U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA’s Fiscal Years 2017 and 2016 Consolidated Financial Statements

Report No. 18-F-0039 **November 15, 2017**

Abbreviations

EPA	U.S. Environmental Protection Agency
FAC-P/PM	Federal Acquisition Certification for Program and Project Managers
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IT	Information Technology
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
U.S.C.	United States Code

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U.S. Environmental Protection Agency
Office of Inspector General

18-F-0039
November 15, 2017

At a Glance

Why We Did This Review

We performed this audit in accordance with the Government Management Reform Act, which requires the U.S. Environmental Protection Agency's (EPA's) Office of Inspector General to audit the financial statements prepared by the agency each year. Our primary objectives were to determine whether:

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

The requirement for audited financial statements was enacted to help bring about improvements in agencies' financial management practices, systems and control so that timely, reliable information is available for managing federal programs.

This report addresses the following:

- *Operating efficiently and effectively.*

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Listing of OIG reports.

EPA's Fiscal Years 2017 and 2016 Consolidated Financial Statements

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2017 and 2016, meaning they were fairly presented and free of material misstatement.

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

Internal Control Material Weaknesses and Significant Deficiencies Noted

We noted the following material weaknesses:

- The EPA's accounting for software continues to be a material weakness.
- The EPA incorrectly recorded unearned revenue for Superfund special accounts and did not reconcile unearned revenue for those accounts.

We noted the following significant deficiencies:

- Additional efforts are needed to resolve the EPA's cash difference with the U.S. Treasury.
- The EPA needs to appoint a Project Manager to oversee the management of Compass Financials, which is the agency's accounting system, and to improve acquisition planning.

Compliance With Laws and Regulations

We did not note any significant noncompliance with laws and regulations.

Recommendations and Planned Agency Corrective Actions

The EPA agreed with our findings and recommendation and expects to complete the corrective action in fiscal year 2018.

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

OFFICE OF
INSPECTOR GENERAL

November 15, 2017

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2017 and 2016 Consolidated Financial Statements
Report No. 18-F-0039

FROM: Paul C. Curtis, Director
Financial Statement Audits

TO: David Bloom, Acting Chief Financial Officer

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2017 and 2016 consolidated financial statements. The project number for this audit was OA-FY17-0206. We are reporting two internal control material weaknesses and two significant deficiencies. Attachment 1 contains details on the material weaknesses and significant deficiencies. We did not note any instances of noncompliance.

This audit report represents the opinion of the Office of Inspector General, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon the EPA in any enforcement proceeding brought by the EPA or the Department of Justice.

Action Required

The agency agreed with the recommendation in this report and, therefore, no further response is required. If you nonetheless choose to provide a response, your response will be posted on the Office of Inspector General's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

This report will be available at www.epa.gov/oig.

Attachments

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Appendices

Inspector General's Report on EPA's Fiscal Years 2017 and 2016 Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency (EPA), which comprise the consolidated balance sheet, as of September 30, 2017, and September 30, 2016, and the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements.* These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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

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

The financial statements include expenses of grantees, contractors and other federal agencies. Our audit work pertaining to these expenses included testing only within the EPA. The U.S. Treasury collects and accounts for excise taxes that are deposited into the Leaking Underground Storage Tank Trust Fund. The U.S. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since the U.S. Treasury, and not the EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for the OIG are not material to the EPA's financial statements. The OIG is organizationally independent with respect to all other aspects of the agency's activities.

Opinion

In our opinion, the consolidated financial statements, including the accompanying notes, presents fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by major program, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter—Software Capitalization

As described in Note 1 to the financial statements, in fiscal year (FY) 2017, the agency changed its capitalization policy by increasing the capitalization threshold from $250,000 to $5 million for new purchases in FY 2017 and thereafter. Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, allows for agencies to select their own capitalization threshold. However, the standard states that agencies should consider whether period cost would be distorted or asset values understated by expensing the purchase. We found that the EPA did not consider the cost impact on the financial statements and instead relied mainly on the capitalization policy of several other agencies that also have adopted a higher capitalization threshold. We could not independently determine the impact that the change in the capitalization threshold will have on the agency's statements. In addition, the agency wrote off approximately $300 million in software development costs that could not be readily charged to a project or for projects abandoned. Such costs were unrelated to the change in capitalization threshold. Our opinion is not modified in respect to this matter.

Review of EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis

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

We did not identify any material inconsistencies between the information presented in the EPA's consolidated financial statements and the information presented in the EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

Report on Internal Control Over Financial Reporting

Opinion on Internal Control. In planning and performing our audit, we considered the EPA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal control included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

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

Because of inherent limitations in internal control, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, two of which we consider to be material weaknesses. These issues are summarized below and detailed in Attachment 1.

Material Weaknesses

PROPERTY

EPA's Accounting for Software Continues to Be a Material Weakness

We previously reported the EPA's accounting for software as a material weakness in our FYs 2014 through 2016 audits. While we note that the agency has taken steps to address its software material weakness, the EPA continues to experience problems in adequately documenting capitalized software transactions. In FY 2017, we found that the EPA had misposted entries leading to misstated depreciation and amortization expense and loss on disposal of asset costs. Federal standards require that transactions be appropriately documented and that internal control be maintained. Failure to properly record capital software transactions in the agency's property management system and Compass Financials—the agency's accounting system—compromises the accuracy of the EPA's property accounts and depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report accounting for software as a material weakness.

SPECIAL ACCOUNTS

EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts

The EPA did not modify the accounting model in the accounting system to properly record all Superfund special accounts activity or perform a comprehensive reconciliation of Superfund special accounts general ledger balances to the special accounts database detail during FY 2017. In OIG Report No. 17-F-0046, *Audit of EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016, we reported as a material weakness that the EPA did not properly record or reconcile unearned revenue for Superfund special accounts in FY 2016. During FY 2017, we found that the EPA did not implement the corrective actions to complete the new posting model change, nor did the agency perform a comprehensive reconciliation of special accounts. As a result, the EPA cannot ensure the accuracy of the unearned revenue and financial statements.

Significant Deficiencies

CASH

Additional Efforts Needed to Resolve EPA's Cash Differences With Treasury

As of September 30, 2017, there was $2.2 million in cash differences between the EPA and U.S. Treasury cash balances. We previously reported the EPA's long-standing cash differences with Treasury as a significant deficiency in our FYs 2015 and 2016 audit reports on the financial statements. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. However, the EPA's Office of the Chief Financial Officer (OCFO) did not have effective internal control to adequately monitor the internal cash differences and ensure that the EPA resolved the differences with Treasury. Unresolved differences may result in misstatements of the EPA's Fund Balance with Treasury and financial statements, as well as increase the risk of fraud.

INFORMATION TECHNOLOGY

EPA Needs to Appoint a Project Manager to Oversee Management of Compass Financials and Improve Acquisition Planning

EPA's Compass Financials application—a major information technology (IT) investment—lacks an oversight structure to ensure that personnel implement agency policies and procedures and guide the project through the acquisition process. OMB Circular A-130, *Managing Information as a Strategic Resource*, Appendix I-13-j(2), requires agencies to provide oversight of information systems that are used by contractors or that collect or maintain federal information. This oversight includes the responsibility to implement policies and procedures for security controls and accountability for information systems. Paragraph 7.1.1.2 of the EPA's Acquisition Guide requires acquisition planning for all acquisitions. The guide defines "acquisition planning" as the process by which all personnel responsible for an acquisition coordinate to fulfill agency needs in a timely manner and at a reasonable cost.

Attachment 2 contains the status of issues reported in prior years' reports. The issues included in the attachment should be considered among the EPA's significant deficiencies for FY 2017. We reported less significant internal control matters to the agency during the course of the audit. We will not issue a separate management letter.

Comparison of EPA's FMFIA Report With Our Evaluation of Internal Control

OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

The agency reported Capitalized Software and Accounting for Unearned Revenue as material weaknesses in FY 2017. Capitalized software continues to be reported as a material weakness in the design or operation of internal control. The agency is in the process of developing a corrective action plan for Accounting for Unearned Revenue.

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

EPA management is responsible for complying with laws, regulations, contracts and grant agreements applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements. We also performed certain other limited procedures as described in *Codifications of Statements on Auditing Standards*, AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin 17-03, *Audit Requirements for Federal Financial Statements*, requires that we evaluate compliance with federal financial statement system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

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

Providing an opinion on compliance with certain provisions of laws, regulations, contracts and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion. A number of ongoing investigations involving the EPA's grantees and contractors could disclose violations of laws and regulations, but a determination about these cases has not been made.

We did not identify any significant matters involving compliance with laws and regulations that came to our attention during the course of the audit.

Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA Section 803(a) requirements and used the OMB Memorandum M-09-06-23, *Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 9, 2009, to determine substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances of noncompliance with FFMIA requirements, including where the agency's financial management systems did not substantially comply with the applicable federal accounting standard.

We did not identify any significant matters involving compliance with laws and regulations related to the agency's financial management systems that came to our attention during the course of the audit.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

Our audit work was also performed to meet the requirements in 42 U.S.C. § 9611(k) with respect to the Hazardous Substance Superfund Trust Fund to conduct an annual audit of payments, obligations, reimbursements or other uses of the fund. The significant deficiencies reported above also relate to Superfund.

Prior Audit Coverage

During previous financial or financial-related audits, we reported weaknesses that impacted our audit objectives in the following areas:

- The EPA undercapitalized software costs, leading to restated FY 2013 financial statements and a continued material weakness.
- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA's property management system does not reconcile to its accounting system.
- The EPA did not properly record or reconcile unearned revenue for Superfund special accounts.
- Originating offices did not forward accounts receivable source documents in a timely manner to the finance center.
- The EPA should improve controls over expense accrual reversals.
- The EPA should improve its efforts to resolve its long-standing cash differences with the U.S. Treasury.
- Financial management system user account management needs improvement.
- The OCFO lacks internal controls when assuming responsibility for account management procedures of financial systems.
- Financial and mixed-financial applications did not comply with required account management controls.
- The EPA needs controls to monitor direct access to its accounting system.

Attachment 2 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues. We found during our audit that the issues reported in prior audits and listed in Attachment 2 still exist and should be considered as outstanding significant deficiencies and noncompliance issues unless otherwise noted.

Agency Comments and OIG Evaluation

In a memorandum dated November 13, 2017, the Chief Financial Officer responded to our draft report. The EPA agreed with our findings and recommendation and expects to complete the corrective action in FY 2018.

The rationale for our conclusions and a summary of the agency comments are included in the appropriate sections of this report, and the agency's complete response is included as Appendix II to this report.

This report is intended solely for the information and use of the management of the EPA, OMB and Congress, and it is not intended to be and should not be used by anyone other than these specified parties.

Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 14, 2017

Attachment 1

Internal Control Material Weaknesses and Significant Deficiencies

Table of Contents

1 – EPA’s Accounting for Software Continues to Be a Material Weakness

We previously reported the EPA’s accounting for software as a material weakness in our FYs 2014 through 2016 audits. While we note that the agency has taken steps to address its software material weakness, the EPA continues to experience problems in adequately documenting capitalized software transactions. In FY 2017, we found that the EPA had misposted entries, leading to misstated depreciation and amortization expense and loss on disposal of asset costs. Federal standards require that transactions be appropriately documented and that internal control be maintained. Failure to properly record capital software transactions in the agency’s property management system and Compass Financials—the agency’s accounting system—compromises the accuracy of the EPA’s property accounts and depreciation and operating expenses, as well as the accuracy of the agency’s financial statements. Consequently, we continue to report accounting for software as a material weakness.

SFFAS No. 10, *Accounting for Internal Use Software*, requires entities to capitalize the costs of software that meet the criteria for general property, plant and equipment. Software life cycle includes three phases: planning, development and operations. Capitalized software costs should include the full costs (direct and indirect) incurred during the software development stage. The Software-In-Development general ledger account represents costs incurred in the software development.[1] Upon completion, costs incurred are capitalized and transferred to the Internal-Use Software general ledger account.[2] The SSFAS also requires that entities amortize in a systematic and rational manner over the estimated useful life of the software; amortization should begin when that module or component has been successfully tested. The agency’s practice is to capitalize software costs exceeding its annual capitalization threshold of $250,000 over 7 years. In FY 2017, the agency increased its capitalization threshold for new software projects to $5 million.

Beginning in FY 2015, the EPA took steps to improve its internal accounting and controls over software costs. In FY 2017, the EPA stated that it reviewed software projects and met with program offices to validate software costs in development and asset values in production. During its efforts to validate software costs, the EPA wrote off approximately $300 million in software development costs, $295 million in capitalized software, and $181 million in associated amortization by reversing entries and creating large abnormal balances in depreciation and amortization expense and other accounts. The agency subsequently corrected the abnormal balance in depreciation and amortization expense, an account that is listed in Note 35, Reconciliation of Net Cost of Operations to Budget. Other accounts that were not corrected are included as components of gross costs in the statement of net costs and have no material impact.

The U.S. Government Accountability Office’s (GAO’s) *Standards for Internal Control in the Federal Government* defines the five standards for the minimum level of quality acceptable for internal control in government. Management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal control. Management is to clearly document internal

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[1] Treasury Financial Manual, United States Standard General Ledger Bulletin No. 2017-06, Part 1, Section II: Accounts and Definitions.

[2] *Ibid*.

control, all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Because the audit trail of supporting documentation was insufficient in determining the validity of the actions taken on the software projects analyzed, our ability to conclude that the entries made were accurately recorded was affected.

Failure to properly record property transactions in the agency's property management system and Compass compromises the accuracy of the EPA's property accounts, depreciation and operating expenses, as well as the accuracy of the agency's financial statements. The agency indicated that it does not expect to complete corrective actions on this material weakness until 2018; thus, we continue to report this material weakness but have no additional recommendations.

Agency Comments and OIG Evaluation

The agency plans to complete corrective actions on this material weakness in FY 2018.

2 – EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts

The EPA did not modify the accounting model in the accounting system to properly record all Superfund special accounts activity or perform a comprehensive reconciliation of Superfund special accounts general ledger balances to the special accounts database detail during FY 2017. In OIG Report No. 17-F-0046, *Audit of EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016, we reported, as a material weakness, that the EPA did not properly record or reconcile unearned revenue for Superfund special accounts in FY 2016. During FY 2017, we found that the EPA did not implement the corrective actions to complete the new posting model change, nor did the agency perform a comprehensive reconciliation of special accounts. As a result, the EPA cannot ensure the accuracy of the unearned revenue and financial statements.

Federal guidance directs agencies to record cash advances received for long-term projects as unearned revenue:

- The SFFAS applies to general purpose financial reports of the U.S. Government reporting entities. SFFAS No. 7 is the accounting standard for revenue and other financing sources and directs agencies to record a cash advance for long-term projects as unearned revenue. Revenue should be recognized as costs are incurred to provide the goods and services.

- Section 122(b)(3) of the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. 9622(b)(3)) and Executive Order 12580 authorize the EPA to retain and use funds received through an agreement with potentially responsible parties to address past and/or future response costs. The EPA retains these funds in site-specific accounts called "special accounts." The EPA should record special account settlement funds received as unearned revenue, and the agency should reduce unearned revenue and recognize earned revenue as expenses are incurred.

- The GAO's *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events, as well as comparison of file totals with control totals.

Attachment 2 includes our FY 2016 recommendations to the OCFO and the status of the EPA's corrective actions. The agency does not expect to complete corrective actions on this material weakness until 2018; thus, we continue to report this material weakness but have no additional recommendations.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations and plans to complete corrective actions in FY 2018.

3 – Additional Efforts Needed to Resolve EPA’s Cash Differences With Treasury

As of September 30, 2017, there was $2.2 million in cash differences between the EPA and U.S. Treasury cash balances. We previously reported the EPA’s long-standing cash differences with Treasury as a significant deficiency in our FYs 2015 and 2016 audit reports of the financial statements. Treasury’s guidance requires the EPA to correct and resolve any differences between the Treasury’s and EPA’s Fund Balance with Treasury. However, the EPA’s OCFO did not have effective internal controls to adequately monitor the internal cash differences and ensure that the EPA resolved the differences with Treasury. Unresolved differences may result in misstatements of the EPA’s Fund Balance with Treasury and financial statements, as well as increase the risk of fraud.

The *Treasury Financial Manual*, Volume 1, Section 3335, “Reconciling FMS 224, Section II,” states that agencies should reconcile regional finance center transactions separately from Intra-governmental Payments and Collections transactions by comparing transactions reported in their accounting systems with the transactions reported to Treasury by the regional finance centers and through the Intra-governmental Payment and Collection system. In the month following the reporting month, agencies should correct any disclosed differences. Therefore, for our review, we considered cash differences to be long-standing if they were unresolved for more than 1 month after the initial reporting month.

The EPA’s Resource Management Directive System No. 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the EPA to review and track monthly the differences between the Treasury’s and EPA’s Fund Balance. The directive requires the OCFO’s General Ledger Analysis and Reporting Branch to review monthly the agency financial system of record and to report issues to the respective finance center. The General Ledger Analysis and Reporting Branch is responsible for tracking all budget clearing account items from posting to final disposition. The EPA finance centers are required to provide comments, as needed, to the General Ledger Analysis and Reporting Branch on the monthly cash differences report.

The OCFO prepares a monthly cash difference report by accounting point and treasury symbol to identify and resolve differences between the Treasury and EPA records. We found that the EPA’s Washington Finance Center continues to have long-standing unresolved cash differences. As of September 30, 2017, the General Ledger Analysis and Reporting Branch reported $73.5 million in cash differences, including long-standing differences of $2.2 million, at the Washington Finance Center. These long-standing differences remained unresolved for at least 4 months.

The OCFO did not adequately monitor the internal cash differences at the transaction level to ensure that the EPA resolved the differences with Treasury. The General Ledger Analysis and Reporting Branch relied on the accounting points to resolve individual cash differences. However, the Washington Finance Center did not resolve its long-standing differences. Therefore, the General Ledger Analysis and Reporting Branch did not have effective internal controls to resolve the individual cash differences.

By not adequately monitoring and resolving all cash differences, the EPA increases the risk of unrecorded transactions and fraud. Unrecorded transactions misstate the EPA's Fund Balance with Treasury and the financial statements. During our FY 2015 financial statements audit, we found that the EPA had not resolved $2.6 million in long-standing cash differences between the EPA and Treasury balances. Based on our findings, we recommended in our FY 2015 report—OIG Report No. 16-F-0040, *Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements*, issued November 16, 2015—that the OCFO do the following:

- Require the General Ledger Analysis and Reporting Branch to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all of the differences with Treasury.

- Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.

During our FY 2016 audit, we found that the EPA had made efforts to identify and resolve its long-standing cash differences. Furthermore, the EPA was still working on completing its corrective action to require the Payroll accounting point and the Washington Finance Center to research and resolve cash differences. We therefore did not make any additional recommendations regarding this issue in our FY 2016 financial audit report, OIG Report No. 17-F-0046, *EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016.

During our current audit, we noted major improvements, but long-standing unresolved cash differences of $2.2 million remain at the Washington Finance Center. However, since the EPA is still working on resolving cash differences and completing its corrective action, we do not make any new recommendations in our FY 2017 financial audit report.

Agency Comments and OIG Evaluation

The agency responded that it will continue to research efforts to resolve the remaining differences.

4 – EPA Needs to Appoint a Project Manager to Oversee Management of Compass Financials and Improve Acquisition Planning

The EPA's Compass Financials application—a major IT investment—lacks an oversight structure to ensure that personnel implement agency policies and procedures and guide the project through the acquisition process. OMB Circular A-130, *Managing Information as a Strategic Resource*, at Appendix I-13-j(2), requires agencies to provide oversight of information systems that are used by contractors or that collect or maintain federal information. This oversight includes the responsibility to implement policies and procedures for security controls and accountability for information systems. Paragraph 7.1.1.2 of the EPA's Acquisition Guide requires acquisition planning for all acquisitions. The guide defines "acquisition planning" as the process by which all personnel responsible for an acquisition coordinate to fulfill agency needs in a timely manner and at a reasonable cost.

Hiring a Project Manager for Compass Financials

As of April 9, 2017, the EPA did not have a Project Manager assigned to oversee the management of Compass Financials. During the audit and after inquires by the OIG, the EPA issued a public and internal vacancy announcement on June 28, 2017, to recruit and fill the IT Project Manager position within the OCFO. OCFO representatives attributed the delay in hiring a Project Manager for Compass Financials to EPA restrictions and a hold placed on hiring. However, despite these restrictions and hold, the EPA could have appointed an internal employee to serve as the acting Project Manager until the office was capable of filling the position permanently.

The OMB specifies that major acquisitions be overseen by personnel possessing the Federal Acquisition Certification for Program and Project Managers (FAC-P/PM). Attachment 1, Section 5, of OMB's December 16, 2013, memorandum regarding the FAC-P/PM outlines the certification requirements that managers must meet to oversee major acquisitions:

> Program managers assigned to programs considered major acquisitions by their agency, and as defined by Office of Management and Budget (OMB) Circular A-11 (IT and non-IT), must be senior-level certified unless an extension is granted by the appropriate agency official. ... Project managers assigned to lead projects within these major acquisitions must be, at a minimum, mid-level certified.

In addition, Attachment 4 (Sections 4 and 5) of OMB's 2013 memorandum emphasizes that Program and Project Managers "managing major IT investments shall hold senior level FAC-P/PM-IT specialization." This memorandum also indicates that Project Managers who do not already have their FAC-P/PM-IT must obtain it within 1 year of being assigned to a relevant project.

The absence of a Project Manager leaves the EPA without a knowledgeable expert to fulfill critical oversight responsibilities, including coordinating with agency representatives, making technical and programmatic decisions, and reviewing legislation and authoritative issuances for Compass Financials and other systems.

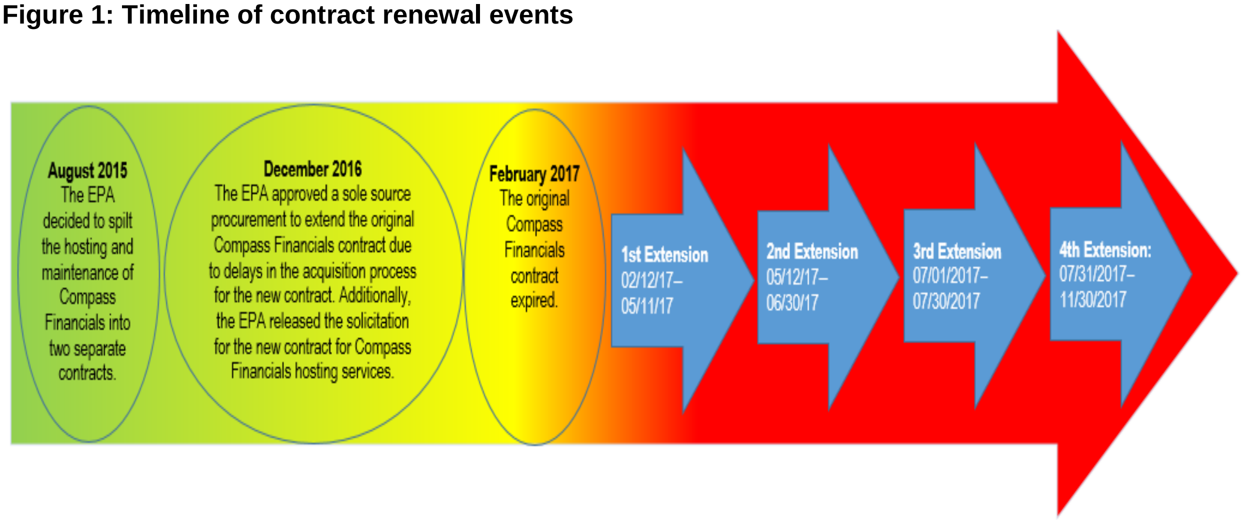
Issuing a Follow-On Contract for Hosting Compass Financials

The lack of an assigned Project Manager contributed, in part, to the OCFO not having a permanent contract to manage costs for operating Compass Financials. The original contract for Compass Financials, which was awarded in February 2007, provided for licensing, hosting and maintenance services under a sole source procurement. As a result of the EPA's Federal Information Technology Acquisition Reform Act[3] process in August 2015, the agency's Chief Information Officer decided to split the hosting from the licensing and maintenance of Compass Financials into separate contracts. The Office of Environmental Information estimated that the EPA could achieve $3 million in cost savings over 7 years by procuring the most competitive hosting solution for Compass Financials.

> The Federal Information Technology Acquisition Reform Act puts federal agency Chief Information Officers in control of IT investments and seeks to enable effective planning and budgeting for IT resources.

Although the original contract expired in February 12, 2017, a solicitation for the hosting of Compass Financials was not released until December 2016. To maintain the services of the incumbent vendor until a new contract was awarded, the Office of Acquisition Management—within the EPA's Office of Administration and Resources Management—had to procure sole source extensions of the original contract. Figure 1 shows the timeline of contract renewal events.

Figure 1: Timeline of contract renewal events



Source: OIG-generated diagram.

As of September 30, 2017, the original contract was on its fourth extension. These extensions cost the EPA over $7.4 million (Table 1). The cost of the fourth extension increased $11,703 over the average cost per day of the first three extensions, from $21,003 to $32,706; therefore, the total cost of the fourth extension was $1,416,118 more than the average cost of the first three extensions. The fourth extension covered the software license and operations and maintenance, in addition to "change requests and enhancements arising from new, previously unidentified, missed, or incomplete Compass Financials requirements."

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[3] The Federal Information Technology Acquisition Reform Act became law as part of the National Defense Authorization Act for FY 2015 (Title VIII, Subtitle D, H.R. 3979).

Table 1: Summary of extensions

Extension	Period	Cost	Number of days extended	Cost per day
1st extension	02/12/17–05/11/17	$1,857,628	88	$21,109.41
2nd extension	05/12/17–06/30/17	1,059,353	49	21,619.45
3rd extension	07/01/17–07/31/17	608,438	30	20,281.27
4th extension	08/01/17–11/30/17	3,957,527	121	$32,706.83
	Total Cost	**$7,482,946**		

Source: OIG-generated table based on contract task orders.

In addition, based on the Office of Environmental Information's $3 million cost-savings estimate for competitively procuring hosting services for Compass Financials, the EPA may have overspent $250,000 by having to extend the sole source contract.

The Contracting Officer for the Compass Financials contract indicated that the Office of Acquisition Management had to accommodate requests from lawyers, perform several market research efforts, and revise the new solicitation several times. These initiatives all delayed the solicitation and award of the new hosting contract.

Information obtained from the Office of Environmental Information indicates that 17 of the EPA's systems are currently hosted by contractors. The EPA should therefore be familiar with the acquisition process for hosting services and should have been able to implement a timely acquisition plan to contract the hosting of Compass Financials. We attribute this deficiency to the EPA not developing an agencywide acquisition planning strategy for all the agency's systems.

We did not make a recommendation regarding this issue in this report. On June 24, 2016, the OIG initiated an audit of EPA's acquisition planning. The findings and recommendations resulting from that audit are detailed in OIG Report No. 18-P-0038, *Improved Acquisition Planning Will Help EPA Reduce Hundreds of Millions of Dollars in High-Risk Contracts*, issued November 15, 2017.

Action Taken as a Result of Our Audit

As a result of this audit finding, the OCFO outlined corrective actions and provided a completion date for its corrective action. The EPA indicated that a Project Manager for Compass Financials was appointed on October 1, 2017. However, it is incumbent upon the OCFO to monitor the Project Manager's progress in obtaining the FAC-P/PM-IT within the 1-year deadline and to take corrective actions if the Project Manager is unable to complete the certification requirements.

Recommendation

We recommend that the Chief Financial Officer:

1. Require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the Information Technology specialization within the 1-year deadline, as required by the Office of Management and Budget, and take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline.

Agency Comments and OIG Evaluation

The OCFO agreed with our finding and recommendation. The office stated it would complete the corrective action by October 1, 2018. We consider this recommendation resolved with corrective action pending.

Attachment 2

Status of Prior Audit Report Recommendations

The EPA is working to strengthen its audit management procedures to address audit findings in a timely manner and to complete corrective actions expeditiously and effectively. Strengthened procedures will also help improve environmental results. In FY 2017, the EPA's acting Chief Financial Officer, as the Agency Follow-Up Official, issued a memorandum to senior agency leadership, reminding senior managers of their stewardship responsibilities for developing and promptly implementing effective corrective actions. The agency also accomplished these other notable actions to strengthen its audit management procedures:

- Completed the revised EPA Manual 2750, *Audit Management Procedures*, effective March 28, 2017. EPA Manual 2750 is a comprehensive audit management guide that addresses OIG, GAO and Defense Contract Audit Agency audits. The document was posted on the EPA intranet on May 5, 2017.

- Issued progress reports by the OCFO highlighting the status of management decisions and corrective actions. The reports are shared with program office and regional managers throughout the agency to keep them informed of the status of progress on their audits.

In addition, the EPA maintained its commitment to engage early with the OIG on audit findings and to develop effective corrective actions that address OIG recommendations. Table 2 outlines the status of past significant deficiency findings that have not been resolved to date.

Table 2: Significant deficiency issues not fully resolved

• **EPA's Accounting for Software Continues to Be a Material Weakness** In our FYs 2014, 2015 and 2016 audits, we identified the agency's accounting for software as a material weakness. In FY 2014, the agency found it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate that the agency has a material weakness in internal control over identifying and capitalizing software; internal control failed to detect and correct the errors, resulting in a misstatement of the FY 2013 financial statements. During FY 2017, the agency continued to take corrective actions to improve its accounting for software. While the agency has made progress and taken steps to correct weaknesses, not all corrective actions have been completed. Corrective actions for the remaining recommendations are not due to be completed until 2018.
• **EPA Did Not Capitalize Lab Renovation Costs** In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovations as a capital improvement. The agency capitalized and booked the Research Triangle Park lab renovation costs and related depreciation. One corrective action was partially completed: The EPA Office of General Counsel believed that the 1999 legal opinion was still a viable legal opinion but did not provide examples to guide the agency's determinations of when renovation work should be funded from agency program appropriations or Building and Facilities funds. Corrective actions for other recommendations related to this finding were not due until September 2017; however, the agency revised the expected completion date to February 28, 2018.

• **EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement** In our FY 2014 audit, we noted that the EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for FY 2014. The EPA also identified 573 property items not recorded in Maximo. During our FY 2015 audit, we found that the agency made progress and took steps to correct the differences between the amount of personal property recorded in Maximo and the amount of physical inventory. However, although the agency implemented its corrective actions, we have not assessed the effectiveness of these actions.
• **EPA's Property Management System Does Not Reconcile to Its Accounting System (Compass)** During our FY 2014 audit, we found that the EPA did not reconcile $100 million of capital equipment within its property management subsystem (Maximo) to relevant financial data within its accounting system (Compass). The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting. We previously reported on this issue in our FYs 2012 and 2013 financial statement audit reports. In FY 2014, the agency issued procedures to reconcile capital property. The agency stated that it had begun to resolve the differences between Maximo and Compass; however, problems continue to exist. In FYs 2015 and 2016, we again reported this weakness as a significant deficiency; therefore, the EPA's corrective actions were not yet effective. In FY 2017, the agency informed us that this corrective action was actually completed in September 2016; however, no supporting documentation has been provided to date. Therefore, we were not able to assess the effectiveness of the action.
• **EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts** During FY 2015, the EPA misstated earned and unearned revenue for Superfund special accounts. The EPA changed its accounting practice in FY 2015 to record settlement proceeds in Superfund special accounts as unearned revenue. However, in our FY 2016 audit, we found that the EPA did not properly record $168 million of unearned revenue for Superfund special accounts or perform a comprehensive reconciliation of Superfund special accounts unearned revenue general ledger balances to the special accounts database detail. The EPA made these errors because it did not modify the accounting model for special accounts in Compass Financials. During our FY 2017 audit, we found that the EPA would not be able to complete its corrective actions to modify the accounting model or reconcile Superfund special accounts unearned revenue general ledger balances to the special accounts database detail until FY 2018.
• **Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center** In FY 2014, we found that the EPA and the Department of Justice did not forward accounts receivable source documents to the finance center in a timely manner. During FY 2015, the EPA's Office of Enforcement and Compliance Assurance issued a memorandum reminding the regions to provide accounts receivable enforcement documentation to the finance center in a timely manner. In addition, the OCFO updated the EPA's Superfund guidance to direct originating offices to send accounts receivable control forms to the finance center in a timely manner. While we have noted some improvements in the Cincinnati Finance Center's timely receipt of legal documents, we still identified instances of untimely receipt during FYs 2015, 2016 and 2017. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate how timely the receipt of accounts receivable source documents is in FY 2018.

• **EPA Should Improve Controls Over Expense Accrual Reversals** In FY 2012, the EPA did not reverse approximately $108 million of FY 2011 year-end expense accruals. The EPA did not reverse the accrual transactions because the Compass posting configuration for the applicable fund category was inaccurate. By not reversing the accruals in a timely manner, the EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. The EPA's Policy Announcement No. 95-11, *Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals*, requires the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our audit report issued November 16, 2012, we recommended that the EPA update Policy Announcement No. 95-11 to require reconciliations of accruals and accrual reversals. EPA officials concurred with our finding and recommendation and took corrective action by implementing an independent review of the FY 2012 accruals and reversals. The EPA also performed accrual reviews prior to the issuance of the FY 2013 quarterly financial statements. During the FY 2013 audit, the EPA extended the target completion date for updating Policy Announcement No. 95-11 to June 2014. During our FY 2014 audit, the EPA extended the target completion date again to December 31, 2015, due to workload and resource constraints. In FY 2015, the EPA again revised the date to December 31, 2016, to explore new methods to streamline the accrual processes and take advantage of efficiencies available in the Compass upgrade scheduled for February 2016. During our FY 2016 audit, the EPA anticipated being able to meet its targeted completion date (December 31, 2016). In FY 2017, the EPA developed Resource Management Directive System 2540-04-P3, *Accounts Payable Policies and Procedures for Recognizing Year-End Accrued Liabilities for Grants*, which superseded Policy Announcement No. 95-11. Resource Management Directive System 2540-04-P3 addresses the EPA's requirements for recording accrued liabilities for grants in the EPA's financial system. In addition, the EPA stated that it updated the policy for the accounts payable grants and it started drafting the policy for other types of accruals in April 2017. The policy drafting process entails identification of accrual process holders with primary points of contact, documentation gathering, development of the policy for each type of accrual by working with primary points of contact, and final review of the policy document. The EPA projected a June 2018 completion date for updating the policy for all accruals.
• **EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury** During our FY 2015 audit, we found that the EPA had not resolved $2.6 million in long-standing cash differences between the EPA and Treasury balances. Based on our findings, we recommended that the Chief Financial Officer require the General Ledger Analysis and Reporting Branch to monitor and work with the finance centers to resolve all internal cash differences to enable the EPA to resolve all differences with Treasury. We also recommended that the Chief Financial Officer require the Payroll accounting point and Washington Finance Center to research and resolve cash differences. The agency agreed with our finding and recommendations. According to the agency's corrective action status report, as of November 2, 2016, the agency completed its corrective action for the first recommendation. During our FY 2016 audit, we found that the EPA made efforts to identify and resolve its long-standing cash differences and that the agency was working on completing its corrective action to require the Payroll accounting point and the Washington Finance Center to research and resolve cash differences. We did not make any additional recommendations regarding this issue in our FY 2016 financial audit report but included it as an unresolved significant deficiency. During our FY 2017 audit, we noted major improvements, but long-standing unresolved cash differences of $2.2 million remain at the Washington Finance Center. Since the EPA is still working on resolving cash differences and completing its corrective action, we did not make any new recommendations in our FY 2017 financial audit report.
• **Financial Management System User Account Management Needs Improvement** During our FY 2009 audit, we found that the EPA had not established policies that clearly define incompatible functions and associated processes to ensure that proper separation of duties are enforced within the financial system application. Based on our findings, we recommended in our FY 2009 report that the OCFO ensure that all new and updated financial management systems include an automated control to enforce separation of duties. The agency agreed with our finding and recommendation. The EPA had considered this recommendation closed; however, the OCFO agreed in FY 2016 to develop alternative corrective actions for this recommendation, with a planned completion date of December 31, 2017. In FY 2017, the OCFO extended the completion date to December 31, 2018.

• **OCFO Lacks Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems** During our FY 2015 audit, we found that the OCFO's Application Management staff assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring that the system had documentation covering key account management procedures. Based on our findings, we recommended in our FY 2015 report that the Chief Financial Officer implement an internal control process for transferring the management of an application's user access to the Application Management staff. We also recommended that the Chief Financial Officer conduct an inventory of OCFO systems managed by the Application Management staff and create or update supporting access management documentation for each application. Further, we recommended that the Chief Financial Officer work with the Contracting Officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management staff. The agency agreed with our finding and recommendations. In FY 2017, the OCFO extended the completion date for the first and second recommendations to December 31, 2018, In addition, the OCFO modified the corrective action for the third recommendation but is adhering to the original expected completion date of March 31, 2018.
• **Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls** During our FY 2015 audit, we found that the EPA lacked management oversight to ensure that responsible individuals fully develop and implement required account management controls for the EPA's financial and mixed-financial systems. Based on our finding, we recommended in our FY 2015 report that the Chief Financial Officer review and update account management documentation and establish procedures for financial systems. We also recommended that the Chief Financial Officer issue a memorandum emphasizing the need to follow access control procedures, conduct an inventory of financial systems to ensure the systems are entered into Xacta to monitor compliance with required information systems security controls, and implement a process to notify the OCFO of the status of corrective actions entered into Xacta. The agency agreed with our finding and recommendations. According to the agency's corrective action status report, as of June 27, 2016, the agency completed corrective actions for all but the first recommendation. The EPA is currently working on reviewing and updating account management documentation and establishing procedures for financial systems, but in FY 2017, the OCFO extended the completion date for this corrective action to December 31, 2018.
• **EPA Needs Controls to Monitor Direct Access to the Compass Financials Database** During our FY 2016 audit, we found that the EPA did not establish controls to monitor direct access to data within the Compass Financials database. Based on our findings, we recommended in our FY 2016 report that the Chief Financial Officer work with the Compass Financials service provider to establish controls for creating and locking administrative accounts. We also recommended that the Chief Financial Officer work with the Compass Financials service provider to develop and implement a methodology to monitor accounts with administrative capabilities. Further, we recommended that the Chief Financial Officer enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions. The agency concurred with our recommendations. According to the agency's corrective action status report, as of August 1, 2017, the agency is adhering to the planned completion date of September 30, 2021, for the first and second recommendations. Corrective actions for the third recommendation have been completed.

Source: OIG analysis.

Attachment 3

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Potential Monetary Benefits (in $000s)
1	17	Require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the Information Technology specialization within the 1-year deadline, as required by the Office of Management and Budget, and take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline.	R	Chief Financial Officer	10/1/18	

1 C = Corrective action completed.
R = Recommendation resolved with corrective action pending.
U = Recommendation unresolved with resolution efforts in progress.

Appendix I

EPA's FYs 2017 and 2016 Consolidated Financial Statements

EPA's Fiscal 2017 and 2016
Consolidated Financial Statements

Financial Section

Table of Contents

Principal Financial Statements

United States Environmental Protection Agency
CONSOLIDATED BALANCE SHEET
As of September 30, 2017, and 2016
(Dollars in Thousands)

		FY 2017		FY 2016
Assets:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	8,464,107	$	8,341,156
Investments (Note 4)		5,326,013		5,308,734
Accounts Receivable, Net (Note 5)		17,804		7,210
Other (Note 6)		200,822		206,693
Total Intragovernmental		14,008,746		13,863,793
Cash and Other Monetary Assets (Note 3)		10		10
Accounts Receivable, Net (Note 5)		508,171		486,814
Property, Plant & Equipment, Net (Note 9)		719,488		1,041,200
Other (Note 6)		8,241		7,074
Total Assets	**$**	**15,244,656**	**$**	**15,398,891**
Stewardship PP& E (Note 11)				
Liabilities:				
Intragovernmental:				
Accounts Payable and Accrued Liabilities (Note 8)	$	97,035	$	73,891
Debt Due to Treasury (Note 10)		-		-
Custodial Liability (Note 12)		22,548		42,579
Other (Notes 13)		134,983		82,412
Total Intragovernmental		254,566		198,882
Accounts Payable & Accrued Liabilities (Note 8)		523,713		521,056
Pensions & Other Actuarial Liabilities (Note 15)		45,245		45,037
Environmental Cleanup Costs (Note 21)		39,544		36,103
Cash-out Advances, Superfund (Note 16)		3,514,426		3,264,224
Commitments & Contingencies (Note 17)		-		-
Payroll & Benefits Payable (Note 32)		205,632		210,797
Other (Note 13)		145,328		425,621
Total Liabilities	$	4,728,454	$	4,701,720
Net Position:				
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)		3,697		4,080
Unexpended Appropriations - Other Funds		7,302,077		7,263,400
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)		2,638,364		2,577,360
Cumulative Results of Operations - Other Funds		572,065		852,331
Total Net Position		10,516,203		10,697,171
Total Liabilities and Net Position	**$**	**15,244,656**	**$**	**15,398,891**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Thousands)

	FY 2017	FY 2016
Costs:		
Gross Costs (Note 19)	$ 9,024,232	$ 9,176,572
Less:		
Earned Revenue (Note 19)	532,663	448,388
Net cost of operations (notes 25 and 35)	**$ 8,491,569**	**$ 8,728,184**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF NET COST BY MAJOR PROGRAM
For the Fiscal Years Ended September 30, 2017
(Dollars in Thousands)

		Environ. Programs & Mgmt.	Leaking Underground Storage Tanks	Science & Technology	Superfund	State and Tribal Assistance Agreements	Other	Consolidated Totals
Costs:								
Intragovernmental	$	924,012	4,437	200,358	275,695	54,159	112,492	1,571,153
WCF Eliminations		-	-	-	-	-	(211,512)	(211,512)
With the Public		2,093,973	85,996	612,169	1,219,020	3,395,913	257,520	7,664,591
Total Costs	$	3,017,985	90,433	812,527	1,494,715	3,450,072	158,500	9,024,232
Less:								
Earned Revenue, Federal	$	40,400	-	7,356	26,733	-	231,229	305,718
WCF Eliminations		-	-	-	-	-	(211,290)	(211,290)
Earned Revenue, non-Federal		10,275	-	1,274	389,103	-	37,583	438,235
Total Earned Revenue (Note19)		50,675	-	8,630	415,836	-	57,522	532,663
Net Cost of Operations	$	**2,967,310**	**90,433**	**803,897**	**1,078,879**	**3,450,072**	**100,978**	**8,491,569**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF NET COST BY MAJOR PROGRAM
For the Fiscal Year Ended September 30, 2016
(Dollars in Thousands)

		Environ. Programs & Mgmt.	Leaking Underground Storage Tanks	Science & Technology	Superfund	State and Tribal Assistance Agreements	Other	Consolidated Totals
Costs:								
Intragovernmental	$	942,545	4,820	195,740	65,405	57,263	65,317	1,331,090
With the Public		1,764,864	95,761	596,663	1,147,693	3,927,269	313,132	7,845,482
Total Costs	$	2,707,409	100,581	792,403	1,213,098	3,984,632	378,449	9,176,572
Less:								
Earned Revenue, Federal	$	29,960	-	7,217	43,894	-	22,933	104,004
Earned Revenue, non-Federal		1,575	-	1,084	302,087	-	39,638	344,384
Total Earned Revenue (Note19)		31,535	-	8,301	345,981	-	62,571	448,388
Net Cost of Operations	$	**2,675,874**	**100,581**	**784,102**	**867,117**	**3,984,632**	**315,878**	**8,728,184**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2017
(Dollars in Thousands)

	FY 2017 Funds from Dedicated Collections	FY 2017 All Other Funds	FY 2017 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 2,577,361	$ 852,331	$ 3,429,692
Beginning Balances, as Adjusted	2,577,361	852,331	3,429,692
Budgetary Financing Sources:			
Appropriations Used	2,991	7,945,939	7,948,930
Non-exchange Revenue - Securities Invest. (Note 34)	47,445	-	47,445
Non-exchange Revenue - Other (Note 34)	246,289	-	246,289
Transfers In/Out (Note 30)	(13,211)	24,041	10,830
Trust Fund Appropriations	953,850	(1,038,131)	(84,281)
Total Budgetary Financing Sources	1,237,364	6,931,849	8,169,213
Other Financing Sources (Non-Exchange):			
Imputed Financing Sources (Note 31)	13,425	89,669	103,094
Total Other Financing Sources	13,425	89,668	103,094
Net Cost of Operations	(1,189,785)	(7,301,784)	(8,491,569)
Net Change	61,004	(280,266)	(219,262)
Cumulative Results of Operations	**$ 2,638,364**	**$ 572,065**	**$ 3,210,429**

	FY 2017 Funds from Dedicated Collections	FY 2017 All Other Funds	FY 2017 Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ 4,080	$ 7,263,400	$ 7,267,480
Beginning Balances, as Adjusted	4,080	7,263,400	7,267,480
Budgetary Financing Sources:			
Appropriations Received	3,178	8,107,870	8,111,048
Other Adjustments (Note 33)	(570)	(123,254)	(123,824)
Appropriations Used	(2,991)	(7,945,939)	(7,948,930)
Total Budgetary Financing Sources	(383)	38,677	38,294
Total Unexpended Appropriations	3,697	7,302,077	7,305,774
Total Net Position	**$ 2,642,061**	**$ 7,834,599**	**$ 10,516,203**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2016
(Dollars in Thousands)

	FY 2016 Funds from Dedicated Collections	FY 2016 All Other Funds	FY 2016 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 2,776,112	$ 783,828	$ 3,559,940
Beginning Balances, as Adjusted	2,776,112	783,828	3,559,940
Budgetary Financing Sources:			
Appropriations Used	1,807	8,263,715	8,265,522
Non-exchange Revenue - Securities Invest. (Note 34)	38,303	-	38,303
Non-exchange Revenue - Other (Note 34)	231,305	-	231,305
Transfers In/Out (Note 30)	(9,600)	28,789	19,189
Trust Fund Appropriations	711,684	(811,684)	(100,000)
Total Budgetary Financing Sources	973,499	7,480,820	8,454,319
Other Financing Sources (Non-Exchange)			
Transfers In/Out (Note 30)	-	-	-
Imputed Financing Sources (Note 31)	23,954	119,663	143,617
Total Other Financing Sources	23,954	119,663	143,617
Net Cost of Operations	(1,196,204)	(7,531,980)	(8,728,184)
Net Change	(198,751)	68,503	(130,248)
Cumulative Results of Operations	**$ 2,577,361**	**$ 852,331**	**$ 3,429,692**

	FY 2016 Funds from Dedicated Collections	FY 2016 All Other Funds	FY 2016 Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ 16,579	$ 7,783,251	$ 7,799,830
Beginning Balances, as Adjusted	16,579	7,783,251	7,799,830
Budgetary Financing Sources:			
Appropriations Received	3,674	7,783,578	7,787,252
Appropriations Transferred In/Out (Note 30)	(13,294)	12,716	(577)
Other Adjustments (Note 33)	(1,072)	(52,429)	(53,501)
Appropriations Used	(1,807)	(8,263,716)	(8,265,522)
Total Budgetary Financing Sources	(12,499)	(519,851)	(532,350)
Total Unexpended Appropriations	4,080	7,263,400	7,267,482
Total Net Position	**$ 2,581,442**	**$ 8,115,732**	**$ 10,697,174**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Year Ended September 30, 2017 and 2016
(Dollars in Thousands)

		FY 2017		FY 2016
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1:	$	4,242,051	$	4,350,630
Adjustment to Un-Obligation Balance (Allocation Transfer Agencies)		21,150		961
Unobligated Balance Brought Forward, October 1, as adjusted		4,263,201		4,351,591
Recoveries of prior year unpaid obligations (Note 26)		330,486		234,361
Other changes in unobligated balance		(42,261)		(13,622)
Unobligated balance from prior year budget authority, net		4,551,426		4,572,330
Appropriations (discretionary and mandatory)		9,370,266		9,096,422
Spending Authority from offsetting collection (discretionary and mandatory)		680,152		610,181
Total Budgetary Resources	**$**	14,601,844	**$**	14,278,933
STATUS OF BUDGETARY RESOURCES				
New obligations and upward adjustments (total)	$	10,354,618	$	10,036,882
Unobligated Balance, end of year:				
Apportioned		4,152,585		4,086,727
Unapportioned		1,992		36,008
Total Unobligated balance, end of period (Note 27)		4,154,577		4,122,735
Expired unobligated balance, end of year		92,649		119,316
Total Status of Budgetary Resources	**$**	14,601,844	**$**	14,278,933
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid obligations, brought forward, October 1 (gross)	$	8,694,969	$	9,104,831
Obligations incurred, net		10,354,618		10,036,882
Outlays (gross)		(9,916,836)		(10,212,494)
Recoveries of prior year unpaid obligations		(330,486)		(234,361)
Unpaid obligations, end of year (gross)	$	8,802,265	$	8,694,858
Uncollected Payments				
Uncollected customer payments from Federal Sources, brought forward, October 1)		(248,640)		(235,529)
Change in uncollected customer payments from federal sources		(56,729)		(13,111)
Uncollected customer payments from Federal Sources, end of year		(305,369)		(248,640)
Memorandum entries:				
Obligated balance, start of year	$	8,446,218	$	8,869,302
Obligated balance, end of year (net)	$	8,496,895	$	8,446,218
BUDGET AUTHORITY AND OUTLAYS, NET:				
Budget authority, gross (discretionary and mandatory)	$	10,050,418	$	9,706,603
Actual offsetting collections (discretionary and mandatory)		(644,573)		(597,070)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)		(56,729)		(13,111)
Budget Authority, net (discretionary and mandatory)	$	9,349,116	$	9,096,422
Outlays, gross (discretionary and mandatory)	$	9,916,836	$	10,212,494
Actual offsetting collections (discretionary and mandatory)		(644,573)		(597,070)
Outlays, net (discretionary and mandatory)		9,272,263		9,615,424
Distributed offsetting receipts (Note 29)		(1,109,453)		(886,453)
Agency outlays, net (discretionary and mandatory)	**$**	**8,162,810**	**$**	**8,728,971**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
STATEMENT OF CUSTODIAL ACTIVITY
For the Fiscal Year Ended September 30, 2017 and 2016
(Dollars in Thousands)

	FY 2017	FY 2016
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 1,571,258	$ 95,473
Other	29,301	(4,333)
Total Cash Collections	1,600,559	91,140
Accrual Adjustment	(19,545)	7,786
Total Custodial Revenue (Note 24)	1,581,014	98,926
Disposition of Collections:		
Transferred to Others (General Fund)	1,600,593	91,140
Increases/Decreases in Amounts Yet to be Transferred	(19,579)	7,786
Total Disposition of Collections	1,581,014	98,926
Net Custodial Revenue Activity	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2017 and September 30, 2016
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

The FY 2017 financial statements are presented on a consolidated basis for the Balance Sheet, Statement of Net Cost, Statement of Net Costs by Major Program, Statement of Changes in Net Position, Statement of Custodial Activity and a combined basis the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (the EPA or Agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* and the EPA accounting policies, which are summarized in this note.

C. Budgets and Budgetary Accounting

I. General Funds

Congress enacts an annual appropriation for State and Tribal Assistance Grants (STAG), Buildings and Facilities (B&F), and for payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for Science and Technology (S&T), Environmental Programs and Management (EPM) and for the Office of Inspector General (OIG) to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant for the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available in the appropriation is reduced at the U.S. Treasury (Treasury).

The EPA provided support for hurricane and wildfire relief via reimbursable agreements with other federal agencies. As of September 30, 2017, reimbursable agreements for Hurricane's Harvey, Irma, Maria, and Nate totaled $75.4 million. Reimbursable agreements for wildfire response totaled $51.0 million. These transactions are recorded in the Environmental Programs and Management appropriation.

The EPA has one three-year appropriation account to provide funds to carry out section 3024 of the Solid Waste Disposal Act, including the development, operation, maintenance, and upgrading of the hazardous waste electronic manifest system. The Agency is authorized to establish and collect user fees for this account that will be used for the electronic manifest system.

The Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) established a Federal credit program administered by the EPA for eligible water and wastewater infrastructure projects. The program is financed from appropriations to cover the estimated long-term cost of the loan. The long-term cost of the loans are defined as the net present value of the estimated cash flows associated with the loans. A permanent indefinite appropriation is available to finance the costs of re-estimated loans that occur in subsequent years after the loans were disbursed. The Agency received a two-year appropriation in fiscal year 2017 to finance the administration and subsidy portions of the program. As of September 30, 2017, no loan amounts have been obligated or disbursed.

Funds transferred from other federal agencies are processed as non-expenditure transfers. Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

II. Revolving Funds

Funding of the Reregistration and Expedited Processing Fund (FIFRA) and Pesticide Registration Funds (PRIA) is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year, the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the Working Capital Fund (WCF) is provided by fees collected from other Agency appropriations and other federal agencies to offset costs incurred for providing the Agency administrative support for computer and telecommunication services, financial system services, employee relocation services, background investigations, continuity of operations, and postage.

The Natural Resource Damages Trust Fund (NRDA) was established for funds received for critical damage assessments and restoration of natural resources injured as a result of the Deepwater Horizon oil spill.

III. Special Funds

The Environmental Services Receipts Account Fund obtains fees associated with environmental programs.

IV. Deposit Funds

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. Until a determination is made, these are not the EPA's funds. The amounts are reported to the US Treasury through the Government-Wide Treasury Account Symbol Adjusted Trial Balance System

V. Trust Funds

Congress enacts an annual appropriation for the Superfund, Leaking Underground Storage Tank (LUST) and the Inland Oil Spill Programs accounts to remain available until expended. Transfer accounts for the Superfund and LUST Trust Funds have been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund and LUST Trust Funds held at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress enacts the Inland Oil Spill Programs appropriation amount to the EPA's Inland Oil Spill Programs account.

In 2015, the EPA established a receipt account for Superfund special account collections. Special accounts are comprised of reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3). This allows the Agency to invest the funds until draw down is needed for special accounts disbursements.

D. Basis of Accounting

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

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 posted in accordance with OMB directives and the U.S. Treasury regulations.

EPA uses a modified matching principle since federal entities recognize unfunded (without budgetary resources) liabilities in accordance with FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 5 "Accounting for Liabilities of the Federal Government."

E. Revenues and Other Financing Sources

The following the EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with SFFAS No. 7, "Accounting for Revenues and Other Financing Sources."

I. Superfund

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from PRPs under Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3) which are placed into Special Accounts. Special Accounts and corresponding interest are classified as mandatory appropriations due to the 'retain and use' authority under CERCLA 122(b) (3). Cost recovery settlements that are not placed in special accounts are deposited in the Superfund Trust Fund.

II. Other Funds

Funds under the Federal Credit Reform Act of 1990 receive program guidance and funding needed to support loan programs through appropriations which may be used within statutory limits for operating and capital expenditures. The WIFIA program receives additional funding to support the awarding, servicing and collections of loans and loan guarantees through application fees collected in the program fund. WIFIA authorizes the EPA to charge fees to recover all or a portion of the Agency's cost of providing credit assistance and the costs of retaining expert firms, including financial engineering, and legal services, to assist in the underwriting and servicing of Federal credit instruments. The fees are to cover costs to the extent not covered by congressional appropriations.

The FIFRA and PRIA funds receive funding through fees collected for services provided and interest on invested funds. The WCF receives revenue through fees collected for services provided from the Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements.

Appropriated funds are recognized as Other Financing Sources expended when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned (i.e., when services have been rendered).

F. Funds with the Treasury

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

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. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity (see Note 4).

H. Notes Receivable

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt.

I. Marketable Securities

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold (see Note 4).

J. Accounts Receivable and Interest Receivable

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by Superfund Amendments and Reauthorization Act of 1986 (SARA). Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5). The Agency also records allocations receivable from the Superfund Trust Fund, which are eliminated in the consolidated totals.

The Agency records accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after at least some, but not necessarily all, of the site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10 percent or 50 percent of site remedial action costs, depending on who has the primary responsibility for the site (i.e., publicly or privately owned). States may pay the full amount of their share in advance or incrementally throughout the remedial action process.

The majority of remaining receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, and refunds receivable for the STAG appropriation.

K. Advances and Prepayments

Advances and prepayments represent funds paid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

L. Appropriated Amounts Held by Treasury

Cash available to the Agency that is not needed immediately for current disbursements of the Superfund and LUST Trust Funds and amounts appropriated from the Superfund Trust Fund to the OIG, remains in the respective Trust Funds managed by Treasury.

M. Property, Plant, and Equipment

The EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment" as amended. For EPA-held property, the Fixed Assets Subsystem (FAS) maintains the official records and automatically generates depreciation entries monthly based on in-service dates.

A purchase of EPA-held or contractor-held personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least two years. For contractor-held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years two through five. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor-held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

Personal property includes capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the projected minimum lease payments must be $75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an $150 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cash flows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value.

Superfund contract property used as part of the remedy for site-specific response actions is capitalized in accordance with the Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, the EPA retains control of the property (i.e., pump and treat facility) for 10 years or less, and transfers its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with the EPA's 10-year retention period, depreciation for this property is based on a 10-year life. However, if any property is transferred to a state in a year or less, this property is charged to expense. If any property is sold prior to the EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations. An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in FAS, depreciated utilizing the straight-line method based upon the asset's in-service date and useful life and is reflected on the WCF statements.

Real property consists of land, buildings, capital and leasehold improvements and capital leases. In FY 2017, the EPA increased the capitalization threshold for real property, other than land, to $150 thousand from $85 thousand for buildings and improvements and $25 thousand for plumbing, heating, and sanitation projects.

The new threshold will be applied prospectively. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 50 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software that was internally developed by Agency employees. In FY 2017, the EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets, reviewed capitalization of other federal entities, and evaluated the materiality of software account balances. Based on the review, the Agency increased the capitalization threshold from $250 thousand to $5 million to better align with major software acquisition investments. The $5 million threshold will be applied prospectively to software acquisitions and modifications/enhancements placed into service after September 30, 2016. Software assets placed into service prior to October 1, 2016 were capitalized at the $250 thousand threshold. Internal use software is capitalized at full cost (direct and indirect) and amortized using the straight-line method over its useful life, not exceeding five years.

Internal use software purchased or developed for the working capital fund is capitalized at $250 thousand and is amortized using the straight-line method over its useful life, not exceeding 5 years

N. Liabilities

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

O. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the WIFIA direct loans. Periodic principal payments are made to Treasury based on the collections of loans receivable. As of September 30, 2017, no loans have been disbursed.

P. Accrued Unfunded Annual Leave

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

Q. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, elected to either join FERS and Social Security or remain in CSRS. A primary feature of

FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

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

R. Prior Period Adjustments

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

S. Deepwater Horizon Oil Spill

On April 20, 2010, the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. On September 10, 2012, the President designated the EPA and United States Department of Agriculture as additional trustees for the Natural Resource Damage and Assessment Council for restoration solely conjunction with injury to, destruction of, loss of, or loss of the use of natural resources, including their supporting ecosystems, resulting from the Deepwater Horizon Oil Spill. In FY 2016, the EPA received an advance of $184 thousand from BP and $2 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill. In FY2017, the EPA returned the reminder of the fund amount of $440 thousand.

T. Hurricane Sandy

On January 29, 2013, President Obama signed into law the Disaster Relief Appropriations Act (Disaster Relief Act) which provided aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, the Disaster Relief Act required federal agencies supporting Sandy recovery and other disaster-related activities to write and implement and Internal Control Plan to prevent waste, fraud and abuse of these funds. The EPA Hurricane Sandy Internal Control Plan was reviewed and approved by OMB, GAO and the IG in FY 2013.

The EPA received a post sequestration appropriation of $577 million in Hurricane Sandy funds for the following programs (all amounts are post sequestration):

a) The Clean Water State Revolving Fund received $475 million for work on clean water infrastructure projects in New York and New Jersey.

b) The Drinking Water State Revolving Fund received $95 million for work on drinking water infrastructure projects in New York and New Jersey.

c) The Leaking Underground Storage Tanks program received $5 million for work on projects impacted by Hurricane Sandy.

d) The Superfund program received $2 million for work on Superfund sites impacted by Hurricane Sandy.

e) The EPA also received $689 thousand to make repairs to the EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

U. Puerto Rico Insolvency

In February 2016, the Puerto Rico Aqueduct and Sewer Authority (PRASA) requested a restructuring of the Clean Water and Drinking Water SRF debt due to a lack of cash flows and inability to access the municipal bond market. PRASA is the primary utility for Puerto Rico and, at the time of their request, the debt outstanding to the SRFs was $547 million. Annual debt service to the SRFs is approximately $37 million per year.

In June 2016, the EPA and the Puerto Rico SRFs agreed to a 1 year forbearance on principal and interest payments. In June 2017, the 1 year forbearance which was to end on June 30, 2017, was extended for an additional 6 months, ending December 30, 2017.

In May, following PRASA's fiscal plan approval by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) oversight board created by Congress, the EPA and the Puerto Rico SRFs began negotiations with PRASA on restructuring current debt and setting terms for future debt. If a restructuring agreement between the SRFs and PRASA is reached prior to the end of current forbearance, the restructuring agreement will supersede the forbearance. PRASA continues to work with the EPA in its fiduciary and oversight capacity, the Commonwealth SRF Agencies, and private debt holders to restructure its debt obligations owed the Commonwealth SRF Agencies.

V. Use of Estimates

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

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2017 and September 30, 2016, consists of the following:

	FY 2017 Entity Assets	FY 2017 Non-Entity Assets	FY 2017 Total	FY 2016 Entity Assets	FY 2016 Non-Entity Assets	FY 2016 Total
Fund Balances						
Trust Funds:						
Superfund	$ 155,259	-	155,259	$ 113,897	-	113,897
LUST	68,266	-	68,266	52,354	-	52,354
Oil Spill & Misc.	11,129	-	11,129	9,835	-	9,835
Revolving Funds:						
FIFRA/Tolerance	43,614	-	43,614	31,654	-	31,654
Working Capital	101,524	-	101,524	116,853	-	116,853
E-Manifest	5,385	-	5,385	5,230	-	5,230
NRDA	2,729	-	2,729	3,027	-	3,027
Appropriated	7,604,790	-	7,604,790	7,558,470	-	7,558,470
Other Fund Types	467,626	3,785	471,411	444,471	5,335	449,826
Total	**$ 8,460,322**	**3,785**	**8,464,107**	**$ 8,335,801**	**5,335**	**8,341,156**

Entity fund balances, except for special fund receipt accounts, are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Entity Assets for Other Fund Types consist of special purpose funds and special fund receipt accounts, such as the Pesticide Registration funds and the Environmental Services receipt account. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper disposition or being held by the EPA for other entities.

Status of Fund Balances with Treasury:	**FY 2017**	**FY 2016**
Unobligated Amounts in Fund Balance:		
Available for Obligation	$ 4,154,001	$ 4,086,786
Unavailable for Obligation	94,641	155,324
Net Receivables from Invested Balances	(4,797,519)	(4,826,953)
Balances in Treasury Trust Fund (Note 36)	15,112	14,268
Obligated Balance not yet Disbursed	8,496,895	8,446,266
Non-Budgetary FBWT	500,977	465,465
Totals	**$ 8,464,107**	**$ 8,341,156**

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2017 and FY 2016 no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2017, and September 30, 2016, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2017, and September 30, 2016, investments related to Superfund and LUST consist of the following:

		Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Intragovernmental Securities:						
Non-Marketable FY 2017	$	5,329,067	6,455	3,401	5,326,013	5,326,013
Non-Marketable FY 2016	$	5,298,243	(7,209)	3,282	5,308,734	5,308,734

CERCLA, as amended by SARA, authorizes the EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, the EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable. All investments in Treasury securities are funds from dedicated collections (see Note 18).

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for dedicated collection funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the EPA as evidence of its receipts. Treasury securities are an asset to the EPA and a liability to the U.S. Treasury. Because the EPA and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

Treasury securities provide the EPA with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the EPA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2017 and September 30, 2016 consist of the following:

		FY 2017		FY 2016
Intragovernmental:				
Accounts & Interest Receivable	$	19,227	$	8,618
Less: Allowance for Un-collectibles		(1,423)		(1,408)
Total	**$**	**17,804**	**$**	**7,210**
Non-Federal:				
Unbilled Accounts Receivable	$	206,044	$	150,538
Accounts & Interest Receivable		2,413,358		2,395,903
Less: Allowance for Un-collectibles		(2,111,231)		(2,059,627)
Total	**$**	**508,171**	**$**	**486,814**

The Allowance for Uncollectible Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

Note 6. Other Assets

Other Assets as of September 30, 2017 and September 30, 2016 consist of the following:

		FY 2017		FY 2016
Intragovernmental:				
Advances to Federal Agencies	$	200,703	$	206,597
Advances for Postage		119		96
Total	**$**	**200,822**	**$**	**206,693**
Non-Federal:				
Travel Advances	$	79	$	187
Securities from Debt Settlement		1,863		-
Other Advances		6,196		6,598
Inventory for Sale		103		289
Total	**$**	**8,241**	**$**	**7,074**

Note 7. Loans Receivable, Net

Loans Receivable generally consists of program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances 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, which 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 loan present value is the gross loan receivable less the subsidy present value. As of September 30, 2017, the EPA has not disbursed any loans for the WIFIA program, but has incurred $1.79 million in administrative expenses.

Schedule for Reconciling Subsidy Cost Allowance Balances

(Post-1991 Direct Loans)

	FY2017	FY2016
Beginning balance of the subsidy cost allowance	$ -	$ 337
Add: subsidy expense for direct loans disbursed during the reporting years by component:	-	-
Interest rate differential costs	-	-
Default costs (net of recoveries)	-	-
Fees and other collections	-	-
Other subsidy costs	-	-
Total of the above subsidy expense components	-	337
Adjustments:		
Loan Modification	-	-
Fees received	-	-
Foreclosed property acquired	-	-
Loans written off	-	-
Subsidy allowance amortization	-	-
Other	-	(337)
End balance of the subsidy cost allowance before reestimates	-	-
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	-	-
(b) Technical/default reestimate	-	-
Total of the above reestimate components	-	-
Ending Balance of the subsidy cost allowance	$ -	$ -

EPA has not disbursed Direct Loans since 1993.

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2017 and September 30, 2016:

		FY 2017		FY 2016
Intragovernmental:				
Accounts Payable	$	4,199	$	2,157
Allocation Liability		-		578
Accrued Liabilities		92,836		71,156
Total	**$**	**97,035**	**$**	**73,891**

		FY 2017		FY 2016
Non-Federal:				
Accounts Payable	$	58,212	$	63,833
Advances Payable		17		19
Interest Payable		5		5
Grant Liabilities		296,157		309,716
Other Accrued Liabilities		169,322		147,483
Total	**$**	**523,713**	**$**	**521,056**

Other Accrued Liabilities are mostly comprised of contractor accruals.

Note 9. General Property, Plant, and Equipment, Net

General property, plant, and equipment (PP&E) consist of software, real property, EPA and contractor-held personal property, and capital leases.

As of September 30, 2017, and September 30, 2016, General PP&E consisted of the following:

		FY 2017				FY 2016		
		Acquisition Value	Accumulated Depreciation	Net Book Value		Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$	304,068	(198,897)	105,171	$	296,381	(196,484)	99,897
Software (production)		437,334	(364,300)	73,034		733,326	(545,672)	187,654
Software (development)		47,377	-	47,377		267,355	-	267,358
Contractor-Held Equip.		39,759	(24,117)	15,642		37,261	(25,579)	11,682
Land and Buildings		742,932	(269,779)	473,153		721,809	(253,182)	468,627
Capital Leases		24,485	(19,374)	5,111		24,485	(18,500)	5,985
Total	**$**	1,595,955	(876,467)	719,488	**$**	**2,080,617**	**(1,039,417)**	**1,041,200**

In FY 2015, the Agency initiated an intensive remediation effort to address the material weakness in how the Agency accounts for software. The Agency disclosed a material weakness through its internal control review of software capitalization processes in FY 2014. The material weakness was cited in the, "Audit of the EPA's Fiscal Year's 2014 and 2013 (Restated) Consolidated Financial Statements" report, dated November 17, 2014. The significant decrease in software acquisition value from FY 2016 to FY 2017 is attributable to the Agency's ongoing software material weakness remediation efforts. A key part of this remediation effort has been improving procedures for validating expenditures that require capitalization and improving communications between Agency program offices and the accounting office. In FY 2017, there was an increase in software acquisition values totaling $46.8 million. There were also decreases totaling $562.8 million due to software disposals, reclassification of capitalized software costs to expense, and adjustments to asset values, including depreciation. The increase in the Agency's capitalization threshold was effective on October 1, 2016 and did not have a material effect in the change in software asset values.

Note 10. Debt Due to Treasury

As of September 30, 2017, the EPA does not have any debt due to Treasury. In FY 2017, the EPA did not borrow funds to finance the WIFIA Loan Program. The debt to Treasury as of September 30, 2017 and September 30, 2016 is as follows:

All Other Funds	FY 2017 Beginning Balance	FY 2017 Net Borrowing	FY 2017 Ending Balance	FY 2016 Beginning Balance	FY 2016 Net Borrowing	FY 2016 Ending Balance
Intragovernmental:						
Debt to Treasury	$ -	-	-	$ 34	(34)	-

Note 11. Stewardship Property Plant & Equipment

The Agency acquires title to certain property and property rights under the authorities provided in Section 104(j) CERCLA related to remedial clean-up sites. The property rights are in the form of fee interests (ownership) and easements to allow access to clean-up sites or to restrict usage of remediated sites. The Agency takes title to the land during remediation and transfers it to state or local governments upon the completion of clean-up. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred under the terms of 104(j).

As of September 30, 2017, and 2016, the Agency possessed the following land and land rights:

	FY 2017	FY2016
Superfund Sites with Easements:		
Beginning Balance	$ 38	$ 36
Additions	1	2
Withdrawals	-	-
Ending Balance	$ 39	$ 38
Superfund Sites with Land Acquired:		
Beginning Balance	$ 34	$ 35
Additions	1	-
Withdrawals	1	1
Ending Balance	$ 34	$ 34

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2017, and September 30, 2016, custodial liability is approximately $22.5 million and $42.6 million, respectively.

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2017:

		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities – Intragovernmental:				
Current				
Employer Contributions & Payroll Taxes	$	19,119	-	19,119
WCF Advances		1,676	-	1,676
Other Advances		9,235	-	9,235
Advances, Superfund Cash-out		65,807	-	65,807
Deferred Superfund Cash-out		7,853	-	7,853
Liability for Deposit Funds		53	-	53
Non-Current				
Unfunded FECA Liability		-	8,839	8,839
Unfunded Unemployment Liability		-	401	401
Payable to Treasury Judgment Fund		-	22,000	22,000
Total Intragovernmental	**$**	103,743	31,240	134,983
Other Liabilities - Non-Federal:				
Current				
Unearned Advances, Non-Federal	$	121,339	-	121,339
Liability for Deposit Funds, Non-Federal		6,441	-	6,441
Non-Current				
Capital Lease Liability		-	17,548	17,548
Total Non-Federal	**$**	**127,780**	**17,548**	**145,328**

Other Liabilities consist of the following as of September 30, 2016:

		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities – Intragovernmental				
Current				
Employer Contributions & Payroll Taxes	$	14,879	-	14,879
WCF Advances		2,354	-	2,354
Other Advances		6,709	-	6,709
Advances, Superfund Cash-out		51,259	-	51,259
Deferred Superfund Cash-out		(24,359)	-	(24,359)
Non-Current				
Unfunded FECA Liability		-	9,295	9,295
Unfunded Unemployment Liability		-	276	276
Payable to Treasury Judgment Fund		-	22,000	22,000
Total Intragovernmental	**$**	**50,841**	**31,571**	**82,412**
Other Liabilities - Non-Federal				
Current				
Unearned Advances, Non-Federal	$	399,766	-	399,766
Liability for Deposit Funds, Non-Federal		7,200	-	7,200
Non-Current				
Capital Lease Liability		-	18,655	18,655
Total Non-Federal	**$**	**409,966**	**18,655**	**425,621**

In FY 2017, the EPA reclassified liabilities from “Other” to “Superfund Cashout Advances” for presentation purposes, leading to a variance of $280.2 million between fiscal years 2016 and 2017.

Note 14. Leases

A. Capital Leases:

The value of assets held under Capital Leases as of September 30, 2017 and 2016 are as follows:

	FY 2017	FY 2016
Summary of Assets Under Capital Lease:		
Real Property	$ 24,485	$ 24,485
Personal Property	-	-
Total	**$ 24,485**	**$ 24,485**
Accumulated Amortization	$ 19,374	$ 18,500

The EPA has one capital lease for land and buildings housing scientific laboratories. This lease includes a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. The EPA's lease will terminate in FY 2025.

Future Payments Due:	
Fiscal Year	Capital Leases
2018	$ 4,215
2019	4,215
2020	4,215
2021	4,215
2022	4,215
After 5 Years	9,835
Total Future Minimum Lease Payments	30,910
Less: Imputed Interest	(13,362)
Net Lease Liability	17,548
Liability not Covered by Budgetary Resources	$ 17,548

B. Operating Leases:

The GSA provides leased real property (land and buildings) as office space for the EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties. The EPA has three direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

Fiscal Year	Operating Leases, Land and Buildings
2018	$ 84
2019	53
2020	9
Total Future Minimum Lease Payments	**$ 146**

Note 15. FECA Actuarial Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, the EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability as of September 30, 2017 and 2016 was $45.2 million and $45.0 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2017 present value of these estimated outflows is calculated using a discount rate of 2.683 percent in the first year, and 2.683 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by the EPA, a state, or another responsible party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cash-out funds received by the EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of the EPA without further appropriation by Congress. As of September 30, 2017, and September 30, 2016, cash-out advances are $3.5 billion and $3.3 billion respectively.

Note 17. Commitments and Contingencies

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

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

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

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

d) 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.

As of September 30, 2017, and 2016 there were no accrued liabilities for commitments and potential loss contingencies.

A. Gold King Mine

On August 5, 2015, the EPA was conducting an investigation of the Gold King Mine near Silverton, Colorado. While excavating part of the mine, pressurized water began leaking above the mine tunnel, spilling about three million gallons of contaminated water stored behind the collapsed material in Cement Creek, a tributary of the Animas River. In fiscal year 2017 and subsequent fiscal years, the Agency has received and anticipates receiving administrative tort legal claims for compensation from individuals and entities who may have suffered personal injury or property damage from the spill. Subject to the materiality threshold, the Agency will begin to report on such matters when claims are filed and contingent legal liabilities are known. See Section B in regards to cases that have been filed under CERCLA relating to Gold King Mine.

B. Superfund

Under CERCLA Section 106(a), the EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition the EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

As of September 30, 2017, there is one case pending against the EPA that is reported under Environmental Liabilities below: Bob's Home Service Landfill ($900 thousand) is reported as a reasonably possible liability.

There are six matters concerning Land O' Lakes (Hudson Oil Refinery Superfund Site), CERCLA 106(b) Petition No. 15-01, CERCLA, New Mexico v. EPA et al., Navajo Nation v. EPA et al., McDaniel et al., and Jan Burgess et al. The amounts are estimated at $18 million, $20 million, $154 million, $160 million, $70 million and $722 million respectively but they are only reasonably possible and the final outcomes are not probable.

C. Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." The EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim. As of September 30, 2017, there is no other case pending in the court.

Note 18. Fund from Dedicated Collections (Unaudited)

		Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2017						
Assets						
Fund Balance with Treasury	$	444,637	68,265	155,260	85,847	754,009
Investments		-	529,482	4,796,531	-	5,326,013
Accounts Receivable, Net		-	37,647	416,861	26	454,534
Other Assets		-	699	20,558	599	21,856
Total Assets	$	444,637	636,093	5,389,210	86,472	6,556,412
Other Liabilities		-	44,841	3,789,256	80,254	3,914,351
Total Liabilities	$	-	44,841	3,789,256	80,254	3,914,351
Unexpended Appropriation		-	-	(2)	3,699	3,697
Cumulative Results of Operations		444,637	591,252	1,599,956	2,519	2,638,364
Total Liabilities and Net Position	$	444,637	636,093	5,389,210	86,472	6,556,412
Statement of Net Cost for the Period Ended September 30, 2017						
Gross Program Costs	$	-	90,432	1,495,192	67,414	1,653,038
Less: Earned Revenues		-	-	416,036	47,217	463,253
Net Cost of Operations	$	-	90,432	1,079,156	20,197	1,189,785
Statement of Changes in Net Position for the Period ended September 30, 2017						
Net Position, Beginning of Period	$	421,406	546,543	1,608,142	5,350	2,581,441
Non-exchange Revenue- Securities Investments		-	3,048	44,166	230	47,444
Non-exchange Revenue		23,231	225,193	(701)	(1,434)	246,289
Other Budgetary Finance Sources		-	(93,100)	1,014,090	22,257	943,247
Other Financing Sources		-	-	13,413	12	13,245
Net Cost of Operations		-	(90,432)	(1,079,156)	(19,721)	(1,189,785)
Change in Net Position		23,231	44,709	(8,188)	868	60,620
Net Position	**$**	444,637	591,252	1,599,954	6,218	2,642,061

		Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2016						
Assets						
Fund Balance with Treasury	$	421,414	52,354	113,898	72,802	660,468
Investments		-	500,831	4,807,903	-	5,308,734
Accounts Receivable, Net		-	52,806	362,806	30	415,642
Other Assets		-	426	79,923	2,882	83,231
Total Assets	$	424,414	606,417	5,364,530	75,714	6,468,075
Other Liabilities		9	59,874	3,756,388	70,364	3,886,635
Total Liabilities	$	9	59,874	3,756,388	70,364	3,886,635
Unexpended Appropriation		-	-	4	4,076	4,080
Cumulative Results of Operations		421,405	546,543	1,608,138	1,274	2,577,360
Total Liabilities and Net Position	$	421,414	606,417	5,364,530	75,714	6,468,075
Statement of Net Cost for the Period Ended September 30, 2016						
Gross Program Costs	$	-	100,581	1,422,150	69,449	1,592,180
Less: Earned Revenues		5	-	345,981	49,990	395,976
Net Cost of Operations	$	(5)	100,581	1,076,169	19,459	1,196,204
Statement of Changes in Net Position for the Period ended September 30, 2016						
Net Position, Beginning of Period	$	397,831	543,481	1,844,999	6,379	2,792,690
Non-exchange Revenue- Securities Investments		-	960	37,311	32	38,303
Non-exchange Revenue		23,569	202,681	8,490	(3,435)	231,305
Other Budgetary Finance Sources		-	(100,000)	769,602	21,790	691,392
Other Financing Sources		-	2	23,909	43	23,954
Net Cost of Operations		5	(100,581)	(1,076,169)	(19,459)	(1,196,204)
Change in Net Position	$	23,574	3,062	(236,857)	(1,029)	(211,250)
Net Position	**$**	**421,405**	**546,543**	**1,608,142**	**5,350**	**2,581,440**

A. Funds from Dedicated Collections are as follows

i. Environmental Services Receipt Account:

The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts if authorized by Congress in the Agency's appropriations bill.

ii. *Leaking Underground Storage Tank (LUST) Trust Fund:*

The LUST Trust Fund, was authorized by the SARA as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements and prevention grants to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act.

iii. *Superfund Trust Fund:*

In 1980, the Superfund Trust Fund, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to the Department of Justice carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other Federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

B. Other Funds from Dedicated Collections

i. Inland Oil Spill Programs Account:

The Inland Oil Spill Programs Account was authorized by the Oil Pollution Act of 1990 (OPA). Monies are appropriated from the Oil Spill Liability Trust Fund to the EPA's Inland Oil Spill Programs Account each year. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for specific oil spill cleanup actions is provided through the U.S. Coast Guard from the Oil Spill Liability Trust Fund through reimbursable Pollution Removal Funding Agreements (PRFAs) and other inter-agency agreements.

ii. Pesticide Registration Fund:

The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," and reauthorized until September 30, 2019, for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

iii. Reregistration and Expedited Processing Fund:

The Revolving Fund, was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

iv. Tolerance Revolving Fund:

The Tolerance Revolving Fund, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997, were accounted for under this fund. Presently collection of these fees is prohibited by statute, enacted in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

Note 19. Intragovernmental Costs and Exchange Revenue

Exchange, or earned revenues on the Statement of Net Cost include income from services provided to Federal agencies and the public, interest revenue (apart from interest earned on trust fund investments), and miscellaneous earned revenue.

	FY2017			FY2016		
	Intragovern -mental	**With the Public**	**Total**	**Intragovern -mental**	**With the Public**	**Total**
Env. Programs & Management:						
Program Costs	$ $924,012	2,093,973	3,017,985	$ 942,545	1,764,864	2,707,409
Earned Revenue	40,400	10,275	50,675	29,960	1,575	31,535
NET COSTS	883,612	2,083,698	2,967,310	912,585	1,763,289	2,675,874
Leaking Underground Storage Tanks:						
Program Costs	4,437	85,996	90,433	4,820	95,761	100,581
Earned Revenue	-	-	-	-	-	-
NET COSTS	4,437	85,996	90,433	4,820	95,761	100,581
Science & Technology:						
Program Costs	200,358	612,169	812,527	195,740	596,663	792,403
Earned Revenue	7,356	1,274	8,630	7,217	1,084	8,301
NET COSTS	193,002	610,895	803,897	188,523	595,579	784,102
Superfund:						
Program Costs	275,695	1,219,020	1,494,715	65,405	1,147,693	1,213,098
Earned Revenue	26,733	389,103	415,836	43,894	302,087	345,981
NET COSTS	248,962	829,917	1,078,879	21,511	845,606	867,117
State and Tribal Assistance Agreements:						
Program Costs	54,159	3,395,913	3,450,072	57,263	3,927,369	3,984,632
Earned Revenue	-	-	-	-	-	-
NET COSTS	54,159	3,395,913	3,450,072	57,263	3,927,369	3,984,632
Other:						
Program Costs	112,492	257,520	343,721	65,317	313,132	378,449
WCF Eliminations	(211,512)	-	(211,512)	-	-	-
Earned Revenue	231,229	37,583	295,103	22,933	39,638	62,571
WCF Eliminations	(211,290)	-	(211,290)	-	-	-
NET COSTS	(118,959)	219,937	100,978	42,384	273,494	315,878
Total						
Program Costs	1,359,641	7,664,591	9,024,232	1,331,090	7,845,482	9,176,572
Earned Revenue	94,428	438,235	532,663	104,004	344,384	448,388
NET COSTS	**$ 1,265,213**	**7,226,356**	**8,491,569**	**$ 1,227,086**	**7,501,098**	**8,728,184**

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

Note 20. Cost of Stewardship Land

The EPA had one acquisition of Superfund site with Easements, and one acquisition of Superfund site with Land acquired as of September 30, 2017. The acquisition of Superfund site with Easements contains four 20 year easements at the site, with no acquisition cost. The acquisition of Superfund site with land acquired was valued at $36 thousand with an option for an additional 12 months ($18 thousand). The EPA also had a property transfer of ownership via a Quit Claim Deed.

Note 21. Environmental Cleanup Costs

Annually, the EPA is required to disclose its audited estimated future costs associated with:

a) Clean up of hazardous waste and restoration of the facility when a facility is closed, and
b) Costs to remediate known environmental contamination resulting from the Agency's operations.

The EPA has 19 sites responsible for clean-up cost incurred under federal, state, and/or local regulations to remove from, contain, or dispose of hazardous material fund located at these facilities.

The EPA is required to report the estimated costs related to:

a) Clean-up from federal operations resulting in hazardous waste
b) Accidental damage to nonfederal property caused by federal operations, and
c) Other damage to federal property caused by federal operations or natural forces.

The key to distinguishing between future clean-up costs versus an environmental liability is to determine whether the event (accident, damage, etc.) has already occurred and whether we can reasonably estimate the cost to remediate the site.

The EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

As of September 30, 2017, the EPA has 1 site that requires clean-up stemming from its activities. The claimants' chances of success are characterized as reasonably possible with costs amounting to $900 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by the EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although the EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to the EPA; (2) any demand against the EPA will be resolved only after the Superfund clean-up work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2017 and FY 2016.

A. Accrued Clean-up Cost

The EPA has 19 sites and is required to fund the environmental clean-up of those sites. As of September 30, 2017, the estimated costs for site clean-up were $39.5 million unfunded, and $500 thousand funded, respectively. In 2016 the estimated costs for site clean-up were $36.1 million unfunded, $1.1 million funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2017, the estimate for unfunded clean-up cost increased by $3.4 million from the FY 2016 estimate. This increase is primarily due to the closure of several EPA buildings in various regions.

Note 22. State Credits

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Contracts (SSC) when the EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide the EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. The credit is limited to state site-specific expenses the EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action.

Once the EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by the EPA. As of September 30, 2017, and September 30, 2016, the total remaining state credits have been estimated at $22.2 million, and $22.2 million, respectively.

Note 23. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a) (2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2017, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $1.4 million. As of September 30, 2016, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by the EPA for payment. Further, the EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by the EPA.

Note 24. Custodial Revenues and Accounts Receivable

	FY 2017	FY 2016
Fines, Penalties and Other Miscellaneous Receipts	**$ 1,581,014**	**$ 98,926**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	149,522	195,188
Less: Allowance for Uncollectible Accounts	(124,493)	(150,599)
Total	**$ 25,029**	**$ 44,589**

The EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectability by the EPA of the fines and penalties is based on the respondents' willingness and ability to pay.

In FY 2017, Volkswagen paid a civil penalty to the EPA of $1.5 billion to resolve allegations that Volkswagen violated the Clean Air Act by selling approximately 590 thousand model year 2009 to 2016 diesel motor vehicles equipped with "defeat devices" that circumvented emissions testing. These funds were transferred to the U.S. Treasury on September 30, 2017.

Note 25. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2017 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2017 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2017 has not yet been published. We expect it will be published by early 2018, and it will be available on the Office of Management and Budget website at Office of Management and Budget website at https://www.whitehouse.gov/

The actual amounts published for the year ended September 30, 2016 are listed immediately below (dollars in millions):

FY 2016		Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$	14,154	10,031	886	9,615
Reported in Budget of the U. S. Government	$	14,154	10,031	886	9,615

Note 26. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2017 and September 30, 2016:

		FY 2017		FY 2016
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$	330,486	$	234,361
Temporarily Not Available - Rescinded Authority		(10,555)		(2,855)
Permanently Not Available:				
Payments to Treasury		-		(34)
Rescinded authority		(90,348)		(40,000)
Canceled authority		(46,483)		(13,589)
Total Permanently Not Available	$	(136,831)	$	(53,623)

Note 27. Unobligated Balances Available

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

The unobligated balances available consist of the following as of September 30, 2017 and September 30, 2016:

		FY 2017		FY 2016
Unexpired Unobligated Balance	$	4,154,577	$	4,122,735
Expired Unobligated Balance		92,649		119,316
Total	**$**	**4,247,226**	**$**	**4,242,051**

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2017 and September 30, 2016 were $8.32 billion and $8.26 billion, respectively.

Note 29. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2017 and September 30, 2016, the following receipts were generated from these activities:

		FY 2017		FY 2016
Trust Fund Recoveries	$	(49,379)	$	30,833
Special Fund Environmental Service		23,222		23,577
Trust Fund Appropriation		1,135,527		811,684
Miscellaneous Receipt and Clearing Accounts		83		20,359
Total	$	1,109,453	$	886,453

Note 30. Transfers-In and Out, Statement of Changes in Net Position

A. Appropriation Transfers, In/Out:

For September 30, 2017 and September 30, 2016, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, and Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follow for September 30, 2017 and September 30, 2016:

		FY 2017		FY 2016
Fund/Type of Account				
Net Transfers from Invested Funds	$	1,195,715	$	1,183,737
Transfer from LUST to DOT Highway Trust Fund		93,100		100,000
Transfers to Another Agency		870		981
Allocations Rescinded		6,900		-
Total of Net Transfers on Statement of Budgetary Resources	$	1,296,585	$	1,284,718

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2017 and September 30, 2016, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and non-expenditure, follow for September 30, 2017 and September 30, 2016:

	FY 2017		FY 2016	
Type of Transfer/Funds	**Fund from Dedicated Collections**	**Other Funds**	**Fund from Dedicated Collections**	**Other Funds**
Transfers-in (out) non-expenditure, Earmark to S&T and OIG funds Capital Transfer	$ (24,274)	24,041	$ (28,789)	28,789
Transfers-in non-expenditure, Oil Spill	(18,209)	-	(18,209)	-
Transfers-in (out) non-expenditure, Superfund	54,464	-	(43,402)	-
Transfers-in non-expenditure, NRDA	(870)	-	-	-
Transfer-out LUST	100	-	100,000	-
Total Transfer in (out) without Reimbursement, Budgetary	$ 13,211	24,041	$ 9,600	28,789

Note 31. Imputed Financing

In accordance with SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” Federal agencies must recognize the portion of employees’ pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each Agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year’s salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each Agency. The estimates for FY 2017 were $77.3 million. For FY 2016, the estimates were $116.4 million.

SFFAS No. 4, “Managerial Cost Accounting Standards and Concepts” and SFFAS No. 30, “Inter-Entity Cost Implementation,” requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. The EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. The EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other Federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2017 total imputed costs were $22.2 million.

In addition to the pension and retirement benefits described above, the EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, “Accounting for Treasury Judgment Fund Transactions.” For FY 2017 entries for Judgment Fund payments totaled $3.6 million. For FY 2016, entries for Judgment Fund payments totaled $5.9 million.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years ending September 30, 2017 and September 30, 2016 consist of the following:

		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2017 Payroll & Benefits Payable				
Accrued Funded Payroll & Benefits	$	31,095	-	31,095
Withholdings Payable		32,311	-	32,311
Employer Contributions Payable-TSP		638	-	638
Accrued Unfunded Annual Leave		-	141,588	141,588
Total – Current	**$**	**64,044**	**141,588**	**205,632**
FY 2016 Payroll & Benefits Payable				
Accrued Funded Payroll and Benefits	$	40,899	-	40,899
Withholdings Payable		19,230	-	19,231
Employer Contributions Payable-TSP		597	-	597
Accrued Unfunded Annual Leave		-	150,071	150,071
Total – Current	**$**	**60,726**	**150,071**	**210,797**

Note 33. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 7 years earlier. These amounts affect Unexpended Appropriations.

		Other Funds FY 2017		Other Funds FY 2016
Canceled General Authority		123,824		53,501
Total Other Adjustments	**$**	**123,824**	**$**	**53,501**

Note 34. Non-Exchange Revenue, Statement of Changes in Net Position

Non-Exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2017 and September 30, 2016 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2017		Funds from Dedicated Collections FY 2016
Interest on Trust Fund	$	47,445	$	38,303
Tax Revenue, Net of Refunds		225,194		202,681
Fines and Penalties Revenue		(701)		8,490
Special Receipt Fund Revenue		21,796		20,134
Total Non-Exchange Revenue	**$**	**293,734**	**$**	**269,608**

Note 35. Reconciliation of Net Cost of Operations to Budget

		FY 2017		FY 2016
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	$	10,354,618	$	10,036,882
Less: Spending Authority from Offsetting Collections and Recoveries		(1,031,789)		(844,542)
Obligations, Net of Offsetting Collections		9,322,829		9,192,340
Less: Offsetting Receipts		(1,109,453)		(886,453)
Net Obligations		8,213,376		8,305,887
Other Resources:				
Imputed Financing Sources		103,093		143,616
Total Resources Used to Finance Activities	$	8,316,469	$	8,449,503
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated	$	(66,195)	$	307,188
Resources that Fund Prior Periods Expenses		-		-
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:				
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances		31		497
Offsetting Receipts Not Affecting Net Cost		72,980		53,730
Resources that Finance Asset Acquisition		(121,053)		(85,805)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost		(8,819)		-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		(123,056)		275,610
Total Resources Used to Finance the Net Cost of Operations	$	8,193,413	$	8,725,113
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Increase in Annual Leave Liability	$	(8,483)	$	5,990
Increase in Environmental and Disposal Liability		3,441		(62)
Increase in Unfunded Contingencies		-		(901)
Upward/Downward Re-estimates of Credit Subsidy Expense		-		2,151
Increase in Public Exchange Revenue Receivables		(159,362)		(108,262)
Increase in Workers Compensation Costs		(123)		(1,347)
Other		105		(88)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods		(164,422)		(102,519)
Components Not Requiring/Generating Resources:				
Depreciation and Amortization		108,927		91,604
Expenses Not Requiring Budgetary Resources		353,651		13,986
Total Components of Net Cost that Will Not Require or Generate Resources		462,578		105,590
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		298,156		3,071
Net Cost of Operations	**$**	**8,491,569**	**$**	**8,728,184**

Note 36. Amounts Held by Treasury (Unaudited)

Amounts held by Treasury for future appropriations consist of amounts held in trusteeship by Treasury in the Superfund and LUST Trust Funds.

A. Superfund

Superfund is supported by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties.

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2017 and September 30, 2016. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

		EPA	Treasury	Combined
SUPERFUND FY 2017				
Undistributed Balances				
Un-invested Fund Balance	$	-	1,422	1,422
Total Undisbursed Balance		-	1,422	1,422
Interest Receivable		-	3,387	3,387
Investments, Net		4,704,616	88,528	4,793,144
Total Assets	$	4,704,616	93,337	4,797,953
Liabilities & Equity				
Equity	$	4,704,616	93,337	4,797,753
Total Liabilities and Equity	$	4,704,616	93,337	4,797,753
Receipts				
Cost Recoveries	$	-	49,379	49,379
Fines & Penalties		-	2,592	2,592
Total Revenue		-	51,971	51,971
Appropriations Received		-	1,038,131	1,038,131
Interest Income		-	44,166	44,166
Total Receipts	$	-	1,134,268	1,134,268
Outlays				
Transfers to/from EPA, Net	$	1,119,857	(1,119,857)	-
Total Outlays		1,119,857	(1,119,857)	-
Net Income	**$**	**1,119,857**	**14,411**	**1,134,268**

In FY 2017, the EPA received an appropriation of $1.1 billion for Superfund. Treasury's Bureau of Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to the EPA for the amount of the appropriation. BFS does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2017, and September 30, 2016, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of $4.8 for both fiscal years.

		EPA	Treasury	Combined
SUPERFUND FY 2016				
Undistributed Balances				
Un-invested Fund Balance	$	-	439	439
Total Undisbursed Balance		-	439	439
Interest Receivable		-	3,282	3,282
Investments, Net		4,740,927	63,693	4,804,620
Total Assets	$	4,740,927	67,414	4,808,341
Liabilities & Equity				
Equity	$	4,740,927	67,414	4,808,341
Total Liabilities and Equity	$	4,740,927	67,414	4,808,341
Receipts				
Corporate Environmental	$	-	-	-
Cost Recoveries		-	30,833	30,833
Fines & Penalties		-	7,277	7,277
Total Revenue		-	38,110	38,110
Appropriations Received		-	811,684	811,684
Interest Income		-	37,311	37,311
Total Receipts	$	-	887,105	887,105
Outlays				
Transfers to/from EPA, Net	$	1,120,585	(1,120,585)	-
Total Outlays		1,120,585	(1,120,585)	-
Net Income	**$**	**1,120,585**	**(233,480)**	**887,105**

B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2017 and 2016, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

		EPA	Treasury	Combined
LUST FY 2017				
Undistributed Balances				
Un-invested Fund Balance	$	-	13,690	13,690
Total Undisbursed Balance		-	13,690	13,690
Interest Receivable		-	14	14
Investments, Net		37,647	491,821	529,468
Total Assets	$	37,647	505,525	543,172
Liabilities & Equity				
Equity		37,647	505,525	543,172
Receipts				
Highway TF Tax	$	-	213,392	213,392
Airport TF Tax		-	11,752	11,752
Inland TF Tax		-	49	49
Total Revenue		-	225,193	225,193
Interest Income		-	3,048	3,048
Total Receipts	$	-	228,241	228,241
Outlays				
Transfers to/from EPA, Net	$	107,000	(107,000)	-
Total Outlays	$	107,000	(107,000)	-
Net Income	**$**	**107,000**	**121,241**	**228,241**

		EPA	Treasury	Combined
LUST FY 2016				
Undistributed Balances				
Un-invested Fund Balance	$	-	13,830	13,830
Total Undisbursed Balance		-	-	-
Interest Receivable		-	-	-
Investments, Net		52,806	448,025	500,831
Total Assets	$	52,806	461,855	514,661
Liabilities & Equity				
Equity		52,806	461,855	514,661
Receipts				
Highway TF Tax	$	-	191,562	191,562
Airport TF Tax		-	11,013	11,013
Inland TF Tax		-	106	106
Total Revenue		-	202,681	202,681
Interest Income		-	961	961
Total Receipts	$	-	203,642	203,642
Outlays				
Transfers to/from EPA, Net	$	191,941	(191,941)	-
Total Outlays	$	191,941	(191,941)	-
Net Income	**$**	**$ 191,941**	**11,701**	**203,642**

Note 37. Miscellaneous Receipts Violation, Anti-Deficiency Act Violations and Potential Anti-Deficiency Act Violations

A. Miscellaneous Receipt Act Violation

In 2007 and 2014 The Office of Pesticide Programs established the per-product maintenance fee to purposefully collect fees above the FIFRA § 4 statutory target with the understanding that the EPA could "make up" for shortfalls in prior years' collections. The FIFRA § 4 does not authorize the EPA to purposefully over-collect fees where the statutory target was not met in prior years to reach the target "on average" over a given number of years. As of 2016, the Agency had collected $1,072 in fees in excess of its statutory authority. In compliance with the Miscellaneous Receipts Act, in May 2016, the EPA deposited the excess fees collected into the General Fund of the Treasury.

B. Anti-Deficiency Act Violations

On February 10, 2017, the EPA reported violations of the Anti-deficiency Act (ADA), as required by 31 U.S.C. § 1351, which occurred in the Hazardous Substance Superfund account in Fiscal Years 1986, 1989, and 1995 in connection with the use of funds from state partners in the Superfund Remedial and Superfund Emergency Response and Removal programs in the total amount of $463 as required, by OMB circular A-11, Section 145, in writing to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB.

C. Potential Anti-Deficiency Act Violations

In FY 2016 the EPA determined that the Agency had experienced two separate Anti-Deficiency Act Voluntary Services Prohibition violations. 31 U.S.C. § 1342 prohibits the EPA from accepting voluntary services for the United States, or employing personal services not authorized by law, except in the cases of emergency involving the safety of human life or the protection of property.

The first violation occurred from January through April 2014 when the EPA accepted unpaid peer reviews for environmental education grants. At least one of the peer reviewers did not sign a written agreement in advance that states that the services are offered without the expectation of payment, and expressly waives any future pay claims against the government which constitutes a violation of the Voluntary Services Prohibition. The Agency was also unable to determine if there were any more peer reviewers who only had oral agreements.

The second violations occurred in the Honors Law Clerk Program where at least seven post-graduates provided services to the Agency at varying points between 2011 and 2015. Written and signed waivers were unable to be located but are ineffective under 5 U.S.C. §§ 5331-5338 which the principle of equal pay for substantially equal work applies.

In FY 2017, the Agency reviewed whether other voluntary and intern programs might also have had similar issues and included language in its budgetary and supervisory guidance reminding Agency managers to pay close attention to all Federal requirements when accepting voluntary services on behalf of the Agency.

As of the date of the audit report, the EPA is reviewing the proposed transmission of, as required by OMB circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB for Anti-Deficiency Act violation related to the Voluntary Services Provision.

Note 38. Other Information

The EPA received a disclaimer of opinion on audits of the FIFRA and PRIA financial statements for fiscal years 2014 through 2016 issued by the Office of Inspector General (report numbers 16-F-0322, 17-F-0364 and 16-F-0322, 17-F-0365 respectively). A disclaimer of opinion means that OIG was unable to obtain sufficient evidence to determine if the statements were fairly presented and free of material misstatement. The EPA had previously received unmodified, or clean, opinion on these financial statements for FY 2013.

OIG noted a material weakness in that the EPA could not adequately support $34 million of its FY 2014 FIFRA Fund costs and $28 million of its FY 2014 PRIA Fund costs. The EPA receives its funding for these programs both from fees paid by pesticide manufacturers and from amounts appropriated by the Congress. In FY 2014, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees.

Therefore, significant payroll amounts paid from appropriations were not charged directly to the FIFRA and PRIA Funds or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA and PRIA Funds and other pesticide programs. The OIG noted the same material weaknesses in FY 2015 and FY 2016 for FIFRA and PRIA fund costs.

Environmental Protection Agency
As of September 30, 2017, and September 30, 2016
(Dollars in Thousands)

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

Deferred Maintenance is described as the act of keeping fixed assets in acceptable condition.

Such activities include: Preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.

The deferred maintenance as of Fiscal Year 2017:

	FY2017	FY2016
Asset Category		
Buildings	$ 143,583	$ 132,449
EPA Held Equipment	620	370
Vehicles	9	9
Total Deferred Maintenance	$ 144,212	$ 132,828

In Fiscal Year 2017, in accordance with SFFAS No. 42, Deferred Maintenance and Repairs: *Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, agencies are required to:

a) Describe their maintenance and repairs policies and how they are applied.

b) Discuss how they rank and prioritize maintenance and repair activities among other activities.

c) Identify factors considered in determining acceptable condition standards.

d) State whether deferred maintenance and repairs relate solely to capitalized or fully depreciated general PP&E.

e) Identify PP&E for which management does not measure and/or report deferred maintenance and repairs and the rational for the exclusion of other than non-capitalized or fully depreciated general PP&E.

f) Provide beginning and ending deferred maintenance and repairs balances by

g) Explain significant changes from the prior year.

The EPA presents the above Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

Buildings:

Policy	Explanation
Maintenance and repairs policies and how they are applied.	The maintenance and repair policy is to maintain facilities and real property installed equipment to fully meet mission needs at each site. Systems are maintained to function efficiently at full capacity and to meet or exceed life expectancy of buildings and building systems.
How we rank and prioritize maintenance and repair activities among other activities.	Building and facility program projects are scored and ranked individually based on seven weighted factors to determine priority needs. High scoring projects are prioritized above lower scoring projects. The seven factors considered are: health and safety, energy conservation, environmental compliance, program requirements, repair and upkeep, space alteration, and operational urgency. Repair and Improvement (R&I) projects are identified and prioritized on a local basis.
Factors considered in determining acceptable condition standards.	The nine building systems must function at a level that fully meet mission needs. The nine building systems are: structure, roof, exterior components and finish, interior finish, HVAC, electrical, plumbing, conveyance, and specialized program support equipment. Each system is rated from 0 to 5 during facility assessments. Ratings are used to determine facility condition index and estimated deferred maintenance.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	Facilities assessments and the resulting DM&R estimates are applied to capitalize PP&E only. Full facility assessments using the NASA parametric model are used to determine facilities and systems indices and deferred maintenance estimates.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	Buildings are not excluded from DM&R estimates.
Explain significant changes from the prior year.	No significant changes.

EPA held Equipment

Policy	Explanation
Maintenance and repairs policies and how they are applied.	Managers of the equipment consider manufacturers recommendations in determining maintenance requirements.
How we rank and prioritize maintenance and repair activities among other activities.	Equipment is maintained based on manufacture's recommendations.
Factors considered in determining acceptable condition standards.	Manufacturer recommendations.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	DM&R relates to all EPA Held Equipment as determined by individual site managers.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	Individual site managers determine the need to measure and/or report DM&R based on mission needs.
Explain significant changes from the prior year.	Individual site equipment managers decide on a case-by-case basis the need to maintain equipment.

Vehicles

Policy	Explanation
Maintenance and repairs policies and how they are applied.	Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer.
How we rank and prioritize maintenance and repair activities among other activities.	The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor*. System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built.
Factors considered in determining acceptable condition standards.	The vehicle is inspected to insure that it (the vehicle) and related specialized equipment are in good working order. The criteria being that the vehicle is being maintained as built and as recommended by the manufacturer.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	All vehicles are capitalized.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	None.
Explain significant changes from the prior year.	No significant changes.

Stewardship Land

Stewardship land is acquired as contaminated sites in need of remediation and clean-up; thus the quality of the land is far-below the standard for usable and manageable land. Easements on stewardship lands are in good and usable condition but acquired in order to gain access to contaminated sites.

Supplemental Combined Statement of Budgetary Resources

Environmental Protection Agency
For the Period Ending September 30, 2017
(Dollars in Thousands)

	Env. Prog. & Mgmt.	Leaking Underground Storage Tank	Science & Tech	Superfund	State & Tribal Ass. Grants	Other	Total
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1:	$ 307,949	3,619	118,502	3,406,772	187,775	217,434	4,242,051
Adjustment to Unobligated Balance	947	2	85	18,933	975	208	21,150
Unobligated balance brought forward, October 1, as adjusted	308,896	3,621	118,587	3,425,705	188,750	217,642	4,263,201
Recoveries of Prior Year Unpaid Obligations	80,569	475	35,967	112,978	62,851	37,646	330,486
Other changes in unobligated balance	(5,722)	-	(3,211)	(233)	-	(33,095)	(42,261)
Unobligated balance from prior year budget authority, net	383,743	4,096	151,343	3,538,450	251,601	222,193	4,551,426
Appropriations (discretionary and mandatory)	2,600,999	185,041	706,473	1,126,420	3,565,963	1,185,370	9,370,266
Spending authority from offsetting collections	78,873	-	20,991	306,306	-	273,982	680,152
Total Budgetary Resources	$ 3,063,615	189,137	878,807	4,971,176	3,817,564	1,681,545	14,601,844
STATUS OF BUDGETARY RESOURCES							
Obligations incurred	2,761,123	185,494	781,819	1,581,191	3,589,195	1,455,796	10,354,618
Unobligated balance, end of year:							
Apportioned	234,514	3,642	77,358	3,389,986	228,369	218,716	4,152,585
Un-apportioned	-	-	-	-	-	1,992	1,992
Total unobligated balance, end of period	234,514	3,642	77,358	3,389,986	228,369	220,708	4,154,577
Expired unobligated balance, end of year	67,977	-	19,361	-	-	5,041	92,649
Total Status of Budgetary Resources	$ 3,063,614	189,136	878,808	4,971,177	3,817,564	1,681,545	14,601,844
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations							
Unpaid Obligations, Brought Forward, October 1 (gross)	$ 1,232,532	87,242	346,646	1,446,122	5,355,895	226,532	8,694,969
Obligations incurred	2,761,123	185,494	781,819	1,581,191	3,589,195	1,455,796	10,354,618
Outlays (gross)	(2,671,914	(183,681)	(781,295)	(1,430,019)	(3,453,280)	(1,396,647)	(9,916,836)
Recoveries of prior year unpaid obligations	(80,569)	(475)	(35,967)	(112,978)	(62,851)	(37,646)	(330,486)
Unpaid obligations, end of year (gross)	$ 1,241,172	88,580	311,203	1,484,316	5,428,959	248,035	8,802,265
Uncollected Payments							
Uncollected customer payments from Federal Sources, brought forward, Oct. 1	$ (73,077)	-	(16,550)	(10,057)	-	(148,956)	(248,640)
Change in uncollected customer payments from Federal sources	(37,746)	-	4,456	1,004	-	(24,443)	(56,729)
Uncollected customer payments from Federal sources, end of year	$ (110,823)	-	(12,094)	(9,053)	-	(173,399)	(305,369)
BUDGET AUTHORITY AND OUTLAYS, NET:							
Budget authority, gross (discretionary and mandatory)	$ 2,679,872	185,041	727,464	1,432,726	3,565,963	1,459,352	10,050,418
Actual offsetting collections (discretionary and mandatory)	(42,074)	(2)	(25,532)	(326,243)	(975)	(249,747)	(644,573)
Change in uncollected customer payments from Federal sources	(37,746)	-	4,456	1,004	-	(24,443)	(56,729)
Budget authority, net (discretionary and mandatory)	$ 2,600,052	185,039	706,388	1,107,487	3,564,988	1,185,162	9,349,116
Outlays, gross (discretionary and mandatory)	$ 2,671,914	183,681	781,295	1,430,019	3,453,280	1,396,647	9,916,836
Actual offsetting collections (discretionary and mandatory)	(42,074)	(2)	(25,532)	(326,243)	(975)	(249,747)	(644,573)
Outlays, net (discretionary and mandatory)	2,629,840	183,679	755,763	1,103,776	3,452,305	1,146,900	9,272,263
Distributed offsetting receipts	-	-	-	(1,086,148)	-	(23,305)	(1,109,453)
Agency outlays, net (discretionary and mandatory)	$ 2,629,840	183,679	755,763	17,628	3,452,305	1,123,595	8,162,810

Required Supplemental StewardshipInformation (Unaudited)

Environmental Protection Agency
Required Supplemental Stewardship Information (Unaudited)
For the Year Ended September 30, 2017
(Dollars in Thousands)

Investment in The Nation's Research and Development:

The EPA's Office of Research and Development provides the crucial underpinnings for the EPA decision-making. Through conducting cutting-edge science and technical analysis, ORD develops sustainable solutions to our environmental problems and employ more innovative and effective approaches to reducing environmental risks. Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. The EPA, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding, the framework, and technologies we need to detect, abate, and avoid environmental problems.

Among the Agency's highest priorities are research programs that address: the development and application of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the environmental effects of pollutants on children's health; the potential risks and effects of manufactured nanomaterials on human health and the environment; the impacts of global change and providing information to policy makers to help them adapt to a changing climate; the potential risks of unregulated contaminants in drinking water; the health effects of air pollutants such as particulate matter; the protection of the nation's ecosystems; and the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security. The EPA also supports regulatory decision-making with chemical risk assessments.

For FY 2017, the full cost of the Agency's Research and Development activities totaled over $635 million. Below is a breakout of the expenses (dollars in thousands): [1]

	FY2013	FY2014	FY2015	FY2016	FY2017
Programmatic Expenses	$ 531,901	$ 510,911	$ 535,352	$ 541,190	$ 532,153
Allocated Expenses	$ 78,189	$ 73,622	$ 78,028	$ 82,646	$ 103,451

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development.

[1] Allocated Expenses calculated specifically for the Required Supplemental Stewardship Information report and do not represent the overall Agency indirect cost rates.

Investment in The Nation's Infrastructure:

The Agency makes significant investments in the nation's drinking water and clean water infrastructure, primarily through the two SRF programs and the WIFIA program.

WIFIA: The EPA provides through the WIFIA program long-term, low cost supplemental credit assistance under customized terms to creditworthy water and wastewater projects. The WIFIA program directly supports the Agency's goal to ensure waters are clean through improved water infrastructure. The program requires a small appropriation compared to its potential loan volume. For example, the FY17 WIFIA appropriation of $30 million could spur up to $5 billion in total infrastructure investment. The WIFIA program is designed to attract private participation, encourage new revenue streams for infrastructure investment, and allow public agencies to get more projects done.

State Revolving Funds: The EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program provided more than $60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide. Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, the EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds programs. These are reported below as Other Infrastructure Grants.

The Agency's appropriated investments in the nation's Water Infrastructure are outlined below (dollars in thousands):

	FY2013	FY2014	FY2015	FY2016	FY2017
Construction Grants	$ 6,944	$ 1,447	$ 17,462	$ 11,344	$ 8,686
Clean Water SRF	$ 1,976,537	$ 1,534,453	$ 1,715,630	$ 1,459,820	$ 1,247,919
Drinking Water SRF	$ 1,027,613	$ 1,187,212	$ 1,268,360	$ 1,213,201	$ 994,297
Other Infrastructure Grants	$ 166,050	$ 118,706	$ 96,439	$ 62,011	$ 44,916
Allocated Expenses	$ 524,326	$ 516,102	$ 590,595	$ 529,815	$ 480,415
WIFIA	$ 0	$ 0	$ 0	$ 0	$ 30,000

See the Goal 2 – Clean and Safe Water portion in Section II of the AFR for more detailed information on the results of the Agency's investment in infrastructure.

Human Capital

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	FY2013	FY2014	FY2015	FY2016	FY2017
Training and Awareness Grants	$ 20,769	$ 23,255	$ 27,047	$ 29,116	$ 22,090
Fellowships	11,157	8,082	6,579	4,630	2,077
Allocated Expenses	4,118	4,226	5,146	5,336	4,073
Total	$ 36,044	$ 35,563	$ 38,772	$ 39,082	$ 28,240

Agency Response to Draft Report

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

NOV 13 2017

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY17-0206, *"Audit of EPA's Fiscal Year 2017 Financial Statements,"* dated November 13, 2017

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

TO: Paul C. Curtis, Director
Financial Statements Audits

Thank you for the opportunity to respond to the issues and recommendation in the subject draft audit report. The following is a summary of the agency's overall position, along with its position on the report recommendation. We have provided a corrective action and estimated completion date.

AGENCY'S OVERALL POSITION

The agency concurs with the following recommendation.

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1	Require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the information Technology specialization within the 1-year deadline, as required by the Office of Management and Budget, and take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline.	The Compass Financials Project Manager will obtain the required FAC-P/PM certification within the one-year window.	10/01/2018

To address specific findings in the report, please see the Technical Comments below.

- **EPA's Accounting for Software Continues to Be a Material Weakness**

We appreciate the OIG acknowledging the progress we continue to make in resolving the material weakness in the accounting for software. A key part of this remediation effort has been improving procedures for validating expenditures that require capitalization and the communications between agency program offices and the accounting office. In FY 2017, we met with program officials from all EPA offices with software investments requiring capitalization. As a result, all costs for software expenditures requiring capitalization were validated. We also continued to make expanded use of the fixed asset subsystem within Compass, the EPA's accounting system. By using the fixed asset subsystem, we have improved our documentation of software costs and the accuracy of asset values including depreciation. We plan to close the material weakness in FY 2018.

- **Additional Efforts Needed to Resolve EPA's Cash Differences With Treasury**

The audit report noted major improvements in the agency's efforts to resolve the long-standing cash differences. Of the $2.2M cash difference in the Washington Finance Center, the offset of $.9M difference is in a cancelled treasury account symbol. The agency could not immediately clear the difference; but will work with the Department of Treasury on options for clearing differences in cancelled account symbols. The agency will continue research efforts to resolve the remaining differences.

CONTACT INFORMATION

If you have any questions regarding this response, please contact OCFO's Audit Follow-up Coordinator, Bob Trent, at 202-566-0983.

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Appendix III

Distribution

The Administrator
Chief of Staff
Chief of Staff for Operations
Deputy Chief of Staff for Operations
Chief Financial Officer
Assistant Administrator for Administration and Resources Management
Assistant Administrator and Chief Information Officer, Office of Environmental Information
Assistant Administrator for Land and Emergency Management
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Associate Chief Financial Officer
Controller, Office of the Chief Financial Officer
Deputy Controller, Office of the Chief Financial Officer
Director, Office of Budget, Office of the Chief Financial Officer
Director, Office of Planning, Analysis and Accountability, Office of the Chief Financial Officer
Director, Office of Technology Solutions, Office of the Chief Financial Officer
Director, Research Triangle Park Finance Center, Office of the Chief Financial Officer
Director, Cincinnati Finance Center, Office of the Chief Financial Officer
Director, Las Vegas Finance Center, Office of the Chief Financial Officer
Director, Office of Resource and Information Management, Office of the Chief Financial Officer
Deputy Assistant Administrator, Office of Administration and Resources Management
Director, Office of Grants and Debarment, Office of Administration and Resources Management
Director, Office of Acquisition Management, Office of Administration and Resources Management
Director, Office of Administration, Office of Administration and Resources Management
Director, Office of Resources, Operations and Management, Office of Administration and Resources Management
Deputy Director, Office of Resources, Operations and Management, Office of Administration and Resources Management
Director, Office of Superfund Remediation and Technology Innovation, Office of Land and Emergency Management
Principal Deputy Assistant Administrator and Deputy Chief Information Officer, Office of Environmental Information
Director, Office of Information Technology Operations, Office of Environmental Information
Director, Office of Information Security and Privacy, Office of Environmental Information
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Administration and Resources Management
Audit Follow-Up Coordinator, Office of Environmental Information
Audit Follow-Up Coordinator, Office of Land and Emergency Management
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