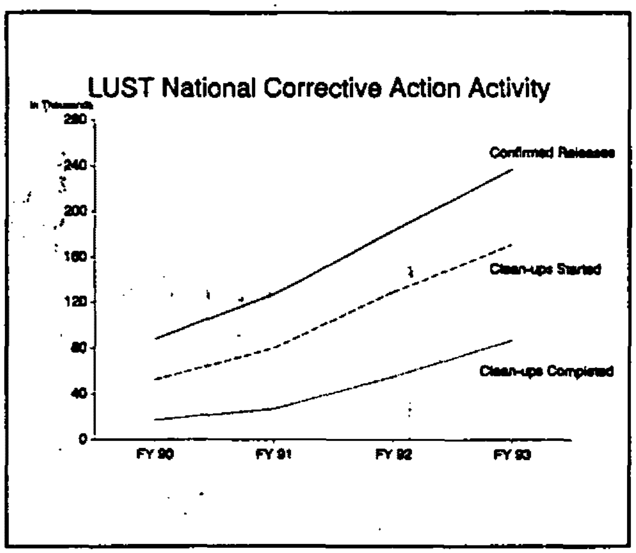
Measure 2: The number of sites with petroleum leaks from an underground storage tank where cleanup has been initiated/the total number of known sites with leaking tanks.

This measure counts those LUST sites where action has been initiated to remediate or clean up the contamination, and compares that number to the universe of sites with known releases. Cleanups may be initiated by a State (with or without LUST trust fund money) or by the responsible party.

Results: In FY 1993, the program initiated actions at 42,000 sites. Cumulative program to date: 171,000 cleanups initiated/a total universe at the end of FY 1993 of 237,000 sites with confirmed releases.

Measure 3: The number of sites with petroleum leaks from an underground storage tank that have been cleaned up/the total number of known sites with leaking tanks.

This measure counts those sites where the State has determined that no further cleanup is necessary, and compares this number to the universe of sites with known releases. The cleanup can be led by the State or the responsible party and State cleanups may or may not have used trust fund money.



Results: During FY 1993, cleanup was completed at 32,000 LUST sites. Total to date completions is 87,000/a total universe at the end of FY 1993 of 237,000 sites with confirmed releases.

The FY 1993 LUST data indicates a continuing increase in the number of confirmed releases from underground tanks. This is not surprising as many tanks which were installed 20 to 30 years ago are now corroding and leaking. We anticipate that the rate of confirmed releases will continue at a rate of about 50,000 per year for the next several years.

The numbers of cleanups initiated and completed are also on the upswing, due to the growth of State programs and EPA's efforts to speed up site assessments and get the cleanups underway quickly. EPA also has worked with States to quicken the pace of cleanups and make them as least costly as possible.

Over the next several years, the LUST program will focus on preventing as well as remediating releases. By December 1993, all owners must utilize an accepted method of leak detection on all existing systems. In addition, the program will expand its efforts to ensure that new tanks are properly installed and that old ones are properly close. Proper tank installation and closure and careful monitoring of tanks in use will minimize future problems with leaking underground storage tanks.

Oil Pollution Prevention Program (Oil Spill Trust Fund)

EPA's Oil Pollution Prevention program is housed in the Office of Solid Waste and Emergency Response (OSWER) and uses the Oil Spill Trust Fund to finance the cost of cleaning up spills. The Emergency Response Division (ERD) within OSWER's Office of Emergency and Remedial Response (OERR) provides assistance to Regional On-Scene Coordinators during oil spill incidents. Support for enforcement activities is provided by OSWER's Office of Waste Programs Enforcement (OWPE).

Program Description

The Oil Pollution Act (OPA) of 1990 was passed in response to increasing frequency and severity of accidental oil discharges into the environment, such as the Exxon-Valdez spill. The goal of the Oil Pollution Prevention Program is to protect public health, welfare and the environment from hazards associated with a discharge, or a threat of a discharge, of oil and other petroleum products or hazardous substances into navigable waters.

Under the OPA, EPA is responsible for oil spill prevention, preparedness, response, and enforcement activities associated with non-transportation-related facilities. These facilities, which range from hospitals and apartment complexes to large tank farms, include any storage facility with aboveground storage capacity greater than 1,320 gallons, a single aboveground storage tank larger than 660 gallons, or underground storage greater than 40,000 gallons.

The OPA requires area committees (comprised of state, local and federal officials) to develop Area Contingency Plans which: detail the responsibilities of those involved in planning the response process; describe unique geographical features of the area covered; and identify available response equipment. EPA must review and approve facility response plans which: ensure consistency with the National Contingency Plan; identify and ensure the availability of resources to respond to a worst case discharge; establish communications; identify an individual with authority to implement removal actions; and describe training and testing drills at the facility.

The most resource-intensive and time critical requirements are those related to facility response plan reviews and approvals. Of the 4,074 facility response plans submitted to the Agency, 2,300 facilities pose a significant or substantial threat to the environment and will require Agency approval by February 1995, or the requesting facility must cease operations.

EPA is establishing the regulatory framework under which it will proceed with its OPA-mandated responsibilities. This framework includes the Oil and Hazardous Substances National Contingency Plan (NCP 40 CFR Part 300) and the Oil Pollution Prevention regulation (40 CFR Part 112). The NCP is the nation's blueprint for responding to releases of oil and hazardous substances. The Oil Pollution Prevention program establishes requirements to prevent and prepare to respond to spills at oil storage facilities subject to the regulation.

Headquarters develops policy and program guidance to: 1) prevent harmful releases of oil and other petroleum products; 2) improve nationwide capability to respond to threats of discharge of oil or other petroleum products; 3) improve nationwide capability for containment and removal of releases that occur in navigable waters; 4) coordinate with other federal agencies on facility response plan requirements and review and approval; 5) minimize the resulting environmental damage from releases; and

6) fully utilize enforcement authority to compel responsible parties to clean up spills and to provide a strong economic incentive to invest in preventive measures and comply with regulations.

In addition, Headquarters supports field operations through operational guidance, technical bulletins, and demonstrations of new technologies. Headquarters also supports the OPA-mandated facility response plan process, chiefly through the development of approval criteria for the response plans.

The Regions conduct oil storage facility inspections to ensure compliance with EPA's oil pollution prevention regulation, also known as the Spill Control and Countermeasures regulation (SPCC). A major component of the Regions' work is the monitoring, directing, or performance of removal actions during oil spills. They also conduct periodic equipment inspections and unannounced area drills. The Regions take administrative actions against facility operators for failure to comply with SPCC plans and new OPA requirements, and refer a limited number of actions for judicial action. Administrative and judicial actions also are brought as a result of oil and hazardous substance spills. Regions also assist the Federal Emergency Management Agency at major disasters and participate in response training of State and local staff.

The beneficiaries of the Oil Pollution Prevention program are those people living in the vicinity of confirmed spills when cleanup actions are taken either by EPA or the responsible party. People living near regulated facilities benefit from the increased safety measures incorporated into the facilities' response plans.

Financial Perspective

Since the beginning of the Oil Spill Trust Fund's existence through FY 1993, Congress has appropriated a total of $39 million to the Agency. In FY 1993, EPA used 75.5 FTE and had budget authority of $20.7 million to implement the Oil Pollution Prevention program. The $20.7 million sum includes $700,000 received as a result of a Midwest Flood Supplemental Appropriation. The Agency obligated $18.2 million for oil spill response activities in FY 1993 and processed $6.2 million in net outlays.

Program Results

Measure 1(a) Oil Facility Response Plans Received and (b) Extensions Granted

This measure counts (a) the number of oil facility response plans received and (b) the number of extensions granted to facilities for submitting response plans. Under the Oil Pollution Act (OPA), facilities which store oil and have the potential to cause "substantial harm" to the environment must prepare a response plan for the worst case discharge.

Results: To date, 4,074 facility response plans have been received and 2,378 extensions have been granted.

Measure 2(a) Oil Spill Cleanups and (b) On-Scene Monitoring of Potentially Responsible Party (PRP) Lead Cleanups

This measure counts (a) the number of oil spills cleaned up by EPA using OPA funds and (b) the number of times EPA monitors a PRP's cleanup actions. EPA monitors a cleanup when a Potentially Responsible Party responds to the spill to ensure adequate cleanup takes place.

Results: Twenty-five oil spills were cleaned up in FY 1993 using OPA funds. EPA monitored 170 responsible party oil spill cleanups in FY 1993.

Measure 3(a) Administrative Actions for spill violations and prevention regulation violations and (b) Judicial Penalty Enforcement Actions for spill violations and prevention regulation violations.

This measure counts (a) the number of administrative and (b) judicial enforcement actions resulting from prohibited spills and violations of the regulations of the Clean Water Act as amended by the Oil Pollution Act. These two actions reflect a significant portion of the resources used in the oil program and indicate significant achievements in compliance. An administrative complaint is counted on the date it is issued to the respondent. A judicial case is counted on the date of the referral letter/cover memo to the Department of Justice.

Results: Eleven administrative cases were filed, and four judicial enforcement actions were referred to the Department of Justice in FY 1993.

Asbestos Loan and Grant Program

The Asbestos Loan and Grant Program is administered under the Asbestos School Hazard Abatement Act (ASHAA) primarily by the Office of Prevention, Pesticides and Toxic Substances (OPPTS). This overview covers the entire Asbestos Loan and Grant program. However, the loan portion of the program is the only part that is a commercial activity and is the only part of the program covered by the audited financial statements.

Program Description

The purpose of the ASHAA program is to reduce risk to school children and employees posed by asbestos. Since its inception, the program has provided more than $420 million in financial assistance to financially needy Local Education Agencies (LEAs) with the most hazardous asbestos abatement projects. During this period, a significant amount of exposure to asbestos fiber has been eliminated. Although the statute was reauthorized through 1995, EPA has not included funding in any of its recent budget requests to Congress. Each year, new funding has been dependent on Congress adding resources, in varying amounts, to the Agency's budget request. The 1994 Appropriations Bill did not contain any funding for ASHAA loans and grants. The State designee and educational organizations have been notified of this reduction in the ASHAA program.

The Act envisions a three-step process. First, EPA is to make applications available to public and non-profit schools for completion and submission to their State Governors (or the Governor's Designee). Second, Governors (or Designees) are responsible for collecting, reviewing, and submitting applications to EPA. Third, EPA receives and reviews all applications and makes offers of financial assistance available on the basis of the applicant's asbestos hazard and demonstrated financial need. The reauthorized statute mandates that awards of financial assistance must be made by April 30 of each year for which Congress appropriates funding for the loan and grant program.

In making its award decisions, the ASHAA legislation instructs EPA to generate its own national priority list from applications received. A ranking method is then employed to sort all proposed abatement projects into categories depending on certain characteristics of the asbestos containing building materials (ACBM). Only projects with friable ACBM and some degree of damage are considered for financial assistance. If the project has damaged friable material, the ranking method next establishes four categories based on the degree of damage to the ACBM, and whether the material is exposed or located in an air plenum. The four categories are:

Priority One - Significantly damaged friable surfacing material which is exposed and/or located in an air plenum.

Priority Two - Friable asbestos containing materials which are exposed or in an air plenum and are defined by an AHERA accredited person as one of the following:

- Damaged or significantly damaged thermal system insulation.
- Damaged surfacing material.
- Damaged or significantly damaged miscellaneous material which has been isolated to protect human health and the environment.

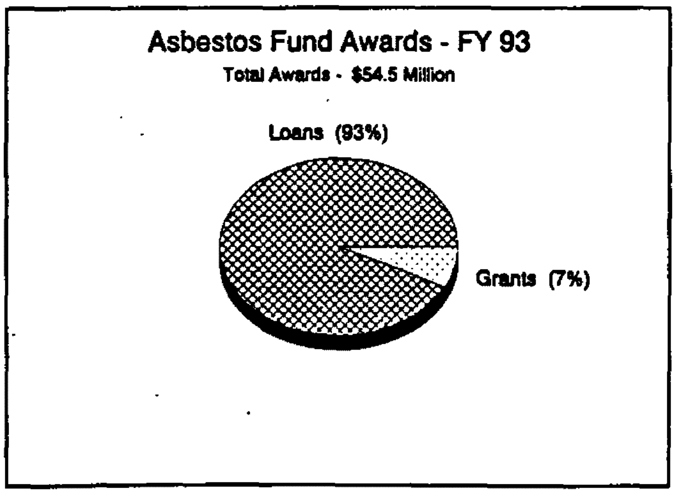
Priority Three - Damaged or significantly damaged friable miscellaneous material which does not necessitate isolation but is exposed and/or located in an air plenum.

Priority Four - Any damaged or significantly damaged friable material which is not exposed or located in an air plenum.

Since the inception of the program, only projects within hazard categories one and two were within reach for funding before funds were expended.

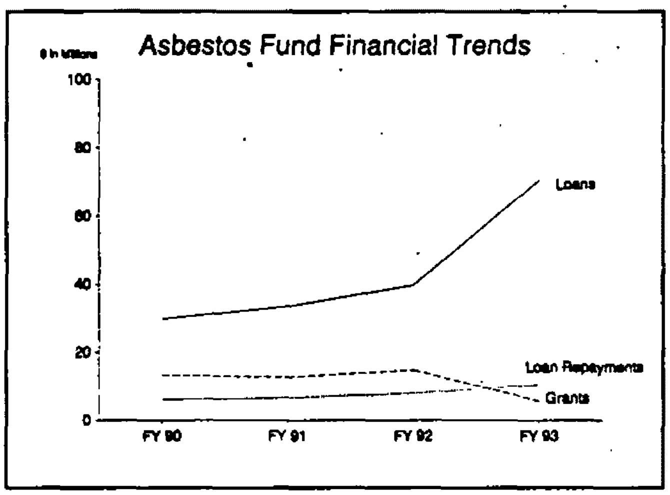
While the condition of the asbestos-containing materials determines the priority for consideration of a project, financial need controls whether an award is offered, the award amount, and the loan/grant composition of the award. In accordance with the statute, monies are not made available to any applicant which has sufficient resources available to support an asbestos abatement program. Financial indicators used to determine eligibility for both private and public schools include Budget per Pupil and the burden of abatement costs on an LEA's operating budget.

Assistance may take the form of either a grant or an interest-free loan, or some combination of both. Loans may include up to 100 percent of abatement project costs and grants may cover up to 50 percent of costs. ASHAA does not require that EPA provide recipients the total funding necessary to complete an abatement project.



Financial Perspective

Since 1985, the ASHAA Loan and Grant program has awarded $422.3 million for asbestos abatement projects. Approximately $310.7 million of these awards were for twenty-year loans.



Implementation of the Federal Credit Reform Act of 1990 changed the way the Agency uses appropriated funds for asbestos loans. Prior to the Act, the total amount of the loan was funded by the appropriation. As of FY 1992, only the subsidy portion of the loan (actual cost to the government) is funded by the appropriation. The balance is funded with money borrowed from the Treasury and repaid as EPA collects loan repayments.

In FY 1993, grant and loan awards totalled to $76.2 million, an increase of $21.7 million over FY 1992 awards. Of the 1993 awards, 93 percent were loans and 7 percent were grants. This is a 20 percent decrease in the ratio of program grants versus loans compared to the FY 1992 ratio. By decreasing grants relative to loans, EPA lowers the Federal government's costs for reducing asbestos exposure hours. Both loan obligations and loan repayment collections continued to increase from FY 1990 through FY 1993.

During FY 1993, the Agency collected $10.4 million in loan repayments. Based on loan disbursement and collection history, the Agency projects collecting $10.5 million in loan repayments in FY 1994.

Program Results

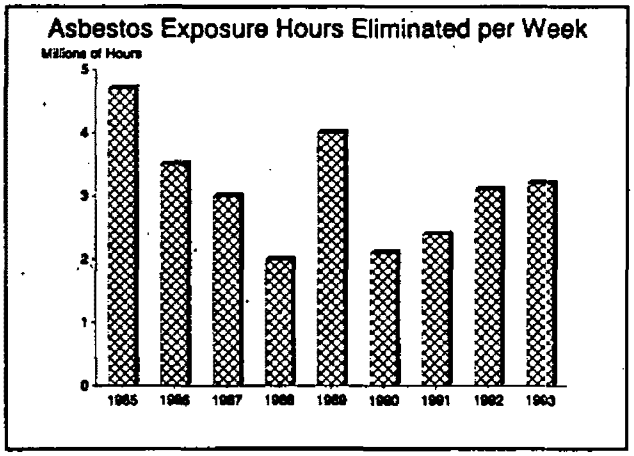
EPA's performance measures for the ASHAA program include two measures:

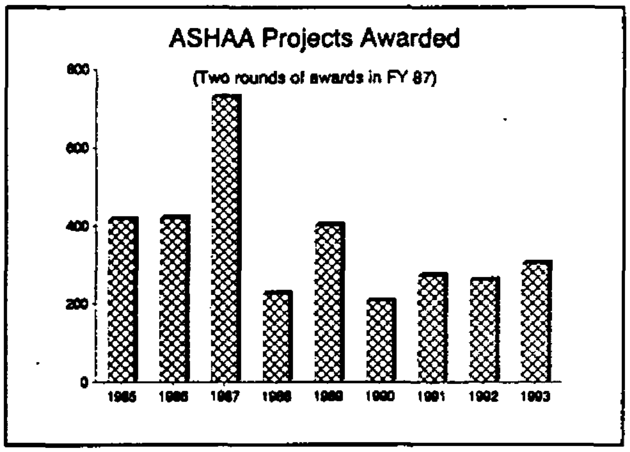
Meaasure 1: Number of ASHAA awarded projects.

Results: In FY 1993, the ASHAA program funded 305 projects in 156 LEAs across the country.

Measure 2: Elimination of Exposure Hours.

Results: When the projects currently funded are completed, EPA estimates that 3.2 million exposure hours will be eliminated per week.





Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund)

The Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund) is administered under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) primarily by the Office of Prevention, Pesticides and Toxic Substances

Program Description

As part of its authority to regulate pesticides, EPA is responsible for reregistering existing pesticides. The FIFRA legislation, requiring the registration of pesticide products, was originally passed in 1947. Since then, health and environmental standards have become more stringent and scientific analysis techniques are much more precise and sophisticated. In the 1988 amendments to FIFRA (FIFRA '88), Congress mandated the accelerated reregistration of all products registered prior to November 1, 1984. The amendments established a statutory goal of completing reregistration eligibility decisions by 1997. The legislation allows for various time extensions which can extend this deadline by three years or more. Additional resources, however, will be needed to meet these goals/deadlines.

Congress authorized the collection of two kinds of fees until 1997 to supplement appropriated funds for the program - an annual Maintenance Fee and a one-time Reregistration Fee. Maintenance fees are assessed on registrants of pesticide products and are structured to collect approximately $14 million per year. Reregistration fees are assessed on the manufacturers of the active ingredients in pesticide products and are based on the manufacturer's share of the market for the active ingredient. In fiscal years 1992, 1993, and 1994, approximately 14 percent of Maintenance Fees collected, up to $2 million each year, are to be used for the expedited processing of old chemical and amended registration applications. Fees are deposited to the FIFRA Revolving Fund. By statute, excess monies in the FIFRA Fund may be invested. Waivers and/or refunds are granted for minor use pesticides, antimicrobial pesticides, and small businesses.

The reregistration process is being conducted through reviews of groupings of similar active ingredients called cases. There are five (5) major phases of reregistration:

- Phase 1 - Listing of Active Ingredients. EPA publishes lists of active ingredients and asks registrants whether they intend to seek reregistration. Completed in FY 1989.

- Phase 2 - Declaration of Intent and Identification of Studies. Registrants notify EPA if they intend to reregister and identify missing studies. Completed in FY 1990.

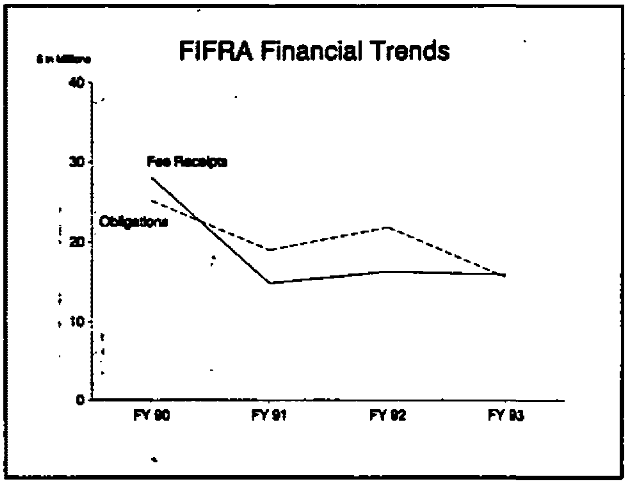
- Phase 3 - Summarization of Studies. Registrants submit required existing studies. Completed in FY 1991.

- Phase 4 - EPA Review and Data Call-Ins (DCIs). EPA reviews the studies, identifies and "calls-in" missing studies by issuing a DCI. A "DCI" is a request to a pesticide registrant for scientific data to assist the Agency in determining the pesticide's eligibility for reregistration.

- Phase 5 - Reregistration Decisions. EPA reviews all studies and issues a Reregistration Eligibility Document (RED) for the active ingredient(s). A "RED" is a determination by the Agency whether products containing a pesticide active ingredient are eligible for reregistration. The registrant complies with the RED by submitting product specific data and new labels. EPA reregisters or cancels the product. Pesticide products are reregistered, based on a RED eligibility determination, when it meets all label requirements. This normally takes 14 to 20 months after issuance of the RED.

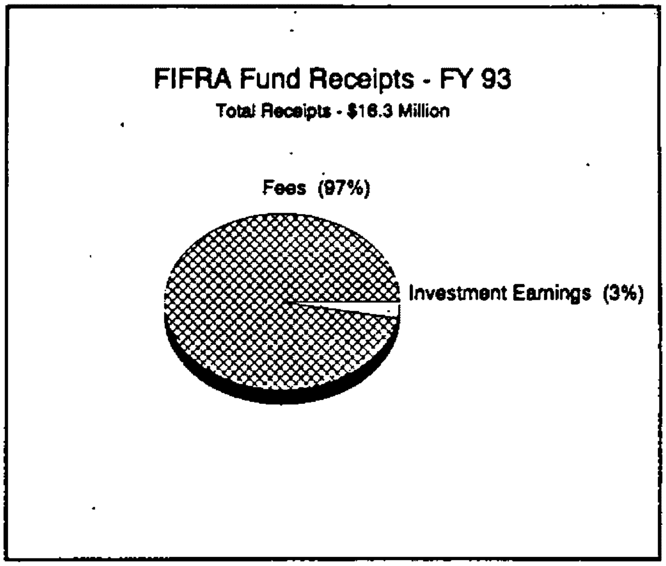
Financial Perspective

During FY 1993, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration and expedited processing programs were 192 FTEs and $15.6 million. Of these amounts, the Office of Pesticide Programs funded the 192 FTEs and obligated $12.3 million of this cost.



Appropriated funds are used in addition to FIFRA revolving funds. In FY 1993, approximately $25.3 million in appropriated funds were obligated for reregistration and expedited processing program activities. The unobligated balance in the fund at the end of FY 1993 was $9.92 million. This is an increase of $0.94 million compared to the FY 1992 year-end balance of $8.98 million.

The fund has two types of receipts: fee collections and interest earned on investments. Of the $16.3 million in FY 1993 receipts, approximately 97 percent was fee collections. During the past two years, the fund balance and corresponding investment earnings have decreased because program expenses (disbursements) exceeded collections. The fee collections decreased by almost $0.4 million in FY 1993 compared to FY 1992. The obligations decreased in FY 1993 because the Office of the General Counsel and other Agency offices no longer make direct charges to the fund.



Program Results

The following measures support the program's strategic goals of Food Safety and Safer Pesticides as contained in the Pesticide Program Strategy, 1994-1997. The product reregistration measure is different from the measure reported in FY 1992. It has been changed to remain consistent with the definition of the performance indicators being tracked by the Strategic Targeted Activities for Results System (STARS). In FY 1992, STARS measured only the number of reregistrations, while in 1993, it counted the number of products reregistered, canceled and amended. This figure more accurately reflects program effort based on a RED eligibility determination.

Measure 1: Number of Reregistration Eligibility Documents (REDs) completed.

Results: The number of Reregistration Eligibility Documents (REDs) completed was 19 (versus a target of 20), an increase of 4 over FY 1992 when 15 were completed. There are approximately 405 REDS of which 47 have been completed.

Measure 2: Number of products reregistered, canceled, or amended.

Results: In FY 1993, 219 products were reregistered, 434 cancelled (111 of which for nonpayment of fees) and 12 amended. The combined 665 actions were achieved versus a target of 1122. In addition, 423 products were forwarded to the EPA Office of Compliance Monitoring for suspension.

Revolving Fund for Certification and Other Services (Tolerance Fund)

The Revolving Fund for Certification and Other Services (Tolerance Fund) is administered under the Federal Food, Drug and Cosmetic Act (FFDCA) primarily by the Office of Prevention, Pesticides and Toxic Substances (OPPTS).

Program Description

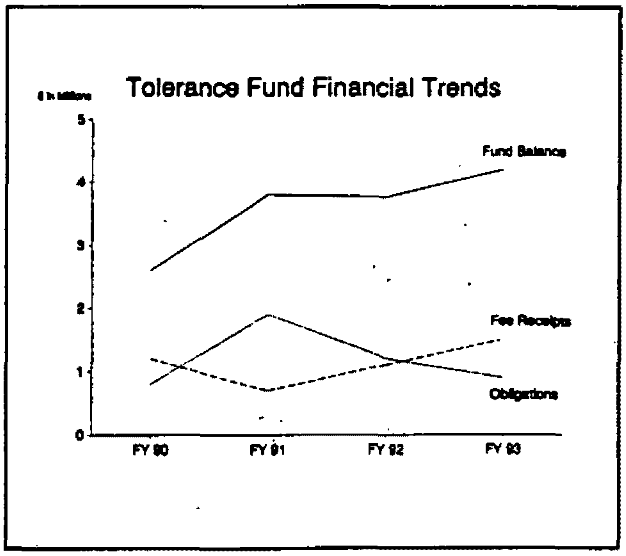
As part of its authority to regulate pesticides, EPA is responsible for setting "tolerances". If the pesticide is being considered for use on a food or feed crop or as a food or feed additive, the applicant must petition EPA for establishment of a tolerance (or exemption from a tolerance) under authority of FFDCA. A tolerance is the maximum legal limit of a pesticide residue on food commodities and animal feed. Tolerances are set at levels that ensure that the public is protected from unreasonable health risks posed by eating foods that have been treated with pesticides in accordance with label directions. The tolerance program is a major part of the Agency's Food Safety goals.

In 1954, Congress authorized the collection of fees for the establishment of tolerances for raw agricultural commodities (section 408 of FFDCA). Congress, however, did not authorize the collection of fees for food additive tolerances (section 409 of FFDCA). EPA, therefore, does not collect fees for food additive tolerances. The Agency also does not collect fees for Agency-initiated actions such as the revocation of tolerances for previously canceled pesticides. Fees collected for tolerances for raw agricultural commodities were deposited to the U.S. Treasury General Fund until 1963 when Congress established the Tolerance Fund. Specific fees are contained in 40 CFR 180.33 and range from $3,200 to $56,175, depending on the type of tolerance action requested.

Waivers and/or refunds are granted for minor use pesticides submitted under the Inter-Regional Research Project Number 4 (IR-4 Program), public interest, such as reduced-risk pesticides, and economic hardship. The fees are updated annually based on the cost-of-living adjustment in Federal General Scale wage rates. Fees were increased 3.7 percent in FY 1993. By statute, monies in the Tolerance Fund may not be invested.

Financial Perspective

During FY 1993, the Agency charges to the Tolerance Fund for the cost of the tolerance setting functions were $0.9 million. Appropriated funds are used in addition to revolving funds. In FY 1993, approximately $4.5 million in appropriated funds were obligated. The unobligated balance in the revolving fund at the end of FY 1993 was $4.25 million. This is an increase of $0.5 million compared to the FY 1992 year-end balance of $3.75 million.



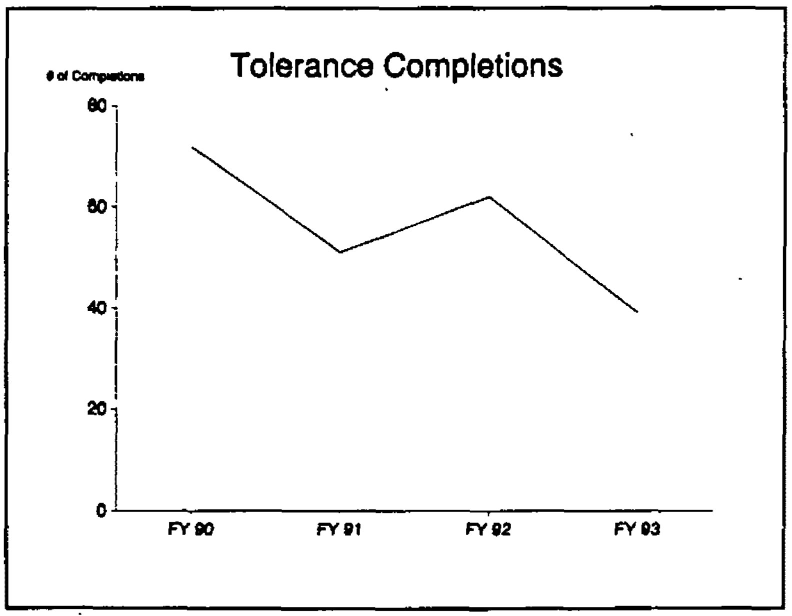
The fund balance remained about the same in FY 1991 and FY 1992 then increased by almost $0.5 million in FY 1993. This fund balance increase mainly resulted from fee collections which rose by $0.4 million in FY 1993 compared to FY 1992. Earnings (obligations) decreased from FY 1992 to FY 1993 primarily as a result of the decrease in the number of permanent tolerance petition completions.

Program Results

Tolerance fees collected in FY 1993 were approximately $1.5 million and "earnings" in FY 1993 were approximately $0.9 million. Earnings represent the value of petitions that are 80 percent or more completed. In 1993, EPA could not use the tolerance fees in the revolving fund until the work on a petition was at least 80 percent completed.

Measure 1: Number of permanent tolerance petitions completed.

Results: *The number of permanent tolerance petitions completed for section 408 raw agricultural commodities and section 409 food additives was 39 compared to a target of 50. This represents final determinations by the Agency concerning permanent tolerance petition requests for allowable levels of pesticide residues on raw agricultural commodities and in food additives. This is a decrease of 23 completions compared to the 62 in FY 1992. The number of permanent tolerance petition reviews ("cycles") completed was 385 compared to a target of 413. This measure supports the strategic goals of Food Safety and Safer Pesticides as contained in the Pesticide Program Strategy, 1994-1997.*



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

As the Chief Financial Officer of the U.S. Environmental Protection Agency (EPA), I am proud to present *EPA's Fiscal Year 1993 Annual Financial Statements*. These statements provide our Agency managers with an assessment of the financial condition of our trust funds, revolving funds and commercial activities. They are submitted in accordance with requirements of the Chief Financial Officers (CFO) Act of 1990 and Office of Management and Budget guidance.

EPA's financial statements present the financial position and results of operation of the following six funds: Superfund Trust Fund; Leaking Underground Storage Tanks (LUST) Trust Fund; Oil Spill Trust Fund; Loan Portion of the Asbestos Loan and Grant Program; Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund); and Revolving Fund for Certification and Other Services (Tolerance Fund). The preparation of financial statements and participation in the audit process provide useful information about our programs and accounting systems and help us identify areas where improved information systems, management controls and accountability are needed.

EPA accelerated the submission of its annual financial statements by 90 days this year. In addition to the abbreviated timeframe, we were able to make significant improvements in a number of areas. These include:

- completing the reconciliation of long-standing conversion errors resulting from the installation of our integrated financial management system (IFMS) in 1989;
- receiving a more favorable opinion on the FIFRA fund. This year the auditors expressed a qualified opinion as opposed to the disclaimer we received in FY 1992; and
- receiving an unqualified opinion on the Oil Spill Trust Fund, which was added to our financial statements for the first time this year.

I am encouraged by the progress we have made as well as by the auditors' overall recognition of management's commitment to identify and resolve EPA's financial management problems.

While I am pleased with these improvements, much work still needs to be done, since a number of the auditors' findings from last year's statements remain. While we will not be able to resolve all of these issues immediately, among my top priorities are to: improve the management of our accounts receivable; establish a property tracking system; and resolve financial management systems documentation, interface and reporting problems. In many cases, corrective actions are well underway, and I anticipate that our progress will be reflected in next year's financial statements.

EPA's Financial Management Five-Year Plan outlines our strategy for strengthening accountability and financial management practices throughout the Agency. The plan establishes benchmarks, goals and specific milestones by which our progress can be measured in future years. By following our plan, consistent with available resources, I believe we will meet our critical resource management needs and position the Agency to achieve its environmental mission.

I am confident that we at EPA are on the right track for restoring public trust in the Federal government as responsible financial stewards. I strongly believe the recent financial reform efforts, which the federal government has undertaken via the National Performance Review and various legislative efforts, will go a long way toward resolving common problems faced by the Federal financial community.

On a personal note, I want to acknowledge the hard work of the employees throughout the Agency who contributed to the production of these financial statements. I am especially indebted to the excellent support provided by EPA's Office of Solid Waste and Emergency Response; Office of Prevention, Pesticides and Toxic Substances; Office of Policy, Planning and Evaluation; Office of the Inspector General; and my own dedicated staff.

Jonathan Z. Cannon

Jonathan Z. Cannon

Contents

EPA Trust Funds, Revolving Funds and Commercial Activities
Statements of Financial Position - Restated (Note 14)
As of September 30, 1993 and 1992 (Dollars in Thousands)

Assets	Superfund Trust Fund 1993	1992
Financial Resources:		
Fund Balances With Treasury (Note 2)	$ 11,485	$ 65,200
Investments - Federal (Note 3)	-	-
Marketable Equity Securities (Note 1)	4,699	-
Accounts Receivable, Federal, Net (Note 1)	7,955	8,958
Accounts Receivable, Non-Federal, Net (Note 1)	193,938	122,315
Loans Receivable, Non-Federal, Net (Note 4)	-	-
Appropriated Amounts Held by Treasury (Note 1)	3,173,380	2,967,460
Non-Financial Resources:		
Advances and Prepayments, Non-Federal	133	678
Property, Plant and Equipment, Net (Note 5)	14,030	16,094
Total Assets	**$3,405,620**	**$3,180,705**

Liabilities and Net Position

Liabilities	1993	1992
Accounts Payable, Non-Federal	$ 112,057	$ 102,212
Accounts Payable, Federal	105,541	126,733
Accrued Payroll and Benefits	7,698	6,464
Deferred Revenue, Non-Federal (Note 1)	183,430	248,561
Deferred Revenue - Federal (Note 1)	4,511	14,929
Debt - Federal (Note 6)	-	-
Other Funded Liabilities - Federal (Note 7)	-	-
Accrued Leave - Unfunded	11,556	10,723
Total Liabilities	**424,793**	**509,622**
Net Position		
Trust Fund Balances	2,992,383	2,681,806
Commercial Activities	-	-
Revolving Fund Balances	-	-
Less Future Funding Requirements	(11,556)	(10,723)
Total Net Position (Note 8)	**2,980,827**	**2,671,083**
Total Liabilities and Net Position	**$3,405,620**	**$3,180,705**

LUST Trust Fund 1993	LUST Trust Fund 1992	Oil Spill Trust Fund 1993	Oil Spill Trust Fund 1992
$ 1,638	$ 6,471	$ 14,478	$ -
-	-	-	-
-	-	-	-
14	-	-	-
33	51	-	-
-	-	-	-
89,021	80,722	-	-
3,654	247	-	-
61	84	-	-
$ 94,421	$ 87,575	$ 14,478	$ -
$ 1,749	$ 1,503	$ 1,334	$ -
-	5	91	-
157	144	157	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,906	1,652	1,582	-
92,515	85,923	12,896	-
-	-	-	-
-	-	-	-
-	-	-	-
92,515	85,923	12,896	-
$ 94,421	$ 87,575	$ 14,478	$ -

(Continued)

EPA Trust Funds, Revolving Funds and Commercial Activities
Statements of Financial Position - Restated (Note 14), Continued
As of September 30, 1993 and 1992 (Dollars in Thousands)

Assets	Asbestos Commercial Activity 1993	Asbestos Commercial Activity 1992
Financial Resources:		
Fund Balances With Treasury (Note 2)	$ 63,073	$ 29,877
Investments - Federal (Note 3)	-	-
Marketable Equity Securities (Note 1)	-	-
Accounts Receivable, Federal, Net (Note 1)	-	19,400
Accounts Receivable, Non-Federal, Net (Note 1)	4	12
Loans Receivable, Non-Federal, Net (Note 4)	130,011	124,515
Appropriated Amounts Held by Treasury (Note 1)	-	-
Non-Financial Resources:		
Advances and Prepayments, Non-Federal	-	-
Property, Plant and Equipment, Net (Note 5)	-	-
Total Assets	**$193,088**	**$173,804**

Liabilities and Net Position

Liabilities	1993	1992
Accounts Payable, Non-Federal	$ 66	$ 53
Accounts Payable, Federal	-	-
Accrued Payroll and Benefits	-	-
Deferred Revenue, Non-Federal	-	-
Deferred Revenue - Federal	-	-
Debt - Federal (Note 6)	12,172	1,318
Other Funded Liabilities - Federal (Note 7)	117,634	123,209
Accrued Leave - Unfunded	-	-
Total Liabilities	**129,872**	**124,580**
Net Position		
Trust Fund Balances	-	-
Commercial Activities	63,216	49,224
Revolving Fund Balances	-	-
Less Future Funding Requirements	-	-
Total Net Position (Note 8)	**63,216**	**49,224**
Total Liabilities and Net Position	**$193,088**	**$173,804**

The accompanying notes are an integral part of these statements.

	FIFRA Revolving Fund 1993	FIFRA Revolving Fund 1992	Tolerance Revolving Fund 1993	Tolerance Revolving Fund 1992
	$ 950	$ 65	$ 4,246	$ 3,757
	10,209	15,243	-	-
	-	-	-	-
	-	-	-	-
	2	28	-	-
	-	-	-	-
	-	-	-	-
	4	15	-	-
	533	574	-	-
	$ 11,698	$ 15,925	$ 4,246	$ 3,757

	$ 357	$ 1,428	$ 89	$ 153
	73	209	466	-
	260	457	-	-
	5,755	8,917	3,691	3,604
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	6,445	11,011	4,246	3,757

	-	-	-	-
	-	-	-	-
	5,253	4,914	-	-
	-	-	-	-
	5,253	4,914	-	-
	$ 11,698	$ 15,925	$ 4,246	$ 3,757

EPA Trust Funds, Revolving Funds and Commercial Activities
Statements of Operations and Changes in Net Position
Restated (Note 14)

For the Years Ended September 30, 1993 and 1992
(Dollars in Thousands)

	Superfund Trust Fund 1993	Superfund Trust Fund 1992
Revenues and Financing Sources		
Appropriations Expensed	$1,343,528	$1,408,040
Revenues from Services to the Public	18,941	-
Interest and Penalties, Non-Federal	32,695	4,514
Interest Income, Federal	-	-
Income From Overhead Allocation	22,257	17,586
Fines, Penalties and Other Revenues	420,242	200,596
Less: Receipts Returned to Treasury	(185,359)	(184,639)
Total Revenues and Financing Sources	**1,652,304**	**1,446,097**
Expenses		
Program or Operating Expenses (Note 9)	1,340,418	1,408,582
Depreciation and Amortization	5,016	520
Bad Debts and Writeoffs	161,463	5,455
Overhead Expenses from Allocation	22,257	17,586
Other Expenses (Note 10)	1	2
Total Expenses	1,529,155	1,432,145
Excess of Revenues and Financing Sources	123,149	13,952
Prior Period Adjustments (Note 11)	17,361	3,574
Excess of Revenues and Financing Sources Over Total Expenses	**140,510**	**17,526**
Plus: Unfunded Expenses	833	1,092
Excess of Revenues and Financing Sources Over Funded Expenses	**$ 141,343**	**$ 18,618**
Changes in Net Position		
Net Position, Beginning Balance	$2,671,083	$2,146,393
Excess of Revenues and Financing Sources	141,343	18,618
Non-Operating Changes (Note 12)	168,401	506,072
Net Position, Ending Balance	**$2,980,827**	**$2,671,083**

LUST Trust Fund 1993	LUST Trust Fund 1992	Oil Spill Trust Fund 1993	Oil Spill Trust Fund 1992
$ 75,137	$ 69,153	$ 7,804	$ -
-	-	-	-
-	-	-	-
-	-	-	-
827	238	755	-
-	-	-	-
-	-	-	-
75,964	69,391	8,559	-
75,107	69,117	7,804	-
29	19	-	-
1	17	-	-
827	238	755	-
-	-	-	-
75,964	69,391	8,559	-
-	-	-	-
(22)	-	-	-
(22)	-	-	-
-	-	-	-
$ (22)	$ -	$ -	$ -
$ 85,923	$ 80,077	$ -	$ -
(22)	-	-	-
6,614	5,846	12,896	-
$ 92,515	$ 85,923	$ 12,896	$ -

(Continued)

EPA Trust Funds, Revolving Funds and Commercial Activities Statements of Operations and Changes in Net Position Restated (Note 14), Continued

For the Years Ended September 30, 1993 and 1992
(Dollars in Thousands)

	Asbestos Commercial Activity	
	1993	1992
Revenues and Financing Sources		
Appropriations Expensed	$ 10,718	$ 3,395
Revenues from Services to the Public	-	-
Interest and Penalties, Non-Federal	16	13
Interest Income, Federal	310	7
Income From Overhead Allocation	895	902
Fines, Penalties and Other Revenues	-	-
Less: Receipts Returned to Treasury	-	-
Total Revenues and Financing Sources	11,939	4,317
Expenses		
Program or Operating Expenses (Note 9)	10,718	3,395
Depreciation and Amortization	-	-
Bad Debts and Writeoffs	7	-
Overhead Expenses from Allocation	895	902
Other Expenses (Note 10)	310	7
Total Expenses	11,930	4,304
Excess of Revenues and Financing Sources	9	13
Prior Period Adjustments (Note 11)	-	-
Excess of Revenues and Financing Sources Over Total Expenses	9	13
Plus: Unfunded Expenses	-	-
Excess of Revenues and Financing Sources Over Funded Expenses	$ 9	$ 13
Changes in Net Position		
Net Position, Beginning Balance	$ 49,224	$111,142
Excess of Revenues and Financing Sources	-	-
Non-Operating Changes (Note 12)	13,992	(61,918)
Net Position, Ending Balance	$ 63,216	$ 49,224

The accompanying notes are an integral part of these statements.

FIFRA Revolving Fund		Tolerance Revolving Fund	
1993	1992	1993	1992
$ -	$ -	$ -	$ -
18,156	24,690	926	1,200
432	783	-	-
-	-	-	-
25,303	22,811	4,474	3,532
-	-	-	-
-	-	-	-
43,891	48,284	5,400	4,732
18,928	24,517	926	1,200
200	172	-	-
-	-	-	-
25,303	22,811	4,474	3,532
-	-	-	-
44,431	47,500	5,400	4,732
(540)	784	-	-
971	3,699	-	-
431	4,483	-	-
-	-	-	-
$ 431	$ 4,483	$ -	$ -
$ 4,862	$ 627	$ -	$ -
431	4,483	-	-
(40)	(196)	-	-
$ 5,253	$ 4,914	$ -	$ -

EPA Trust Funds, Revolving Funds and Commercial Activities
Statements of Cash Flows by Fund Activity
Restated (Note 14)

For the Years Ended September 30, 1993 and 1992
(Dollars in Thousands)

	Superfund Trust Fund	
	1993	1992
Cash Flows from Operating Activities:		
Excess - Revenues and Financing Sources Over Total Expenses	$ 140,510	$ 17,526
Adjustments Affecting Cash Flow:		
Appropriations Expensed	(1,343,528)	(1,408,040)
Decrease (Increase) in Marketable Equity Securities	(4,699)	-
Decrease (Increase) in Accounts Receivable	(70,620)	(45,595)
Decrease (Increase) in Loans Receivable	-	-
Decrease (Increase) in Other Assets	545	(13,605)
Increase (Decrease) in Accounts Payable	(10,113)	39,546
Increase (Decrease) in Other Liabilities	(75,549)	175,395
Depreciation and Amortization	5,016	520
Bad Debt Expense	4,053	-
Other Unfunded Expenses	833	1,092
Other Adjustments	16,715	(1,719)
Total Adjustments	**(1,477,347)**	**(1,252,406)**
Net Cash Provided (Used) by Operating Activities	**(1,336,837)**	**(1,234,880)**
Cash Flows from Investing Activities:		
Proceeds from Sales of Investments	-	-
Purchase of Equipment	(2,954)	1,316
Net Cash Provided (Used) by Non-Operating Activities	**(2,954)**	**1,316**
Cash Flows from Financing Activities:		
Appropriations (Current Warrants)	-	-
Transfers of Cash from Others	1,355,215	1,295,639
Deduct:		
Withdrawals	-	-
Transfers of Cash to Others	69,139	49,720
Net Appropriations	1,286,076	1,245,919
Borrowing from the Treasury	-	-
Net Cash Provided (Used) by Financing Activities	**1,286,076**	**1,245,919**
Net Cash Provided (Used) - Total	**(53,715)**	**12,355**
Fund Balances with Treasury, Beginning	**65,200**	**52,845**
Fund Balances with Treasury, Ending	**$ 11,485**	**$ 65,200**

LUST Trust Fund 1993	LUST Trust Fund 1992	Oil Spill Trust Fund 1993	Oil Spill Trust Fund 1992
$ (22)	$ -	$ -	$ -
(75,137)	(69,153)	(7,804)	-
-	-	-	-
4	(290)	-	-
-	-	-	-
(3,407)	(223)	-	-
254	2,279	1,425	-
-	(153)	157	-
29	19	-	-
-	-	-	-
-	-	-	-
(1,248)	17	-	-
(79,505)	(67,504)	(6,222)	-
(79,527)	(67,504)	(6,222)	-
-	-	-	-
(6)	(47)	-	-
(6)	(47)	-	-
-	-	-	-
74,700	80,500	20,700	-
-	-	-	-
-	-	-	-
74,700	80,500	20,700	-
-	-	-	-
74,700	80,500	20,700	-
(4,833)	12,949	14,478	-
6,471	(6,478)	-	-
$ 1,638	$ 6,471	$ 14,478	$ -

(Continued)

EPA Trust Funds, Revolving Funds and Commercial Activities
Statements of Cash Flows by Fund Activity
Restated (Note 14), Continued

For the Years Ended September 30, 1993 and 1992
(Dollars in Thousands)

	Asbestos Commercial Activity	
	1993	1992
Cash Flows from Operating Activities:		
Excess - Revenues and Financing Sources Over Total Expenses	$ 9	$ 13
Adjustments Affecting Cash Flow:		
Appropriations Expensed	(10,718)	(3,395)
Decrease (Increase) in Marketable Equity Securities	-	-
Decrease (Increase) in Accounts Receivable	19,408	(19,406)
Decrease (Increase) in Loans Receivable	(5,496)	(13,379)
Decrease (Increase) in Other Assets	-	-
Increase (Decrease) in Accounts Payable	13	53
Increase (Decrease) in Other Liabilities	5,279	-
Depreciation and Amortization	-	13,412
Bad Debt Expense	7	-
Other Unfunded Expenses	-	-
Other Adjustments	(6,531)	(734)
Total Adjustments	1,962	(23,449)
Net Cash Provided (Used) by Operating Activities	1,971	(23,436)
Cash Flows from Investing Activities:		
Proceeds from Sales of Investments	-	-
Purchase of Equipment	-	-
Net Cash Provided (Used) by Non-Operating Activities	-	-
Cash Flows from Financing Activities:		
Appropriations (Current Warrants)	-	-
Transfers of Cash from Others	31,225	53,313
Deduct:		
Withdrawals	-	-
Transfers of Cash to Others	-	-
Net Appropriations	31,225	53,313
Borrowing from the Treasury	-	-
Net Cash Provided (Used) by Financing Activities	31,225	53,313
Net Cash Provided (Used) - Total	33,196	29,877
Fund Balances with Treasury, Beginning	29,877	-
Fund Balances with Treasury, Ending	$ 63,073	$ 29,877

The accompanying notes are an integral part of these statements.

FIFRA Revolving Fund		Tolerance Revolving Fund	
1993	1992	1993	1992
$ 431	$ 4,483	$ -	$ -
-	-	-	-
-	-	-	-
(26)	(27)	-	-
-	-	-	-
12	(16,799)	(41)	-
(485)	183	89	-
(4,121)	(17,584)	441	(6)
200	172	-	-
-	-	-	-
-	-	-	-
-	(162)	-	-
(4,420)	(34,217)	489	(6)
(3,989)	(29,734)	489	(6)
5,033	6,638	-	-
(159)	(119)	-	-
4,874	6,519	-	-
-	-	-	-
-	-	-	-
-	196	-	-
-	-	-	-
-	(196)	-	-
-	-	-	-
-	(196)	-	-
885	(23,411)	489	(6)
65	23,476	3,757	3,763
$ 950	$ 65	$ 4,246	$ 3,757

EPA Trust Funds, Revolving Funds and Commercial Activities
Statement of Budget and Actual Expenses
For the Year Ended September 30, 1993
(Dollars in Thousands)

	Budget			Actual
		Obligations		
Program Name	Resources	Direct	Reimbursed	Expenses
Superfund	$ 1,875,354	1,587,754	$ 21,047	$ 1,529,155
LUST	85,468	74,451	-	75,964
Oil Spill	20,700	18,225	-	8,559
Asbestos Loan Program	111,657	90,906	-	11,930
FIFRA	25,491	(754)	16,328	44,431
Tolerance Fund	5,683	-	1,526	5,400
Total	$ 2,124,353	$ 1,770,582	$ 38,901	$ 1,675,439

Budget Reconciliation:	
Total Expenses	$1,675,439
Add:	
Capital Acquisitions	3,119
Other Expended Budget Authority	-
Less:	
Depreciation and Amortization	5,245
Unfunded Annual Leave Expense	833
Interest Expense	310
Bad Debt Expense	161,471
Accrued Expenditures	1,510,699
Less Reimbursements	38,901
Accrued Expenditures, Direct	1,471,798
Financial Statement Adjustment, not on SF-133	(486,061)
Overhead Expenses from Allocation, not on SF-133	(54,511)
Unreconciled Difference	(32,813)
Accrued Expenditures, Direct - per SF-133	$ 898,413

The accompanying notes are an integral part of this statement.

EPA Trust Funds, Revolving Funds and Commercial Activities
Statement of Budget and Actual Expenses—Restated (Note 14)
For the Year Ended September 30, 1992
(Dollars in Thousands)

	Budget			Actual
		Obligations		
Program Name	Resources	Direct	Reimbursed	Expenses
Superfund	$1,944,698	$1,729,094	$ 10,156	$1,432,145
LUST	76,966	75,403	-	69,391
Oil Spill	-	-	-	-
Asbestos Loan Program	109,509	100,071	-	4,304
FIFRA	30,873	4,821	17,071	47,500
Tolerance Fund	4,820	-	1,104	4,732
Totals	$2,166,866	$1,909,389	$ 28,331	$1,558,072

Budget Reconciliation:	
Total Expenses	$1,558,072
Add:	
Capital Acquisitions	1,150
Other Expended Budget Authority	123,707
Less:	
Depreciation and Amortization	711
Unfunded Annual Leave Expense	1,092
Interest Expense	7
Bad Debt Expense	5,472
Accrued Expenditures	1,675,647
Less Reimbursements	28,331
Accrued Expenditures, Direct	1,647,316
Financial Statement Adjustment, not on SF-133	(12,816)
Overhead Expenses from Allocation, not on SF-133	(45,069)
Unreconciled Difference	13,554
Accrued Expenditures, Direct - per SF-133	$1,602,985

The accompanying notes are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (EPA) for the Hazardous Substance Superfund (Superfund) Trust Fund, Leaking Underground Storage Tank (LUST) Trust Fund, Oil Spill Response Trust Fund, Asbestos Loan Program (a commercial activity), Reregistration and Expedited Processing (FIFRA) Revolving Fund and the Revolving Fund for Certification and Other Services (Tolerance), as required by the Chief Financial Officers Act of 1990. The reports have been prepared from the books and records of EPA in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 93-02 and applicable provisions of Bulletin 94-01 and EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by EPA pursuant to OMB directives that are used to monitor and control EPA's use of budgetary resources.

B. Reporting Entities

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

The Hazardous Substance Superfund Trust Fund was authorized by the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) to respond to hazardous substance situations or sites which threaten human health and the environment. The Superfund Amendments and Reauthorization Act (SARA) increased funding and gave the program new responsibilities and authorities. There are three basic components to the Superfund program: site assessment and cleanup activities; enforcement; and support. Support includes facilities and management, research and development and other non-direct site work. These components are integrated and coordinated to ensure the most cost effective use of Superfund monies in order to achieve the greatest possible cleanup. The program is funded from monies appropriated from general fund tax collections, interest on investments, fines and cost recoveries. As authorized by Congress, Superfund Trust Fund appropriations include certain amounts that are transferred to other Federal agencies for authorized activities in support of the Superfund program. The uses of these transfer appropriations are not reported in the Superfund Trust Fund financial statements. Rather, they are reported by the specific agencies that receive the transfer amount. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

The LUST Trust Fund was authorized by the amendment of the Resource Conservation and Recovery Act (RCRA) in 1986 to implement a comprehensive regulatory program for underground storage tanks and to provide funds for responding to releases from leaking underground petroleum tanks. EPA oversees cleanup and enforcement programs which are implemented by the States. Funds are allocated to the States through cooperative agreements to clean up those sites posing the greatest threat to human health and environment. The program is financed by a 0.1 cent a gallon tax on motor fuels, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act of 1990. In FY 1992, monies were included in the Agency's Salary and Expense appropriation in the amount of $4,951, Abatement, Control and Compliance appropriation in the amount of $10,982, and Research and Development appropriation in the amount of $2,500, for carrying out oil spill response activity. The Oil Spill Response Trust Fund was established in fiscal year 1993 and monies were appropriated to the Oil Spill Response Trust Fund. EPA is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. Funding of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund. FY 1993 is the first year for audit of the Oil Spill Response Trust Fund and, accordingly, no comparative data is available for FY 1992. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to manage asbestos building materials in schools, is reported in accordance with the Federal Credit Reform Act of 1990. For FY 1992 and 1993 obligations, the program is funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowings from Treasury for the unsubsidized portion of the loan. The Program fund receives the subsidy and administrative appropriations, disburses the subsidy to the Financing fund, and disburses administrative expenses to the providers. The Financing fund receives the subsidy payment, borrows from Treasury and disburses and collects the asbestos loans. Loans obligated before 1992 are maintained in a Liquidating fund and are disbursed from the Liquidating fund. The loans receivable and collections on those loans are recorded in a General Fund receipt account. Under provisions of the Federal Credit Reform Act, the balance of any monies collected on loan repayments must be returned to the general revenue fund at Treasury. Accounting activity for the Asbestos Loan Program is accounted for under the 0118, 4321, 4322 and 2917 Treasury symbols.

The FIFRA Revolving Fund was authorized in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act. The 1988 amendments mandated the accelerated reregistration of all products registered prior to November 1, 1984. Congress authorized the collection of fees to supplement appropriated funds for reregistration and to fund expedited processing of certain pesticides. FIFRA also includes provisions for the registration of new pesticides, monitoring the distribution and use of pesticides, issuing civil or criminal penalties for violations, establishing cooperative agreements with the states, and certifying training programs for users of restricted chemicals. Appropriated funds, however, pay for these activities. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. A tolerance is the maximum legal limit of a pesticide residue on food commodities and animal feed. Tolerances are established by EPA to prevent consumer exposure to unsafe levels of pesticide residues. In 1954, Congress authorized the collection of fees for raw agricultural commodities. Fees were deposited to the Treasury general fund until 1963 when Congress established the Revolving Fund for Certification and Other Services (Tolerance Revolving Fund). The Department of Agriculture and the Food and Drug Administration are responsible for enforcing adherence to these tolerance levels. Funding is provided by fee collections and by appropriated funds for federal services in establishing tolerances for residues of pesticide chemicals in or on raw agricultural commodities. The Tolerance Revolving Fund is accounted for under Treasury symbol number 4311.

The accompanying financial statements include the accounts of all funds described in this note. Each of the funds included in the financial statements charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agencywide appropriations. The following is a list of all the programs and the corresponding administrative costs funded by Agencywide appropriations (unaudited):

	1993	1992
Superfund	$ 22,257	$ 17,586
LUST	827	238
Oil Spill	755	-
Asbestos	895	902
FIFRA	25,303	22,811
Tolerance	4,474	3,532

These amounts are included in the Income from Overhead Allocation and the Overhead Expenses from Allocation line items as shown in the financial statements.

The Superfund and LUST Trust Funds are allocated general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's Program and Research Operations (PRO) and Abatement, Control and Compliance (AC&C) appropriations. During the year, these costs are allocated from the PRO and AC&C appropriations to the Superfund and LUST Trust Funds based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund and LUST Trust Funds may not exceed the ceilings established in the Superfund and LUST Trust Fund appropriations. The related general support services costs charged to the Superfund and LUST Trust Funds were $25,146 and $216 for FY 93.

C. Budgets and Budgetary Accounting

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund, for the LUST Trust Fund, and for the Oil Spill Response Trust Fund. Transfer accounts for the Superfund and LUST Trust Funds have been established for the purpose of carrying out the program activities. A Trust Fund account has been established at Treasury for the purpose of carrying out the oil spill response program activities. As EPA disburses obligated amounts from the transfer accounts, EPA draws down monies from the Superfund and LUST Trust Funds at Treasury to cover the amounts being disbursed. EPA draws down all the appropriated monies from the Treasury's Oil Spill Liability Trust Fund to the Oil Spill Response Trust Fund when Congress adopts the annual appropriation amount.

The Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress annually adopts a one year appropriation, available for obligation in the fiscal year for which it is appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that does not represent long term cost is financed under a permanent indefinite borrowing authority established with the Treasury. The annual appropriation bill limits the amount of obligations that can be made for direct loans. A permanent indefinite appropriation is available to finance the costs of subsidy reestimates that occur after the year in which the loan is disbursed.
Funding of the FIFRA and the Tolerance Revolving Funds is provided by fees collected from industry to offset costs incurred by EPA in carrying out these programs. Each year EPA submits an apportionment request to OMB based on the anticipated collections of industry fees.

D. Basis of Accounting

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 a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

The Superfund, LUST, and Oil Spill Response Trust Funds receive the majority of funding needed to support the program through appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund Trust Fund is obtained through reimbursements from potentially responsible parties.

Under Credit Reform provisions, the Asbestos Loan Program receives funding to support the subsidy cost of loans through appropriations which may be used within statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives funding to support the loan disbursements through collections from the Program fund for the subsidized portion of the loan and through borrowing from Treasury for the non-subsidized portion. The Asbestos Direct Loan Liquidating fund received funding to support the pre-Credit Reform loans through appropriations.

The FIFRA and the Tolerance Revolving Funds receive funding through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds.

Appropriations are recognized as revenues at the time they are used to pay program or administrative expenses. Appropriations expended for property and equipment are recognized as expenses when the asset is consumed in operations. Other revenues are recognized when earned, i.e., when services have been rendered.

F. Funds with the Treasury

EPA does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments.

G. Investments in U. S. Government Securities

Investments in U. S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. The FIFRA Revolving Fund holds the investments to maturity, unless they are needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. Marketable Equity Securities

During fiscal year 1993, the Agency received marketable equity securities, valued at $4,699 as of September 30, 1993, from a company in settlement of Superfund cost recovery actions. The Agency does not intend to exercise ownership rights related to these securities, held by Treasury, but instead will convert these securities to cash as soon as practicable. In prior similar transactions, this has been accomplished in less than one year.

I. Accounts Receivable

Both the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Superfund Amendments and Reauthorization Act (SARA) provide for cost recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred because there is no assurance that these funds will be recovered.

It is EPA's policy to record accounts receivable from PRPs for Superfund site cleanup costs, incurred by EPA, when a consent decree, judgment, or other binding agreement is reached. These agreements are generally obtained after site cleanup costs are incurred. It is EPA's position that until a consent decree is obtained, the amount recoverable should not be recorded. The allowance for uncollectible PRP accounts receivable is determined on a specific identification basis as a result of a case-by-case review of receivables at the regional level, and a general reserve for those not specifically identified.

EPA also records accounts receivable from states for a portion of Superfund site cleanup actions within those states. Cost sharing arrangements vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the EPA response action was removal or remedial. State cost share agreements are usually 10% to 50% of site cleanup cost. States may pay the full amount of state cost shares in advance, or in incremental amounts throughout the cleanup project. No allowances for uncollectible state cost share receivables have been recorded, because EPA has not had collection problems on these agreements.

Other receivables for Asbestos and FIFRA represents interest receivable.

A summary of non-federal accounts receivable as of a September 30, 1993 and September 30, 1992 is as follows:

Fiscal Year 1993 Non-Federal Accounts Receivable

	Superfund	LUST	Asbestos	FIFRA
PRP receivables (including interest)	$ 336,638	$ -	$ -	$ -
State cost share receivables	20,156	33	-	-
Other receivables	55	-	10	2
Allowance for uncollectible receivables	(162,911)	-	(6)	-
	$ 193,938	$ 33	$ 4	$ 2

Fiscal Year 1992 Non-Federal Accounts Receivable

	Superfund	LUST	Asbestos	FIFRA
PRP receivables (including interest)	$ 80,920	$ -	$ -	$ -
State cost share receivables	47,317	51	-	
Other receivables	4	-	12	28
Allowance for uncollectible receivables	(5,926)	-	-	-
	$ 122,315	$ 51	$ 12	$ 28

Accounts Receivable - federal result primarily from interagency agreements for services performed and receivables from EPA funds other than Trust or Revolving Funds or Commercial Activities.

Accounts Receivable - Federal

	Superfund		LUST		Asbestos	
	1993	1992	1993	1992	1993	1992
Interagency agreements	$7,955	$2,695	$ 5	$ -	$ -	$ -
Intraagency receivables	-	5,600	-	-	-	-
Other	-	663	9	-	-	19,400
	$7,955	$8,958	$ 14	$ -	$ -	$19,400

J. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. The amount of Asbestos Loan Program loans obligated but not disbursed are disclosed in Note 4. No allowance for uncollectible amounts has been established for loans obligated prior to October 1, 1991 because there has never been a default and a review of outstanding amounts does not indicate a potential default. Loans receivable resulting from loans obligated on or after October 1, 1991 are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowings, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

K. Appropriated Amounts Held by Treasury

For the Superfund and LUST Trust Funds, cash available to EPA that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. At the end of fiscal years 1993 and 1992, approximately $3,173,380 and $2,967,460, respectively, remained in the Treasury-managed Superfund Trust Fund and approximately $89,021 and $80,722, respectively, remained in the LUST Trust Fund to meet EPA's disbursement needs.

L. Advances and Prepayments

EPA records the differences resulting from disbursements recorded by Treasury but not recorded by EPA and the disbursements recorded by EPA but not by Treasury as advances and prepayments. As a result of the correction of a data conversion error, the LUST Trust Fund has recorded a prepayment of $3,540 which related to prior years and will reverse during fiscal year 1994.

M. Property, Plant and Equipment

The land and buildings which EPA uses are provided by the General Services Administration, which charges a Standard Level Users Charge (SLUC) that approximates the commercial rental rates for similar properties. Equipment purchases are capitalized at cost if the initial acquisition cost is at least five thousand dollars. Equipment with an acquisition cost of less than five thousand dollars is expensed when purchased. Equipment is depreciated using a modified straight line method over a period of six years depreciating 10% the first and last year and 20% in years 2 through 5.

N. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by EPA as the result of a transaction or event that has already occurred. However, no liability can be paid by EPA without an appropriation or other collection of revenue for services provided. 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 EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

O. Accounts Payable - Federal

The Superfund Trust Fund contracts for a wide range of goods and services through interagency agreements with other federal agencies. As of September 30, 1993 and 1992, the balance of Accounts Payable - Federal of $105,541 and $126,733, respectively, represents interagency agreements payable. The balance of Accounts Receivable - Federal as of September 30, 1993 and 1992 includes $7,955 and $2,695, respectively, relating to interagency agreements. Accounts Payable - Federal includes $20,704 which is due to the Abatement, Control and Compliance appropriation and $84,837 which is payable to other federal agencies.

Accounts Payable - Federal for the Tolerance Revolving Fund includes $466 of application fees for Tolerance Petitions. Agency policy is to record fees as earned after specific processing milestones, and then use the earnings to reimburse appropriated funds used to pay expenses. EPA earned the fees in prior years, but did not record the earnings or reimburse the appropriated funds.

P. Deferred Revenue

Superfund deferred revenue represents amounts paid to EPA by states, for state cost share arrangements, or by other entities, for site cleanup costs or other services, in advance of EPA's performing the services. Such amounts may have been paid voluntarily or under protest. Deferred revenue is reduced and is recognized as the related services are incurred. However, amounts paid in protest are not recorded as income until the protest is resolved.

FIFRA Revolving Fund deferred revenue represents fees collected in advance of services being performed for the reregistration of existing pesticides and for the registration of new pesticides. Tolerance Revolving Fund deferred revenue represents fees collected in advance of services being performed for the establishment of tolerances for residues of pesticide chemicals in or on raw agricultural commodities.

Components of deferred revenue as of September 30, 1993 and 1992 are as follows:

Fiscal Year 1993 Deferred Revenue

	Superfund	FIFRA	Tolerance
Non-Federal:			
State cost share arrangements	$ 48,419	$ -	$ -
Site cleanup costs	135,011		
Other		5,755	3,691
	$183,430	$5,755	$3,691
Federal:			
Interagency agreements	$ 4,511	$ -	$ -

Fiscal Year 1992 Deferred Revenue

	Superfund	FIFRA	Tolerance
Non-Federal:			
State cost share arrangements	$115,419	$ -	$ -
Site cleanup costs	133,142	-	
Other	-	8,917	3,604
	$248,561	$8,917	$3,604
Federal:			
Interagency agreements	$ 14,929	$ -	$ -

Q. Borrowings Payable to the Treasury

Borrowings payable to Treasury result from loans from Treasury to fund the Asbestos direct loans described in part B of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

R. Interest Payable to Treasury

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of fiscal year 1993 and 1992, there was no outstanding interest payable to Treasury because payment was made on September 30.

S. Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Annual leave expense for the Superfund Trust Fund was $833 in FY 1993 and $1,092 in FY 1992. Sick leave and other types of nonvested leave are expensed were taken.

T. Retirement Plan

The majority of EPA's employees participate in the Civil Service Retirement System (CSRS), to which EPA makes matching contributions equal to 7% of pay.

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, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to EPA employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, EPA also contributes the employer's matching share for Social Security.

EPA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management. Such data is not allocated to individual departments and agencies.

Note 2. Fund Balances with Treasury:

The Treasury maintains EPA's fund accounts and processes all of EPA's receipts and disbursements. The available balances are for payment of EPA's obligations under its various programs. The restricted balances pertain to expired appropriated authority and are unavailable for future obligations.

Fiscal Year 1993:

	Total	Available	Restricted
Trust Funds:			
Superfund	$ 11,485	$ 11,485	$ -
LUST	1,638	1,638	-
Oil Spill	14,478	14,478	-
Commercial Activities:			
Asbestos Loan Program	$ 63,073	$ 44,835	$ 18,238
Revolving Funds:			
FIFRA	$ 950	$ 950	$ -
Tolerance	4,246	4,246	-

Fiscal Year 1992:

	Total	Available	Restricted
Trust Funds:			
Superfund	$ 65,200	$ 65,200	$ -
LUST	6,471	6,471	-
Oil Spill	-	-	-
Commercial Activities:			
Asbestos Loan Program	$ 29,877	$ 20,439	$ 9,438
Revolving Funds:			
FIFRA	$ 65	$ 65	$ -
Tolerance	3,757	3,757	-

Note 3. Investments - Federal:

The FIFRA Revolving Fund invests monies in Federal securities that can be bought and sold on the open market. The cost of the investments is recorded at face value less interest to be earned over the term of the investment (unamortized discount). Invested amounts are disinvested and become available for payment of EPA's obligations as needed.

Investments in Federal marketable securities were as follows:

	Face Value	Unamortized Discount	Investments, Net
September 30, 1993	$ 10,220	$ 11	$ 10,209
September 30, 1992	$ 15,285	$ 42	$ 15,243

Note 4. Loans Receivable, Net - Non-Federal:

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 would be reported net of an allowance for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans is provided in the following sections.

Pre-Credit Reform Loans:

	Loans Receivable, Gross	Allowance for Estimated Uncollectible Loans	Loans Receivable, Net
September 30, 1993	$ 117,631	$ -	$ 117,631
September 30, 1992	$ 123,197	$ -	$ 123,197

Post Credit Reform Loans:

	Loans Receivable, Gross	Allowance for Subsidy Cost (present value)	Loans Receivable, Net
September 30, 1993	$ 21,129	$ (8,749)	$12,380
September 30, 1992	$ 2,323	$ (1,005)	$ 1,318
Total 1993:	$138,760	$ (8,749)	$130,011
Total 1992:	$125,520	$ (1,005)	$124,515

Subsidy Expenses for Post Credit Reform Loans:

Current Year's Loans:

	Total	Interest Differential	Expected Defaults	Fee Offsets
Fiscal Year 1993:	$8,054	$8,054	$ -	$ -
Fiscal Year 1992:	$1,012	$1,012	$ -	$ -

Total Direct Loan Subsidy Expense:

Fiscal Year 1993	$ 8,054
Fiscal Year 1992	$ 1,012

Administrative Expenses for Pre and Post Credit Reform Loans:

	1993	1992
Charged Directly to the Asbestos Loan Program	$2,664	$ 2,383
Additional Administrative Support Expenses Charged to Other Appropriations	895	[illegible]2
Total	$3,559	$3,[illegible]5

Fiscal Year 1993 Other Information: $13,000 for obligations established prior to Credit Reform and $108,600 for obligations established after Credit Reform remain unpaid. No expenses were incurred in FY 1993 for subsidy reestimates.

Note 5. Property, Plant, and Equipment - Net:

Real Property (land and buildings) used as office space for EPA employees in the course of mission related activities and facility related services are provided by the General Services Administration (GSA). GSA charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties.

A small percentage of real property, such as laboratories, is acquired by EPA using appropriated funds.

Equipment purchases are capitalized if the equipment is valued at five thousand dollars or more and has an estimated useful life of at least 2 years. The Agency depreciates all capitalized equipment on a modified straight-line basis over a period of 6 years, depreciating 10% the first and last years and 20% in years 2 through 5. The Trust and Revolving Funds normally do not reflect purchases of property other than equipment.

Schedule of Property, Plant, and Equipment by Fund:

Fiscal Year 1993:

	Superfund	LUST	FIFRA
Acquisition Value	$56,310	$134	$1,076
Accumulated Depreciation	42,280	73	543
Net Book Value	$14,030	$ 61	$ 533

Fiscal Year 1992:

	Superfund	LUST	FIFRA
Acquisition Value	$53,357	$129	$918
Accumulated Depreciation	37,263	45	344
Net Book Value	$16,094	$ 84	$574

Note 6. Debt - Federal:

Under the provisions of the Federal Credit Reform Act, borrowings from Treasury represent the portion of loan disbursements not subsidized by appropriated funds.

FY 93 and 92 borrowings from Treasury are:

	Beginning Balance	New Borrowings	Repayments	Ending Balance	Refinancing
Intragovernmental Debt:					
Fiscal Year 1993 Borrowing from Treasury	$1,318	$10,854	$ -	$12,172	$ -
Fiscal Year 1992 Borrowing from Treasury	$ -	$ 1,318	$ -	$ 1,318	$ -

Note 7. Other Funded Liabilities - Federal:

Resources payable to Treasury consist of all the precredit reform debt. This amount represents the remaining principle not collected and paid back to Treasury.

	1993	1992
Resources Payable to Treasury are:	$117,634	$123,209

Note 8. Total Net Position:

The total net position of EPA's Trust and Revolving Funds and commercial activities represents the financial position of these funds after consideration of the net effects of operations in the current year and the cumulative effects of all prior years. Appropriated/Subsidy Capital represents the funding authority provided by Congress, net of interagency transfers. Invested Capital represents the book value, net of depreciation, of EPA resources invested in equipment. Cumulative Results of Operations represents the cumulative deficit or surplus from the funds' operations.

Fiscal Year 1993:

	Superfund	LUST	Oil Spill	Asbestos	FIFRA
Appropriated/Subsidy Capital	$2,767,175	$95,972	$12,896	$63,216	$ -
Invested Capital	14,030	61	-	-	533
Cumulative Results of Operations	211,178	(3,518)	-	-	4,720
Future funding requirements - non-actuarial	(11,556)	-	-	-	-
Total Net Position	$2,980,827	$92,515	$12,896	$63,216	$5,253

Fiscal Year 1992:

	Superfund	LUST	Oil Spill	Asbestos	FIFRA
Appropriated/Subsidy Capital	$2,154,509	$34,551	$ -	$49,224	$ -
Invested Capital	16,094	84	-	-	574
Cumulative Results of Operations	511,203	51,288	-	-	4,340
Future funding requirements - non-actuarial	(10,723)	-	-	-	-
Total Net Position	$2,671,083	$85,923	$	$49,224	$4,914

Note 9. Program or Operating Expenses:

Fiscal Year 1993 Operating Expenses by Object Classification:	Superfund	LUST
(1) Personnel Services and Benefits	$211,842	$ 4,849
(2) Travel and Transportation	10,841	502
(3) Rental, Communication and Utilities	30,165	393
(4) Printing and Reproduction	934	17
(5) Contractual Services	1,051,499	1,997
(6) Supplies and Materials	4,097	69
(7) Equipment not Capitalized	8,404	173
(8) Land and Structures	47	-
(9) Investments and Loans	-	-
(10) Grants, Subsidies and Contributions	173,306	68,741
(11) Insurance Claims and Indemnities	(3)	-
(12) Accrued Expenses*	(150,714)	(1,634)
Total Expenses by Object Class	$1,340,418	$75,107

*Accrued expenses for FY 1992 were not reversed by object class due to the volume of data entry required. Accrued expenses for FY 1993 are recorded by object class.

Fiscal Year 1992 Operating Expenses by Object Classification:	Superfund	LUST
(1) Personnel Services and Benefits	$ 201,285	$ 4,558
(2) Travel and Transportation	10,064	536
(3) Rental, Communication and Utilities	26,831	554
(4) Printing and Reproduction	1,436	49
(5) Contractual Services	955,390	2,253
(6) Supplies and Materials	3,610	53
(7) Equipment not Capitalized	11,489	227
(8) Grants, Subsidies and Contributions	158,794	60,832
(9) Insurance Claims and Indemnities	15	-
(10) Accrued Expenses*	39,668	55
Total Expenses by Object Class	$1,408,582	$69,117

*Accrued expenses are not recorded by object class in the accounting system due to the volume of data entry required. Accrued expenses are the net of the reversal of FY 1991 accruals and FY 1992 accruals.

Oil Spill	Asbestos	FIFRA	Tolerance
$4,488	$ -	$11,756	$926
133	-	62	-
443	-	2,291	-
22	-	160	-
2,669	2,657	4,661	-
37	-	49	-
8	7	688	-
-	-	-	-
-	-	-	-
4	8,054	827	-
-	-	-	-
-	-	(1,566)	-
$7,804	$10,718	$18,928	$926

Oil Spill	Asbestos	FIFRA	Tolerance
$ -	$ 53	$14,261	$1,200
-	-	198	-
-	-	2,049	-
-	1	68	-
-	2,329	6,108	-
-	-	193	-
-	-	505	-
-	1,012	1,378	-
-	-	-	-
-	-	(243)	-
$ -	$3,395	$24,517	$1,200

Note 10. Other Expenses:

As a matter of policy, EPA expenses discounts lost during the fiscal year as interest expense. EPA pays Treasury interest on the Asbestos loan borrowings.

Fiscal Year 1993:	Superfund	Asbestos
Discounts Lost	$ 1	$ -
Interest Paid to Treasury	-	310
Total	$ 1	$310

Fiscal Year 1992:	Superfund	Asbestos
Discounts Lost	$ 2	$ -
Interest Paid to Treasury	-	7
Total	$ 2	$ 7

Note 11. Prior Period Adjustments:

Fiscal Year 1993:

Effective September 30, 1993 unreconciled and unidentified general ledger balances, in addition to those identified in the 1992 audit, and resulting from the 1989 financial accounting system conversion, were removed from the general ledger as adjustments to prior period. Unreconciled cash differences for FY's 1989 through 1991 were also removed from the general ledger as adjustments to prior period effective September 30, 1993. The amounts removed were as follows:

Superfund Trust Fund	$17,361
LUST Trust Fund	(22)
FIFRA	971

Fiscal Year 1992:

Prior to FY 1992, interest earnings on investments for FIFRA were included as part of unearned advances. Effective October 1, 1991, these earnings were reclassified to Cumulative Results of Operations.

Reclassification of Interest Earnings - FIFRA Revolving Fund	$ 3,699

In addition, unrecognized prior year earnings for reimbursable work were recorded as an adjustment effective October 1, 1991.

Earnings on Reimbursable Activity - Superfund Trust Fund	3,574

Effective October 1, 1991, the Superfund and LUST Trust Funds removed unreconciled and unidentified general ledger balances resulting from the 1989 financial accounting system conversion by recording adjustments to equity accounts.

Correction, system conversion errors - Superfund Trust Fund	26,044
Correction, system conversion errors - LUST Trust Fund	4,704

Note 12. Non-Operating Changes:

The Non-Operating Changes resulted from funds transferred-in from Treasury, funds collected and returned to Treasury, statement of financial position reclassifications, and other non-operating increases and decreases.

Fiscal Year 1993:

	Superfund	LUST	Oil Spill	Asbestos	FIFRA
Increases:					
Transfers-in	$1,573,528	$74,700	$20,700	$31,225	$ -
Other Increases	-	-	-	-	-
Total Increases	1,573,528	74,700	20,700	31,225	-
Total Decreases	1,405,127	68,086	7,804	17,233	40
Net Non-Operating Changes	$ 168,401	$ 6,614	$12,896	$13,992	$(40)

Fiscal Year 1992:

	Superfund	LUST	Oil Spill	Asbestos	FIFRA
Increases:					
Transfers-in	$512,852	$75,000	$ -	$19,400	$ -
Other Increases	7,128	-	-	53,163	-
Total Increases	519,980	75,000	-	72,563	-
Total Decreases	13,908	69,154	-	134,481	196
Net Non-Operating Changes	$506,072	$ 5,846	$ -	$(61,918)	$(196)

Note 13. Contingencies

EPA is a party in various administrative proceedings, legal actions, and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.

- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.

- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.

- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

These matters, affecting the Superfund Trust Fund, range individually up to several million dollars. If such claims are successfully asserted against EPA, they could have a material impact on the Superfund Trust Fund financial statements. Total losses at the end of FY 1993 on these administrative claims and litigation could amount to approximately $ 35,400 and $ 4,800, respectively. Total losses at the end of FY 1992 on these administrative claims and litigations could amount to approximately $ 18,700 and $ 5,000, respectively. The ultimate outcome of these claims and litigations cannot presently be determined. Accordingly, no provision for any liability that may result in adjudication has been recognized in the accompanying financial statements.

In the opinion of EPA's management and General Counsel, the ultimate resolution of any legal actions still pending will not materially affect EPA's operations or financial position.

At the end of FY 1993, the Superfund Trust Fund had $ 3.5 million in contract obligations that were cancelled. These obligations were entered into in FY 1986. Although these obligations were cancelled under the requirements of Public Law 101-510 "M" Account Legislation, since these obligations related to valid contracts, there is a potential that these obligations will become a liability that will require funding from a future appropriation. No obligations were cancelled at the end of FY 1992.

Note 14. Restatement of Prior Year Financial Statements

Due to a change in defining the reporting entity, the Superfund Trust Fund and the LUST Trust Fund Statements of Financial Position have been restated. As of September 30, 1992, EPA included amounts held by the U.S. Treasury not yet appropriated as an asset and offsetting the liability on the Statements of Financial Position. EPA has no control over these balances, which may be appropriated to EPA or to other Federal agencies in the future. As a result, EPA has determined that this balance should not be included on the Superfund Trust Fund or LUST Trust Fund financial statements. The Statements of Financial Position as of September 30, 1992, have been restated for consistency.

Additionally, due to an error in the Superfund Trust Fund Appropriations Expensed balance on the September 30, 1992, Statement of Cash Flows, this amount has been restated.

Finally, EPA has changed its method of accounting for pre-credit reform loan balances, to comply with the Credit Reform Act of 1990. As a result, loan activity as of and for the year ending September 30, 1992, has been restated in all financial statements of the Asbestos Loan Program.

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

MAR 30 1994

OFFICE OF
THE INSPECTOR GENERAL

MEMORANDUM

SUBJECT: Auditors' Report on the Fiscal 1993 Financial Statements for the Superfund Trust Fund, Leaking Underground Storage Tank Trust Fund and the Asbestos Loan Program
Audit Report P1SFL3-20-8003-4100231

FROM: Kenneth A. Konz
Assistant Inspector General for Audit (2421)

TO: Jonathan Z. Cannon
Chief Financial Officer (3101)

Attached is our Independent Public Accounting firm's report summarizing the results of the engagement to audit the fiscal 1993 financial statements for the Superfund Trust Fund, Leaking Underground Storage Tank (LUST) Trust Fund and Asbestos Loan Program. The firm's objectives were to determine if the financial statements were fairly presented, adequate internal controls were in place, and the Agency complied with relevant laws and regulations.

Results of Financial Statement Audit

The firm qualified its opinion on the Statements of Financial Position for the LUST Trust Fund and the Asbestos Loan program; and disclaimed an opinion on the other financial statements for the LUST Trust Fund and the Asbestos Loan Program. In addition, the firm disclaimed an opinion on all of the Superfund financial statements. The qualified opinions and the disclaimers of opinion were due in part to weaknesses in the following areas:

- recording and reconciling of Superfund accounts receivable,
- recording of accounts payable and accrued liabilities,
- reporting of net position components, and
- the lack of an integrated property system.

The results of the compliance tests for each fund indicated that, for the items tested, EPA management had complied with applicable laws and regulations that might have a material effect on the financial statements.

Action Required

In accordance with EPA Order 2750, as the action official you are required to provide this office a written response to the audit report within 90 days of the final audit report date. For corrective actions planned but not completed by your response date, reference to specific milestone dates will assist us in closing the report. We will work with your staff during our upcoming audit of the fiscal 1994 financial statements to assist them in implementing corrective actions to improve the accuracy and timeliness of EPA's financial information.

This audit report contains findings that describe problems the Office of Inspector General (OIG) identified and corrective actions the OIG recommends. This report represents the opinion of the OIG. Final determinations on matters in this report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in this report do not necessarily represent the final EPA position. We have no objection to the further release of this report to the public.

Audit of Superfund Performance Measures

In addition to the financial statement audit work performed by our independent public accounting firm, our office audited the Superfund performance measures contained in the financial statements. The overall objective of this work, performed in Regions 1, 5, 6 and 7, was to determine whether data reported by the regions was reliable. In addition, since most of the information on which the measures are based comes from the Comprehensive Environmental Response, Compensation and Liability Information System (CERCLIS), we assessed the adequacy of the internal controls over CERCLIS data entry and quality in these regions.

In summary, we determined the risk that material errors in the CERCLIS data would occur, and not be promptly detected, varied from low to moderate in the regions where audit work was performed. A low score in the risk assessment process indicated good controls and a low risk of material misstatement. A moderate score indicated weaker controls and a moderate risk of material misstatement.

We were able to verify 91 percent of the recorded accomplishments and settlement actions which we reviewed in the regions. These accomplishments and settlement actions represented the following performance measures included in the overview section of the financial statements.

- o Measure 1 - Number of sites on the National Priority List where cleanup has started
- o Measure 2 - Number of non-National Priority List sites with hazardous releases where EPA has begun a cleanup action
- o Measure 3 - Number of sites on the National Priority List where a decision has been made about how to proceed with the cleanup of at least a significant portion of the site
- o Measure 4 - Number of sites on the National Priority List where remedial action has been completed for at least a significant portion of the site
- o Measure 5 - Number of sites on the National Priority List where cleanup construction is complete
- o Measure 6 - Number of enforcement actions EPA has taken at sites on the National Priority List against the parties potentially responsible for contaminating the site
- o Measure 7 - Past costs achieved in settlement
- o Measure 9 - Estimated amount of money parties responsible for contaminating Superfund sites have committed to spend on site cleanup

We also confirmed that the amount reported for Performance Measure 8, amount of money EPA has collected from parties responsible for contaminating sites on the National Priority List, was the amount reported by the Department of the Treasury.

Concerning Performance Measures 7 and 9, we found that the estimated settlement amounts recorded were not always sufficiently documented and the source of the documented estimates varied significantly. Therefore, we were unable to assess the reasonableness of the estimated settlement amounts that were reported. Guidance has not been issued to the regions on preparing estimated response settlement amounts and requiring that the basis for the estimated settlement amounts be documented. Officials in the Office of Waste Programs Enforcement agree that guidance on preparing and documenting settlement amounts is necessary and as a result, have taken action to develop such guidance.

The results of our audit work related to the Superfund performance measures are further discussed in a separate audit report entitled -- "Reliability of CERCLIS Data: Superfund Performance Measures for Fiscal 1993" (Audit Report E1SFF3-11-0029-4100229). Should you or your staff have questions about that report, please contact Edward Gekosky, Divisional Inspector General for Audit, Headquarters Audit Division, or Frances Tafer of his staff, on (703) 308-8222. Should you or your staff have any questions concerning the attached report, please contact Melissa Heist, Divisional Inspector General, Financial Audit Division on 260-1479, or Drusilla Yorke of her staff on 260-9628.

Attachment

cc: See Attached Report Distribution List

Report Distribution List

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Assistant Administrator for Prevention, Pesticides and Toxic Substances (7101)
Assistant Administrator for Enforcement (2211)
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The United States
Environmental Protection Agency

Independent Auditors' Reports
on the
Annual Financial Statements of EPA's
Superfund Trust Fund
Leaking Underground Storage Tank Trust Fund
Asbestos Loan Program
For the years ended September 30, 1993 and 1992

Audit Assignment Number P1SFL3-20-8003
Contract Number 68-W2-0020

Leonard G. Birnbaum and Company
Alexandria, Virginia

January 28, 1994

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SAN DIEGO, CALIFORNIA

Independent Auditors' Report on Financial Statements - Superfund Trust Fund

The Inspector General
U.S. Environmental Protection Agency:

1. We were engaged to audit the accompanying statements of financial position of the Superfund Trust Fund of the U.S. Environmental Protection Agency (EPA) as of September 30, 1993 and 1992, and the related statements of operations and changes in net position, cash flows, and budget and actual expenses for the years then ended. These financial statements are the responsibility of EPA's management.

Basis of Accounting

2. As described in Note 1 to the financial statements, these financial statements were prepared in conformity with the applicable accounting practices prescribed or permitted by OMB Bulletin 93-02 and applicable provisions of OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Planned Exclusions

3. We did not audit the 1993 or 1992 financial statement amounts discussed in paragraphs 4 and 5 of this report. It was impracticable to extend our procedures sufficiently to determine the extent to which the financial statements as of and for the years ended September 30, 1993 and 1992 may have been affected by these amounts.

4. Administrative costs of $22,257,000 and $17,586,000, for the years ended September 30, 1993 and 1992, respectively, were funded from other EPA appropriations and were recorded as income from overhead allocation and offsetting overhead expenses from allocation for financial statement purposes. Administrative costs funded from other EPA appropriations do not affect net position. We were unable to audit the administrative costs funded from other EPA appropriations because the audit of these appropriations for allowability and allocability of such costs was not within the scope of these audits. Adjustments, if any, to administrative costs funded by other EPA appropriations would affect the statements of operations and changes in net position.

5. Prior to October 1, 1991, EPA was not required to prepare financial statements for the Superfund Trust Fund in conformance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*, nor was EPA required to have such statements audited. Accordingly, the statement of financial position as of September 30, 1991, has not been audited. Statement of financial position amounts as of September 30, 1991, enter into the determination of results of operations and changes in net position, cash flows, and budget and actual expenses for the year ended September 30, 1992. Similarly, our disclaimer of opinion on the September 30, 1992 statement of financial position affected our ability to report on the fiscal year 1993 results of operations and changes in net position, cash flows, and budget and actual expenses.

6. In our report on the fiscal year 1992 financial statements, dated April 7, 1993, we reported that we were unable to audit the balance of amounts held by the U.S. Treasury for future appropriations because that balance is maintained and controlled by the U.S. Treasury and the audit of such amounts was not included in the scope of our engagement. As described in Note 14 to the financial statements, EPA changed its method of reporting amounts held by the U.S. Treasury for future appropriations and no longer reports these amounts in its financial statements. Accordingly, the 1992 financial statements have been restated and our present planned exclusions on the 1992 financial statements, as presented herein, differ from those in our previous report.

Limitations

7. We were unable to satisfy ourselves regarding the 1993 and 1992 financial statement amounts discussed in paragraphs 8 through 16 of this report. It was impracticable to extend our procedures sufficiently to determine the extent to which the financial statements as of and for the years ended September 30, 1993 and 1992, may have been affected by these conditions.

8. We were unable to determine if accounts receivable - non-federal, net, stated at $193,938,000 and $122,315,000 as of September 30, 1993 and 1992, respectively, have been

recorded for all cost recovery actions, because EPA personnel did not fully comply with policies and procedures for recording accounts receivable; adequately document reconciliations of accounts receivable; and perform such reconciliations timely. Adjustments, if any, to the balance of accounts receivable would affect all of the financial statements for the years ended September 30, 1993 and 1992.

9. We were unable to audit the property, plant and equipment, net, stated at $14,030,000 and $16,094,000 as of September 30, 1993 and 1992, respectively, because EPA did not have adequate detailed schedules to support the financial statement amounts. EPA's supporting property records did not identify all the property and equipment acquired. Property and equipment acquired by contractors and through interagency agreements had not been recorded. Certain property and equipment disposed of had not been removed from the accounting records. Adjustments, if any, to the property, plant and equipment, net, balance would affect all of the financial statements for the years ended September 30, 1993 and 1992.

10. We were unable to audit accounts payable, non-federal, stated at $112,057,000 and $102,212,000 as of September 30, 1993 and 1992, respectively, because accruals for grant expenses of grant recipients that used the ACH payment system were not made. We were unable to determine the amounts that should have been recorded for these liabilities. Adjustment, if any, for accrued liabilities to grant recipients would affect all of the financial statements for the years ended September 30, 1993 and 1992.

11. We were unable to audit the retainages payable to contractors. EPA did not maintain sufficient accounting records for such amounts and, therefore, did not record these liabilities in the financial statements. Adjustment, if any, for retainages payable to contractors would affect all of the financial statements for the years ended September 30, 1993 and 1992.

12. We were unable to audit deferred revenue, non-federal, stated at $183,430,000 and $248,561,000 as of September 30, 1993 and 1992, respectively, because EPA did not have policies and procedures in place to adjust deferred revenue from state cost share contracts as revenues were earned and to maintain adequate accounting records to properly support the financial statement amounts. Adjustments to deferred revenue from state cost share contracts would affect all of the financial statements for the years ended September 30, 1993 and 1992.

13. We were unable to audit net position, stated at $2,980,827,000 and $2,671,083,000, as of September 30, 1993 and 1992, respectively, and the changes in net position for the years then ended, because (a) EPA contracting officers or responsible officials were unable to confirm unliquidated obligation balances, a component of net position, and we were unable to perform alternative procedures, and (b) EPA did not maintain sufficient accounting records to

provide the net position disclosures in conformance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. Adjustments, if any, to the components of net position would affect all of the financial statements for the years ended September 30, 1993 and 1992.

14. We were unable to audit expenses for grants because grant drawdown requests from certain recipients did not identify the appropriation or account information to which the expenses related. Adjustments, if any, to grant expenses would affect all of the financial statements for the years ended September 30, 1993 and 1992.

15. We were unable to audit general support service costs allocated from other EPA appropriations, because for our fiscal year 1993 engagement, EPA could not provide the details of supporting accounting transactions in a timely manner. We were unable to audit these costs for fiscal year 1992 because the audits of these costs were not included within the scope of our audit. Adjustments, if any, to the amount of expenses allocated from other appropriations would affect all of the financial statements for the years ended September 30, 1993 and 1992.

16. We were unable to audit capital and operating leases because EPA did not identify, and the notes to the financial statements do not disclose, capital or operating lease commitments as of September 30, 1993 and 1992, in accordance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. The bulletin requires disclosure of the capital and operating lease arrangements including the basis for contingent rentals, terms of renewal or purchase options, escalation clauses, and restrictions imposed.

Disclaimer of Opinion

17. Because of the matters discussed in paragraphs 3 through 16 of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the Superfund Trust Fund for the years ended September 30, 1993 and 1992.

Emphasis Matters

18. The Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA) and its amendments authorized EPA to respond to releases of hazardous substances which threaten human health and the environment. EPA is responsible for identifying and prioritizing waste sites and ensuring that the nation's most hazardous sites are cleaned up. Those sites posing the most serious threat are placed on the National Priorities List (NPL). EPA is authorized to recover, from responsible parties, cleanup costs paid from the Superfund Trust Fund. Since the inception of Superfund, Congress has authorized $15.2

billion to be made available to EPA in appropriations through fiscal year 1994. In the Overview section of the accompanying financial statements, EPA has reported that $8.7 billion has been spent for Superfund response program expenses through fiscal year 1993. The current authorization expires September 30, 1994. Congressional hearings concerning the reauthorization of Superfund are scheduled throughout fiscal year 1994 and beyond.

19. In the Overview section, EPA indicated 1,177 non-federal sites on the NPL as of September 30, 1993. EPA estimates that the remaining costs of cleaning up these 1,177 sites will be $14.3 billion for fiscal year 1994 and beyond, not including the responsible parties' contributions. However, in a U.S. General Accounting Office (GAO) report titled *Superfund Program Management*, dated December 1992, EPA estimated the remaining costs to clean up the 1,275 federal and non-federal sites remaining on the NPL as of September 30, 1992, would be $40 billion. The financial statements do not include an accrual for any estimated cleanup costs because no costs have been incurred for these future cleanup actions. To accomplish the cleanup of all remaining sites on the NPL, future funding and time, beyond that currently authorized, will be needed.

Supplementary Information

20. The financial information presented in *Management's Overview of EPA and Overview of Trust Funds, Revolving Funds and Commercial Activities* is not a required part of the financial statements but is supplementary information required by OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. We have read this information and considered whether it is materially inconsistent with the financial statements. Such information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Distribution

21. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

LEONARD G. BIRNBAUM & COMPANY
Alexandria, Virginia
January 28, 1994

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Independent Auditors' Report on Internal Control - Superfund Trust Fund

The Inspector General
U.S. Environmental Protection Agency:

1. We were engaged to audit the financial statements of the Superfund Trust Fund, of the U.S. Environmental Protection Agency (EPA), as of and for the year ended September 30, 1993. We have issued our report thereon dated January 28, 1994, in which we disclaimed an opinion on the financial statements.

2. In planning and performing our engagement for the year ended September 30, 1993, we considered EPA's internal control structure in order to determine our audit procedures and to determine whether the internal control structure meets the objectives identified in the fourth paragraph. This consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances.

3. Performance measures present the financial and program accomplishments of the reporting entity's activities. We did not review the data that support reported performance measures or the internal control structure, policies and procedures designed to ensure the existence and completeness of such information, as required by OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, because this work was performed and reported on by EPA's OIG.

4. The management of EPA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments

by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, EPA management, or EPA's OIG have identified as being significant and for which compliance can be objectively measured and evaluated. The objectives of an internal control structure are also to provide management with reasonable, but not absolute, assurance that funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and transactions applicable to EPA operations are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets, in accordance with the accounting principles described in Note 1 to the financial statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

5. For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General accounting and financial reporting
- Receivables and collections
- Property
- Accounts payable and accrued liabilities
- Fund balance
- Obligations
- Disbursements and operating expenses

6. For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the control procedures.

7. We noted certain matters involving the internal control structure and its operation that we consider to be material weaknesses and reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06.

8. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect EPA's ability to ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against unauthorized use or disposition; and transactions applicable to EPA operations are properly recorded to permit the preparation of reliable financial statements in accordance with accounting principles described in Note 1 to the financial statements.

9. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Those conditions that we consider to be material weaknesses are included in Attachment 1 of this report. The conditions that we consider to be reportable conditions are included in Attachment 2 of this report. Attachment 3 presents the status of known but uncorrected prior year audit findings.

10. We also noted other less significant matters involving the internal control structure and its operation that we will report to the management of EPA in a separate management letter.

11. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

LEONARD G. BIRNBAUM & COMPANY
Alexandria, Virginia
January 28, 1994

Superfund Trust Fund

Attachment 1 - Material Weaknesses

1. Improvements In Financial and Budgetary Accounting and Reporting Are Needed

EPA needs to make improvements in its financial and budgetary accounting and reporting systems and procedures. We noted that interagency activity is not fully accounted for in the budgetary accounts. We also found that the proprietary accounts for the components of net position are not properly maintained and do not disclose the correct amounts. Further, we noted that the financial system does not maintain beginning account balances at the regional finance office level.

EPA management reported in its 1993 FMFIA report that systems-related problems of the Integrated Financial Management System (IFMS) impair EPA's ability to provide complete, reliable, and timely data for decision making and control of assets. These problems include: (a) incomplete users manual and systems documentation; (b) inadequate automated project cost accounting capability; (c) incomplete interfaces with programmatic and administrative systems; and (d) inadequate financial management reports. The IFMS reporting system weaknesses also impose significant constraints on EPA's ability to perform its financial reporting duties in an effective, efficient, and timely manner. EPA financial management personnel spend a significant amount of resources reconciling and correcting information for reporting purposes.

Certain Budgetary Accounts Were Not Utilized

EPA has not established the required budgetary *Standard General Ledger* (SGL) accounts to record reimbursable authority received by EPA as a result of interagency agreements. The SGL accounts that have not been utilized to record interagency agreement activities include *Reimbursable Orders Accepted, Unfilled Customer Orders-Unobligated, Unfilled Customer Orders-Obligated,* and *Reimbursements and Income Earned.* These accounts are needed and should be used in the preparation of OMB standard forms.

EPA is currently preparing the required OMB standard forms using proprietary accounts that provide lower levels of detail. This process is inefficient and results in a lack of budgetary control over reimbursable work, a budgetary resource. This has occurred because not all of the required budgetary entries to account for interagency reimbursements have been consistently made. Like an appropriation, reimbursable work is subject to fund control and can be apportioned, allotted, committed, obligated, and expended.

We noted that EPA's current process causes an out of balance condition in the interagency budgetary accounts of $53,255,615 as of September 30, 1993. This error is offset in the non-interagency budgetary accounts as evidenced by the fact that the budgetary accounts are in balance. EPA needs to establish the proper budgetary accounts to account for and exert budgetary control over the reimbursable agreements.

Understatement of Accrued Expenditures on SF-133

We noted that the SF-133, *Report on Budget Execution*, for the year ended September 30, 1993 contained an understatement of $486,061,000 in accrued expenditures. The accrued expenditures reported on the SF-133 were $818,444,909 and should have been $1,304,505,909. The understatement was caused by an adjustment to accounts payable as of September 30, 1992 that was recorded for financial statement purposes but was not reflected in EPA's preparation of subsequent SF-133s.

EPA personnel did not adjust the SF-133 for adjustments made after year end in 1992, which resulted in inaccurate reports being submitted to OMB during fiscal year 1993.

Proprietary Accounts Do Not Correctly Disclose Net Position

EPA's proprietary SGL accounts do not correctly disclose the components of net position because the automated year end closing process in the IFMS is incorrect. This is evidenced by the fact that certain account balances that should equal other accounts do not. For example, net property in the proprietary accounts does not equal invested capital, cumulative results does not equal the balance of accounts related to receipts to be returned to U.S. Treasury plus the net effect of reimbursable interagency agreements. Also, beginning net position plus current appropriations less appropriations expensed and the net change in invested capital and unfunded activities do not equal ending net position. As a result, EPA financial management personnel spent significant time and resources to develop net position financial information for footnote disclosure. Manual adjustments were recorded for financial statement purposes. However, the components of net position as required by OMB Bulletin 93-02 still could not be properly disclosed.

Regional Account Balances Were Not Maintained

We noted that the IFMS general ledger does not maintain beginning account balances at the regional finance office level. EPA's automated closing procedures close all assets and liabilities recorded by the regions to a combined amount by account at the headquarters level. As a result, regional account balances for the subsequent year begin with a zero balance and the account balance at headquarters represents all finance offices. This procedure makes it difficult to determine and reconcile the actual asset and liability account balances with detail records at the regional level. Although a supplemental reporting system, the Management Accounting and Reporting System (MARS), contains historical information by regional office, MARS does not include all entries recorded in IFMS. Therefore, manual reconciliation procedures are necessary to obtain account balances at the regional level. EPA is planning to change the automated closing procedures in the IFMS in fiscal year 1994 so that regional balances will be maintained.

EPA Actions

In our fiscal year 1992 report, we recommended that EPA's CFO: (1) continue efforts to change the automated closing procedures to retain regional account balances; (2) establish SGL budgetary accounts and implement transaction codes to properly account for reimbursable authority using these accounts; and (3) review and correct the automated closing procedures. The CFO agreed with our recommendations and provided EPA's plans for corrective actions that would be taken during fiscal years 1993 through 1995. Since these EPA corrective action plans are still in process, we are not making any new recommendations in these areas.

In its 1993 FMFIA report, EPA management reported its financial systems, specifically IFMS, as an OMB High Risk Area. EPA also reported accounting system-related financial management problems as a material weakness. EPA's corrective action plans include: 1) implementing a new version of IFMS including user manuals and system documentation; 2) completing enhancements to produce complete and accurate OMB and Treasury reports and financial statements; 3) conducting training; and 4) issuing guidance on reporting enhancements. These corrective actions are scheduled to be completed during fiscal year 1994. EPA management believes that these actions will resolve many of these weaknesses. Therefore, we are making no additional recommendations in these areas at this time.

2. *Improvements Are Needed in Recording Accounts Receivable*

EPA has several types of Superfund receivables, the most significant resulting from cost recovery actions from individuals and businesses that EPA has determined were responsible for causing hazardous waste sites. EPA identifies these potentially responsible parties during site-specific enforcement procedures. It is EPA's policy to record accounts receivable from these responsible parties when consent decrees, judgments, or other binding agreements are reached, that authorize EPA to recover site cleanup costs incurred by EPA. The amounts collectible as a result of consent decrees, judgments or agreements, include the site-specific cleanup costs and general and administrative costs incurred by EPA related to the site cleanup. EPA also has agreements with states to share in the costs of site cleanups. These agreements are known as Superfund State Contracts (SSCs) and provide for EPA to collect a portion of cleanup costs from the states.

We tested a statistical sample of accounts receivable balances from EPA's records as of September 30, 1993; a nonstatistical sample of accounts receivable transactions recorded during fiscal year 1993; and a nonstatistical sample of EPA cost recovery cases tracked by the Department of Justice (DOJ). The results of our tests indicated that there were significant delays in recording accounts receivable. As a result, we found material amounts of unrecorded receivables. We also found that EPA had recorded receivables for Superfund State Contracts which were conditional upon future events. Further, we found that EPA had not recorded marketable securities received in payment of accounts receivable. Finally, we noted that EPA had not established an adequate allowance for uncollectible accounts.

Material Amounts of Accounts Receivable Were Not Recorded

We tested the completeness of accounts receivable from potentially responsible parties by reviewing EPA's reconciliations of accounts receivable per IFMS with the *EPA Outstanding Balances for Debts Owed U.S. FY 89 - Present* per the Department of Justice (DOJ). We obtained supporting documentation from DOJ, provided this information to EPA regional financial management offices (FMOs), and requested explanations of significant differences.

We found that $57,005,700 of accounts receivable had not been recorded in IFMS as of September 30, 1993. These unrecorded receivables resulted primarily from EPA's Offices of Regional Counsel (ORCs) not forwarding documentation to the finance offices timely or when ORCs believed that collectibility was hampered, because an appeal had been filed or the responsible party was in bankruptcy. We noted that some of the receivables were recorded in fiscal year 1994 because the

FMOs did not receive the documentation from ORCs until after September 30, 1993. EPA recorded adjustments in the financial statements based upon our test work. However, our test work only encompassed a non-statistical sample and the results indicate that there may be other unrecorded accounts receivable.

EPA policy states that the FMO should establish accounts receivable for judgments and should maintain these receivables while under appeal until the case is resolved or the status has changed. The FMOs stated that the ORCs had, in some cases, advised the FMOs not to record certain receivables because of the uncertainty of collecting the amounts. ORCs should forward documents to finance offices timely and provide assessments regarding the collectibility of these accounts. EPA finance offices should record receivables, in accordance with EPA policy, assess the status, and provide for an adequate allowance for uncollectibility based upon the status of these receivables.

Accounts Receivable Were Not Recorded Timely

Our tests of receivables disclosed that 26 accounts receivable, totaling $15,366,734, from our nonstatistical sample of 52 receivables, totaling $208,098,207, were not recorded timely. Nine of these receivables, totaling $5,665,887, should have been recorded as of September 30, 1993, but were not recorded until fiscal year 1994. For the 26 receivables tested, an average of 51 days elapsed from execution of the consent decree or other judgment creating the debts, to recording the receivables in IFMS. Also, we found that two accounts receivable amounting to $903,750 had not been recorded in the IFMS until after the collections were received. Because of delays such as these, there may have been additional accounts receivable as of September 30, 1993, that were not recorded. This likelihood is further supported by our tests of completeness, discussed above, where we found additional receivables that were not recorded until fiscal year 1994 that should have been recorded as of September 30, 1993.

EPA policy states that Regional Superfund Branch Chiefs should ensure that any demand letter, consent decree, EPA order, or other notice requiring payment is forwarded to the Regional FMO within one work day of final signature. We found that receivables were not recorded timely because ORCs often did not forward settlement documents and orders to the FMOs within one day of final signature, as required by this policy. Also, ORCs did not promptly receive or forward judicial orders from the DOJ.

The failure to record receivables timely causes inaccurate external reports and financial statements, as well as internal EPA reports used for monitoring and managing accounts receivable. This could also result in the loss of interest and penalties and contribute to the uncollectibility of receivables.

Marketable Equity Securities Received In Payment Of Receivables Were Not Recorded

We identified $4,698,756 in marketable equity securities collected from parties in bankruptcy, for payment of an accounts receivable of approximately $19,000,000. These securities had been received by EPA and were held at the U.S. Treasury as of September 30, 1993, but had not been recorded in EPA's general ledger. Instead, the entire accounts receivable remained in EPA's general ledger receivable balance, even though securities had been received in payment.

OMB Bulletin 93-02 requires disclosure of marketable securities at acquisition cost or market value. We believe that marketable equity securities received by EPA in settlement of accounts receivable should be recorded at fair market value when received. The accounts receivable balance should be adjusted when the securities are received and recorded. EPA agreed to record the marketable securities noted above in the financial statements at our request.

Certain State Cost Share Contracts Were Inappropriately Recorded as Receivables

During our review of the Superfund State Contracts (SSCs) at Regions 2, 4, 5 and 9, we noted the SSCs have varying terms regarding payment. Some of these contracts require partial payments of the states' share only after specific events occur. These partial payments per the SSCs are not billable or collectible until the occurrence of future events. We noted that Regions 2 and 4 had recorded accounts receivable for the total amount of these SSCs when the contracts were signed regardless of payment terms, based on EPA's policy. We did not note these types of SSCs at Regions 5 or 9.

Accounts receivable should not be recorded until such amounts are billable or events occur that entitle EPA to receive cash or other assets. EPA's current treatment of these SSCs resulted in an overstatement of accounts receivable of $37,322,273 as of September 30, 1993, at Regions 2 and 4. Based upon our test work, EPA recorded an adjustment to accounts receivable for this amount. However, these types of SSCs may exist at other regional offices where we did not perform these tests.

Adequate Allowance For Uncollectible Accounts Was Not Recorded

We identified accounts receivable from parties in bankruptcy for which no allowance for uncollectible accounts had been established. An allowance should be established to provide for the potential uncollectibility of these accounts. Our analyses also indicated that collectibility is impaired on a portion of the older accounts receivable.

We calculated an allowance based on (1) specific identification of debtors in bankruptcy in Regions 2, 5 and 9; (2) identification of debtors in bankruptcy who are transferring marketable securities to EPA as settlement for accounts receivable; (3) accounts receivable which were established prior to 1990; and (4) a reserve upon the remaining population of accounts not specifically identified. We believe an 8% general reserve is necessary, in addition to specific identification allowances, based on our detailed analysis of collection activity and receivable turnover. EPA increased its allowance by $153,364,836 as of September 30, 1993, based on our test work.

EPA Actions

Weaknesses in EPA's management of accounts receivable have existed and have been reported by the OIG since 1987. EPA management recognizes that improvements are still needed in managing and recording accounts receivable. In the 1993 FMFIA report, EPA reported a material weakness in the accounts receivable area including deficiencies such as technical shortfalls in the accounts receivable module, non-current policies and procedures, inaccurate and incomplete reports, and insufficiently trained personnel. EPA management also reported as a material nonconformance, that there have been several instances of unrecorded accounts receivable as a result of untimely notification of finance offices by program officials. In addition, EPA reported that the IFMS accounts receivable module includes erroneous calculation of interest and penalties and is unable to automatically process installment receivables.

EPA's corrective action strategy for fiscal year 1994 includes: 1) implementing a new version of the IFMS core software to provide new accounts receivable functionalities, system documentation and user manuals; 2) completing enhancements to produce needed accounts receivable reports; 3) conducting training classes on accounting for and managing accounts receivable; and 4) issuing and updating policy guidance on systems enhancement to produce complete and accurate reports. We recognize management's efforts to take corrective action for these accounts receivable issues.

Draft Report Recommendations

We recommended in our draft report that the CFO, in conjunction with the Assistant Administrator for Solid Waste and Emergency Response, supplement existing policies and procedures to improve the coordination between Offices of Regional Counsel and Financial Management Offices for:

(1) timely forwarding of documents;
(2) recording and reconciliation of accounts receivable for cost recovery actions; and
(3) identification of uncollectible accounts and recording an adequate allowance for these accounts.

We also recommended that the CFO establish or modify policies and procedures to:

(1) account for and record receipts and sales of marketable securities received in exchange for accounts receivable; and
(2) account for receivables arising from Superfund State Contracts when the events occur that entitle EPA to bill and collect amounts due.

EPA's Response to Draft Report Recommendations and Our Evaluation

The CFO stated in his response to our draft report that, since 1990, his staff has worked with the Assistant Administrators for Solid Waste and Emergency Response (OSWER) and Office of Enforcement (OE) to improve the coordination between the Offices of Regional Counsel (ORCs) and the Financial Management Offices (FMOs) in the area of recording and accounting for accounts receivable. While substantial improvements have been made, the CFO agreed that additional improvements are warranted. The CFO stated that the FMOs should do a better job of documenting the reconciliations of accounts receivable with ORCs and program offices. Further, the CFO indicated that corrective actions have previously been taken, in the form of memorandums and on-site reviews, to emphasize the importance of timely flow of documents for recording receivables and to provide a monitoring strategy to ensure coordination between offices in this area.

The CFO also agreed with our recommendation to establish or modify policies and procedures for accounting for and recording marketable securities received in exchange for accounts receivable and receivables arising from Superfund State Contracts (SSCs). The CFO indicated that EPA has already started working to resolve these issues.

The CFO provided a corrective action plan to strengthen internal controls by updating Superfund accounts receivable policies and procedures and providing training to regional finance office personnel. The CFO also indicated a corrective plan to develop a new strategy with OE, OSWER, the Office of the Comptroller, and Department of Justice to address the timely recording of receivables. These corrective actions are scheduled to be implemented during fiscal year 1994 and be completed by September 30, 1994.

The CFO's proposed corrective actions are generally responsive to our recommendations. However, we would like to point out that we recommended in our fiscal year 1991 Superfund financial audit report that EPA ensure that financial policies and procedures for accounts receivable and collections were updated. EPA's corrective action plan to issue a revised RMD 2550D was originally scheduled to be completed by December 31, 1993.

We noted that, in the CFO's response and corrective action plan, this target date has been changed to July 31, 1994 for a revised draft RMD 2550D or draft Comptroller Policy Announcement. This plan provides for a Green Border review of RMD 2550D or Comptroller Policy Announcement to be issued by September 30, 1994. Our review of FMD's Followup Tracking System during 1993 indicated that the date for issuance of RMD 2550D had been revised to November 30, 1994. We urge the CFO to monitor the progress of these corrective actions to ensure that these revised target dates for completion are met.

We also noted that the corrective actions did not specifically address marketable securities and SSCs. We believe that these issues should be included in the revised RMD 2550D and Comptroller Policy Announcements to be issued in conjunction with the policies and procedures addressing accounting and reconciliation issues.

Recommendation

We recommend that the CFO ensure that policies and procedures for recording marketable securities received in payment of accounts receivable and accounting for Superfund State Contracts are included in the revised RMDS.

3. Property and Equipment Records Need to Be Integrated with the General Ledger

EPA does not have an integrated property system that records and accounts for capitalized property and equipment at the time of acquisition. EPA uses two systems to account for and control property: 1) the Personal Property Accountability System

(PPAS) and 2) spreadsheets prepared from manual adjusting entries which capitalize property in IFMS. However, neither of the systems contains complete historical cost data and information to support and identify all capitalized property.

EPA maintains spreadsheets to summarize the property and equipment items capitalized in the general ledger. These spreadsheets identify the type of assets acquired, dates of acquisition, and original cost, but do not include property identification numbers that could be used to identify the assets. Each month, FMOs prepare listings of property and equipment that meet EPA's capitalization criteria based on detailed reviews of disbursements for property and equipment originally recorded as operating expenses. The FMOs then prepare manual general ledger journal entries to capitalize these amounts.

EPA uses the listings to update the detailed property spreadsheets that are used as the basis for calculating and recording depreciation. However, contractor-acquired EPA property and EPA property purchased under interagency agreements was not capitalized or recorded in the property spreadsheets or in EPA's general ledger. Additionally, EPA generally did not remove property items disposed of from the general ledger.

EPA maintains a separate system, PPAS, to control property. Annual physical inventories are required to be taken and be reconciled to the PPAS. However, the PPAS was not designed to support the capitalized amount of property and equipment in EPA's accounting records. For example, the PPAS does not identify the original cost of property owned. Instead, property is valued in the PPAS at the purchase requisition or obligated amount. Such amounts do not reflect actual cost, including the effect of discounts, installation charges, and trade-in values. Additionally, the PPAS does not currently have the capability to calculate depreciation expense or maintain accumulated depreciation amounts. The PPAS does identify contractor-acquired property, based on information provided from contractors. However, PPAS does not record or identify EPA property purchased under interagency agreements.

An integrated property system should provide both accountability for and control over property recorded in EPA's general ledger. The system should provide information such as type of asset, date of acquisition, original cost, estimated useful life, depreciation, physical location, and identity of custodial officers. The system should eliminate duplication of effort in recording and accounting for property, as well as identify all EPA property, including that held by contractors and other agencies.

As a result of the system differences, EPA could not reconcile the spreadsheets supporting the general ledger balance of property and equipment to the PPAS or to the physical inventories. Further, the general ledger balance does not contain property held by contractors and other agencies that should have been capitalized. Because the detailed accounting records supporting the financial statement balance of property and equipment were inadequate and incomplete, we were unable to audit this account balance in the statement of financial position.

EPA Actions

EPA's accounting system problems for property are not new. The OIG and contract auditors have reported these issues since 1981. In its initial FMFIA report, covering fiscal year 1983, EPA identified the need for an accounting system enhancement to integrate its accounting and property management systems. In fiscal year 1993, this need for an integrated property system still existed, and is reported as a part of the material weakness under accounting system-related financial management problems. We also noted that EPA reported, as a material conformance, problems with the manual reconciliation of information in the IFMS, which is supported by spreadsheets, and property data in PPAS.

We recognize management's initiative in forming a Quality Action Team (QAT) in March 1993 to take corrective action for property issues. EPA is considering implementing an IFMS property module, however it is waiting until another government agency completes the testing of the module before EPA decides to implement it. EPA believes that implementation could not begin until fiscal year 1995. Because of the ongoing effort, we are not making further recommendations in this report.

4. Accounts Payable, Accrued Liabilities And OPAC Payments Should Be Properly Recorded

We identified a potential material understatement of accounts payable and accrued liabilities as of September 30, 1993, which resulted from a lack of effective controls to identify and record these liabilities. EPA did not properly estimate and record unpaid and unbilled grant expenses as accrued liabilities. EPA does not have procedures to specifically identify accounts payable related to contractor retainages. In addition, EPA recorded payments made to other federal agencies through the U.S. Treasury's *On-line Payment and Collection* (OPAC) *System* as prepaid adjustments in the Abatement Control and Compliance Appropriation (AC&C), although the payments applied to other appropriations. Adjustments to properly distribute these payments to the correct appropriation were not made at year end.

Error In Accounts Payable and Accrued Liabilities

We identified a $20,802,824 understatement of accounts payable at September 30, 1993 at the Research Triangle Park - Financial Management Center (FMC-RTP). This error resulted from the omission of contract payments made from October 1 through October 15, 1993 from a detailed report used to record accounts payable at the FMC-RTP. These contract payments related to services provided prior to year end, and should have been recorded as accounts payable. We also found that FMC-RTP misclassified certain accounts payables amounting to $7,328,394 as accrued liabilities. EPA made an adjustment to record these payables as of September 30, 1993 at our request.

Contractor Retainages Were Not Recorded As Payables

We found that EPA had not recorded accounts payable for contractor retainages. Retainages have occurred in previous fiscal years when contractors submitted invoices for payments related to services performed and EPA withheld portions of the amount due. Retainages may be held until EPA is satisfied that the contractor has met all contractual requirements pertaining to a contract. The policy of holding retainages was changed in fiscal year 1992 so that retainages were no longer withheld from contractor invoices. However, all previously withheld retainages were not returned to contractors at that time.

Contract payments for EPA were made primarily by FMC-RTP officials through the Contract Payment System (CPS). EPA did not determine the amount of outstanding contract retainages as of September 30, 1993 and 1992. FMC-RTP officials believe that they have accounted for an estimated amount of retainages in calculating accrued liabilities as of September 30, 1993 and 1992. Accrued liabilities were calculated as one-twelfth of the total contract disbursements for fiscal years 1993 and 1992. This calculation provides an accrual for anticipated contractor expenses for services performed before year end that were not billed until the following fiscal year. Because the amounts included in this calculation included any disbursements made in fiscal years 1993 and 1992 for retainages, the accrual would include some provision for retainages.

Although we agree that this calculation of accrued liabilities may include some provision for contract retainages, because of the lack of detailed information on retainages paid during these years or owed at each year end, we were unable to determine if the accruals were sufficient to account for retainages withheld by EPA as of September 30, 1993 and 1992. Because EPA has contracts extending as long as five to ten years, retainages may be withheld for considerable periods before they are paid. Further, we believe that these retainages should be identified and classified as accounts payable instead of accrued liabilities. Under accrual accounting, payables and expenses should be recorded for the entire amount for the services rendered, prior to deducting any retainages. The unpaid balances of retainages should have been recognized by EPA as accounts payable as of September 30, 1993 and 1992.

As a result of our 1992 report recommendation, FMC-RTP officials initiated a review of contract closeouts in fiscal 1993 to attempt to determine the amounts of contract retainages paid during the year. Based on the results of this review, which was not completed during our fieldwork, EPA expects to use this data to estimate the materiality of retainages payable. Because of this ongoing review, we are making no further recommendations at this time.

Accrued Liabilities For Grant Expenses Were Not Recorded

EPA awards grants to state and local governmental units and other entities, primarily nonprofit organizations, for research and other support activities that benefit all EPA programs. The grantees perform the work and request reimbursements from EPA through the *Automated Clearing House (ACH) Payment System* or by using other payment request documents. EPA's *Fiscal Year 1993 Year-end Closing Procedures* require each regional office to record accrued liabilities for the estimated amount of grant expenses through September 30, 1993, where the grantee has performed the work but not yet submitted the grant payment requests to EPA. The procedures state that these accrued liabilities should be based on historical data and past experience. We performed testwork at Regions 2, 5 and 9 and Las Vegas - Financial Management Center (FMC-LV) to determine if these liabilities had been recorded.

At Region 2, we found that accrued liabilities were not recorded at year end for grant expenses that were being reimbursed through the ACH payment system. We found one ACH request received at Region 2 on October 22, 1993, totaling $7,283,994. Based on our discussion with Region 2 officials, we concluded that the payment related to services performed and costs incurred prior to September 30, 1993. We noted that Region 2's average monthly ACH payments during 1993 amounted to $1,190,977. These payments are typically made for expenses incurred in previous months. However, due to significant fluctuations in the timing and amount of various grantees' drawdowns, we could not determine the costs incurred for which an accrual should have been recorded. Because no accrual was made, we believe that accrued liabilities were significantly understated. No adjustment was proposed because we were unable to determine the amounts that should have been recorded.

At Region 5, we also noted that no accrued liabilities were recorded at year end for grant expenses that were incurred but not yet reimbursed through the ACH payment system. We noted that Region 5's average monthly ACH payments during fiscal year 1993 were $2,407,828. These payments are typically made for expenses incurred in previous months. We concluded that an accrual should have been recorded for the estimated costs incurred before year end. Because no accrual was made, we believe that accrued liabilities were significantly understated. No adjustment was proposed because we were unable to determine the amounts that should have been recorded.

At Region 9, we found that accrued liabilities for grant expenses (except ACH payments) were recorded for one-twelfth of the unliquidated obligation balance as of September 30, 1993. This resulted in an estimated accrual of $2,299,829. This methodology is improper because it does not represent a reasonable estimate of expenses incurred at year end. Such expenses are not necessarily incurred proportionately over a given period of time and may have no direct relationship with the amounts of outstanding obligations. However, we were unable to determine the actual amount that should have been accrued by Region 9 for non-ACH grants.

We also found that no accrued liabilities were recorded at Region 9 for grant expenses that were being reimbursed under the ACH payment system. We noted that the average monthly payments made to recipients during 1993 were $674,485. These payments are typically made for expenses incurred in previous months. We concluded that an accrual should have been recorded for the estimated costs incurred before year end. Because no accrual was made, we believe that accrued liabilities were significantly understated. No adjustment was proposed because we were unable to determine the amounts that should have been recorded.

At FMC-LV, we also noted that no accrued liabilities were recorded for grant recipients being reimbursed through the ACH payment system. According to Las Vegas officials, the year end closing procedures stated that no accrued liability should be established where there was no evidence that goods or services were delivered or performed. We noted that Las Vegas' average monthly ACH payments were $2,746,513. These payments are typically made for expenses incurred in previous months. We concluded that an accrual should have been recorded for the estimated costs incurred before year end. Because no accrual was made, we believe that accrued liabilities were significantly understated. No adjustment was proposed because we were unable to determine the amounts that should have been recorded.

None of EPA's finance offices where we reviewed accrued liabilities had recorded proper accruals for grant expenses incurred by recipients prior to year end. Because these expenses occur on a continuing basis and there are normally delays in requesting reimbursement, we believe based upon our analysis of average monthly payments, that the amounts of unrecorded liabilities at all EPA finance offices are likely to be material to the financial statements.

OPAC Payments Were Not Charged To The Correct Appropriations At Year End

EPA reimburses other Federal Agencies for work performed on behalf of EPA via the U.S. Treasury's OPAC system. These payments relate to work performed under various EPA appropriations. In order for EPA's disbursements to balance to Treasury, EPA records these OPAC payments in IFMS as prepaid adjustments under the AC&C appropriation. Upon confirmation that another Federal Agency has charged EPA via OPAC, Cincinnati Financial Management Center (CFMC) forwards a form to the project officer for approval of the payment. This completed form, when returned, identifies the interagency agreement and appropriation accounts to be charged. However, we noted that these project officer approval forms may be outstanding as long as 6 months before they are returned to CFMC.

We found at September 30, 1993, that approximately $20 million of the $26 million of OPAC payments recorded as prepayments in the AC&C appropriation related to Superfund work. However, we also noted that when calculating year end accrued liabilities, CFMC did not take into effect these OPAC payments in estimating costs incurred but not billed on the related interagency agreements. As a result, the accrued liabilities were calculated incorrectly, but resulted in proper expense recognition under Superfund and the calculated accrued liability was actually payable to the AC&C appropriation. Consequently, there was no financial statement impact. However, we believe that EPA should determine if these OPAC payments can be charged to the proper appropriation upon original notification from Treasury, instead of waiting long periods for the return of project officer approval forms.

Draft Report Recommendations

We recommended in our draft report that the CFO:

(1) emphasize control procedures for supervisory review of reports utilized in calculating accounts payable and accrued liabilities;
(2) issue specific guidance for calculating and recording accounts payable and accrued liabilities for grant expenses;
(3) ensure that the finance offices are consistently following the year end closing procedures for recording accounts payable and accrued liabilities; and

(4) establish procedures to account for OPAC payments in a timely manner under the appropriations to which the payments apply.

EPA's Response to Draft Report Recommendations and Our Evaluation

The CFO agreed with our recommendation for requiring supervisory review of supporting data and reports used to identify and record accounts payable and accrued liabilities. The CFO stated that FMD's year end closing instructions to the finance offices will include this requirement as well as more specific guidance for accounting for accounts payable and accrued liabilities. The CFO's corrective action plan for developing year end closing procedures and revising year end closing instructions to incorporate supervisory review requirements indicated target dates of June 30 and July 31, 1994.

The CFO also agreed with our recommendation to issue specific guidance for calculating and recording accounts payable and accrued liabilities for grant expenses. The CFO stated that specific guidance is already included in year end closing instructions. However, he indicated that this guidance will be expanded to include more detailed procedures to accurately calculate and record payables and liabilities. The guidance will also include supervisory review and approval requirements. The CFO provided corrective action plans to contact FMOs regarding suggestions for accounting for these payables and accruals and to expand the year end instructions to include more specific guidance. The target dates for these corrective actions are June 30 and July 31, 1994.

The CFO agreed with our recommendation to ensure consistent application of year end closing instructions among finance offices for recording accounts payable and accrued liabilities. The CFO stated that his staff will conduct frequent follow-up communications with all finance offices to ensure consistency. The CFO provided a corrective action plan to reemphasize to all finance offices to follow the written year end instructions. The target date for this action is September 30, 1994.

The CFO agreed with our recommendation to establish procedures to account for OPAC payments in a timely manner under the appropriations to which the payments apply. The CFO stated that his staff will be reviewing the use of the prepaid account for recording OPAC payments at year end. The CFO provided a corrective action plan to determine if charges need to be made using the prepaid account for OPAC payments, and to expand year end instructions to provide specific guidance on accounting for OPAC payments. The target dates for these corrective actions are May 30 and July 31, 1994.

The CFO's proposed corrective actions are generally responsive to our recommendations. However, we noted that the policies and procedures for calculating, documenting, reviewing, approving, and recording accounts payable, accrued liabilities and OPAC payments are proposed to be included in the year end closing instructions. We believe that the Office of Comptroller's Resources Management Directives System (RMDS) is the appropriate and more effective method to establish Agency financial policies and procedures. RMDS was designed to provide all such guidance in one unified system, through which comprehensive and current financial guidance would be provided to all Agency offices.

Recommendation

We recommend that the CFO instruct the Comptroller to develop and establish Agency policies and procedures in RMDS for accounting for and recording accounts payable, accrued liabilities and OPAC payments, including specific guidance to address each of the various types of these transactions.

5. *State Cost Share Revenue Should Be Properly Recognized*

State cost share contracts are agreements between EPA and states to share in the costs of Superfund site cleanups at specified ratios of costs incurred. We noted during our test work that EPA recorded receivables on state cost share contracts and corresponding deferred revenue when these contracts were signed. We also found that the deferred revenue was not reduced and recognized as earned revenue as site cleanup work occurred, which entitled EPA to earn a portion of the states' cost share.

Region 2 began a pilot program in fiscal year 1993 to develop procedures to adjust the deferred revenue account and record earned revenue by cost share contract and to determine the amount of deferred state cost share revenue that should have been recognized to date. Region 2 had determined the site project costs incurred to date and percentages of project completion for each related cleanup action. Using this information at Region 2 and based on the terms of the cost share contracts, we calculated the amount of deferred revenue for each state cost share contract that should have been recognized as earned as of September 30, 1993. We also obtained this information at Regions 5 and 9, and performed similar calculations.

We found that $35 million of deferred revenue should have been recorded as earned at Regions 2, 5 and 9 as of September 30, 1993, of which $8 million related to fiscal year 1993 and $27 million related to prior years. EPA recorded adjustments based on our test work. However, we did not determine the amount of adjustments that should be recorded at other regional finance offices.

EPA Actions

EPA agreed with the recommendation in our 1992 report to develop procedures for calculating state cost shares to properly recognize earned revenue as cleanup services are performed. The corrective action target date for reconciling and adjusting the deferred revenue account is April 1, 1994. The proposed corrective actions are responsive to our recommendations. EPA management has made progress in this area during fiscal year 1993 through the efforts at Region 2. Therefore, we are making no further recommendations at this time.

6. Grant Payment Requests Should Provide Appropriation And Account Information

Grant recipients did not identify the appropriations to which grant payments under the U.S. Treasury's *Automated Clearing House* (ACH) *Payment System* should be charged, unless the payment requests were specifically related to Superfund site cleanups. EPA's Las Vegas Financial Management Center (FMC-LV) applied these ACH payment requests for grant expenses funded by more than one appropriation using a first-in first-out (FIFO) method, by charging the oldest available unliquidated obligations. This method may cause a misstatement of expenses during the fiscal year among the appropriations that provide funding under the same grant agreement. Further, payments on grants that were solely funded from Superfund were not always charged to the correct Superfund account numbers.

We found that the operating expenses included grant disbursements that resulted from charging payments to Superfund, even though the expense or a portion thereof may have been for non-Superfund purposes. Also, certain grant expenses actually incurred to benefit Superfund may have been excluded from the expenses because they were charged to another appropriation. In addition, the grant expenses for Superfund charged to incorrect account numbers could affect indirect cost rates and future cost recovery actions. Although EPA officials at FMC-LV generally agreed with this issue, they did not believe that the methodology being used resulted in material misstatements of grant expenses.

We selected a statistical sample of Superfund disbursements that included 5 transactions, totaling $499,464, on multi-funded grants paid at FMC-LV. Based on our analysis of the funding percentages at the time the payments were made, we found that the method used by FMC-LV resulted in $82,115, or 17.1%, of potentially mischarged costs because the grantees did not identify the appropriations to which the expenses pertain. FMC-LV used a method of charging these expenses which may have resulted in improper charges because the method did not consider the work performed or the funding levels by appropriation in place at the time the payments were made. We also found that, using the funding percentages in place as of September 30, 1993 for these same 5 multi-funded agreements, would have resulted in $279,334, or 5.0%, of potential mischarges to the Superfund appropriation for all payments made on these grants during the fiscal year. In addition, we also noted that $532,491 of grant payments were not identified to the Superfund account number charged because the ACH payment requests did not provide the account numbers for these expenses.

EPA Actions

We recommended in our 1992 report that the Director of the Grants Administration Division require grant recipients to provide grant accounting information on all ACH payment requests. EPA agreed in principle with our 1992 report recommendation, however, they stated that requiring detailed information from grantees was unnecessary and unreasonable. As part of EPA's corrective action, the Grants Administration Division has established a Quality Action Team to explore these issues and develop options to the existing process. The QAT has not yet established a corrective action plan or a target date for implementation. Because corrective action is still underway, we are making no further recommendations at this time.

EPA's Response to Draft Report and Our Evaluation

The CFO disagreed with our position on the charging of multi-funded grant payments processed at FMC-LV. The disagreement stems from our use of a proration method to determine the potential mischarged costs to the Superfund appropriation for multi-funded grants in which the grant recipients do not identify the appropriation or account number to be charged. EPA officials stated that a proration method based on the percentages of funding from each source would be no more accurate and would be highly questionable as to validity due to the frequency of agreement amendments. We believe that, although the percentages may change frequently, the proration method provides a more reasonable basis for charging these grant payments based upon the levels of funding provided by various EPA sources, rather than the FIFO method used by FMC-LV, which charges payments to the oldest available funding.

We concur with the CFO's opinion that there is no absolute correct or incorrect method of recording recipient payments, except requiring the recipient to identify each payment at the appropriation and account number level. However, EPA officials stated that requiring the recipient to identify each payment by account number would be unnecessary and unreasonable. We do not agree with this assessment. We believe that requiring the recipient to identify the account numbers would be the best solution. This method would require the recipient to identify the work performed under the grant and relate the requests for payment to the proper appropriation and account number.

We also noted that in the OIG's Report of Final Audit of the Hazardous Substance Response Trust Fund at Las Vegas for Fiscal Year 1982, the OIG recommended eliminating the FIFO method used for recording grant Letter of Credit (LOC) drawdowns at FMC-LV. (The LOC system has since been replaced by the ACH payment system.) In response, EPA officials stated that grants with multiple account numbers were amended to require that account numbers be identified on all LOC drawdowns. Based on EPA's acknowledgement and response to this issue from 1982, we believe that requiring the recipient to identify the account numbers was not considered unreasonable and should have been implemented.

The CFO also did not concur with our statement that grant expenses for Superfund charged to incorrect account numbers could affect indirect cost rates and future costs recovery actions. EPA officials stated that the FIFO method is only used for Superfund agreements that are non site-specific. Recipients are required to identify account numbers for payments to site-specific projects. EPA officials further stated that since site-specific Superfund payments are properly recorded, indirect cost rates and future cost recovery would not be affected.

We agree that Superfund site-specific charges do not affect the indirect cost rates because these charges are direct costs. However, indirect costs, such as the non site-specific payments being charged using the FIFO method reported in this finding, do affect the indirect cost rates calculated for Superfund cost recovery.

As we stated in the draft report, we are not making any further recommendations in this area since the QAT has not yet established a corrective action plan or a target date for implementation. We have also agreed to meet with EPA officials to attempt to resolve this issue.

Superfund Trust Fund

Attachment 2 - Reportable Conditions

1. Certain EDP Systems and Controls Need To Be Strengthened

Some of the weaknesses that limit the effectiveness of EPA's financial management are related to the Integrated Financial Management System (IFMS) and its continued dependence on EPA's predecessor Financial Management System (FMS). EPA management has reported material weaknesses in its 1993 FMFIA report relating to financial systems. In addition to these material weaknesses, which are included in the material weaknesses reported in Attachment 1, we noted the following additional reportable conditions.

Changes to Accounts Receivable System Did Not Solve All Outstanding Problems

During fiscal year 1993, EPA reported that corrections were made to the accounts receivable module of IFMS. Some of the changes concerned the generation and computation of compound interest and the processing of installment payments. During our review, we noted that the solutions to both of these areas involve manual procedures which work around limitations of the automated system instead of correcting them. EPA management explained that this was an interim measure until the new version of IFMS is implemented in 1994.

In addition, two other deficiencies in the accounts receivable module were noted. The first concerns who may override the system interest rate tables/data field. During our testing, we noted that data entry employees have the ability to override the stated interest rate without supervisory review and approval. The second deficiency related to a similar issue regarding the accrued interest field. The system correctly calculated the accrued interest. However, once calculated, it was subject to manual override at the data entry level without supervisory review and approval. In order to maintain effective controls, documented supervisory review and approval should be required prior to the override of key financial data fields.

Account Number Limitation

EPA continues to be dependent on its predecessor financial management system, FMS, to interface between IFMS and several key subsystems. This dependency will continue, even after the implementation of the new IFMS upgrade, until these subsystems are improved or functionally replaced by additional enhancements to IFMS. Because of this dependency, the current 41 character account number capability of IFMS, although much needed for site-specific cost accounting, cannot be fully utilized because FMS only has a 10-character account number capability.

As a result of the limitation, manual work-arounds involving the project/site codes are needed so that the EPA has sufficient account numbers for all of its sites. The 10-character account number limitation of FMS is expected to cause additional problems for Regions 4 and 5 during fiscal year 1994. There will not be enough characters in the current account numbers to relate direct and indirect costs to sites and projects in these regions in an automated fashion. EPA's ability to account for costs at Superfund sites and projects may be adversely impacted and could result in the failure to identify and recover these costs in cost recovery actions.

EPA Actions

EPA management has reported in its 1993 FMFIA report that a new version of IFMS will provide new accounts receivable functionalities. EPA also is developing project cost accounting capability requirements in fiscal year 1994 and plans to eliminate the FMS by September 1995.

Draft Report Recommendations

We recommended in our draft report that EPA's CFO:

(1) establish controls requiring supervisory review and approval of manual overrides of interest rates and accrued interest; and
(2) ensure that project/site codes being used because of present system limitations can provide project cost accounting for all regions and can be effectively modified to the expanded account number in the future.

EPA's Response to Draft Report Recommendations and Our Evaluation

The CFO agreed with the intent of our draft report recommendations. The CFO agreed to review existing policies and procedures and the feasibility of establishing controls in IFMS to prevent the use of inappropriate interest rates. The CFO proposed corrective action plans to conduct a review and analysis, develop recommendations, and select and implement recommendations for this issue. The target dates for these actions are from March 31, 1995 to June 30, 1995.

The CFO also stated that FMD has developed a procedure to continue recording Superfund site codes pending implementation of the IFMS account structure throughout IFMS systems. The CFO also indicated that ongoing projects have objectives to ensure the ability to convert to the IFMS format or access Superfund site numbers from the FMS format. However, the CFO stated that the capacity for using the IFMS 41 character account structure would be very limited until reliance on FMS is eliminated in fiscal year 1995. The CFO provided corrective action plans to install capacity to use the IFMS format in all systems except FMS by October 1, 1994. The CFO also indicated a corrective action plan for an IFMS enhancement to provide an edit function for Superfund site/project codes by March 30, 1995. Finally, the CFO provided a revised target date of October 30, 1995 for eliminating EPA's dependence on the FMS.

The CFO's proposed corrective actions are responsive to our recommendations. Therefore, we are making no further recommendations at this time. However, we are concerned that the Agency's reliance on the predecessor financial system, FMS, will continue into fiscal year 1996.

2. Leases Should Be Recorded And Reported

We identified capital and operating leases during our test work which were not capitalized or disclosed in the financial statements.

A lease is a capital lease if it meets any one of the following classification criteria:

a. The lease transfers ownership of the property to the lessee by the end of the lease term.
b. The lease contains an option to purchase the leased property at a bargain price.
c. The lease term is equal to or greater than 75 percent of the estimated economic useful life of the leased property.
d. The present value of rental and other minimum lease payments equals or exceeds 90 percent of the fair value of the leased property.

The amount to be recorded as an asset and a capital lease liability is the lesser of the present value of the minimum lease payments or the fair value of the leased property.

When a lease does not satisfy any one of the four capitalization criteria above, the agreement is considered an operating lease. An operating lease does not require that the minimum lease payments be capitalized. However, future lease payments on operating leases, if the lease term exceeds one year, should be disclosed in the notes to the financial statements.

EPA's Financial Management Division has not issued guidance to financial management offices regarding the accounting treatment for capital versus operating leases. Furthermore, EPA does not have a system in place to capture and evaluate all leases to support the required financial statement disclosures for both capital and operating leases. We believe that EPA may have entered into other leases, in addition to those identified during our testwork, that should be accounted for as capital leases.

OMB Bulletin 93-02 requires disclosures for both operating and capital leases. Because of the lack of guidance and a tracking system for leases, the value of equipment acquired through capital leases has not been determined or reported in the financial statements. In addition, the required capital and operating lease disclosures are not presented in the financial statements.

We did not perform procedures to determine if the capital or operating leases entered into by EPA were material.

EPA Actions

We recognize management's initiative in forming a QAT in March 1993 to take corrective action for property issues, including the recording and reporting of leases. Because of the ongoing QAT effort, we are not making further recommendations in this report.

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ATTACHMENT 3 - SCHEDULE OF OPEN AUDIT REPORTS AS OF SEPTEMBER 30, 1993

Report Findings	Recommendation	Corrective Action	Target Date	Status
Fiscal Year 1992 - Report On Financial Audit - Superfund, LUST and Asbestos Loan Program				
Financial reporting system improvements are needed.	Redesign classification structure elements so that IFMS will automatically provide trial balances at the highest level of aggregation required for financial reporting purposes.	Develop format of MARS/SPUR report to aggregate the general ledger account balances and enhance balances.	August 31, 1994	Ongoing
	Continue Efforts to change the automated closing procedures to retain regional account balances	Submit programs to obtain beginning General Ledger account balances and convert 1993 balances by SFO.	December 31, 1993 (original) June 30, 1994 (revised)	Ongoing
	Implement budgetary accounts and transaction codes to properly account for reimbursable authority.	Research SGL requirements for reimbursable authority and existing EPA policy and procedures. As necessary, issue revised procedures and instructions.	October 15, 1994	Ongoing
	Review and correct the automated closing procedures.	Refer to Federal Financial System User Group for action.	March 30, 1994	Ongoing
	Evaluate the timely closing of its year-end accounting records prior to the US Treasury's implementation of the automated Standard General Ledger trial balance.	Evaluate year-end closing process.	April 30, 1994	Ongoing
Property and equipment records needs to be integrated with the general ledger.	Assign transaction codes in the IFMS for capital property and equipment asset purchases and issue policies and procedures for recording these transactions.	Develop implementation strategy for recommendations presented by Quality Action Team (QAT).	FY 1995	Ongoing

ATTACHMENT 3 - SCHEDULE OF OPEN AUDIT REPORTS AS OF SEPTEMBER 30, 1993

Report Findings	Recommendation	Corrective Action	Target Date	Status
Accounts payable/accrued liabilities are not properly recorded.	Determine the approximate amount of contractor retainages being withheld and develop and implement procedures to ensure the amount can be fairly presented in the financial statements.	Conduct review of sample of contracts.	March 31, 1994	Ongoing
Accounting for grant drawdowns does not provide required account information.	Require inclusion of grant account information from grant recipients for all ACH payment requests. Determine if additional procedures need to be developed to account for grant drawdowns.	Establish QAT to review the procedures, establish milestones, report to process owners, and implement changes.	To be determined by QAT	Ongoing
General EDP controls need to be strengthened.	Implement current, comprehensive information system policies, standards, and procedures on a centralized basis.	Implement Version 5.1e of IFMS and complete enhancements to produce complete and accurate reports for accounts receivable.	June 1994	Ongoing
Capital leases have not been recorded.	Issue policies and procedures to FMOs regarding properly recording and accounting for leases. Require FMOS to review all current leases and evaluate whether leased equipment should be capitalized.	Property QAT will review current policies and procedures along with the other property issues and implement procedures to record and report leases.	To be determined by QAT	Ongoing
Repairs and improvements were charged to Superfund and LUST.	Obtain Office of General Counsel (OGC) opinion on whether EPA had authority during fiscal year 1992 to use Superfund and LUST funds for repairs and alterations.	Obtain an opinion from OGC.	October 29, 1993 (original) April 12, 1994 (revised)	Ongoing
Fiscal Year 1991 - Report On Financial Audit - Hazardous Substance Superfund				
Accounts receivable were not recorded in a timely manner or in the correct fiscal year.	Ensure that financial policies and procedures for Superfund accounts receivable and collections are up-to-date.	Issue revised RMDS 2550-D.	December 31,1993 (original) Nov. 30, 1994 (revised)	Ongoing

ATTACHMENT 3 - SCHEDULE OF OPEN AUDIT REPORTS AS OF SEPTEMBER 30, 1993

Report Findings	Recommendation	Corrective Action	Target Date	Status
Collections were not recorded in a timely manner.	Ensure that financial policies and procedures for Superfund accounts receivable and collections are up-to-date.	Issue revised RMDS 2550-D.	December 31, 1993 (original) November 30, 1994 (revised)	Ongoing

Fiscal Year 1991 - Report On Financial Audit - Hazardous Substance Superfund

Report Findings	Recommendation	Corrective Action	Target Date	Status
Procedures have not been updated since the implementation of the IFMS.	Ensure that the RMDS is fully implemented and includes procedures and requirements for recording and supporting transactions in the IFMS.	Issue RMDS 2530.	September 1992 (original) December 1994 (revised)	Ongoing

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Independent Auditors' Report on Compliance with Laws and Regulations - Superfund Trust Fund

The Inspector General
U.S. Environmental Protection Agency:

1. We were engaged to audit the financial statements of the Superfund Trust Fund of the U.S. Environmental Protection Agency (EPA), as of and for the year ended September 30, 1993. We have issued our report thereon dated January 28, 1994, in which we disclaimed an opinion on these financial statements.

2. Compliance with laws and regulations is the responsibility of EPA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with certain provisions of the following laws and regulations, designated by OMB, EPA, and EPA's Office of Inspector General (OIG), that may have a direct and material effect on the financial statements:

- Budget and Accounting Procedures Act of 1950
- Chief Financial Officers Act of 1990
- Anti-Deficiency Act
- Federal Managers' Financial Integrity Act of 1982
- Prompt Payment Act
- Debt Collection Act of 1982
- Civil Service Reform Act
- Fair Labor Standards Act
- Civil Service Retirement Act

- Federal Employees' Compensation Act
- Federal Employees' Group Life Insurance Act of 1980
- Federal Employees' Health Benefits Act of 1959
- Comprehensive Environmental Response, Compensation, and Liability Act of 1980
- Superfund Amendments and Reauthorization Act of 1986
- Omnibus Budget Reconciliation Act of 1991

3. Our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

4. As required by OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, we obtained an understanding of EPA's process for identifying and evaluating weaknesses required to be reported in accordance with the Federal Managers' Financial Integrity Act (FMFIA). We compared the material weaknesses reported in EPA's fiscal year 1993 FMFIA report with the material weaknesses and other reportable conditions reported in our report on internal control structure. EPA reported material weaknesses and nonconformances in the areas of financial systems, contract management, accounting system-related financial management problems, accounts receivable, property accounting process, and accounting system interfaces in its fiscal year 1993 FMFIA report. The definition of a material weakness for financial statement purposes differs from the definition in OMB Circular A-123 (revised) *Internal Control Systems*, for the purposes of FMFIA. According to OMB Circular A-123, a material weakness is a situation in which the designed procedures or degree of operations compliance therewith does not provide reasonable assurance that the objectives of internal control specified in FMFIA are being accomplished. These objectives are: to provide management with reasonable assurance that obligations and costs comply with applicable law, assets are safeguarded against waste, loss, unauthorized use and misappropriation; revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial reports may be prepared and accountability of assets maintained; and programs are efficiently and effectively carried out in accordance with applicable law and management policy. As a result of our engagement, we reported six material weaknesses in internal controls. To determine whether to report matters as material weaknesses, we used the definition of a material weakness included in OMB Bulletin 93-06. According to the bulletin, a material weakness in the internal control structure is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The

following material weaknesses were reported by us but not included in EPA's FMFIA report:

- not properly recording accounts payable, accrued liabilities and OPAC payments;
- not properly recognizing state cost share revenue;
- not requiring appropriation and account information to properly record grant payments; and
- not properly identifying components of net position.

The above weaknesses that we noted were not reported by EPA in its FMFIA report because these weaknesses are primarily specific financial accounting and reporting issues related to the financial statements, and the weaknesses reported by EPA under FMFIA are broader in scope.

5. The results of our tests of compliance indicate that, with respect to the items tested, EPA complied, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that EPA had not complied, in all material respects, with those provisions. However, we noted the following matter which should be highlighted.

Certain Allocable Costs Were Not Allocated

General support services costs are required by EPA policy to be allocated to Superfund during the fiscal year from EPA's Abatement Control and Compliance (AC&C) appropriation. The allocations are made using cost allocation plans developed by EPA that are designed to distribute these support costs to the benefiting programs. We found that the allocations of general support service costs reached budgetary ceilings during fiscal year 1993 and were discontinued at several allowance holders. We did not determine the estimated amounts that would have been allocated to Superfund if they had been continued.

The Superfund Accounting Branch also prepared an overhead allocation model to determine the agency-wide costs that benefitted Superfund but were not allocated against its budgetary resources. This allocation amounted to $22,257,000, which was recorded for financial statement purposes only, as both a revenue and expense of Superfund. EPA management believes that any under-allocation of costs due to ceiling limitation would be included in the $22,257,000 amount.

We have previously recommended that EPA management obtain a written opinion from its Office of General Counsel (OGC) on the legal basis for charging Superfund administrative expenses to Agency-wide appropriations. If the OGC determines that EPA's practice of charging the AC&C appropriation for Superfund administrative expenses after the Superfund administrative ceilings were reached was improper, the OGC should provide guidance on appropriate corrective action. EPA requested an OGC opinion in fiscal year 1992, but has not yet received a response. We are making no further recommendation at this time.

6. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

LEONARD G. BIRNBAUM & COMPANY
Alexandria, Virginia
January 28, 1994

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Independent Auditors' Report on Financial Statements - Leaking Underground Storage Tank Trust Fund

The Inspector General
U.S. Environmental Protection Agency:

1. We have audited the statements of financial position of the Leaking Underground Storage Tank (LUST) Trust Fund of the U.S. Environmental Protection Agency (EPA) as of September 30, 1993 and 1992, and the related statements of operations and changes in net position, cash flows, and budget and actual expenses for the years then ended. These statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these statements based on our audits.

Scope

2. Except as discussed in paragraphs 4, 7 and 8 of this report, we conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Basis of Accounting

3. As described in Note 1, these financial statements were prepared in conformity with the applicable accounting practices prescribed or permitted by OMB Bulletin 93-02 and applicable provisions of OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Planned Exclusion

4. Prior to October 1, 1991, EPA was not required to prepare financial statements for the LUST Trust Fund in conformance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*, nor was EPA required to have such statements audited. Accordingly, the statement of financial position as of September 30, 1991, has not been audited. Statement of financial position amounts as of September 30, 1991, enter into the determination of results of operations and changes in net position, cash flows, and budget and actual expenses for the year ended September 30, 1992. Similarly, our qualified opinion on the September 30, 1992 statement of financial position affected our ability to report on the fiscal year 1993 results of operations and changes in net position, cash flows, and budget and actual expenses. Adjustments, if any, to balances reflected in the statements of financial position as of September 30, 1992 and 1991, would affect the statements of operations and changes in net position, cash flows, and budget and actual expenses for the years ended September 30, 1993 and 1992.

5. In our report on the fiscal year 1992 financial statements, dated April 7, 1993, we reported that we were unable to audit the balance of amounts held by the U.S. Treasury for future appropriations because that balance is maintained and controlled by the U.S. Treasury and the audit of such amounts was not included in the scope of our audit. As described in Note 14 to the financial statements, EPA changed its method of reporting amounts held by the U.S. Treasury for future appropriations and no longer reports these amounts in its financial statements. Accordingly, the 1992 financial statements have been restated and our present planned exclusions on the 1992 financial statements, as presented herein, differ from those in our previous report.

6. In our report on the fiscal year 1992 financial statements, dated April 7, 1993, we reported that we were unable to audit the administrative costs funded from other EPA appropriations because the audit of these appropriations for allowability and allocability of such costs was not within the scope of that audit. We have since determined this amount to be immaterial. Accordingly, our present planned exclusions on the 1992 financial statements, as presented herein, differ from those in our previous report.

Scope Limitations and Qualifications

7. We were unable to audit accounts payable, non-federal, stated at $1,749,000 and $1,503,000 as of September 30, 1993 and 1992, respectively, because accruals for grant expenses of grant recipients who use the ACH payment system were not made. We were unable to determine the amounts that should have been recorded for these liabilities. Adjustment, if any, for accrued liabilities to grant recipients would affect all of the financial statements for the years ended September 30, 1993 and 1992.

8. We were unable to audit net position, stated at $92,515,000 and $85,923,000 as of September 30, 1993 and 1992, respectively, and the changes in net position for the years then ended because (a) EPA officials were unable to confirm unliquidated obligation balances, a component of net position, and we were unable to perform alternative procedures, and (b) EPA did not maintain sufficient accounting records to provide the net position disclosures in conformance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. Adjustments, if any, to the components of net position would affect all of the financial statements for the years ended September 30, 1993 and 1992.

Disclaimer of Opinion on Statements of Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses

9. Because of the matters discussed in paragraphs 4, 7 and 8 of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses for the years ended September 30, 1993 and 1992.

Opinion on Statements of Financial Position

10. In our opinion, except for the effects of such adjustments, if any, that might have been determined necessary had we been able to audit accounts payable, non-federal and net position as described in paragraphs 7 and 8 of this report, the statements of financial position of the LUST Trust Fund present fairly, in all material respects, the financial position of the U.S. Environmental Protection Agency's LUST Trust Fund as of September 30, 1993 and 1992, on the basis of accounting described in Note 1 to the financial statements.

Supplementary Information

11. Our audits were made for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report, taken as a whole. The financial information presented in *Management's Overview of EPA and Overview of Trust Funds, Revolving Funds and Commercial Activities* is not a required part of the financial statements but is supplementary

information required by OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Distribution

12. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

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Independent Auditors' Report on Internal Control - Leaking Underground Storage Tank Trust Fund

The Inspector General
U.S. Environmental Protection Agency:

1. We have audited the financial statements of the Leaking Underground Storage Tank (LUST) Trust Fund of the U.S. Environmental Protection Agency (EPA), as of and for the year ended September 30, 1993. We have issued our report thereon dated January 28, 1994, in which we disclaimed an opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses and qualified our opinion on the statement of financial position.

2. Except as discussed in paragraph 3 below and in paragraphs 4, 7 and 8 of our Independent Auditors' Report on Financial Statements, we conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

3. Performance measures present the financial and program accomplishments of the reporting entity's activities. We did not review the data that support reported performance measures or the internal control structure, policies and procedures designed to ensure the existence and completeness of such information, as required by OMB Bulletin 93-06 because this was a planned exclusion from the scope of our work due to decisions made by the OIG.

4. In planning and performing our audit for the year ended September 30, 1993, we considered EPA's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements; and to determine whether the internal control structure meets the objectives identified in the following paragraph. This consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances.

5. The management of EPA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, EPA management, or EPA's OIG have identified as being significant and for which compliance can be objectively measured and evaluated. The objectives of an internal control structure are also to provide management with reasonable, but not absolute, assurance that funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and transactions applicable to EPA operations are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets, in accordance with the accounting principles described in Note 1 to the financial statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

6. For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General accounting and financial reporting
- Receivables and receipts
- Accounts payable and accrued liabilities
- Fund balance
- Obligations
- Disbursements and operating expenses

7. For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the control procedures.

8. We noted certain matters involving the internal control structure and its operation that we consider to be material weaknesses and reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06.

9. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against unauthorized use or disposition; and transactions applicable to EPA operations are properly recorded to permit the preparation of reliable financial statements in accordance with accounting principles described in Note 1 to the financial statements.

10. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Those conditions that we consider to be both reportable conditions and material weaknesses are:

General Ledger Accounts Do Not Correctly Report Net Position Components

We found that EPA's general ledger accounts do not correctly disclose the components of net position because the automated year end closing process in the IFMS is incorrect. This is evidenced by the fact that certain account balances that should equal other accounts do not. For example, net property in the proprietary accounts does not equal invested capital, cumulative results do not equal the balance of accounts related to receipts to be returned to the U.S. Treasury. Also, beginning net position plus current appropriations less appropriations expensed and the net change in invested capital and unfunded activities do not equal ending net position. As a result, EPA financial management personnel spent significant time and resources to develop financial information for the components of net position for footnote disclosure. Manual adjustments were recorded for financial statement purposes. However, the components of net position as required by OMB Bulletin 93-02 still could not be properly disclosed. The bulletin requires disclosure of the following components of net position: unexpended appropriations available, unexpended appropriations unavailable, undelivered orders, cumulative results of operations, and invested capital.

EPA Actions

In our 1992 report, we recommended that EPA review and correct the automated year end closing procedures. EPA's corrective action for this issue is scheduled to begin in fiscal year 1994. Because of this ongoing effort, we are making no further recommendations at this time.

EPA management has recognized the IFMS as a material weakness in its FMFIA report for 1993. The weakness resulted from incomplete users manuals and system documentation, incomplete interfaces, and inadequate financial management reports. EPA is in the process of upgrading to a new release of the IFMS, scheduled for implementation in fiscal year 1994, which EPA's management believe will resolve many of these deficiencies.

Accrued Liabilities For Grant Expenses Were Not Recorded

EPA awards grants to state governmental units and other entities for removal of waste associated with leaking underground storage tanks. The grantees oversee the removal work and request reimbursement from EPA through the *Automated Clearing House (ACH) Payment System* or using other drawdown documents. EPA's *Fiscal Year 1993 Year-end Closing Procedures* require each regional office to record an accrued liability for the estimated amount of grant drawdowns payable through September 30, 1993, where the grantee has performed the work but not yet submitted the grant drawdown documents to EPA. The procedures state that these accrued liabilities should be based on historical data and past experience.

At Region 2, accrued liabilities were not recorded at year end for grant expenses that were being reimbursed under the ACH payment system. We noted that Region 2's average monthly ACH payments during 1993 amounted to $922,576. These payments are typically made for expenses incurred in previous months. However, due to significant fluctuations in the timing and amount of various grantees' drawdowns, we could not determine the costs incurred for which an accrual should have been recorded.

At Region 5, we also noted that no accrued liabilities were recorded at year end for grant expenses that were being reimbursed under the ACH payment system. We noted that Region 5's average monthly ACH payments during fiscal year 1993 were $1,164,022. These payments are typically made for expenses incurred in previous months. However, we could not determine the accrual that should have been recorded for estimated costs incurred before year end.

At Region 9, accrued liabilities for grant expenses (except ACH grants) were recorded for one-twelfth of the unliquidated obligation balance as of September 30, 1993. This resulted in an estimated accrual of $1,066,121. This methodology is improper because it does not represent a reasonable estimate of expenses incurred at year end. Such expenses are not necessarily incurred proportionately over a given period of time and may have no direct relationship with the amounts of outstanding obligations. However, we were unable to determine the actual amount that should have been accrued by Region 9 for non-ACH grants.

We also found that no accrued liabilities were recorded at Region 9 for grant expenses of recipients under the ACH payment system. We noted that the average monthly payments made to recipients during 1993 was $740,235. These payments are typically made for expenses incurred in previous months. However, we could not determine the accrual that should have been recorded for estimated costs incurred before year end.

At Las Vegas Financial Management Center (FMC-LV), no accrued liabilities were recorded for grant expenses of recipients under the ACH payment system. According to FMC-LV officials, the year end closing procedures stated that no liability should be accrued where there was no evidence that goods or services were delivered or performed. We noted that FMC-LV's average monthly ACH payments were $37,419. These payments are typically made for expenses incurred in previous months. However, we could not determine the accrual that should have been recorded for estimated costs incurred before year end.

We concluded that there were inconsistencies and failures among finance offices to record accrued liabilities for costs incurred by grantees prior to year end. These expenses occur on a continuing basis and there are normally delays in requesting reimbursement. However, we were unable to determine the amounts of such adjustments that would be necessary to properly record the accrued liabilities as of September 30, 1993. Based upon our analysis of average monthly ACH payments, we believe the unrecorded amounts are likely to be material to the financial statements.

Draft Report Recommendation

We recommended on our draft report that the CFO establish specific policies and procedures for recording accrued liabilities for grant expenses for all grant recipients and ensure that the regional offices consistently comply with such procedures.

EPA's Response to Draft Report Recommendation and Our Evaluation

The CFO agreed with our recommendation to issue specific guidance for calculating and recording accrued liabilities for grant expenses. The CFO stated that specific guidance is already included in year end closing instructions. However, he indicated that this guidance will be expanded to include more detailed procedures to accurately calculate and record these liabilities. The CFO provided corrective action plans to expand the year end instructions to include more specific guidance and include payables and accruals as an agenda item in weekly closeout meetings to emphasize to all finance offices to follow the written year end instructions. The target dates for these corrective actions are August 1 and September 30, 1994.

The CFO's proposed corrective actions are generally responsive to our recommendation. However, we noted that the policies and procedures for calculating and recording accrued liabilities are proposed to be included in the year end closing instructions. We believe that the Office of Comptroller's Resources Management Directives Systems (RMDS) is the appropriate and more effective method to establish Agency financial policies and procedures. RMDS was designed to provide all such guidance in one unified system, through which comprehensive and current financial guidance would be provided to all EPA offices.

Recommendation

We recommend that the CFO instruct the Comptroller to develop and establish policies and procedures in RMDS for accounting for and recording accrued liabilities for grant expenses with specific guidance to address calculating and documenting methodologies for these transactions.

11. We also noted other less significant matters involving the internal control structure and its operation that we will report to the management of EPA in a separate management letter.

12. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

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Alexandria, Virginia
January 28, 1994

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Independent Auditors' Report on Compliance with Laws and Regulations - Leaking Underground Storage Tank Trust Fund

The Inspector General
U.S. Environmental Protection Agency:

1. We have audited the financial statements of the Leaking Underground Storage Tank (LUST) Trust Fund of the U.S. Environmental Protection Agency (EPA), as of and for the year ended September 30, 1993. We have issued our report thereon dated January 28, 1994, in which we disclaimed an opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses and qualified our opinion on the statement of financial position.

2. Except as discussed in paragraphs 4, 7 and 8 of our Independent Auditors' Report on Financial Statements, we conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

3. Compliance with laws and regulations is the responsibility of EPA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we tested compliance with certain provisions of the following laws and regulations, designated by OMB, EPA, and EPA's Office of Inspector General, that may have a direct and material effect on the financial statements:

or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The following material weaknesses were reported by us but not included in EPA's FMFIA report:

- not properly recording accrued liabilities for grant expenses; and
- not properly identifying components of net position.

The above weaknesses that we noted were not reported by EPA in its FMFIA report because these weaknesses are primarily specific financial accounting and reporting issues related to the financial statements, and the weaknesses reported by EPA under FMFIA are broader in scope.

6. We considered these matters in forming our opinion on whether the LUST Trust Fund's 1993 statement of financial position is presented fairly, in all material respects, in conformity with the applicable accounting provisions described in Note 1 to the financial statements, and this report does not affect our report dated January 28, 1994 on those statements.

7. The results of our tests of compliance indicate that, with respect to the items tested, the EPA complied, in all material respects, with the provisions referred to in the third paragraph of this report, applicable to the LUST Trust Fund, and with respect to items not tested, nothing came to our attention to cause us to believe that EPA had not complied, in all material respects, with those provisions.

8. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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Alexandria, Virginia
January 28, 1994

- Budget and Accounting Procedures Act of 1950
- Chief Financial Officers Act of 1990
- Anti-Deficiency Act
- Federal Managers' Financial Integrity Act of 1982
- Prompt Payment Act
- Debt Collection Act of 1982
- Civil Service Reform Act
- Fair Labor Standards Act
- Civil Service Retirement Act
- Federal Employees' Compensation Act
- Federal Employees' Group Life Insurance Act of 1980
- Federal Employees' Health Benefits Act of 1959
- Resource Conservation and Recovery Acts of 1976 and 1984
- Superfund Amendments and Reauthorization Act of 1986

4. Our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

5. As required by OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, we obtained an understanding of EPA's process for identifying and evaluating weaknesses required to be reported in accordance with the Federal Managers' Financial Integrity Act (FMFIA). We compared the material weaknesses reported in EPA's fiscal year 1993 FMFIA report with the material weaknesses reported in our report on internal control structure. EPA reported material weaknesses and nonconformances in its financial systems, accounting system-related financial management problems, and accounting system interfaces in its fiscal year 1993 FMFIA report. The definition of a material weakness for financial statement purposes differs from the definition in OMB Circular A-123 (revised) *Internal Control Systems*, for the purposes of FMFIA. According to OMB Circular A-123, a material weakness is a situation in which the designed procedures or degree of operations compliance therewith does not provide reasonable assurance that the objectives of internal control specified in FMFIA are being accomplished. These objectives are: to provide management with reasonable assurance that obligations and costs comply with applicable law, assets are safeguarded against waste, loss, unauthorized use and misappropriation; revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial reports may be prepared and accountability of assets maintained; and programs are efficiently and effectively carried out in accordance with applicable law and management policy. As a result of our engagement, we reported two material weaknesses in internal controls. To determine whether to report matters as material weaknesses, we used the definition of a material weakness included in OMB Bulletin 93-06. According to the bulletin, a material weakness in the internal control structure is a reportable condition in which the design or operation of one

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Independent Auditors' Report on Financial Statements - Asbestos Loan Program

The Inspector General
U.S. Environmental Protection Agency:

1. We have audited the statements of financial position of the Asbestos Loan Program of the U. S. Environmental Protection Agency (EPA), as of September 30, 1993 and 1992, and the related statements of operations and changes in net position, cash flows, and budget and actual expenses for the years then ended. These statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these statements based on our audits.

Scope

2. Except as discussed in paragraphs 4 and 5 of this report, we conducted our audits of the Asbestos Loan Program in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Basis of Accounting

3. As described in Note 1, these financial statements were prepared in conformity with the applicable accounting practices prescribed or permitted by OMB Bulletin 93-02 and applicable provisions of OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Planned Exclusion

4. Prior to October 1, 1991, EPA was not required to prepare financial statements for the Asbestos Loan Program in conformance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*, nor was EPA required to have such statements audited. Accordingly, the statement of financial position as of September 30, 1991, has not been audited. Statement of financial position amounts as of September 30, 1991, enter into the determination of results of operations and changes in net position, cash flows, and budget and actual expenses for the year ended September 30, 1992. Similarly, our qualified opinion on the September 30, 1992 statement of financial position affected our ability to report on the fiscal year 1993 results of operations and changes in net position, cash flows, and budget and actual expenses. Adjustments, if any, to balances reflected in the statements of financial position as of September 30, 1992 and 1991, would affect the statements of operations and changes in net position, cash flows, and budget and actual expenses for the years ended September 30, 1993 and 1992.

Scope Limitation and Qualification

5. We were unable to audit net position, stated at $63,216,000 and $49,224,000, as of September 30, 1993 and 1992, respectively, and the changes in net position for the years then ended because EPA did not maintain sufficient accounting records to provide the net position disclosures in conformance with OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. Adjustments, if any, to the components of net position would affect all of the financial statements for the years ended September 30, 1993 and 1992.

Disclaimer of Opinion on Statements of Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses

6. Because of the matters discussed in paragraphs 4 and 5 of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses for the years ended September 30, 1993 and 1992.

Opinion on Statements of Financial Position

7. In our opinion, except for the effects of such adjustments, if any, that might have been determined necessary had we been able to audit net position, as described in paragraph 5 of this report, the statements of financial position of the Asbestos Loan Program as of September 30, 1993 and 1992, present fairly, in all material respects, the financial position of the U. S. Environmental Protection Agency's Asbestos Loan Program as of September 30, 1993 and 1992, on the basis of accounting described in Note 1 to the financial statements.

8. As discussed in Note 14 to the financial statements, EPA has changed its method of accounting for pre-Credit Reform loan balances, to comply with the Credit Reform Act of 1990.

Supplementary Information

9. Our audits were made for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report, taken as a whole. The financial information presented in *Management's Overview of EPA and Overview of Trust Funds, Revolving Funds and Commercial Activities* is not a required part of the financial statements but is supplementary information required by OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Distribution

10. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

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January 28, 1994

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Independent Auditors' Report on Internal Control - Asbestos Loan Program

The Inspector General
U.S. Environmental Protection Agency:

1. We have audited the financial statements of the Asbestos Loan Program of the U.S. Environmental Protection Agency (EPA), as of and for the year ended September 30, 1993. We have issued our report thereon dated January 28, 1994, in which we disclaimed an opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses and qualified our opinion on the statement of financial position.

2. Except as discussed in paragraph 3 below and in paragraphs 4 and 5 of our Independent Auditors' Report on Financial Statements, we conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

3. Performance measures present the financial and program accomplishments of the reporting entity's activities. We did not review the data that support reported performance measures or the internal control structure, policies and procedures designed to ensure the existence and completeness of such information, as required by OMB Bulletin 93-06, because this was a planned exclusion from the scope of our work due to decisions made by the OIG.

4. In planning and performing our audit for the year ended September 30, 1993, we considered EPA's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements; and to determine whether the internal control structure meets the objectives identified in the following paragraph. This consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, or account balances.

5. The management of EPA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, EPA management, or EPA's OIG have identified as being significant and for which compliance can be objectively measured and evaluated. The objectives of an internal control structure are also to provide management with reasonable, but not absolute, assurance that funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and transactions applicable to EPA operations are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets, in accordance with the accounting principles described in Note 1 to the financial statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

6. For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- General accounting and financial reporting
- Loans receivable
- Accounts payable and accrued liabilities
- Fund balance
- Obligations
- Disbursements and operating expenses

7. For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they have

been placed in operation, assessed control risk, and performed tests of the control procedures.

8. We noted one matter involving the internal control structure and its operation that we consider to be a material weakness and reportable condition under the Standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06.

9. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against unauthorized use or disposition; and transactions applicable to EPA operations are properly recorded to permit the preparation of reliable financial statements in accordance with accounting principles described in Note 1 to the financial statements.

10. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The condition that we consider to be both a reportable condition and material weakness is:

General Ledger Accounts Do Not Correctly Report Net Position Components

We found that EPA's general ledger accounts do not correctly disclose the components of net position because the automated year end closing process in the IFMS is incorrect. This is evidenced by the fact that certain account balances that should equal other accounts do not. For example, beginning net position plus current appropriations less appropriations expensed and the net change in invested capital and unfunded activities do not equal ending net position. As a result, EPA financial management personnel spent significant time and resources to develop financial information for the components of net position for footnote disclosure. Manual adjustments were recorded for financial statements purposes. However, the components of net position as required by OMB Bulletin 93-02 still could not be properly disclosed. The bulletin requires disclosure of the following components of net position: unexpended appropriations available, unexpended appropriations unavailable, undelivered orders, cumulative results of operations, and invested capital.

EPA Actions

EPA management has recognized the IFMS as a material weakness in its FMFIA report for 1993. The weakness resulted from incomplete users manuals and system documentation, incomplete interfaces, and inadequate financial management reports. EPA is in the process of upgrading to a new release of the IFMS, scheduled for implementation in fiscal year 1994, which EPA's management believe will resolve many of these deficiencies.

In our 1992 report, we recommended that EPA review and correct the automated year end closing procedures. EPA's corrective action for this issue is scheduled to begin in fiscal year 1994. Because of this ongoing effort, we are making no further recommendations at this time.

11. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

LEONARD G. BIRNBAUM & COMPANY
Alexandria, Virginia
January 28, 1994

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Independent Auditors' Report on Compliance with Laws and Regulations - Asbestos Loan Program

The Inspector General
U.S. Environmental Protection Agency:

1. We have audited the financial statements of the Asbestos Loan Program of the U.S. Environmental Protection Agency (EPA), as of and for the year ended September 30, 1993. We have issued our report thereon dated January 28, 1994, in which we disclaimed an opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses and qualified our opinion on the statement of financial position.

2. Except as discussed in paragraphs 4 and 5 of our Independent Auditors' Report on Financial Statements, we conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

3. Compliance with laws and regulations is the responsibility of EPA's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with certain provisions of the following laws and regulations, designated by OMB, EPA, and EPA's Office of Inspector General, that may have a direct and material effect on the financial statements:

- Budget and Accounting Procedures Act of 1950

- Chief Financial Officers Act of 1990
- Anti-Deficiency Act
- Federal Managers' Financial Integrity Act of 1982
- Federal Credit Reform Act of 1990
- Prompt Payment Act
- Debt Collection Act of 1982
- Asbestos School Hazard Abatement Act of 1984
- Asbestos School Hazard Abatement Reauthorization Act of 1990

4. Our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

5. As required by OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*, we obtained an understanding of EPA's process for identifying and evaluating weaknesses required to be reported in accordance with the Federal Managers' Financial Integrity Act (FMFIA). We compared the material weaknesses reported in EPA's fiscal year 1993 FMFIA report with the material weakness reported in our report on internal control structure. EPA reported material weaknesses and nonconformances in its financial systems, accounting system-related financial management problems and accounting system interfaces in its fiscal year 1993 FMFIA report. The definition of a material weakness for financial statement purposes differs from the definition in OMB Circular A-123 (revised) *Internal Control Systems*, for the purposes of FMFIA. According to OMB Circular A-123, a material weakness is a situation in which the designed procedures or degree of operations compliance therewith does not provide reasonable assurance that the objectives of internal control specified in FMFIA are being accomplished. These objectives are: to provide management with reasonable assurance that obligations and costs comply with applicable law, assets are safeguarded against waste, loss, unauthorized use and misappropriation; revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial reports may be prepared and accountability of assets maintained; and programs are efficiently and effectively carried out in accordance with applicable law and management policy. As a result of our engagement, we reported one material weakness in internal control. To determine whether to report matters as material weaknesses, we used the definition of a material weakness included in OMB Bulletin 93-06. According to the bulletin, a material weakness in the internal control structure is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The material weakness reported by us but not included in EPA's FMFIA report was not properly identifying components of net position.

The above weakness that we noted was not reported by EPA in its FMFIA report because this weakness is a specific financial accounting and reporting issue related to the financial statements, and the weaknesses reported by EPA under FMFIA are broader in scope.

6. The results of our tests of compliance indicate that, with respect to the items tested, the EPA complied, in all material respects, with the provisions referred to in the third paragraph of this report, applicable to the Asbestos Loan Program, and with respect to items not tested, nothing came to our attention to cause us to believe that EPA had not complied, in all material respects, with those provisions.

7. This report is intended for the information of Congress, OMB, and EPA. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leonard G. Birnbaum & Company

LEONARD G. BIRNBAUM & COMPANY
Alexandria, Virginia
January 28, 1994

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

MAR 31 1994

OFFICE OF
THE INSPECTOR GENERAL

MEMORANDUM

SUBJECT: Fiscal 1993 Financial Statement Audit of the Pesticides Revolving Funds and the Oil Spill Trust Fund
Audit Report No. E1AML3-20-7001-4100230

FROM: Kenneth A. Konz
Assistant Inspector General for Audit (2421)

TO: Jonathan Z. Cannon
Chief Financial Officer (3101)

Lynn R. Goldman, M.D.
Assistant Administrator for Prevention, Pesticides and Toxic Substances (7101)

Elliott P. Laws
Assistant Administrator for Solid Waste and Emergency Response (5101)

Attached is our audit report on the fiscal 1993 financial statements for three of EPA's trust and revolving funds - the Reregistration and Expedited Processing Fund (FIFRA Fund), the Revolving Fund for Certification and Other Services (Tolerance Fund), and the Oil Spill Trust Fund. The audit was performed in accordance with the requirements of the Chief Financial Officers (CFO) Act. The objectives of the audit were to determine if the financial statements were fairly presented, adequate internal controls were in place, and the Agency complied with applicable provisions of laws and regulations.

During this audit, we identified significant financial reporting improvements. As a result of these improvements and additional audit work we performed, we are issuing a qualified opinion on the Statement of Financial Position for the FIFRA Fund as of September 30, 1993. Although we noted improvements in the financial reporting for the FIFRA Fund, as a result of additional audit work we performed related to the Tolerance Fund, we identified weaknesses in controls in the Office of Pesticide's fee tracking system. These weaknesses resulted in material errors in the records used to support the deferred revenue amount shown on the Tolerance Fund Statement of Financial Position.

Therefore, we are unable to determine if the Statement of Financial Position for the fund as of September 30, 1993 is fairly presented. The Statement of Financial Position amounts for the FIFRA and Tolerance Funds as of September 30, 1992, which we could not audit last year, enter into the determination of results for the Statements of Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses for fiscal 1993. Therefore, we are continuing to disclaim opinions on these financial statements. For the Oil Spill Trust Fund, we are issuing unqualified opinions on the fiscal 1993 Statements of Financial Position and Cash Flows. We are qualifying our opinions on the Statements of Operations and Changes in Net Position and Budget and Actual Expenses for the year, only because we did not audit the overhead expenses allocated from other appropriations.

We also identified one noncompliance issue which was also discussed in our audit report on the fiscal 1992 financial statements. The Agency has not complied with the CFO Act requirement to perform biennial reviews of user fees. We believe the Agency needs to place a higher priority on completing these reviews since such reviews might identify user fees EPA could increase -- thereby providing additional revenues for the Agency's use in performing its mission.

In accordance with EPA Order 2750, you are required to provide this office a written response to the audit report within 90 days of the final audit report date. Since the recommendations are addressed to two offices we are designating the Chief Financial Officer as the primary action official. As such, the primary action official should take the lead in coordinating the Agency's official response so that the 90 day timeframe is met. The Assistant Administrator for Prevention, Pesticides and Toxic Substances, as the secondary action official, should coordinate with the primary action official. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in closing the report. During our upcoming audit of the fiscal 1994 financial statements, we will work with your staff to assist them in implementing corrective actions to improve the accuracy and timeliness of EPA's financial information.

This report contains findings that describe problems the Office of Inspector General (OIG) identified and corrective actions the OIG recommends. This report represents the opinion of the OIG. Final determinations on matters in this report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in this report do not necessarily represent the final EPA position. We have no objection to the further release of this report to the public.

Should you or your staff have any questions concerning this report, please contact Melissa Heist, Divisional Inspector General, Financial Audit Division at 260-1479 or Michael Powers of her staff at 260-1480.

Attachment

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INSPECTOR GENERAL'S REPORT ON THE FINANCIAL STATEMENTS FOR THE FIFRA AND TOLERANCE REVOLVING FUNDS AND THE OIL SPILL TRUST FUND

The Administrator
U.S. Environmental Protection Agency:

We have audited the principal financial statements of the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund), the Revolving Fund for Certification and Other Services (Tolerance Fund), and the Oil Spill Trust Fund as of and for the year ended September 30, 1993. Following, are the results of our audit work that included assessments of whether (1) the financial statements are fairly presented, (2) adequate internal controls related to these funds were in place, and (3) the Agency complied with applicable laws and regulations.

FINANCIAL STATEMENTS FOR THE FIFRA FUND

In our previous report on the FIFRA Fund financial statements, dated April 7, 1993, we did not express an opinion on the Statements of Financial Position, Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses for the Fund as of and for the year ended September 30, 1992 because:

- We were unable to audit the September 30, 1992, property, plant and equipment balance stated at $574,000 because the detail maintained in the accounting records was not sufficient to support the financial statement amounts.

- We did not audit the administrative costs of $22,811,000 that were funded from other EPA appropriations. These costs are recorded for financial statement purposes as income from overhead allocation and as offsetting overhead expenses from allocation. We did not audit these costs because we were initially told by EPA management that these costs would not be included in the financial statements, and the decision to include them was made too late to allow us to audit them.

- We were unable to audit the accounts payable and accrued liabilities for the Fund because adequate documentation was not available to support year-end adjusting entries of $141,223. In addition, we were unable to audit other adjustments made to the FIFRA Fund totaling $181.3 million because adequate supporting documentation was not available.

- Prior to October 1, 1991, EPA was not required to prepare financial statements for the FIFRA Fund. Accordingly, the account balances for this Fund had not been audited as of September 30, 1991.

The Statement of Financial Position amounts as of September 30, 1992, enter into the determination of results of operations and changes in net position, cash flows, and budget and actual expenses for the year ended September 30, 1993. Because we were unable to examine sufficient evidence to determine the reliability of the Statement of Financial Position for the Fund as of September 30, 1992, the scope of our audit work was not sufficient to enable us to express an opinion on the Statements of Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses for the year ended September 30, 1993.

In addition, we did not audit the administrative costs of $25,303,000 that were allocated from other EPA appropriations to the FIFRA Fund for fiscal 1993. These costs are recorded for financial statement purposes as income from overhead allocation and as offsetting overhead expenses from allocation. We did not audit these administrative costs funded from other EPA appropriations because of the substantial increased audit effort that would have been required. We plan to audit this category of costs beginning in fiscal 1995 when the Agency will expand the coverage of its financial statements to all of its activities. Adjustments, if any, to these account balances would affect the Statements of Operations and Changes in Net Position, and Budget and Actual Expenses for the Fund.

We were unable to audit the FIFRA Fund property, plant and equipment balance of $533,000 as of September 30, 1993, because the detailed records on property maintained by the Agency do not provide adequate support for the financial statement amounts. Adjustments, if any, to the property, plant and equipment balance would affect all of the FIFRA Fund Financial Statements for the year ended September 30, 1993.

In our opinion, except for the effects of any adjustments that might have been necessary had we been able to audit the property, plant and equipment balance, the Statement of Financial Position for the FIFRA Fund as of September 30, 1993, is fairly presented on the basis of accounting described in Note 1 to the financial statements. As required by applicable provisions of Office of Management and Budget (OMB) Bulletins 93-02 and 94-01, both entitled "Form and Content of Agency Financial Statements," Note 1 describes the accounting policies followed by the Agency to prepare its financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Our audit work related to the information presented in Management's <u>Overview of EPA</u> and <u>Overview of Trust Funds, Revolving Funds and Commercial Activities</u> consisted of applying certain limited procedures to the section of the overview captioned "Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund)." These procedures consisted primarily of comparing the information with information contained in EPA's accounting records and making inquiries of management regarding the presentation of the overview. We did not audit the information contained in the overview, and are therefore not expressing an opinion on it.

FINANCIAL STATEMENTS FOR THE TOLERANCE FUND

In our report on financial statements dated April 7, 1993, we did not express an opinion on the Statements of Financial Position, Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses for EPA's Tolerance Fund as of and for the year ended September 30, 1992. We were unable to express an opinion on the Tolerance Fund financial statements for the following reasons:

- We did not audit the administrative costs of $3,532,000 that were funded from other EPA appropriations. These costs are recorded for financial statement purposes as income from overhead allocation and as offsetting overhead expenses from allocation. We did not audit these costs because we were initially told by EPA management that these costs would not be included in the financial statements, and the decision to include them was made too late to allow us to audit them.

- We were unable to audit $21.2 million in adjustments made to the Tolerance Fund because adequate supporting documentation was not available.

- Prior to October 1, 1991, EPA was not required to prepare financial statements for the Tolerance Fund. Accordingly, the account balances for this Fund had not been audited as of September 30, 1991.

The Statement of Financial Position amounts as of September 30, 1992, enter into the determination of results of operations and changes in net position, cash flows, and budget and actual expenses for the year ended September 30, 1993. Because we were unable to examine sufficient evidence to determine the reliability of the Statement of Financial Position for the Fund as of September 30, 1992, the scope of our audit work was not sufficient to enable us to express an opinion on the Statements of Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expenses for the year ended September 30, 1993.

In addition, due to weaknesses in controls in the Office of Pesticide Programs' (OPP) fee tracking system, we were unable to audit the deferred revenue amount of $4,157,000 shown on the Statement of Financial Position for the Tolerance Fund as of September 30, 1993. Further, due to a lack of adequate supporting documentation, we were unable to determine the validity of $24.3 million of adjusting entries made to the Tolerance Fund.

Finally, we did not audit the administrative costs of $4.5 million that were allocated from other EPA appropriations to the Tolerance Fund for fiscal 1993. These costs are recorded for financial statement purposes as income from overhead allocation and as offsetting overhead expenses from allocation. We did not audit these administrative costs funded from other EPA appropriations because of the substantial increased audit effort that would have been required. We plan to audit this category of costs beginning in fiscal 1995 when the Agency will expand the coverage of its financial statements to all of its activities. Adjustments, if any, to these account balances would affect the Statements of Operations and Changes in Net Position, and Budget and Actual Expenses for the Fund.

Because of the matters discussed above, the scope of our work was not sufficient to enable us to express an opinion on the Statements of Financial Position, Operations and Changes in Net Position, Cash Flows, and Budget and Actual Expense for the Tolerance Fund as of and for the year ended September 30, 1993.

Our audit work related to the information presented in Management's Overview of EPA and Overview of Trust Funds, Revolving Funds and Commercial Activities consisted of applying certain limited procedures to the section of the overview captioned "Revolving Fund for Certification and Other Services (Tolerance Fund)." These procedures consisted primarily of comparing the information with information contained in EPA's accounting records and making inquiries of management regarding the presentation of the overview. We did not audit the information contained in the overview, and are therefore not expressing an opinion on it.

FINANCIAL STATEMENTS FOR THE OIL SPILL TRUST FUND

Fiscal 1993 was the first year EPA received a separate appropriation to carry out its responsibilities under the Oil Pollution Act of 1990. Accordingly, fiscal 1993 was the first year EPA prepared financial statements covering the Oil Spill Trust Fund.

We did not audit the overhead expenses allocated from other appropriations to the Oil Spill Trust Fund because of the substantial audit effort that would have been involved. These allocated expenses of $755,000 for the year ended September 30, 1993, are shown on the Statement of Operations and Changes in Net Position as Income from Overhead Allocation and Overhead Expenses from Allocations. We will audit this category of expenses beginning in fiscal 1995 when Agency-wide financial statements will be prepared.

In our opinion, except for the effects of any adjustments that might have been necessary to the Statements of Operations and Changes in Net Position, and Budget and Actual Expenses had we audited these account balances, the financial statements for the Oil Spill Trust Fund fairly present, the Fund's:

- financial position as of September 30, 1993; and
- results of operations and changes in net position,
- cash flows, and
- budget and actual expenses for the year then ended; on the basis of accounting described in Note 1 to the financial statements.

As required by applicable provisions of OMB Bulletins 93-02 and 94-01, both entitled "Form and Content of Agency Financial Statements," Note 1 describes the accounting policies followed by the Agency to prepare its financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Our audit work related to the information presented in Management's Overview of EPA and Overview of Trust Funds, Revolving Funds and Commercial Activities consisted of applying certain limited procedures to the section of the overview captioned "Oil Pollution Prevention Program (Oil Spill Trust Fund)." These procedures consisted primarily of comparing the information with information contained in EPA's accounting records and making inquiries of management regarding the presentation of the overview. We did not audit the information contained in the overview, and are therefore not expressing an opinion on it.

EVALUATION OF INTERNAL CONTROLS

As a part of our audit, we evaluated the Agency's internal control structure: (1) to determine the audit procedures necessary to express an opinion on the financial statements, and (2) to determine whether the internal controls designed by management provide reasonable assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;

- transactions, including those related to obligations and costs, are executed in compliance with applicable laws and regulations; and

- funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The audit methodology section of this report provides further details on the scope of our internal control audit work.

MATERIAL WEAKNESSES

During our evaluation of internal controls, we noted the following material weaknesses involving the Agency's internal control structure related to the FIFRA and Tolerance Revolving Funds and the Oil Spill Trust Fund. Applicable guidance contained in OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," defines a material weakness as a reportable condition in which the design or operation of specific internal control procedures does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

1. Weaknesses Exist In System Used To Track Tolerance Fees

Weaknesses in controls in OPP's fee tracking system resulted in significant errors in the office's tolerance fee records. For example, we found fee receipts of $457,700 and earnings of $9,800 that were recorded twice; earnings of $163,800 that were recorded for fees which had been refunded; and fees totaling $288,100 that were refunded but not recorded in petition records. The Financial Management Division relied on OPP's detailed records on fees to support summary information on deferred revenue that was entered into the Agency's Integrated Financial Management System for the Tolerance Fund. As a result, we could not determine if the amount of deferred revenue in the Tolerance Fund Statement of Financial Position as of September 30, 1993 was accurate. Since deferred revenue represents 87 percent of the reported liabilities for the Fund, we are unable to express an opinion on the statement.

2. Further Improvements Needed In Documentation For Adjusting Entries

During this year's audit of EPA's financial statements, we found financial management personnel improved their documentation for adjusting entries. We did find, however, that some material adjustments were not adequately described and lacked supporting documentation. Adequate documentation should be maintained to ensure that only legitimate adjustments are made to the Agency's financial records. As a result of the lack of adequate documentation, we could not determine the validity of $150.4 million of adjusting entries made to the FIFRA Fund, and $24.3 million made to the Tolerance Fund. We found other ways to validate year-end account balances for the FIFRA Fund. However, insufficient documentation for Tolerance Fund entries contributed to our disclaimer of an opinion on the Tolerance Fund financial statements.

3. Property Balances Included In The Financial Statements Could Not Be Audited

The procedures used to capitalize property purchased with FIFRA and other Agency funds do not identify all property which should be capitalized. In addition, property that is capitalized in the accounting records can not be uniquely identified in the Agency's property accountability system. Consequently, when items of property are transferred, replaced or lost, those changes can not be reflected in the accounting records. As a result, the FIFRA Fund property, plant and equipment balance of $533,000 included in the fiscal 1993 Statement of Financial Position for the Fund could not be audited. This condition was also reported during our fiscal 1992 financial statement audit.

4. Improvements Needed In Estimating Accounts Payable And Accrued Liabilities

The methods the Research Triangle Park (RTP) Financial Management Center used to compute year-end accounts payable and accrued liability adjustments resulted in a net material misstatement of $799,775 in the fiscal 1993 FIFRA Fund financial statements, and an $816,054 misstatement in the fiscal 1993 Oil Spill Trust Fund financial statements. The RTP Financial Management Center overstated its FIFRA Fund accounts payable adjusting entry of $106,829 by $22,106, and they also overstated their accrued liability adjustment of $848,177 by $777,669. In addition, the RTP Financial Management Center understated the Oil Spill Trust Fund accounts payable adjusting entry of $415,309 by $271,603 and understated the accrued liability adjustment of $91,051 by $544,450. Agency financial management personnel made the necessary corrections to the Agency's financial statements, however, additional controls are needed to prevent such misstatements in the future.

In addition to these weaknesses, the Agency, in its fiscal 1993 FMFIA report, included as a material weakness accounting system-related financial management problems that affect the funds we audited. EPA reported that while its Integrated Financial Management System (IFMS) meets the Joint Financial Management Improvement Program core accounting system requirements, specific systems-related problems impair EPA's ability to provide complete, reliable and timely data for Agency decision-making and control of assets. The problems which would impact the funds we audited include: (1) incomplete user manuals and system documentation, (2) an inadequate automated project cost accounting capability, (3) incomplete interfaces with programmatic and administrative systems, and (4) inadequate financial management reports.

REPORTABLE CONDITIONS

We also identified the following reportable conditions. OMB Bulletin 93-06 defines a reportable condition as a weakness in the design or operation of the internal control structure that could adversely affect EPA's ability to ensure: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against unauthorized use or disposition; and (3) transactions are properly recorded to permit the preparation of reliable financial statements.

1. Unliquidated Obligation Balance For The FIFRA Fund Contained Invalid Obligations

The fiscal 1993 year-end FIFRA unliquidated obligation balance in the general ledger contained invalid obligations. This occurred because OPP did not conduct a complete and timely review of some of its unliquidated obligations. In addition, the Headquarters Procurement Operations Division did not request deobligation of funds associated with completed delivery orders. We identified approximately $471,000 of unliquidated obligations that should be deobligated and made available for other critical FIFRA program requirements. This is especially important since Agency management has identified the shortage of funds as one of the reasons they will not meet the Congressionally imposed deadline for reregistering pesticides.

2. Property Accountability Controls Need To Be Strengthened

As a result of weaknesses in controls over property, the Agency is not able to account for all property purchased with FIFRA funds. We found: (1) employees improperly exchanged equipment among themselves without notifying their custodial officers; (2) a complete fiscal 1993 physical inventory was not conducted; and (3) custodial officers were accountable for too many items of property. Our 1992 audit report also identified similar problems

Annual Registration Maintenance, and Pre-Manufacture Notice fees all required review in 1993. The Agency needs to place a higher priority on completing these reviews since such reviews might identify user fees EPA could increase -- thereby providing additional revenues for the Agency's use in performing its mission. For example, the Agency collected $1.5 million in Tolerance Petition fees while the Office of Pesticide Programs estimated that 49 FTEs at a total cost of $3.2 million were used to process Section 408 tolerance petitions for raw agricultural products. Performing reviews of user fees is consistent with the Vice President's Report of the National Performance Review, which raises concerns that "given the size of the federal deficit, government must find better, more efficient, and more effective ways to pay for its activities." To accomplish this, the report recommends increasing the use of user fees for many activities.

COMPARISON OF EPA'S FMFIA REPORT WITH OUR EVALUATION OF INTERNAL CONTROLS

As required by OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," we compared EPA's Federal Managers' Financial Integrity Act (FMFIA) report to our evaluation of the internal control systems related to the FIFRA and Tolerance Revolving Funds and the Oil Spill Trust Fund. For fiscal 1993, EPA continued to report IFMS as a high risk area and a material weakness. EPA also continued to report as material nonconformances the need to: (1) enhance the process for recording property in order to improve the accuracy of the Agency's accounting records, and (2) implement interfaces between IFMS and other administrative systems. In addition, the Agency reported that corrective action had been completed on two previously reported material nonconformances -- (1) the need to record adjustments to the general ledger due to IFMS implementation during 1989, and (2) the need to perform comprehensive reconciliations between Treasury reports and IFMS.

In addition to the weaknesses identified by EPA, we are reporting three additional weaknesses that affect the funds we audited. We found that OPP did not have an adequate system to track tolerance fees. We also found, as we had in our fiscal 1992 audit, that material adjusting entries for the FIFRA and Tolerance Funds were not adequately supported, and the methods used to estimate accounts payable and accrued liabilities for the FIFRA and Oil Spill Funds resulted in material misstatements of the account balances for these two funds.

regarding controls over property located in OPP. Based on a physical inventory we conducted of statistically selected items, we project that 64 FIFRA funded items valued at $220,384 are missing, and 26 items valued at $88,154 were improperly transferred to other custodial areas.

We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions or material weaknesses. In addition, because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or the effectiveness of the design and operation of policies and procedures may deteriorate.

TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS

As a part of obtaining reasonable assurance about whether the financial statements for the FIFRA, Tolerance and Oil Spill Funds were free of material misstatements, we tested compliance with those laws and regulations that either materially affect the financial statements, or that OMB or our office considered significant to the audit.

Our compliance testing did not disclose any material instances of noncompliance. Also, with respect to items not tested, nothing came to our attention that caused us to believe that material noncompliance with such provisions had occurred. However, the objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions.

We did identify the following area of noncompliance with laws and regulations that while not material to the financial statements, we are still reporting because it is a significant issue that should be addressed by EPA's management.

HIGHER PRIORITY NEEDS TO BE PLACED ON COMPLETING REQUIRED REVIEWS OF USER FEES

We found that during fiscal 1993, EPA did not perform biennial reviews of user fees required by the Chief Financial Officers Act. The Act requires that fees imposed by EPA for services and things of value be reviewed, and that the Chief Financial Officer make recommendations on revising the fees to reflect costs incurred in providing the services. EPA's Tolerance Petition,

OTHER SIGNIFICANT MATTER

The 1988 amendments to the Federal Insecticide, Fungicide, and Rodenticide Act, mandate the accelerated reregistration of all pesticide products registered prior to November 1, 1984. The amendments establish a statutory goal of completing reregistration eligibility decisions by 1997. In the Agency's Overview of Trust Funds, Revolving Funds, and Commercial Activities, the Office of Pesticide Programs discloses that additional resources will be needed to meet these deadlines. According to a recent General Accounting Office report, EPA now estimates that all pesticides may not be reassessed until 2004, and all products may not be reregistered until 2006. We have chosen to report this matter in our report even though it is not material to the financial statements because of its significance.

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RESPONSIBILITIES AND METHODOLOGY

EPA MANAGEMENT AND OIG RESPONSIBILITIES

EPA's management is responsible for:

- preparing annual financial statements covering its trust funds, revolving funds and commercial activities following applicable accounting principles;
- establishing and maintaining a system of internal controls; and
- complying with applicable laws and regulations.

We are responsible for auditing the financial statements in order to determine if the statements are free of material misstatements and presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements. We are also responsible for evaluating related internal controls and compliance with applicable provisions of laws and regulations.

AUDIT METHODOLOGY

In order to fulfill our responsibilities, except as described in our opinions or disclaimers of opinion on the financial statements for the FIFRA and Tolerance Revolving Funds and the Oil Spill Trust Fund, we:

- examined on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management; and
- evaluated the overall presentation of the financial statements.

In addition, we completed the following audit work in order to evaluate internal controls and test compliance with laws and regulations.

EVALUATION OF INTERNAL CONTROLS

We considered EPA's internal control structure in planning and performing our audit of the FIFRA and Tolerance Revolving Funds and the Oil Spill Trust Fund. The purposes of this consideration were: (1) to determine our auditing procedures for the purpose of attempting to express an opinion on the financial statements; and (2) to determine whether the internal control structure meets the previously described objectives. We obtained an understanding of the significant internal control structure policies and procedures and assessed the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant internal control structure policies and procedures that have been properly designed and placed in operation, we performed tests to assess whether the controls are effective and working as designed.

We classified the significant internal control structure policies and procedures into the following categories:

- Receipts
- Disbursements
- Payroll
- Investments
- Property
- Budget
- Financial Reporting

As a part of our audit work, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by FMFIA. In addition, we compared the material weaknesses reported in the Agency's FMFIA report that relate to the financial statements under audit to the material weaknesses found during the evaluation we conducted of the entity's internal control system. Our objective in performing this work was not to express an opinion on overall compliance with FMFIA provisions.

The information presented in Management's Overview of EPA and Overview of Trust Funds, Revolving Funds and Commercial Activities is supplemental information required by OMB Bulletins 93-02 and 94-01 both entitled "Form and Content of Agency Financial Statements." OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," contains certain requirements with respect to performance measurement information reported in the overview section of financial statements. Auditors are to obtain an understanding of the internal control structure policies and procedures designed to ensure that data supporting the measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information. Auditors are also required to assess the risk that the controls in place would not prevent, detect or correct a material misstatement of the information. Our audit work in the area of performance measures was limited to comparing the financial information included in the overview with information contained in EPA's accounting records and providing comments to management regarding the presentation of the overview.

TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS

As a part of obtaining reasonable assurance about whether the financial statements were free of material misstatements, we tested compliance with applicable sections of those laws and regulations that either materially affect the financial statements, or that OMB or our office considered significant to the audit. In addition, we relied on some compliance testing performed by Leonard G. Birnbaum and Company, Certified Public Accountants, as part of its engagement to audit EPA's financial statements for the Superfund and Leaking Underground Storage Tank Trust Funds, and the Asbestos Loan Program as of and for the years ended September 30, 1993 and 1992. We reviewed the firm's audit work and concluded that we could rely on it to augment our work. The objective of our audit work and the work performed by Leonard G. Birnbaum and Company was not to provide an opinion on overall compliance with laws and regulations.

DETAILS OF AUDIT FIELD WORK PERFORMED

We selected statistical and non-statistical samples from EPA's detailed accounting records supporting various FIFRA, Tolerance and Oil Spill financial statement accounts. We tested these sample transactions to determine if they were adequately supported by documentation and were recorded in accordance with internal control policies and procedures and applicable laws and regulations. We also reviewed other supporting documentation, such as worksheets and schedules, that the Agency used in preparing its financial statements. In addition, we applied certain analytical review procedures to account balances.

The financial management records and supporting documentation we reviewed were maintained by Financial Management Centers in Research Triangle Park, Cincinnati and Las Vegas; and the Office of Pesticide Programs, the Office of Emergency and Remedial Response, the Headquarters Accounting Operations Branch and the Financial Reports and Analysis Branch in Washington, D.C. To gain an understanding of established internal control procedures, we also interviewed personnel in these offices and reviewed applicable policies and procedures.

To evaluate controls in place to safeguard assets, we interviewed personnel in the Facilities Management and Services Division and the Office of Pesticide Programs, both located in Washington, D.C. We also reviewed applicable policies and procedures. In addition, we conducted a physical inventory of randomly selected FIFRA funded property items.

Our fieldwork for the audit of the fiscal 1992 financial statements was performed from March 31, 1992, through April 7,1993, and our fiscal 1993 audit work was performed from June 28, 1993, through January 31, 1994.

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," except as previously discussed in this report. These standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We believe that our audit provides a reasonable basis for our opinions.

Kenneth A. Konz
Assistant Inspector General for Audit
U.S. Environmental Protection Agency
January 31, 1994