



ABOUT THIS REPORT

The U.S. Environmental Protection Agency (EPA) is honored to present our Fiscal Year 2018 Agency Financial Report (AFR). This report provides high-level financial and performance results for the fiscal year (FY) spanning October 1 through September 30.

The information, data, and analyses provided in this AFR provides assistance to the President, Congress, and the public in evaluating the agency's yearly activities and accomplishments towards its mission of protecting human health and the environment.

The FY 2018 AFR includes EPA's FY 2018 Financial Statements Audit Report and the Agency's FY 2018 Management Integrity Act Report, including the Administrator's statement assuring the soundness of the Agency's internal controls. In compliance with the Inspector General Act of 1978 as amended, the AFR also presents EPA's report on FY 2018 progression in addressing Office of Inspector General (OIG) audit recommendations.

The AFR is comprised in accordance with the Chief Financial Officers (CFO) Act and

Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and fulfills the requirements set forth in OMB Circular A-11, Preparation, Submission and Execution of the Budget, and the Government Performance and Results Act Modernization Act of 2010 (GPRAMA).

The AFR is one of two annual reports on EPA's programmatic and financial activities. The financial information within the AFR will be supplemented by EPA's Annual Performance Report (APR), which will present the Agency's FY 2018 performance results as measured against the targets established in its FY 2018 Performance Plan and Budget and the goals established in its FY 2018–2022 Strategic Plan. EPA's FY 2018 APR will be included with the Agency's FY 2020 Congressional Budget Justification submission, and will be posted on the Agency's website.

Combined, the AFR and APR present a complete picture of the Agency's activities, accomplishments, progress, and finances for each fiscal year. EPA's prior fiscal year APR and AFR are available on EPA's internet at: <http://www.epa.gov/planandbudget/results>.

How the Report Is Organized

EPA's FY 2018 AFR is organized into three sections to provide clear insight into the Agency's fiscal activity over the past year.

Section I—Management's Discussion and Analysis

Section I contains information on EPA's mission and organizational structure; a reference to performance results provided in the forthcoming Annual Performance Report; an analysis of the financial statements and stewardship figures; information on systems, legal compliance, and controls; and other management initiatives.

Section II—Financial Section

Section II includes the Agency's independently audited financial statements, which comply with the CFO Act, and the related Independent Auditors' Report and other information on the agency's financial management.

Section III—Other Accompanying Information

This section contains additional material as specified under OMB Circular A-136, *Financial Reporting Requirements*, and the Reports Consolidation Act of 2000. The subsection titled

“Management Challenges and Integrity Weaknesses” describes EPA's progress toward strengthening management practices to achieve program results and presents OIG's list of top management challenges and the Agency's response.

Appendices

The appendices include links to relevant Agency websites and a glossary of acronyms and abbreviations.

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Message from the Acting Administrator

November 14, 2018

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

It is with great pleasure that I present to you the U.S. Environmental Protection Agency's Fiscal Year 2018 Agency Financial Report. This report highlights key accomplishments the EPA has made this year toward our mission to protect human health and the environment. Within this report, you will find the agency was successful in maintaining the mission entrusted to us with accountability and financial integrity.



The EPA's mission resonates with all Americans; we can all agree that we want our future generations to inherit a cleaner, healthier environment that supports a thriving economy. When you appointed me Acting Administrator, you asked me to focus on three things: clean up the air, clean up the water and provide regulatory relief to help the economy thrive and create more jobs for American workers. One way we can fulfill your agenda is by providing more certainty to the American people. I will prioritize certainty in three areas: certainty to the states and local governments, including tribes; certainty within the EPA's programs, such as permitting and enforcement actions; and certainty in risk communication. Doing so is vital to our success as an agency because a lack of certainty from the EPA hinders environmental protections and creates paralysis in the marketplace.

We have important work before us, but we have come a long way in the past several decades. Since 1970, emissions of the six criteria air pollutants regulated under the National Ambient Air Quality Standards established through the *Clean Air Act* have dropped 73 percent, while the U.S. gross domestic product grew by more than 250 percent. This is a remarkable achievement that should be recognized, celebrated and replicated around the world. A 73 percent reduction in any other social ill – crime, poverty, diseases or drug addiction – would lead the evening news.

The agency also is working to modernize the outdated water infrastructure on which the American public depends by leveraging the State Revolving Funds and the Water Infrastructure Finance and Innovation Act program to help states, tribes, municipalities and private entities finance high-priority infrastructure investments. These programs are popular in communities across the country. In fact, this year, the agency received substantial interest in WIFIA loans, with a wide range of prospective borrowers collectively requesting \$9.1 billion in loans. As we head into the second year of this widely popular program, I am excited by its potential to have a positive impact on the health of American communities for decades to come.

The agency also continues to implement recommendations from the Superfund Task Force, which the EPA launched in FY 2017 to provide certainty to communities, state partners and developers that the nation's most hazardous sites will be cleaned up as quickly and safely as possible. In FY 2018, the EPA deleted all or part of 22 sites from Superfund's National Priorities List, the largest number of deletions in one year since FY 2005 and a significant increase over 2017 and 2016. The agency deletes sites from the NPL when no further cleanup is required to protect human health or the environment.

One of the agency's top priorities is to clean up and return Superfund sites to communities for productive use. Once deletion from the NPL occurs, it can aid redevelopment efforts by offering a clear signal to developers and financial institutions that Superfund cleanup is complete. For that reason, site deletions have been a major focus of the Superfund Task Force since its inception last year. The task force reviewed existing policies and procedures related to deleting sites from the NPL and issued several recommendations that aided the agency's efforts.

In FY 2018, the EPA also responded to damages and contamination resulting from Hurricanes Harvey, Irma, Maria and Florence, as well as the California wildfires and air monitoring efforts during the Kilauea Volcano eruption in Hawaii. During these efforts, the EPA collaborated with the U.S. Coast Guard, the U.S. Virgin Islands, Puerto Rico, the Texas Commission on Environmental Quality, the General Land Office and multiple agencies and groups supporting the varying operational branches of disaster impact areas. The agency received 75 mission assignments from the Federal Emergency Management Agency, totaling more than \$292 million for emergency response efforts, and activated more than 700 experienced EPA response personnel from all 10 regions to assist with mitigating the environmental impacts and potential threats to human health. The agency is now transitioning into long-term recovery work, focusing on providing additional resources and support to meet local needs.

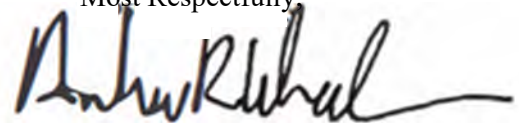
Through our work to create clean and healthy environments, the agency understands the importance of transparency. I recently distributed a memorandum to all EPA personnel reaffirming the importance of maintaining public trust and reminding personnel that we exist to serve the public. In the memorandum, I outlined key agency principles and protocols, including the requirement for the EPA's personnel to provide the fullest possible public participation in all decision making by ensuring all written comments regarding proposed rulemaking be entered in the rulemaking docket. This provides equal opportunities to seek out the views of those impacted by rulemaking decisions who may have been underrepresented in previous EPA decision making, as well as state and local governments working to meet their environmental responsibilities.

The EPA also recently proposed the Affordable Clean Energy Rule, which would establish emissions guidelines for states to use when developing plans to limit greenhouse-gas emissions at their power plants. The rule would replace the 2015 Clean Power Plan, which was challenged by 27 states, 24 trade associations, 37 rural electric cooperatives and three labor unions. Many believed that it exceeded the EPA's authority, and the Supreme Court intervened to issue a historic stay. The proposed ACE Rule would operate within the four corners of the *Clean Air Act* and restore power to the states. Through ongoing collaboration with state, local and tribal partners, the EPA continues to develop regulations that uphold the rule of law and create greater opportunities for local economies to thrive. We look forward to reviewing public input on the rulemaking and finalizing it in the coming months.

More detailed information on our accomplishments will be provided in the FY 2020 Annual Performance Plan and Budget. I take pride in ensuring that the EPA's financial and performance data is a reliable, complete and fully transparent reflection of our program and operations. My assurance statement, as required under the *Federal Managers' Financial Integrity Act*, appears in Section I, "Management's Discussion and Analysis," of this report and reflects that we completed corrective actions for three of our four material weaknesses and that no new material weaknesses were identified during FY 2018. Corrective action for the remaining material weakness is scheduled to be completed in FY 2019. Section III of this report provides details about strengthened internal controls and risk mitigation strategies being implemented throughout the agency to address previously and recently identified material weaknesses. We remain committed to ensuring accountability deserving of the public's trust, and we recognize the importance of preventing and identifying fraud, waste and abuse in the EPA's programs and operations.

I am honored to work among colleagues who have devoted their careers to protecting human health and the environment while maintaining transparency and accountability in our actions and ensuring civility and fairness in our processes. The agency's accomplishments are the result of our collective commitment, diligence and dedication to ensuring a safer, cleaner, and healthier environment for all Americans.

Most Respectfully,

A handwritten signature in dark ink, appearing to read "Andrew Wheeler", with a long horizontal flourish extending to the right.

Andrew Wheeler
Acting Administrator



Section I

Management's Discussion and Analysis

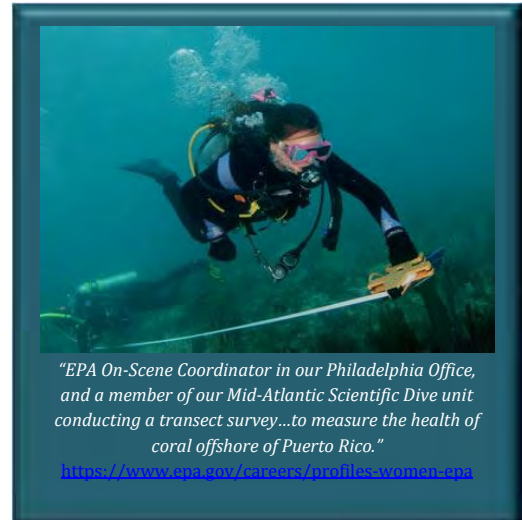
ABOUT EPA

History and Purpose

The American people deserve a clean, healthy environment where they live, work, and play. Established in 1970 as the negative impact and hazards of environmental pollution became increasingly evident, EPA has worked for over four decades to identify, evaluate, and execute scientifically sound, sustainable solutions to existing and emerging environmental concerns.

EPA incorporates environmental research, monitoring, standard-setting, and enforcement functions under the banner of a single agency. In doing so, the Agency continues ensuring environmental protection remains an integral part of all U.S. policies, whether related to economic growth, natural resource use, energy, transportation, agriculture, or human health.

Since its inception, EPA has made great strides in protecting the nation's air, water, and land. Focused cleanup efforts have helped remedy the mistakes of the past, while EPA's work to monitor and regulate pollutants, evaluate new chemicals, and inspire better decision-making are helping to safeguard our environmental future.



EPA is committed to collaboration. Identifying and addressing the complex environmental issues affecting the nation and the world requires consistent, efficient cooperation among a diverse and dynamic group of stakeholders, ranging from state, tribal, and local governments to foreign governments and international organizations throughout the world.

Everyone has a role to play in creating a healthy, sustainable environment. By serving as the primary federal source of rigorously researched, scientific information on the environment, EPA motivates individuals and organizations to better recognize and engage in environmental protection and develop lasting solutions domestically and internationally.

Mission

What EPA Does

- ✓ *Enforce environmental laws*
- ✓ *Responds to the release of hazardous substances*
- ✓ *Gives grants to states, local communities, and tribes*
- ✓ *Studies environmental issues*
- ✓ *Sponsors partnerships*

The mission of EPA is to protect human health and the environment.

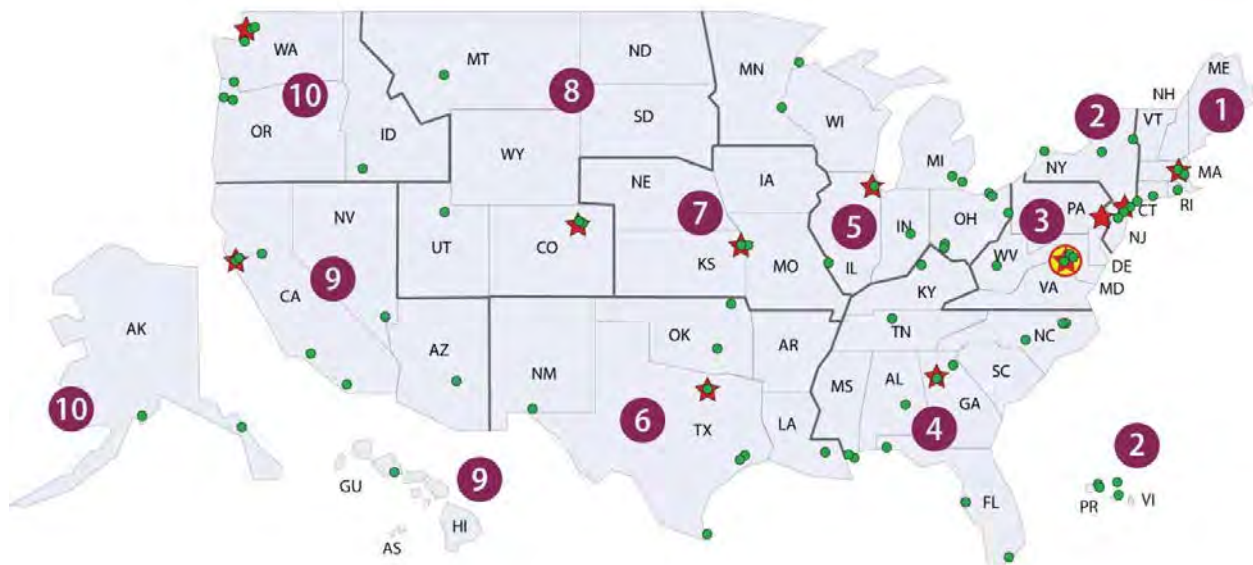
To carry out this mission, EPA depends upon the most accurate scientific information to inform policy decisions and enforcement actions. EPA works to ensure that all parts of society—communities, individuals, businesses, and state, local and tribal governments—have access to accurate information sufficient to effectively participate in managing human health and environmental risks. EPA will continue to serve the American people and conduct business with transparency and in a manner worthy of the public's trust and confidence.

Organization

EPA's headquarters is located in Washington, D.C. Together, EPA's headquarters offices, 10 regional offices, and more than a dozen laboratories and field offices across the country employ a diverse, highly educated, and technically trained workforce of roughly 14,000 people.



Regional Map



EPA Offices and Facilities



EPA National Headquarters



EPA Regional Headquarters



EPA Regional and Program Laboratories and Facilities

Collaborating with Partners and Stakeholders

The idea that environmental protection is a shared responsibility between the states, tribes, and the federal government is embedded in our environmental laws, which in many cases provide states and tribes the opportunity and responsibility for implementing environmental protection programs. More than 45 years after the creation of EPA and the enactment of a broad set of federal environmental protection laws, most states, and to a lesser extent territories and tribes, are authorized to implement environmental programs within their jurisdictions. EPA understands that improvements to protecting human health and the environment cannot be achieved by any actor operating alone, but only when the states, tribes, and EPA, in conjunction with affected communities, work together in a spirit of trust, collaboration, and partnership. Effective environmental protection is best achieved when EPA and its state and tribal partners work from a foundation of transparency, early collaboration – including public participation – and a spirit of shared accountability for the outcomes of this joint work. This foundation involves active platforms for public participation, including building the capacity of the most vulnerable community stakeholders to provide input.

FY 2018 PROGRAM PERFORMANCE

Detailed FY 2018 performance results will be presented in EPA's *FY 2018 Annual Performance Report (APR)*. EPA has chosen to produce an *AFR* and an *APR*, and will include its *FY 2018 APR* with its *FY 2020 Annual Performance Plan and Budget*. These reports, along with FY 2018 performance results are posted to the EPA internet at <http://www.epa.gov/planandbudget> concurrent with the publication of the *FY 2020 President's Budget*.

FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

Sound Financial Management: Good for the Environment, Good for the Nation

The financial management overview below highlights some of EPA's most significant financial achievements carried out during the agency's efforts to execute its mission to protect human health and the environment during FY 2018:

- **Agency Financial Statements.** For the 19th consecutive year, EPA's OIG issued a "clean" audit opinion, unmodified, on the agency's financial statements. This achievement underlines EPA's consistency in presenting reliable and accurate financial data that is represented fairly in all material aspects.
 - **Data Accountability and Transparency Act** – EPA continued to build upon the strong agency foundation in spending transparency established through the agency's implementation of the DATA Act. EPA maintained a clean opinion on the audit related to the implementation of the DATA Act requirements. According to OIG, "The EPA complied with OMB Memorandum M-17-04 by certifying that it was in compliance with OMB guidance in providing reasonable assurance that internal controls support the reliability and validity of account-level and award-level data reported on USASpending.gov."
 - **Water Infrastructure Finance and Innovation Act.** In FY 2018, EPA partnered with the U.S. Department of Treasury to administer WIFIA loan projects, providing opportunities for communities to better protect water quality and human health.
- Under this partnership, EPA updated Agency financial systems and accounting models to ensure all costs associated with the program and credit assistance requests are being accurately captured and reported.
- **Improper Payments Elimination and Recovery Act Reporting.** EPA continues to maintain sustained low improper payment rates across its principal payment streams. The Office of the Inspector General's audit of EPA's FY 2017 improper payment reporting determined EPA was in full compliance with IPERA, which marks the fifth consecutive year of compliance for EPA. The agency anticipates achieving a sixth year of compliance in FY 2018.
 - **Enterprise Risk Management.** To continue strengthening the agency's approach on enterprise risks, which are defined as the most significant risks to accomplishing the agency's mission, EPA assessed progress toward our objectives under the new *FY 2018-FY 2022 EPA Strategic Plan*, analyzed risks to achieving those objectives, and evaluated the effectiveness of internal controls over our programmatic and financial operations. EPA maintained its Enterprise Risk Profile of three enterprise risks, and continued to monitor progress to mitigate these risks.

Financial Condition and Results

Financial statements are formal financial records that document EPA's activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, and other potential liabilities; or other reportable financial activities.

EPA prepares four consolidated statements (a balance sheet, a statement of net cost, a statement of changes in net position, and a statement of custodial activity) and one combined statement, the Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of EPA's financial situation. The complete statements with accompanying notes, as well as the auditors' opinion, are available in Section II of this report.

The balance sheet displays assets, liabilities, and net position as of September 30, 2018, and September 30, 2017. The statement of net cost shows EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of EPA's financial condition—assets, liabilities, net position, and net cost of operations. The balance sheet trend chart depicts the agency's financial activity levels since FY 2016.



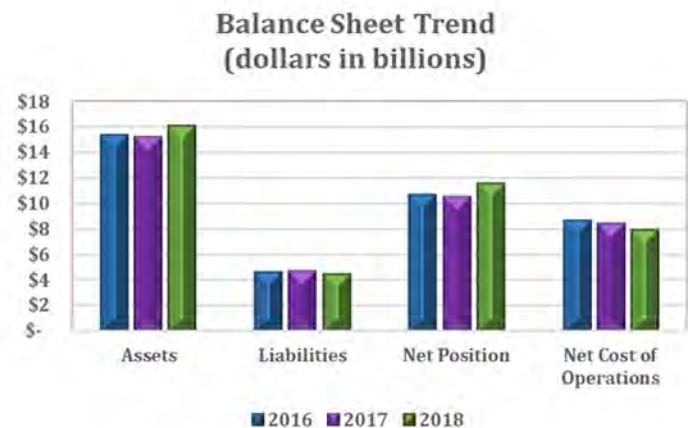
Key Terms

Assets: What EPA owns and manages.

Liabilities: Amounts EPA owes because of past transactions or events.

Net position: The difference between EPA's assets and liabilities.

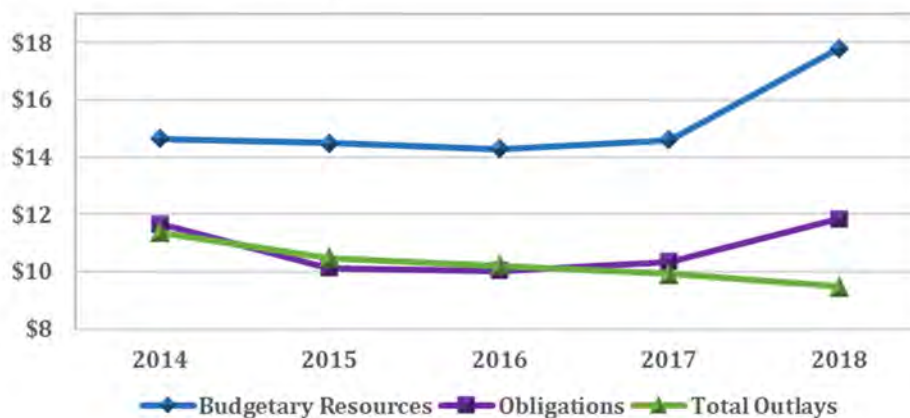
Net cost of operations: The difference between the costs incurred by EPA's programs and EPA's revenues.



EPA Resources and Spending

The figure below depicts EPA's aggregate budgetary resources (congressional appropriations and some agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last five fiscal years. The Statement of Budgetary Resources in Section II provides more information on the makeup of the agency's resources.

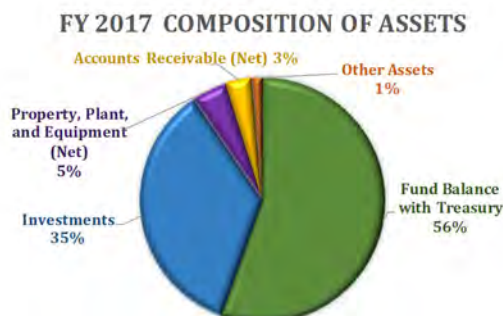
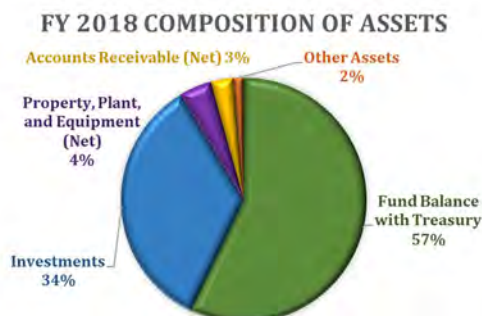
EPA Financial Trends
(dollars in billions)



The increase in budgetary resources is a result of \$2.5 billion in borrowing authority for the WIFIA program received in fiscal year 2018. Of the \$2.5 billion, \$1 billion has been obligated and \$1.5 billion remains unobligated at the end of the fiscal year. The decrease in EPA outlays is due to an increased distributed offsetting receipts from the public and intra-budgetary transactions of \$158 million and \$131 million, respectively.

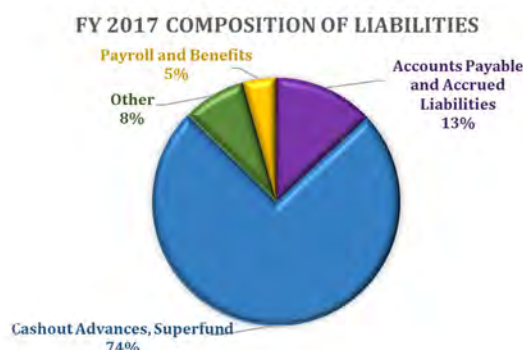
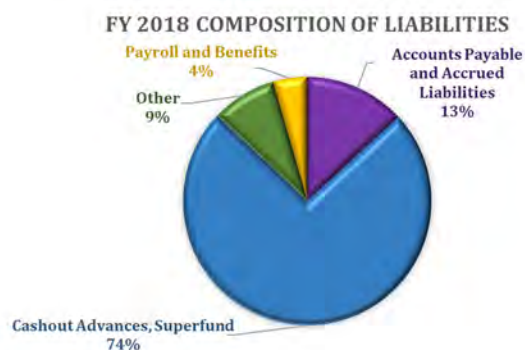
Assets—What EPA Owns and Manages

EPA's assets totaled \$16.06 billion at the end of FY 2018, an increase of \$816 million from the FY 2017 level. In FY 2018, approximately 91 percent of EPA's assets fall into two categories: fund balance with Treasury and investments. All of EPA's investments are backed by U.S. government securities. The graph below compares the agency's FY 2018 and FY 2017 assets by major categories.



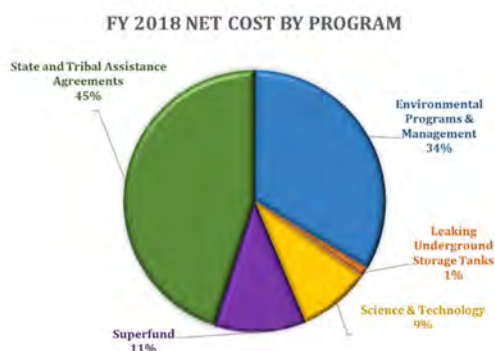
Liabilities—What EPA Owes

EPA's liabilities were \$4.48 billion at the end of FY 2018, a decrease of \$250 million from the FY 2017 level. In FY 2018, EPA's largest liability (74 percent) was Superfund unearned revenue, which the agency uses to pay for cleanup of contaminated sites under the Superfund program. Additional categories include payroll and benefits payable, salaries, pensions and other actuarial liabilities, EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The graphs compare FY 2018 and FY 2017 liabilities by major categories.



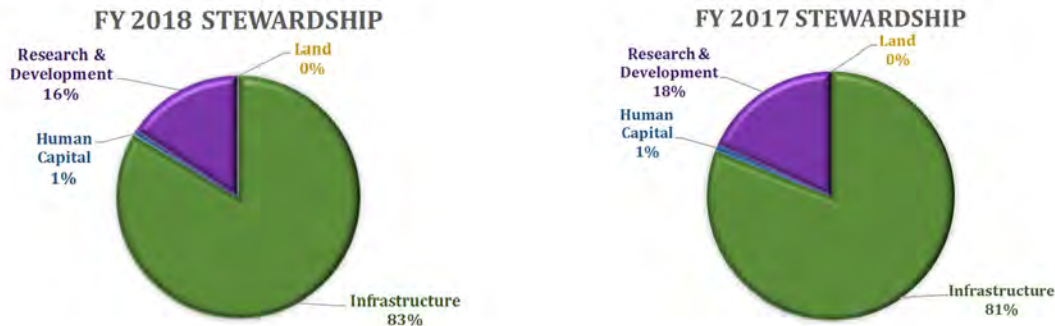
Net Cost of Operations—How EPA Used Its Funds

The graph that follows show how EPA's funds are expended among its five program goal areas in FY 2018 and FY 2017.



Stewardship Funds

EPA serves as a steward on behalf of the American people. The chart below presents four categories of stewardship: land, research and development, infrastructure, and human capital. In FY 2018, EPA devoted a total of \$3.5 billion to its stewardship activities.



Per the Federal Accounting Standards Advisory Board (FASAB), stewardship investments consist of expenditures made by the Agency for the long-term benefit of the nation that do not result in the federal government acquiring tangible assets.

- The largest infrastructure programs are the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs that provide grant funds to states for the construction of wastewater and drinking water treatment facilities. States lend the majority of these funds to localities or utilities to fund the construction and or upgrade of facilities (some may also be used for loan forgiveness or given as grants). Loan repayments then revolve at the State level to fund future water infrastructure projects. EPA's budget included nearly \$2.9 billion in FY 2018 appropriated funds for the SRFs for states' use. In addition, states lent billions of dollars from funds they received as repayments from previous State Revolving Fund (SRF) loans. These funds provide assistance to public drinking water and wastewater systems for the enhancement of water infrastructure, allowing for cleaner waterbodies and crucial access to safer drinking water for millions of people.
- Research and development activities enable EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for EPA's regulatory work, including regulations to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- Land includes contaminated sites to which EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, EPA acquires easements that are in good and usable condition. These easements also serve to isolate the site and restrict usage while the cleanup is taking place.
- The agency's investment in human capital through 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.

A detailed discussion of this information is available in Section III of this report, under the Required Supplementary Stewardship Information.

Financial Management for the Future

During times of environmental challenges, sound stewardship of the EPA's financial resources continues to be critical to the agency's ability to protect the environment and human health locally, nationally, and internationally. Reliable, accurate, and timely financial information is essential to ensure cost-effective decisions for addressing land, water, air and ecosystem issues. To strengthen the EPA's financial stewardship capabilities, the agency focuses on the fundamental elements of financial management: people and systems.

People: EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges. Staff members are trained in financial analysis and forecasting to understand financial data and what it means. EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources.

Systems: EPA's core financial system, called Compass, is based on a commercial-off-the-shelf software solution that addresses the agency's most critical business needs. Compass has improved EPA's financial stewardship by strengthening accountability, data integrity, and internal controls, on the following business areas:

- General ledger
- Accounts payable
- Accounts receivable
- Property
- Project cost
- Intra-governmental transactions
- Budget execution

Compass provides core budget execution and accounting functions and facilitates more efficient transaction processing. The system posts updates to ledgers and tables as transactions are processed and generates source data for the preparation of financial statements and budgetary reports. Compass is integrated with 15 agency systems that support diverse functions, such as budget planning, execution, and tracking; recovery of Superfund site-specific cleanup costs; property inventory; agency travel; payroll; document and payment tracking; and research planning. Compass is a Web-based, open architecture application managed at the CGI Federal Phoenix Data Center, a certified shared service provider in compliance with the Financial Management Line of Business.

Limitations of the Principal Financial Statements

The EPA prepared the principal financial statements to report the financial position and results of its operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). EPA has prepared the statements from the books and records of the entity in accordance with federal generally accepted accounting principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government.

IMPROVING MANAGEMENT AND RESULTS

Office of Inspector General Audits, Evaluations, and Investigations

OIG contributes to EPA's mission to protect human health and the environment by assessing the efficiency and effectiveness of the agency's program management and results. OIG ensures that agency resources are used as intended, develops recommendations for improvements and cost savings, and provides oversight and advisory assistance in helping EPA carry out its objectives. The OIG detects and prevents fraud, waste and abuse to help the agency protect human health and the environment more efficiently and cost effectively. The OIG performs its mission through independent oversight of the programs and operations of EPA. The OIG also contributes to the oversight integrity of and public confidence in the agency's programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies.

In FY 2018, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 235 recommendations accounting for over \$473.1 million in potential savings and recoveries;
- 103 actions taken by the Agency for improvement from OIG recommendations; and
- 330 criminal, civil, or administrative enforcement actions.

Grants Management

EPA has two major grants management metrics, one for grant competition, the other for grants closeout. For FY 2018, the agency exceeded the grant competition metric by 3%, met the 99% grant closeout target, and was just under the 90% target for closeouts.

| Grants Management Performance Measures for EPA | | | |
|---|--------|--|--|
| Performance Measure | Target | Progress in FY 2018 | Progress in FY 2017 |
| Percentage of eligible grants closed out | 90%* | 83.3% of grants that expired in 2017 | 88.2% of grants that expired in 2016 |
| | 99%** | 99% of grants that expired in 2016 and earlier | 98% of grants that expired in 2015 and earlier |
| Percentage of new grants subject to the competition policy that are competed*** | 90% | 93% | 96% |

*Percentage of open grants that expired in 2017 that were closed in performance year.

**Percentage of open grants that expired in 2016 and earlier that were closed in performance year.

***The Environmental Protection Agency Policy for Competition of Assistance Agreements establishes requirements for the competition of assistance agreements (grants, cooperative agreements, and fellowships) to the maximum extent practicable.

ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act (FMFIA)

FMFIA requires agencies to conduct on-going evaluations of their internal controls and financial management systems and report the results to the President and Congress.

The EPA evaluated its internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The agency operates a comprehensive internal control program, which ensures compliance with the requirements of FMFIA and other laws and regulations. Each year, EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Acting Administrator's overall statement of assurance on the adequacy of EPA's internal controls over operations and financial management systems.

In FY 2018, EPA identified no new material weaknesses related to effective and efficient operations. The agency has four existing material weaknesses related to internal controls over financial reporting. The agency has completed corrective actions for three of the weaknesses and expects to complete corrective actions for the remaining weaknesses in FY 2019. Section III of this report provides details about EPA's corrective actions underway. EPA remains committed to eliminating its weaknesses and continues to emphasize the importance of maintaining effective internal controls in order to comply with FMFIA and other applicable laws and regulations.

Internal Controls Over Financial Reporting

To evaluate its internal controls over financial reporting, the agency evaluated 313 key controls that span across eight financial processes (including general Information Technology controls). Based on this evaluation, no material weaknesses were identified. Subsequent to the agency's review, the EPA's OIG identified no new material weaknesses during the FY 2018 financial statement audit.

Internal Controls Over Financial Management Systems

The Federal Financial Management Improve Act requires agencies to ensure that financial management systems consistently provide reliable data that comply with government-wide principles, standards, and requirements. Based on the agency's evaluation of its financial management systems, no material weaknesses were identified. The assessment included a review of the agency's core financial system, Compass Financials, as well as those considered as financially related or mixed systems that support or interface with the core financial system. EPA has determined that its financial management systems substantially comply with FFMIA requirements. Based on the results of the agency's and the OIG's FY 2018 evaluations, the Acting Administrator can provide reasonable assurance on the adequacy and effectiveness of the EPA's internal controls over financial management systems.

The Digital Accountability and Transparency Act

The DATA Act of 2014 was designed to increase the standardization and transparency of federal spending. It requires agencies to report data, consistent with data standards established by the OMB and the Department of the Treasury for publication on the USASpending website.

In FY 2017, EPA certified compliance with OMB guidance and provided reasonable assurance that internal controls support the reliability and validity of account-level and award-level data reported on USASpending.gov. This level of assurance in the internal controls was enabled through three elements of the EPA DATA Act submission process: 1) establishment of the DATA Act Evaluation and Approval Repository Tool; 2) multi-level approval process; and 3) documentation of all associated warnings in its statement of assurance.

The DEAR Tool was designed to transform data to meet the data standards, pre-validate all of the warnings and edits that would be triggered when submitting the information to the DATA Act broker, and to standardize and fully document the multi-level approval process, culminating in the Senior Accountable Official approval.

The multi-level approval process within the DATA Act submission process allowed all parties of the approval process to be briefed and fully comprehend the issues present and documented within the files. The approval process consists of three “lock-downs” of the data starting with the case manager, who is responsible for overseeing the review of the warnings and edits associated with the DATA Act. Next, the Office Director (SES) is briefed on the analysis of the DATA Act files, which includes an explanation as to why particular warnings could not be fully resolved. The final briefing is to give the appropriate assurance to the SAO and to address questions or concerns prior to certification that the files fully comply with the law.

The Statement of Assurance is the central piece of information for the agency to document its data issues that triggered the DATA Act warnings, but remain unresolved. EPA’s approach was to address all data issues that could easily be resolved with changes to the host financial system or the DEAR, but for what could not be addressed timely, to fully document the cause of the warnings within the Statement of Assurance. Therefore, EPA used the Statement of Assurance as the document to illustrate that even though our data had flaws, the agency understood and thought about the issues in the larger context of the DATA Act submission.

During the first audit of the internal controls associated with the DATA Act submission, EPA was able to fully illustrate that it understood the requirements of the DATA Act, complied with the standards of the DATA Act, and installed multiple approval controls to ensure the quality and timeliness of the data was sufficient. Although data issues were present in the DATA Act submission, the EPA took extraordinary care to fully document and understand any limitations of the submission, due to the reconciliation between administrative (contract/grant) and financial systems. These limitations and reconciliation issues include timing differences between the systems, purchase card transactions under the micro-purchase threshold, and transactions reported in Files A and B, but not required to be reported in File C.

Fiscal Year 2018 Annual Assurance Statement

The U.S. Environmental Protection Agency's management is responsible for managing risk and maintaining effective internal control to meet the objectives of the *Federal Managers' Financial Integrity Act*.

In accordance with Section 2 of the FMFIA and the Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the EPA assessed the effectiveness of its internal control to support the effectiveness and efficiency of operations, reliable financial reporting and compliance with applicable laws and regulations. Section 4 of the FMFIA and the *Federal Financial Management Improvement Act of 1996* requires management to ensure financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, the agency evaluated whether financial management systems substantially comply with the FFMIA requirements.

The EPA did not identify any new material weaknesses during Fiscal Year 2018 and completed corrective actions for three previously identified weaknesses. The agency continues to address one remaining material weakness related to the Recording and Reconciliation of Unearned Revenue for Superfund Special Accounts. The agency has updated the accounting posting models and expects to have the new posting models implemented in the accounting system in Fiscal Year 2019. More information on the previously identified material weaknesses are provided in Section III, Other Accompanying Information, of the *Agency Financial Report*.

Although no new material weaknesses were identified, the agency will continue to monitor its programmatic, financial and administrative controls to ensure compliance with laws and regulations.

Based on the results of the EPA's assessments and recent program improvements, I can provide reasonable assurance that the agency's internal control over operations were operating effectively and financial management systems conform to governmentwide standards as of September 30, 2018. As well, the agency's internal control over financial reporting were operating effectively.



Andrew R. Wheeler
Acting Administrator

NOV 14 2018

Date

Management Assurances

The EPA did not identify any new material weaknesses for FY 2018. However, the agency continues to address material weaknesses identified in previous years and has completed corrective actions for three of those weaknesses. The agency expects to complete corrective actions for the one remaining weakness within FY 2019. Section III of this report provides details about the agency's corrective actions underway to address all previously identified material weaknesses. EPA will continue monitoring progress toward correcting the remaining weakness, and continues to emphasize the importance of maintaining effective internal controls.

In addition, per the Anti-Deficiency Act (ADA), federal employees are prohibited from obligating funds in excess of an appropriation, or before those funds are available, and from accepting voluntary services. EPA is currently reviewing three incidents regarding potential violations of the ADA. Such review includes two separate violations of the ADA's voluntary services prohibition in FY 2016, and a U.S. Government Accountability Office opinion related to the potential violation of the section 710 of the Financial Services and General Government Appropriations Act, 2017, in FY 2018. EPA remains fully committed to resolving any ADA violations and complying with the applicable laws and regulations.

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires that agencies implement and maintain financial management systems that comply with 1) federal financial management system requirements, 2) applicable federal accounting standards, and 3) the U.S. Standard General Ledger (USSGL). Annually, Agency heads are required to assess and report on whether these systems comply with FFMIA.

EPA's FY 2018 assessment included the following:

- A-123 review found no significant deficiencies.
- OIG's FY 2017 financial statement audit identified one new material weakness related to undercapitalized software in the financial statements. In FY 2017, we found that EPA had incorrectly posted journal entries leading to misstated depreciation and amortization expenses and a loss on the disposal of asset costs. Federal standards require transactions to be appropriately documented and for internal controls to 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 EPA's property accounts and depreciation and operating expenses, as well as the accuracy of the agency's financial statements. In FY 2018 consequently, we continue to report accounting for software as a material weakness.
- The agency's annual Federal Information Security Modernization Act Report is final. Several weaknesses have been identified and a complete accounting will be provided in the final submission.
- The agency conducted other systems-related activities, including:
 - Third-party control assessments
 - Network scanning for vulnerabilities
 - Annual certification for access to the agency's accounting system

Based on the assessment described above, the agency is in compliance with the FFMIA for FY 2018.

Six light green squares arranged in a 2x3 grid in the top left corner.

Section II Financial Section



Message from the Chief Financial Officer



It is my honor to join Acting Administrator Wheeler in presenting the U.S. Environmental Protection Agency's FY 2018 Agency Financial Report. This report highlights to the President, Congress, and the public our accomplishments and commitment to providing

certainty and transparency to states, tribes, and local governments, while effectively managing the financial resources entrusted to us to protect human health and the environment.

For FY 2018, the agency achieved an unmodified audit opinion for the 19th consecutive year on the EPA's financial statements. Additionally, the EPA did not identify any new material weaknesses for FY 2018. Section III of this report provides information and details regarding corrective actions underway to address previously identified material weaknesses and other less severe weaknesses. EPA is committed to resolving internal control weaknesses. Careful consideration of audit results and timely remediation improves the reliability of agency financial information, and demonstrates accountability to the taxpayer.

FY 2018 is marked with many operational and financial highlights. The agency issued the first loans ever under the Water Infrastructure Finance and Innovation Act program, in alignment with the President's Infrastructure Plan. As part of the management and oversight of the WIFIA program resources, the agency updated our financial systems and accounting models to accurately capture and process all fees and credit assistance requests. The agency also issued a final fees rule under the Toxic Substances Control Act, ensuring that resources are available to complete chemical reviews and actions in a timely and transparent manner.

The launch of the Hazardous Waste Electronic Manifest System (e-Manifest) will modernize the hazardous waste program, and was another significant milestone for the agency, saving industry and states valuable time and resources.

Another important highlight includes the launch of the EPA's Lean Management System (LMS) to deliver more customer value and improved mission outcomes for all Americans. Through the LMS we are standardizing and streamlining processes, tracking progress toward monthly targets, and providing opportunities for improvement through visual management and regular progress reviews.

Among other benefits, these efforts complement and advance the modernization of EPA's information technology systems. The agency has established a roadmap to improve EPA's financial systems and transition to a greater use of shared services. This transformation is expected to drive operational efficiencies and enable our employees to deliver more effective financial management services. Importantly, our commitment to IT modernization and standardization aligns with the vision outlined by the Trump administration in the President's Management Agenda.

EPA remains dedicated to the highest financial management standards. We will continue to partner with internal and external stakeholders to improve our processes and enhance data transparency. Our financial management team remains committed to delivering real results so that EPA can fulfill its mission of protecting human health and the environment.

A handwritten signature in black ink, appearing to read 'Holly Greaves'.

Holly W. Greaves
Chief Financial Officer
November 14, 2018

**EPA'S FISCAL YEARS 2018 AND 2017
CONSOLIDATED FINANCIAL
STATEMENTS**

**AUDIT OF EPA'S FISCAL YEARS 2018 AND 2017
CONSOLIDATED FINANCIAL STATEMENTS**

**EPA's Fiscal 2018 and 2017
Consolidated Financial Statements**

Financial Section

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Principal Financial Statements

United States Environmental Protection Agency Consolidated Balance Sheet As of September 30, 2018 and 2017 (Dollars in Thousands)

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Intragovernmental: | | |
| Fund Balance With Treasury (Note 2) | \$ 9,184,092 | \$ 8,464,107 |
| Investments (Note 4) | 5,498,047 | 5,326,013 |
| Accounts Receivable, Net (Note 5) | 17,849 | 17,804 |
| Other (Note 6) | 212,509 | 200,822 |
| Total Intragovernmental | <u>14,912,497</u> | <u>14,008,746</u> |
| Cash and Other Monetary Assets (Note 3) | 10 | 10 |
| Accounts Receivable, Net (Note 5) | 458,456 | 508,171 |
| Loans Receivable, Net - Non-Federal (Note 7) | - | - |
| Property, Plant & Equipment, Net (Note 9) | 687,393 | 719,488 |
| Other (Note 6) | 3,288 | 8,241 |
| Total Assets | \$ <u>16,061,644</u> | \$ <u>15,244,656</u> |
| Stewardship PP& E (Note 11) | | |
| LIABILITIES | | |
| Intragovernmental: | | |
| Accounts Payable and Accrued Liabilities (Note 8) | \$ 130,462 | \$ 97,035 |
| Debt Due to Treasury (Note 10) | - | - |
| Custodial Liability (Note 12) | 26,544 | 22,548 |
| Other (Note 13) | 125,495 | 134,983 |
| Total Intragovernmental | <u>282,501</u> | <u>254,566</u> |
| Accounts Payable & Accrued Liabilities (Note 8) | 464,136 | 523,713 |
| Pensions & Other Actuarial Liabilities (Note 15) | 43,679 | 45,245 |
| Environmental Cleanup Costs (Note 21) | 32,958 | 39,544 |
| Cashout Advances, Superfund (Note 16) | 3,305,023 | 3,514,426 |
| Commitments & Contingencies (Note 17) | - | - |
| Payroll & Benefits Payable (Note 32) | 202,019 | 205,632 |
| Other (Note 13) | 149,309 | 145,328 |
| Total Liabilities | <u>4,479,625</u> | <u>4,728,454</u> |
| NET POSITION | | |
| Unexpended Appropriations - Funds from Dedicated Collections (Note 18) | 2,790 | 3,697 |
| Unexpended Appropriations - Other Funds | 8,117,597 | 7,302,077 |
| Cumulative Results of Operations - Funds from Dedicated Collections (Note 18) | 2,966,236 | 2,638,364 |
| Cumulative Results of Operations - Other Funds | 495,396 | 572,065 |
| Total Net Position | <u>11,582,019</u> | <u>10,516,203</u> |
| Total Liabilities and Net Position | \$ <u>16,061,644</u> | \$ <u>15,244,656</u> |

The accompanying notes are an integral part of these financial statements.

United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|----------------------------|----------------------------|
| COSTS | | |
| Gross Costs (Note 19) | \$ 8,635,505 | \$ 9,024,232 |
| Earned Revenue (Note 19) | <u>660,708</u> | <u>532,663</u> |
| NET COST OF OPERATIONS (Note 35) | \$ <u>7,974,797</u> | \$ <u>8,491,569</u> |

The accompanying notes are an integral part of these financial statements.

United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2018
(Dollars in Thousands)

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State and Tribal Assistance Agreements | Other | Totals |
|--------------------------------|--|--|-------------------------------------|-----------------------|---|----------------------|---------------------------|
| Costs: | | | | | | | |
| Intragovernmental | \$ 890,178 | 5,484 | 181,132 | 254,030 | 63,593 | 167,095 | \$1,561,512 |
| WCF Eliminations | - | - | - | - | - | (211,942) | (211,942) |
| With the Public | 1,910,796 | 88,412 | 530,218 | 1,074,417 | 3,489,408 | 192,684 | 7,285,935 |
| Total Costs | <u>2,800,974</u> | <u>93,896</u> | <u>711,350</u> | <u>1,328,447</u> | <u>3,553,001</u> | <u>147,837</u> | <u>8,635,505</u> |
| Less: | | | | | | | |
| Earned Revenue, Federal | 165,360 | - | 3,644 | 7,459 | - | 225,053 | 401,516 |
| WCF Elimination | - | - | - | - | - | (212,386) | (212,386) |
| Earned Revenue, non Federal | 7,884 | - | 1,533 | 414,818 | - | 47,343 | 471,578 |
| Total Earned Revenue (Note 19) | <u>173,244</u> | <u>-</u> | <u>5,177</u> | <u>422,277</u> | <u>-</u> | <u>60,010</u> | <u>660,708</u> |
| NET COST OF OPERATIONS | <u>\$ 2,627,730</u> | <u>93,896</u> | <u>706,173</u> | <u>906,170</u> | <u>3,553,001</u> | <u>87,827</u> | <u>\$7,974,797</u> |

United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2017
(Dollars in Thousands)

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State and Tribal Assistance Agreements | Other | 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 | <u>3,017,985</u> | <u>90,433</u> | <u>812,527</u> | <u>1,494,715</u> | <u>3,450,072</u> | <u>158,500</u> | <u>9,024,232</u> |
| Less: | | | | | | | |
| Earned Revenue, Federal | 40,400 | - | 7,356 | 26,733 | - | 231,229 | 305,718 |
| WCF Elimination | - | - | - | - | - | (211,290) | (211,290) |
| Earned Revenue, non Federal | 10,275 | - | 1,274 | 389,103 | - | 37,583 | 438,235 |
| Total Earned Revenue (Note 19) | <u>50,675</u> | <u>-</u> | <u>8,630</u> | <u>415,836</u> | <u>-</u> | <u>57,522</u> | <u>532,663</u> |
| NET COST OF OPERATIONS | <u>\$ 2,967,310</u> | <u>90,433</u> | <u>803,897</u> | <u>1,078,879</u> | <u>3,450,072</u> | <u>100,978</u> | <u>\$8,491,569</u> |

The accompanying notes are an integral part of these financial statements.

United States Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2018
(Dollars in Thousands)

| | FY 2018 Funds from Dedicated Collections | FY 2018 All Other Funds | FY 2018 Consolidated Total |
|---|---|--|---|
| Cumulative Results of Operations: | | | |
| Net Position - Beginning of Period | \$ 2,638,364 | \$ 572,065 | \$ 3,210,429 |
| Budgetary Financing Sources: | | | |
| Appropriations Used | 4,144 | 7,872,798 | 7,876,942 |
| Nonexchange Revenue - Securities Investment (Note 34) | 80,893 | - | 80,893 |
| Nonexchange Revenue - Other (Note 34) | 244,969 | - | 244,969 |
| Transfers In/Out (Note 30) | (4,763) | 23,976 | 19,213 |
| Trust Fund Appropriations | 1,000,646 | (1,094,046) | (93,400) |
| Total Budgetary Financing Sources | 1,325,889 | 6,802,728 | 8,128,617 |
| Other Financing Sources (Non-Exchange) | | | |
| Imputed Financing Sources (Note 31) | 14,598 | 82,785 | 97,383 |
| Total Other Financing Sources | 14,598 | 82,785 | 97,383 |
| Net Cost of Operations | (1,012,615) | (6,962,182) | (7,974,797) |
| Net Change | 327,872 | (76,669) | 251,203 |
| Cumulative Results of Operations | \$ 2,966,236 | \$ 495,396 | \$ 3,461,632 |
| | FY 2018 Funds from Dedicated Collections | FY 2018 All Other Funds | FY 2018 Consolidated Total |
| Unexpended Appropriations: | | | |
| Net Position - Beginning of Period | \$ 3,697 | \$ 7,302,077 | \$ 7,305,774 |
| Budgetary Financing Sources: | | | |
| Appropriations Received | 3,237 | 8,862,285 | 8,865,522 |
| Other Adjustments (Note 33) | - | (173,967) | (173,967) |
| Appropriations Used | (4,144) | (7,872,798) | (7,876,942) |
| Total Budgetary Financing Sources | (907) | 815,520 | 814,613 |
| Total Unexpended Appropriations | 2,790 | 8,117,597 | 8,120,387 |
| TOTAL NET POSITION | \$ 2,969,026 | \$ 8,612,993 | \$ 11,582,019 |

The accompanying notes are an integral part of these financial statements.

United States Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Fiscal Year Ending 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 | \$ 2,577,360 | \$ 852,331 | \$ 3,429,691 |
| Budgetary Financing Sources: | | | |
| Appropriations Used | 2,991 | 7,945,939 | 7,948,930 |
| Nonexchange Revenue - Securities Investment (Note 34) | 47,445 | - | 47,445 |
| Nonexchange 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 | <u>1,237,364</u> | <u>6,931,849</u> | <u>8,169,213</u> |
| Other Financing Sources (Non-Exchange) | | | |
| Imputed Financing Sources (Note 31) | <u>13,425</u> | <u>89,669</u> | <u>103,094</u> |
| Total Other Financing Sources | <u>13,425</u> | <u>89,669</u> | <u>103,094</u> |
| 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 | <u><u>\$ 2,638,364</u></u> | <u><u>\$ 572,065</u></u> | <u><u>\$ 3,210,429</u></u> |
| | | | |
| | 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 |
| 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 | <u>(383)</u> | <u>38,677</u> | <u>38,294</u> |
| Total Unexpended Appropriations | <u>3,697</u> | <u>7,302,077</u> | <u>7,305,774</u> |
| TOTAL NET POSITION | <u><u>\$ 2,642,061</u></u> | <u><u>\$ 7,834,599</u></u> | <u><u>\$ 10,516,203</u></u> |

The accompanying notes are an integral part of these financial statements.

United States Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|-----------------------------|-----------------------------|
| BUDGETARY RESOURCES | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | \$ 4,479,928 | \$ 4,551,426 |
| Appropriations (discretionary and mandatory) | 10,225,913 | 9,370,266 |
| Borrowing Authority (discretionary and mandatory) | 2,500,000 | - |
| Spending Authority from offsetting collection (discretionary and mandatory) | 610,290 | 680,152 |
| Total Budgetary Resources | <u><u>\$ 17,816,131</u></u> | <u><u>\$ 14,601,844</u></u> |
| MEMORANDUM (non-add) entries | | |
| Net Adjustments to unobligated balance brought forward, Oct. 1 (Note 26) | \$ 232,751 | \$ 330,525 |
| STATUS OF BUDGETARY RESOURCES | | |
| New obligations and upward adjustments (total) | \$ 11,862,249 | \$ 10,354,618 |
| Unobligated Balance, end of year: | | |
| Apportioned, unexpired Accounts | 5,672,318 | 4,152,585 |
| Unapportioned, unexpired accounts | 194,768 | 1,992 |
| Expired unobligated balance, end of year | 86,796 | 92,649 |
| Unobligated Balance, end of year (total): | <u>5,953,882</u> | <u>4,247,226</u> |
| Total Status of Budgetary Resources | <u><u>\$ 17,816,131</u></u> | <u><u>\$ 14,601,844</u></u> |
| OUTLAYS, NET | | |
| Outlays, net (total) (discretionary and mandatory) | \$ 9,484,562 | \$ 9,272,263 |
| Distributed offsetting receipts (Note 29) | <u>(1,399,483)</u> | <u>(1,109,453)</u> |
| Agency outlays, net (discretionary and mandatory) | <u><u>\$ 8,085,079</u></u> | <u><u>\$ 8,162,810</u></u> |

The accompanying notes are an integral part of these financial statements.

United States Environmental Protection Agency
Statement of Custodial Activity
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

| | <u>FY 2018</u> | <u>FY 2017</u> |
|--|-------------------|---------------------|
| Revenue Activity: | | |
| Sources of Cash Collections: | | |
| Fines and Penalties | \$ 78,596 | \$ 1,571,258 |
| Other | <u>23,087</u> | <u>29,301</u> |
| Total Cash Collections | 101,683 | 1,600,559 |
| Accrual Adjustment | <u>2,467</u> | <u>(19,545)</u> |
| Total Custodial Revenue (Note 24) | <u>\$ 104,150</u> | <u>\$ 1,581,014</u> |
| Disposition of Collections: | | |
| Transferred to Others (General Fund) | \$ 101,615 | \$ 1,600,593 |
| Increases/Decreases in Amounts to be Transferred | <u>2,535</u> | <u>(19,579)</u> |
| Total Disposition of Collections | <u>104,150</u> | <u>1,581,014</u> |
| Net Custodial Revenue Activity | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Years Ended September 30, 2018 and September 30, 2017
(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, waste, pesticides, and toxic substances.

The FY 2018 financial statements are presented on a consolidated basis for the Balance Sheet, Statement of Net Cost, Statement of Net Costs by Major Program, and Statement of Changes in Net Position, and Statement of Custodial Activity and The Statement of Budgetary Resources is presented on a combined basis. 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 has three-year appropriation accounts and a no year revolving fund 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 to recover the full cost of providing the electronic manifest system related services.

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 is 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 two-year appropriations in fiscal years 2017 and 2018 to finance the administration portion of the program.

EPA re-estimates the risk on each individual loan basis annually. Proceeds issued by EPA cannot exceed forty-nine percent of eligible project costs. Project costs must exceed a minimum of \$20 million for large communities and \$5 million for communities with populations of 25,000 or less. After substantial completion of a project, the borrower may defer up to five years to start loan repayment and cannot exceed thirty-five years for the final loan maturity date.

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) 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 EPA Damage Assessment and Restoration Revolving Fund was established through the US Department of Treasury and OMB 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. Pesticide Registration Improvement Act Funds (PRIA) collects pesticide registration service fees for specified registration and amended registration and associated tolerance actions which set maximum residue levels for food and feed.

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 Hazardous Substance 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 to record appropriations moving from the Trust Fund to allocation accounts for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the expenditure 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 the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3). This allows the Agency to invest the funds until drawdowns are needed for special accounts disbursements. The agency updated posting models and expects to fully utilize this receipt account by January 31, 2019.

VI. Allocation Transfers

The EPA is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations for one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. In addition to these funds, the EPA allocates funds, as the parent, to the Center for Disease Control. The EPA receives allocation transfers, as the child, from the Bureau of Land Management.

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 liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with OMB directives and the U.S. Treasury regulations.

EPA uses a modified matching principle since federal entities recognize unfunded liabilities (without budgetary resources) in accordance 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 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 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 awarding, servicing and collecting 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 Hazardous Waste Electronic Manifest System Fund receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System. 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 General 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, they generally are held to maturity (see Note 4).

H. 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).

I. 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.

Most 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.

J. 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.

K. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans. Loan proceeds are disbursed pursuant to the terms of the loan agreement. Interest is calculated semi-annually on a per loan basis. Repayments are made pursuant to the terms of the loan agreement with the option to repay loan amounts early.

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. For contractor-held property detailed records are maintained and accounted for in contractor systems, not in EPA's FAS. 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, a lease, at its inception, must 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 containing real property (therefore considered in the real property category as well), have a \$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 action 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 useful 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 EPA's FAS, depreciated utilizing the straight-line method based upon the asset's in-service date and useful life.

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 non subsidy portion of the WIFIA direct loans. The Agency borrows the funds from Treasury when the loan disbursements agreed upon in the loan agreement are made. Principal payments are made to Treasury based on the collection of loan receivables at the end of the fiscal year.

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

The April 20, 2010 Deepwater Horizon (DWH) oil spill was the largest oil spill in U.S. history. In the wake of the spill, the National Contingency Plan regulation was revised to reflect the EPA's designation as a DWH Natural Resource Trustee. The DWH Natural Resources Damage Assessment is a legal process pursuant to the Oil Pollution Act and the April 4, 2016, Consent Decree between the U.S., the five Gulf states, and BP entered by a federal court in New Orleans. Under the Consent Decree, a payment schedule was set forth for BP to pay \$7.1 billion in natural resource damages. The NRDA trustees are then jointly responsible to use those funds in the manner set forth in Appendix 2 of the Consent Decree to restore natural resources injured by the DWH 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 FY 2017 and 2018, the EPA returned the unused balance of fund amounts of \$900 and 440 thousand, respectively, to the U.S. Coast Guard for deposit in the Oil Spill Liability Trust Fund. As additional projects are identified, the EPA may continue to receive funding through the 2016 Consent Decree to implement its DWH NRDA Trustee responsibilities in the Agency's Damage Assessment and Restoration Revolving Trust Fund.

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 an 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 water 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. Since that time, the forbearance has again been extended, first for 6 months, ending June 30, 2018 and again for 3 months, ending September 30, 2018. The current forbearance agreement expires on November 30, 2018.

In May 2017, 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.

W. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised July 30, 2018. As a result, certain line items have been amended in the Statement of Budgetary Resources.

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2018 and September 30, 2017, consists of the following:

| FY 2018 | | | | FY 2017 | | | |
|-------------------|------------------|----------------------|--------------|------------------|----------------------|--------------|--|
| | Entity Assets | Non-Entity Assets | Total | Entity Assets | Non-Entity Assets | Total | |
| Trust Funds: | | | | | | | |
| Superfund | \$ 140,013 | - | \$ 140,013 | \$ 155,259 | - | \$ 155,259 | |
| LUST | 10,425 | - | 10,425 | 68,266 | - | 68,266 | |
| Oil Spill & Misc. | 8,822 | - | 8,822 | 11,129 | - | 11,129 | |
| Revolving Funds: | | | - | | | | |
| FIFRA/Tolerance | 47,864 | - | 47,864 | 43,614 | - | 43,614 | |
| Working Capital | 128,909 | - | 128,909 | 101,524 | - | 101,524 | |
| Cr. Reform Finan. | - | - | - | - | - | - | |
| E-Manifest | 4,294 | - | 4,294 | 5,385 | - | 5,385 | |
| NRDA | 2,057 | - | 2,057 | 2,729 | - | 2,729 | |
| Appropriated | 8,348,172 | - | 8,348,172 | 7,604,790 | - | 7,604,790 | |
| Other Fund Types | 489,727 | 3,809 | 493,536 | 467,626 | 3,785 | 471,411 | |
| Total | \$ 9,180,283 | 3,809 | \$ 9,184,092 | \$ 8,460,322 | 3,785 | \$ 8,464,107 | |

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:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|---------------------|---------------------|
| Unobligated Amounts in Fund Balance: | | |
| Available for Obligation | \$ 4,405,970 | \$ 4,154,001 |
| Unavailable of Obligation | 86,796 | 94,641 |
| Net Receivables from Invested Balances | (4,758,627) | (4,797,519) |
| Balances in Treasury Trust Fund (Note 36) | 1,807 | 15,112 |
| Obligated Balance not yet Disbursed | 8,974,558 | 8,496,895 |
| Non-Budgetary FBWT | <u>473,588</u> | <u>500,977</u> |
| Total | <u>\$ 9,184,092</u> | <u>\$ 8,464,107</u> |

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 2018 and FY 2017 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, 2018, and September 30, 2017, the balance in the imprest fund was \$10 thousand.

Note 4. Investments

As of September 30, 2018, and September 30, 2017, 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 2018 | \$ | 5,537,630 | 44,298 | 4,715 | 5,498,047 | \$ 5,498,047 |
| Non-Marketable | FY 2017 | \$ | 5,329,067 | 6,455 | 3,401 | 5,326,013 | \$ 5,326,013 |

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, 2018, and September 30, 2017, consist of the following:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|------------------------------------|--------------------------|--------------------------|
| Intragovernmental: | | |
| Accounts & Interest Receivable | \$ 17,849 | \$ 19,227 |
| Less: Allowance for Uncollectibles | - | (1,423) |
| Total | \$ <u>17,849</u> | \$ <u>17,804</u> |
| Non-Federal: | | |
| Unbilled Accounts Receivable | \$ 234,731 | \$ 206,044 |
| Accounts & Interest Receivable | 2,385,341 | 2,413,358 |
| Less: Allowance for Uncollectibles | (2,161,616) | (2,111,231) |
| Total | \$ <u>458,456</u> | \$ <u>508,171</u> |

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, 2018, and September 30, 2017, consist of the following:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---------------------------------|--------------------------|--------------------------|
| Intragovernmental: | | |
| Advances to Federal Agencies | \$ 212,334 | \$ 200,703 |
| Advances for Postage | 175 | 119 |
| Total | \$ <u>212,509</u> | \$ <u>200,822</u> |
| Non-Federal: | | |
| Travel Advances | \$ 119 | \$ 79 |
| Securities from Debt Settlement | - | 1,863 |
| Other Advances | 2,954 | 6,196 |
| Inventory for Sale | 215 | 103 |
| Total | \$ <u>3,288</u> | \$ <u>8,241</u> |

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. In fiscal year 2018, the Agency received borrowing authority of \$2.5 billion for the non-subsidy portion of loan proceeds disbursed. In FY 2018 the Agency closed \$ 1 billion in WIFIA loans. As of September 30, 2018, the EPA has not disbursed any loans for the WIFIA program but has incurred \$4.0 million in administrative expenses.

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, 2018, and September 30, 2017:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---------------------------|--------------------------|--------------------------|
| Intragovernmental: | | |
| Accounts Payable | \$ 3,902 | \$ 4,199 |
| Liability for allocation | - | - |
| Accrued Liabilities | 126,560 | 92,836 |
| Total | <u><u>\$ 130,462</u></u> | <u><u>\$ 97,035</u></u> |
| Non-Federal: | | |
| Accounts Payable | \$ 67,003 | \$ 58,212 |
| Advances Payable | (1,355) | 17 |
| Interest Payable | 5 | 5 |
| Grant Liabilities | 288,526 | 296,157 |
| Other Accrued Liabilities | 109,957 | 169,322 |
| Total | <u><u>\$ 464,136</u></u> | <u><u>\$ 523,713</u></u> |

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-held and contractor-held personal property, and capital leases.

As of September 30, 2018, and September 30, 2017, General PP&E consisted of the following:

| | <u>FY 2018</u> | | | <u>FY 2017</u> | | |
|------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| | <u>Acquisition</u> | <u>Accumulated</u> | <u>Net Book</u> | <u>Acquisition</u> | <u>Accumulated</u> | <u>Net Book</u> |
| | <u>Value</u> | <u>Depreciation</u> | <u>Value</u> | <u>Value</u> | <u>Depreciation</u> | <u>Value</u> |
| EPA-Held Equipment | \$ 299,732 | (203,434) | \$ 96,298 | \$ 304,068 | (198,897) | \$ 105,171 |
| Software (production) | 441,571 | (365,206) | 76,365 | 437,334 | (364,300) | 73,034 |
| Software (development) | 7,908 | - | 7,908 | 47,377 | - | 47,377 |
| Contractor Held Equip. | 40,437 | (26,706) | 13,731 | 39,759 | (24,117) | 15,642 |
| Land and Buildings | 774,146 | (286,224) | 487,922 | 742,932 | (269,779) | 473,153 |
| Capital Leases | 24,485 | (19,316) | 5,169 | 24,485 | (19,374) | 5,111 |
| Total | \$ 1,588,279 | (900,886) | \$ 687,393 | \$ 1,595,955 | (876,467) | \$ 719,488 |

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 in-development acquisition value from FY 2017 to FY 2018 is attributable to the Agency's software material weakness remediation efforts. The software in-development decrease totaling \$40 million is due to software disposals, reclassification of software costs to expense, and adjustments to asset values. 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. The Agency completed corrective actions to resolve the weakness in software capitalization in FY 2018.

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, 2018, the EPA does not have any debt due to Treasury. In FY 2018, the EPA did not borrow funds to finance the WIFIA Loan Program.

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, 2018, the Agency possessed the following land and land rights:

| | <u>FY 2018</u> | <u>FY2017</u> |
|--|-----------------------|----------------------|
| Superfund Sites with Easements: | | |
| Beginning Balance | \$ 39 | \$ 38 |
| Additions | - | 1 |
| Withdrawals | - | - |
| Ending Balance | <u>\$ 39</u> | <u>\$ 39</u> |
| Superfund Sites with Land Acquired: | | |
| Beginning Balance | \$ 34 | \$ 34 |
| Additions | - | 1 |
| Withdrawals | 2 | 1 |
| Ending Balance | <u>\$ 32</u> | <u>\$ 34</u> |

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, 2018, and September 30, 2017, custodial liability is approximately \$26.5 million and \$22.5 million, respectively.

Note 13. Other Liabilities

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

| Other Liabilities – Intragovernmental | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|--|---|---|-------------------|
| Current | | | |
| Employer Contributions & Payroll Taxes \$ | 17,574 | - \$ | 17,574 |
| WCF Advances | 1,651 | - | 1,651 |
| Other Advances | 6,162 | - | 6,162 |
| Advances, HRSTF Cashout | 60,048 | - | 60,048 |
| Deferred HRSTF Cashout | 9,069 | - | 9,069 |
| Liability for Deposit Funds | (2) | - | (2) |
| Non-Current | | | |
| Unfunded FECA Liability | - | 8,906 | 8,906 |
| Unfunded Unemployment Liability | - | 87 | 87 |
| Payable to Treasury Judgment Fund | - | 22,000 | 22,000 |
| Total Intragovernmental | \$ 94,502 | 30,993 | \$ 125,495 |
| Other Liabilities - Non-Federal | | | |
| Current | | | |
| Unearned Advances, Non-Federal \$ | 127,131 | - \$ | 127,131 |
| Liability for Deposit Funds, Non-Federal | 5,942 | - | 5,942 |
| Non-Current | | | |
| Capital Lease Liability | - | 16,236 | 16,236 |
| Total Non-Federal | \$ 133,073 | 16,236 | \$ 149,309 |

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

| Other Liabilities – Intragovernmental | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|--|---|---|-------------------|
| Current | | | |
| Employer Contributions & Payroll Taxes \$ | 19,119 | - | \$ 19,119 |
| WCF Advances | 1,676 | - | 1,676 |
| Other Advances | 9,235 | - | 9,235 |
| Advances, HRSTF Cashout | 65,807 | - | 65,807 |
| Deferred HRSTF Cashout | 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 |

Note 14. Leases

A. Capital Leases:

The value of assets held under Capital Leases as of September 30, 2018, and September 30, 2017, are as follows:

| Summary of Assets Under Capital Lease: | FY 2018 | FY 2017 |
|---|----------------|----------------|
| Real Property | \$ 24,485 | \$ 24,485 |
| Personal Property | - | - |
| Total | 24,485 | 24,485 |
| Accumulated Amortization | \$ 19,316 | \$ 19,374 |

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 | |
|---|------------------------------|
| <u>Fiscal Year</u> | <u>Capital Leases</u> |
| 2019 | \$ 4,215 |
| 2020 | 4,215 |
| 2021 | 4,215 |
| 2022 | 4,215 |
| 2023 | 4,215 |
| After 5 years | 5,620 |
| Total Future Minimum Lease Payments | 26,695 |
| Less: Imputed Interest | (10,460) |
| Net Capital Lease Liability | 16,235 |
| Liabilities not Covered by Budgetary Resource \$ | <u>16,235</u> |

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 two 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.

The total minimum future operating lease costs are listed below:

| | | Operating Leases, Land and Buildings |
|--|-----------|---|
| <u>Fiscal Year</u> | | |
| 2019 | \$ | 94 |
| 2020 | | 36 |
| Total Future Minimum Lease Payments | \$ | <u>130</u> |

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, 2018, and September 30, 2017, was \$43.7 million and \$45.2 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2018 present value of these estimated outflows is calculated using a discount rate of 2.716 percent in the first year, and 2.716 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, 2018, and September 30, 2017, cash-out advances total \$3.3 billion and \$3.5 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, 2018, and September 30, 2017, there were no accrued liabilities for commitments and potential loss contingencies.

A. Gold King Mine

On August 5, 2015, EPA and its contractors were conducting an investigation under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of the Gold King Mine, an inactive mine in Colorado, when a release of acid mine drainage occurred. While the EPA team was excavating above the mine adit, water began leaking from the mine adit. The small leak quickly turned into a significant breach, releasing approximately three million gallons of mine water into the North Fork of Cement Creek, a tributary of the Animas River. The plume of acid mine water traveled from Colorado's Animas River into New Mexico's San Juan River, passed through the Navajo Nation, and deposited into Utah's Lake Powell. As of September 30, 2018, EPA has received approximately 403 total claims under the Federal Tort Claims Act from individuals and businesses situated on or near the affected waterways for alleged lost wages, loss of business income, agricultural and livestock losses, property damage, diminished property value, and personal injury. Of those claims, approximately 294 have entered litigation against the United States in federal district court, leaving approximately 109 administrative claims within EPA's jurisdiction. EPA has awarded no administrative claims. The amounts estimated related to the Gold King Mine are \$2.1 billion but they are only reasonably possible, and the final outcomes are not probable.

B. Flint, Michigan

The EPA has received claims from individuals under the Federal Tort Claims Act for alleged injuries and property damages caused by the EPA's alleged negligence related to the water health crisis in Flint, Michigan. The amounts related to the water health crisis are \$2 billion, but they are only reasonably possible and the final outcomes are not probable.

C. 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. The amounts related to Superfund are \$20 million, but they are only reasonably possible, and the final outcomes are not probable.

D. Environmental Liabilities

As of September 30, 2018, there is one case pending against the EPA that is reported under Environmental Liabilities: Bob's Home Service Landfill amount is \$900 thousand but it is only reasonable possible, and the final outcome is not probable.

E. 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, 2018, there is no other case pending in the court.

F. Other Commitments

EPA has a commitment to fund the United States Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. EPA paid \$2.5 million to the CEC in the period ending September 30, 2018 and \$2.55 million in the period ending September 2017.

EPA has a legal commitment under a noncancelable agreement, subject to the availability of funds, with the United Nations Environmental Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling \$8,326,000 in the period ending September 2017 and \$8,326,000 in the period ending September 2018.

Note 18. Fund from Dedicated Collections (Unaudited)

| Balance sheet as of September 30, 2018 | Environmental Services | LUST | Superfund | Other Funds from Dedicated Collections | Total Funds from Dedicated Collections |
|---|---------------------------|-------------------|---------------------|---|---|
| Assets | | | | | |
| Fund Balance with Treasury | \$ 469,194 | 10,425 | 140,013 | 83,571 | \$ 703,203 |
| Investments | - | 620,160 | 4,877,887 | - | 5,498,047 |
| Accounts Receivable, Net | - | 87,588 | 306,338 | 1,784 | 395,710 |
| Other Assets | - | 209 | 54,722 | 7,614 | 62,545 |
| Total Assets | <u>469,194</u> | <u>718,382</u> | <u>5,378,960</u> | <u>92,969</u> | <u>6,659,505</u> |
| Other Liabilities | <u>3</u> | <u>95,026</u> | <u>3,522,626</u> | <u>72,824</u> | <u>3,690,479</u> |
| Total Liabilities | <u>3</u> | <u>95,026</u> | <u>3,522,626</u> | <u>72,824</u> | <u>3,690,479</u> |
| Unexpended Appropriation | - | - | (2) | 2,792 | 2,790 |
| Cumulative Results of Operations | 469,191 | 623,356 | 1,856,336 | 17,353 | 2,966,236 |
| Total Liabilities and Net Position | <u>469,194</u> | <u>718,382</u> | <u>5,378,960</u> | <u>92,969</u> | <u>6,659,505</u> |
| Statement of Net Cost for the Period Ended September 30, 2018 | | | | | |
| Gross Program Costs | - | 93,897 | 1,328,447 | 66,224 | 1,488,568 |
| Less: Earned Revenues | - | - | 422,277 | 53,676 | 475,953 |
| Net Cost of Operations | <u>-</u> | <u>93,897</u> | <u>906,170</u> | <u>12,548</u> | <u>1,012,615</u> |
| Statement of Changes in Net Position for the Period ended September 30, 2018 | | | | | |
| Net Position, Beginning of Period | 444,636 | 591,252 | 1,599,954 | 6,218 | 2,642,060 |
| Nonexchange Revenue- Securities Investments | - | 8,657 | 71,516 | 720 | 80,893 |
| Nonexchange Revenue | 24,555 | 210,731 | 6,598 | 3,085 | 244,969 |
| Other Budgetary Finance Sources | - | (93,400) | 1,070,070 | 22,450 | 999,120 |
| Other Financing Sources | - | 13 | 14,366 | 220 | 14,599 |
| Net Cost of Operations | - | (93,897) | (906,170) | (12,548) | (1,012,615) |
| Change in Net Position | <u>24,555</u> | <u>32,104</u> | <u>256,380</u> | <u>13,927</u> | <u>326,966</u> |
| Net Position | <u>\$ 469,191</u> | <u>\$ 623,356</u> | <u>\$ 1,856,334</u> | <u>\$ 20,145</u> | <u>\$ 2,969,026</u> |

| Balance sheet as of September 30, 2017 | Environmental Services | LUST | Superfund | Other Funds from Dedicated Collections | Total Funds from Dedicated Collections |
|---|-------------------------------|-------------------|---------------------|---|---|
| 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 | <u>444,637</u> | <u>636,093</u> | <u>5,389,210</u> | <u>86,472</u> | <u>6,556,412</u> |
| Other Liabilities | <u>-</u> | <u>44,841</u> | <u>3,789,256</u> | <u>80,254</u> | <u>3,914,351</u> |
| Total Liabilities | <u>-</u> | <u>44,841</u> | <u>3,789,256</u> | <u>80,254</u> | <u>3,914,351</u> |
| Unexpended Appropriations | - | - | (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 | <u>444,637</u> | <u>636,093</u> | <u>5,389,210</u> | <u>86,472</u> | <u>6,556,412</u> |
| 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 | <u>-</u> | <u>-</u> | <u>416,036</u> | <u>47,217</u> | <u>463,253</u> |
| Net Cost of Operations | <u>-</u> | <u>90,432</u> | <u>1,079,156</u> | <u>20,197</u> | <u>1,189,785</u> |
| 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 |
| Nonexchange Revenue- Securities Investments | - | 3,048 | 44,166 | 230 | 47,444 |
| Nonexchange 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 | 13,425 |
| Net Cost of Operations | - | (90,432) | (1,079,156) | (20,197) | (1,189,785) |
| Change in Net Position | <u>23,231</u> | <u>44,709</u> | <u>(8,188)</u> | <u>868</u> | <u>60,620</u> |
| Net Position | <u>\$ 444,637</u> | <u>\$ 591,252</u> | <u>\$ 1,599,954</u> | <u>\$ 6,218</u> | <u>\$ 2,642,061</u> |

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 prevent and 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 inspect and 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 to 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 were paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. 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.

| | FY 2018 | | | FY 2017 | | |
|---|------------------------|--------------------|-----------|------------------------|--------------------|--------------|
| | Intragovern- mental | With the Public | Total | Intragovern- mental | With the Public | Total |
| Environmental Programs & Mgmt | | | | | | |
| Program Costs | \$ 890,178 | 1,910,796 | 2,800,974 | \$ 924,012 | 2,093,973 | \$ 3,017,985 |
| Earned Revenue | 165,360 | 7,884 | 173,244 | 40,400 | 10,275 | 50,675 |
| NET COSTS | 724,818 | 1,902,912 | 2,627,730 | 883,612 | 2,083,698 | 2,967,310 |
| Leaking Underground Storage Tanks | | | | | | |
| Program Costs | 5,484 | 88,412 | 93,896 | 4,437 | 85,996 | 90,433 |
| Earned Revenue | - | - | - | - | - | - |
| NET COSTS | 5,484 | 88,412 | 93,896 | 4,437 | 85,996 | 90,433 |
| Science & Technology | | | | | | |
| Program Costs | 181,132 | 530,218 | 711,350 | 200,358 | 612,169 | 812,527 |
| Earned Revenue | 3,644 | 1,533 | 5,177 | 7,356 | 1,274 | 8,630 |
| NET COSTS | 177,488 | 528,685 | 706,173 | 193,002 | 610,895 | 803,897 |
| Superfund | | | | | | |
| Program Costs | 254,030 | 1,074,417 | 1,328,447 | 275,695 | 1,219,020 | 1,494,715 |
| Earned Revenue | 7,459 | 414,818 | 422,277 | 26,733 | 389,103 | 415,836 |
| NET COSTS | 246,571 | 659,599 | 906,170 | 248,962 | 829,917 | 1,078,879 |
| State and Tribal Assistance Agreements | | | | | | |
| Program Costs | 63,593 | 3,489,408 | 3,553,001 | 54,159 | 3,395,913 | 3,450,072 |
| Earned Revenue | - | - | - | - | - | - |
| NET COSTS | 63,593 | 3,489,408 | 3,553,001 | 54,159 | 3,395,913 | 3,450,072 |
| Other | | | | | | |
| Program Costs | 167,095 | 192,684 | 359,779 | 112,492 | 257,520 | 343,721 |
| WCF Eliminations | (211,942) | - | (211,942) | (211,512) | - | (211,512) |
| Earned Revenue | 225,053 | 47,343 | 272,396 | 231,229 | 37,583 | 295,103 |
| WCF Eliminations | (212,386) | - | (212,386) | (211,290) | - | (211,290) |
| NET COSTS | (32,180) | 145,341 | 87,827 | (118,959) | 219,937 | 100,978 |
| Total | | | | | | |
| Program Costs | 1,349,570 | 7,285,935 | 8,635,505 | 1,359,641 | 7,664,591 | 9,024,232 |
| Earned Revenue | 189,130 | 471,578 | 660,708 | 94,428 | 438,235 | 532,663 |
| NET COSTS | \$ 1,160,440 | 6,814,357 | 7,974,797 | \$ 1,265,213 | 7,226,356 | \$ 8,491,569 |

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 two instances of property transfer of ownership via a Quit Claim Deed. The first transaction was a transfer of ownership of 21 Parcels of land acquired by the United States EPA in conjunction with remedial actions to Grantee Escambia County Board of County Commissioners. This action was effectuated via the signing of the Quit Claim Deed (signed on January 16, 2018). The second transaction was a transfer of ownership of 11 tracts of land acquired by the United States EPA in conjunction with remedial actions to Grantee West Virginia Department of Environmental Protection. This action was effectuated via the signing of the Quit Claim Deed (signed on February 8, 2018).

Note 21. Environmental Cleanup Costs

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

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

The EPA has 32 sites for which it is responsible for clean-up costs incurred under federal, state, and/or local regulations to remove, contain, or dispose of hazardous material found at these facilities.

The EPA is also 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, 2018, 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.

A. Accrued Clean-up Cost

The EPA has 32 sites for which it is required to fund the environmental cleanup. As of September 30, 2018, the estimated costs for site clean-up were \$33.0 million unfunded, and \$1.1 million funded, respectively. In 2017 the estimated costs for site clean-up were \$39.5 million unfunded, and \$500 thousand 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 2018, the estimate for unfunded clean-up cost decreased by \$6.6 million from the FY 2017 estimate. This decrease is primarily due to current lab cleanup and closeout actions, and ongoing clean-up actions at similar facilities resulted in more refined and significantly lower estimates of future clean-up costs 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, 2018, and September 30, 2017, the total remaining state credits have been estimated at \$21.4 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, 2018, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling \$6.65 million. As of September 30, 2017, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling \$1.4 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

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.

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|--------------------------|----------------------------|
| Fines, Penalties and Other Miscellaneous Receipts | \$ <u>104,150</u> | \$ <u>1,581,014</u> |
| Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts: | | |
| Accounts Receivable | \$ 158,990 | \$ 149,522 |
| Less: Allowance for Uncollectible Accounts | (131,494) | (124,493) |
| Total | \$ <u>27,496</u> | \$ <u>25,029</u> |

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 2018 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2018 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers

for FY 2018 has not yet been published. We expect it will be published by early 2019, and it will be available on the Office of Management and Budget website at <https://www.whitehouse.gov/>

The actual amounts published for the year ended September 30, 2017 are listed immediately below (dollars in millions):

| FY 2017 | Budgetary Resources | Obligations | Offsetting Receipts | Net Outlays |
|---|--------------------------------|--------------------|--------------------------------|--------------------|
| Statement of Budgetary Resources | \$ 14,602 | 10,355 | 1,109 | 9,273 |
| Reported in Budget of the U. S. Government | <u>\$ 14,502</u> | <u>10,347</u> | <u>1,109</u> | <u>9,271</u> |

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, 2018, and September 30, 2017:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|--|----------------------------|----------------------------|
| Net Adjustments to Unobligated Balance Brought Forward, Oct. 1 | \$ <u>232,751</u> | \$ <u>330,486</u> |
| Temporarily Not Available - Rescinded Authority | <u>(11,217)</u> | <u>(10,555)</u> |
| Permanently Not Available: | | |
| Payments to Treasury | - | - |
| Rescinded authority | (148,848) | (90,348) |
| Canceled authority | <u>(24,200)</u> | <u>(46,483)</u> |
| Total Permanently Not Available | \$ <u>(173,048)</u> | \$ <u>(136,831)</u> |

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, 2018, and September 30, 2017:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|-------------------------------|----------------------------|----------------------------|
| Unexpired Unobligated Balance | \$ 5,867,574 | \$ 4,154,577 |
| Expired Unobligated Balance | <u>86,796</u> | <u>92,649</u> |
| Total | \$ <u>5,954,370</u> | \$ <u>4,247,226</u> |

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2018, and September 30, 2017, were \$10.0 billion and \$8.32 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, 2018, and September 30, 2017, the following receipts were generated from these activities:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|----------------------------|----------------------------|
| Trust Fund Recoveries | \$ 40,664 | \$ (49,379) |
| Special Fund Environmental Service | 24,558 | 23,222 |
| Trust Fund Appropriation | 1,292,678 | 1,135,527 |
| Miscellaneous Receipt and Clearing Accounts | 41,583 | 83 |
| Total | \$ <u>1,399,483</u> | \$ <u>1,109,453</u> |

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

A. Appropriation Transfers, In/Out:

For September 30, 2018 and September 30, 2017, 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, 2018, and September 30, 2017:

| | <u>FY 2018</u> | <u>FY 2017</u> |
|---|----------------------------|----------------------------|
| Net Transfers from Invested Funds | \$ 1,306,784 | \$ 1,195,715 |
| Transfer to DOT | 142,400 | 93,100 |
| Transfers to Another Agency | 1,004 | 870 |
| Allocations Rescinded | 6,600 | 6,900 |
| Total of Net Transfers on Statement of Budgetary Resources | \$ <u>1,456,788</u> | \$ <u>1,296,585</u> |

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2018 and September 30, 2017, 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, 2018, and September 30, 2017:

| Type of Transfer/Funds | FY 2018 | | FY 2017 | |
|---|---------------------------------------|---------------|---------------------------------------|---------------|
| | Fund from Dedicated Collections | Other Funds | Fund from Dedicated Collections | Other Funds |
| Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds | \$ (23,976) | 23,976 | \$ (24,274) | 24,041 |
| Transfers-in nonexpenditure, Oil Spill | 18,209 | - | (18,209) | - |
| Transfers-in (out) nonexpenditure, Superfund | - | - | 54,464 | - |
| Transfer-out LUST | - | - | 100 | - |
| NRDA | 1,004 | - | (870) | - |
| Total Transfer in (out) without Reimbursement, Budgetary | <u>\$ (4,763)</u> | <u>23,976</u> | <u>\$ 11,211</u> | <u>24,041</u> |

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 2018 were \$73.0 million. For FY 2017, the estimates were \$77.3 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 2018 total imputed costs were \$22.1 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 2018, entries for Judgment Fund payments totaled \$2.3 million. For FY 2017, entries for Judgment Fund payments totaled \$3.6 million.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years September 30, 2018, and September 30, 2017, consist of the following:

| FY 2018 Payroll & Benefits Payable | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|---|---|---|----------------|
| Accrued Funded Payroll & Benefits | \$ 40,487 | - \$ | 40,487 |
| Withholdings Payable | 20,553 | - | 20,553 |
| Employer Contributions Payable-TSP | 2,795 | - | 2,795 |
| Accrued Unfunded Annual Leave | - | 138,184 | 138,184 |
| Total - Current | \$ 63,835 | 138,184 \$ | 202,019 |

FY 2017 Payroll & Benefits Payable

| | | | |
|-------------------------------------|------------------|-------------------|----------------|
| Accrued Funded Payroll and 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 |

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 2018 | Other Funds FY 2017 |
|--------------------------------|--------------------------------|--------------------------------|
| Canceled General Authority | \$ 173,967 | \$ 123,824 |
| Total Other Adjustments | \$ 173,967 | \$ 123,824 |

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, 2018 and September 30, 2017 consists of the following Funds from Dedicated Collections items:

| | | Funds from Dedicated Collections FY 2018 | Funds from Dedicated Collections FY 2017 |
|----------------------------------|-----------|---|---|
| Interest on Trust Fund | \$ | 80,893 | \$ 47,445 |
| Tax Revenue, Net of Refunds | | 210,731 | 225,194 |
| Fines and Penalties Revenue | | 6,598 | (701) |
| Special Receipt Fund Revenue | | 27,640 | 21,796 |
| Total Nonexchange Revenue | \$ | 325,862 | \$ 293,734 |

Note 35. Reconciliation of Net Cost of Operations to Budget

| | FY 2018 | FY 2017 |
|--|----------------------------|----------------------------|
| RESOURCES USED TO FINANCE ACTIVITIES: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 11,862,249 | \$ 10,354,618 |
| Less: Spending Authority from Offsetting Collections and Recoveries | (867,018) | (1,031,789) |
| Obligations, Net of Offsetting Collections | 10,995,231 | 9,322,829 |
| Less: Offsetting Receipts | (1,399,483) | (1,109,453) |
| Net Obligations | 9,595,748 | 8,213,376 |
| Other Resources | | |
| Transfers In/Out Without Reimbursement, Property | - | - |
| Imputed Financing Sources | 97,383 | 103,093 |
| Net Other Resources Used to Finance Activities | 97,383 | 103,093 |
| Total Resources Used To Finance Activities | \$ <u>9,693,131</u> | \$ <u>8,316,469</u> |
| RESOURCES USED TO FINANCE ITEMS | | |
| NOT PART OF THE NET COST OF OPERATIONS: | | |
| Change in Budgetary Resources Obligated | \$ (1,341,001) | \$ (66,195) |
| Budgetary Offsetting Collections and Receipts that | | |
| Do Not Affect Net Cost of Operations: | | |
| Credit Program Collections Increasing Loan Liabilities for | | |
| Guarantees or Subsidy Allowances | 2,112 | 31 |
| Offsetting Receipts Not Affecting Net Cost | 66,142 | 72,980 |
| Resources that Finance Asset Acquisition | (131,556) | (121,053) |
| Adjustments to Expenditure Transfers | | |
| that Do Not Affect Net Cost | (298) | (8,819) |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | (1,404,601) | (123,056) |
| Total Resources Used to Finance the Net Cost of Operations | \$ <u>8,288,530</u> | \$ <u>8,193,413</u> |
| 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 | \$ (3,404) | \$ (8,483) |
| Increase in Environmental and Disposal Liability | (6,586) | 3,441 |
| Increase in Unfunded Contingencies | - | - |
| Upward/Downward Reestimates of Credit Subsidy Expense | - | - |
| Increase in Public Exchange Revenue Receivables | (498,223) | (159,362) |
| Increase in Workers Compensation Costs | (1,813) | (123) |
| Other | - | 105 |
| Total Components of Net Cost of Operations that Require or | | |
| Generate Resources in Future Periods | (510,026) | (164,422) |
| Components Not Requiring/Generating Resources: | | |
| Depreciation and Amortization | 101,826 | 108,927 |
| Expenses Not Requiring Budgetary Resources | 94,467 | 353,651 |
| Total Components of Net Cost that Will Not Require or Generate Resources | 196,293 | 462,578 |
| Total Components of Net Cost of Operations That Will Not Require or | | |
| Generate Resources in the Current Period | (313,733) | 298,156 |
| Net Cost of Operations | \$ <u>7,974,797</u> | \$ <u>8,491,569</u> |

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, 2018, and September 30, 2017. 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.

| SUPERFUND FY 2018 | EPA | Treasury | Combined |
|-------------------------------------|---------------------|------------------|------------------|
| Undistributed Balances | | | |
| Uninvested Fund Balance | \$ - | 1,807 | 1,807 |
| Total Undisbursed Balance | - | 1,807 | 1,807 |
| Interest Receivable | | | - |
| Investments, Net | 4,671,302 | 201,942 | 4,873,244 |
| Total Assets | 4,671,302 | 203,749 | 4,875,051 |
| Liabilities & Equity | | | |
| Equity | 4,671,302 | 208,391 | 4,879,693 |
| Total Liabilities and Equity | 4,671,302 | 208,391 | 4,879,693 |
| Receipts | | | |
| Corporate Environmental | - | - | - |
| Cost Recoveries | - | 239,297 | 239,297 |
| Fines & Penalties | - | 1,294 | 1,294 |
| Total Revenue | - | 240,591 | 240,591 |
| Appropriations Received | | 1,094,046 | 1,094,046 |
| Interest Income | - | 71,516 | 71,516 |
| Total Receipts | - | 1,406,153 | 1,406,153 |
| Outlays | | | |
| Transfers to/from EPA, Net | 1,324,412 | | - |
| Total Outlays | 1,324,412 | - | - |
| Net Income | \$ 1,324,412 | 1,406,153 | 1,406,153 |

In FY 2018, 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, 2018, and September 30, 2017, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of \$5.0 billion and \$4.8 billion, respectively.

| SUPERFUND FY 2017 | EPA | Treasury | Combined |
|-------------------------------------|---------------------|--------------------|------------------|
| Undistributed Balances | | | |
| Uninvested 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 | 4,797,953 |
| Total Liabilities and Equity | 4,704,616 | 93,337 | 4,797,953 |
| Receipts | | | |
| Corporate Environmental | - | - | - |
| 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 |

B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2018 and 2017, 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.

| LUST FY 2018 | EPA | Treasury | Combined |
|---------------------------------|-------------------|------------------|-----------------|
| Undistributed Balances | | | |
| Uninvested Fund Balance | \$ - | - | - |
| Total Undisbursed Balance | - | - | - |
| Interest Receivable | - | 72 | 72 |
| Investments, Net | 87,588 | 532,500 | 620,088 |
| Total Assets | 87,588 | 532,572 | 620,160 |
| Liabilities & Equity | | | |
| Equity | 87,588 | 532,572 | 620,160 |
| Receipts | | | |
| Highway TF Tax | - | 200,338 | 200,338 |
| Airport TF Tax | - | 10,348 | 10,348 |
| Inland TF Tax | - | 45 | 45 |
| Total Revenue | - | 210,731 | 210,731 |
| Interest Income | - | 8,657 | 8,657 |
| Total Receipts | - | 219,388 | 219,388 |
| Outlays | | | |
| Transfers to/from EPA, Net | 142,400 | (142,400) | - |
| Total Outlays | 142,400 | (142,400) | - |
| Net Income | \$ 142,400 | 76,988 | 219,388 |

| LUST FY 2017 | EPA | Treasury | Combined |
|---------------------------------|-------------------|------------------|-----------------|
| Undistributed Balances | | | |
| Uninvested 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 |

Required Supplementary Information (Unaudited)

Environmental Protection Agency As of September 30, 2018, and September 30, 2017 (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 2018:

| | <u>FY2018</u> | <u>FY2017</u> |
|----------------------------|-------------------|-------------------|
| Asset Category | | |
| Buildings | \$ 136,407 | \$ 143,583 |
| EPA Held Equipment | 120 | 620 |
| Vehicles | 0 | 9 |
| Total Deferred Maintenance | <u>\$ 136,527</u> | <u>\$ 144,212</u> |

In Fiscal Year 2018, in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, the EPA presents 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 <i>system critical</i> or <i>minor</i> . 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 ensure 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. |

Beginning in FY 2015, requirements for recognizing and reporting significant and expected to be permanent impairment of general PP&E (except Internal Use Software) remaining in use are in SFFAS NO. 44, accounting for Impairment of General Property, Plant, and Equipment (G-PP&E) Remaining in Use.

This statement establishes accounting and financial reporting standards for impairment of general property, plant, and equipment remaining in use, except for internal use software.

G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction work in progress. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.

This statement does not anticipate that entities will have to establish additional or separate procedures beyond those that may already exist, such as those related to deferred maintenance and repairs, to search for impairments. Impairments can be identified and brought to management's attention in a variety of ways. Although a presumption exists that there are existing processes and internal controls in place to reasonably assure identification and communication of potential material impairments, this statement does not require entities to conduct an annual or other periodic survey solely for the purpose of applying these standards.

Management may determine that existing processes and internal controls are not sufficient to reasonably assure identification of potential material impairments and impairments and implement appropriate additional processes and internal controls.

Supplemental Combined Statement of Budgetary Resources

Environmental Protection Agency For the Period Ending September 30, 2018 (Dollars in Thousands)

| | Env. Prog. & Mgmt. | Leaking Underground Storage Tank | Science & Tech. | Superfund | State & Tribal Ass. Grants | Other | Total |
|--|-----------------------|---|--------------------|------------------|----------------------------------|------------------|-------------------|
| BUDGETARY RESOURCES | | | | | | | |
| Unobligated balance from prior year budget authority, net | \$ 336,376 | 5,898 | 107,913 | 3,515,848 | 274,147 | 239,746 | 4,479,928 |
| Appropriations (discretionary and mandatory) | 2,607,999 | 192,341 | 706,473 | 1,280,835 | 4,165,963 | 1,272,302 | 10,225,913 |
| Borrowing authority (discretionary and mandatory) | - | - | - | - | - | 2,500,000 | 2,500,000 |
| Spending authority from offsetting collections | 280,203 | - | 24,564 | 17,330 | - | 288,193 | 610,290 |
| Total Budgetary Resources | \$ 3,224,578 | 198,239 | 838,950 | 4,814,013 | 4,440,110 | 4,300,241 | 17,816,131 |
| MEMORANDUM (NON-ADD) Entries: | | | | | | | |
| Net adjustments to unobligated balance brought forward, Oct. 1 | 33,884 | 2,256 | 10,924 | 126,085 | 45,777 | 13,825 | 232,751 |
| STATUS OF BUDGETARY RESOURCES | | | | | | | |
| New obligations and upward adjustments | \$ 2,819,758 | 188,134 | 716,507 | 1,506,418 | 4,072,796 | 2,558,636 | 11,862,249 |
| Unobligated balance, end of year: | | | | | | | - |
| Apportioned, unexpired accounts | 341,156 | 7,776 | 102,156 | 3,364,711 | 274,605 | 1,581,914 | 5,672,318 |
| Unapportioned, unexpired accounts | 1,828 | 2,329 | - | (57,116) | 92,709 | 155,018 | 194,768 |
| Expired unobligated balance, end of year | 61,836 | - | 20,287 | - | - | 4,673 | 86,796 |
| Total unobligated balance, end of period | 404,820 | 10,105 | 122,443 | 3,307,595 | 367,314 | 1,741,605 | 5,953,882 |
| Total Status of Budgetary Resources | \$ 3,224,578 | 198,239 | 838,950 | 4,814,013 | 4,440,110 | 4,300,241 | 17,816,131 |
| OUTLAYS, NET | | | | | | | |
| Outlays, net (discretionary and mandatory) | \$ 2,511,277 | 186,550 | 704,486 | 1,339,821 | 3,566,137 | 1,176,291 | 9,484,562 |
| Distributed offsetting receipts | - | - | - | (1,292,678) | - | (106,805) | (1,399,483) |
| Agency outlays, net (discretionary and mandatory) | \$ 2,511,277 | 186,550 | 704,486 | 47,143 | 3,566,137 | 1,069,486 | 8,085,079 |

Required Supplemental Stewardship Information (Unaudited)

Environmental Protection Agency Required Supplemental Stewardship Information (Unaudited) For the Year Ended September 30, 2018 (Dollars in Thousands)

Investment in The Nation's Research and Development:

The EPA's Office of Research and Development provides the crucial underpinnings for EPA decision-making. Through conducting cutting-edge science and technical analysis, ORD develops sustainable solutions to our environmental problems and employs 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 2018, the full cost of the Agency's Research and Development activities totaled over \$547M. Below is a breakout of the expenses (dollars in thousands):¹

| | <u>FY2014</u> | <u>FY2015</u> | <u>FY2016</u> | <u>FY2017</u> | <u>FY2018</u> |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Programmatic Expenses | \$ 510,911 | 535,352 | 541,190 | 532,153 | 492,648 |
| Allocated Expenses | \$ 73,622 | 78,028 | 82,646 | 103,451 | 54,684 |

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. Allocated expenses include general and administrative expenses of headquarter organizations that provide support services to the entire agency, general and administrative expenses of the regional and headquarter offices that provide support services to national programs within their organization, and inter-entity costs provided by Office of Personal Management.

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 for 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 potentially spur up to \$5 billion in total infrastructure investment when combined with other sources of funding. 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 eligible 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):

| | <u>FY2014</u> | <u>FY2015</u> | <u>FY2016</u> | <u>FY2017</u> | <u>FY2018</u> |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Construction Grants | \$ 1,447 | 17,462 | 11,344 | 8,686 | - |
| Clean Water SRF | \$ 1,534,453 | 1,715,630 | 1,459,820 | 1,247,919 | 1,442,613 |
| Drinking Water SRF | \$ 1,187,212 | 1,268,360 | 1,213,201 | 994,297 | 890,460 |
| Other Infrastructure Grants | \$ 118,706 | 96,439 | 62,011 | 44,916 | 48,198 |
| Allocated Expenses | \$ 516,102 | 590,595 | 529,815 | 480,415 | 438,823 |
| WIFIA ² | \$ - | - | - | 30,000 | 63,000 |

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.

² Amounts for WIFIA include administrative expenses.

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):

| | <u>FY2014</u> | <u>FY2015</u> | <u>FY2016</u> | <u>FY2017</u> | <u>FY2018</u> |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Training and Awareness Grants | \$ 23,255 | 27,047 | 29,116 | 22,090 | 19,351 |
| Fellowships | 8,082 | 6,579 | 4,630 | 2,077 | 1,460 |
| Allocated Expenses | 4,226 | 5,146 | 5,336 | 4,073 | 2,525 |
| Total | \$ 35,563 | 38,772 | 39,082 | 28,240 | 23,336 |

**AUDIT OF EPA'S FISCAL YEARS 2018 AND 2017
CONSOLIDATED FINANCIAL STATEMENTS**



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements

Report No. 19-F-0003

November 14, 2018

Abbreviations

| | |
|--------|--|
| CFC | Cincinnati Finance Center |
| EPA | U.S. Environmental Protection Agency |
| FBWT | Fund Balance with Treasury |
| 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 |
| GSA | General Services Administration |
| NCC | National Computer Center |
| NIST | National Institute of Standards and Technology |
| OARM | Office of Administration and Resources Management |
| OCFO | Office of the Chief Financial Officer |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PIV | Personal Identity Verification |
| PTY | Potomac Yard |
| RMDS | Resource Management Directive System |
| SLCM | System Life Cycle Management |
| SFFAS | Statement of Federal Financial Accounting Standards |
| U.S.C. | United States Code |
| WCF | Working Capital Fund |

Are you aware of fraud, waste or abuse in an EPA program?

EPA Inspector General Hotline

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At a Glance

Why We Did This Review

We performed this audit in accordance with the Government Management Reform Act of 1994, which requires the U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) 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, regulations, contracts and grant agreements.

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.*

Send all inquiries to our public affairs office at (202) 566-2391 or www.epa.gov/oig.

Listing of [OIG reports](#).

EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2018 and 2017, 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 Weakness and Significant Deficiencies Noted

We noted the following material weakness:

- The EPA's accounting for unearned revenue for Superfund special accounts continues to be a material weakness.

We noted the following significant deficiencies:

- Additional efforts are needed to resolve cash differences with the U.S. Department of the Treasury.
- The EPA misstated uncollectible debt.
- The EPA improperly increased accounts receivable and related revenue.
- The EPA materially overstated earned revenue.
- The EPA improperly processed General Services Administration rent payments.
- The EPA should restrict access to computer rooms with financial and mixed-financial systems.
- The EPA needs to perform a documented evaluation on upgrading equipment used to implement physical environmental controls at the National Computer Center.

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 Recommendations 1 through 9 of our report and has either implemented corrective actions or provided an estimated time frame for completion. The agency disagreed with Recommendations 10 through 15, citing the need for clarifying information. EPA management set up a November 26, 2018, meeting with the OIG to discuss these findings. We consider Recommendations 10 through 15 unresolved pending the agency's response to the final report.



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

OFFICE OF
INSPECTOR GENERAL

November 14, 2018

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements
Report No. 19-F-0003

FROM: Paul C. Curtis, Director
Financial Audits

A handwritten signature of Paul C. Curtis in black ink, written over a light blue background.

TO: Holly Greaves, Chief Financial Officer

Vaughn Noga, Principal Deputy Assistant Administrator
and Deputy Chief Information Officer
Office of Environmental Information

Donna J. Vizian, Principal Deputy Assistant Administrator
Office of Administration and Resources Management

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2018 and 2017 consolidated financial statements. The project number for this audit was OA&E-FY18-0189. We are reporting one internal control material weakness and seven significant deficiencies. Attachment 1 contains details on the material weakness and significant deficiencies. We did not note any instances of noncompliance.

This audit report represents the opinion of the Office of Inspector General (OIG), 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 U.S. Department of Justice.

The agency agreed with Recommendations 1 through 9 of our report and has either implemented corrective actions or provided an estimated time frame for completion. The EPA disagreed with Recommendations 10 through 15, citing the need for clarifying information.

Action Required

In accordance with EPA Manual 2750, the resolution process begins immediately with the issuance of this report. We are requesting a meeting within 30 days between the Principal Deputy Assistant Administrator for Administration and Resources Management, the Principal Deputy Assistant Administrator for Environmental Information, and the OIG's Assistant Inspector General for Audit and Evaluation. If resolution is still not reached, the Office of Administration and Resources Management and

the Office of Environmental Information are required to complete and submit a dispute resolution request to the Chief Financial Officer to continue resolution.

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

Attachments (3)

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Inspector General's Report on EPA's Fiscal Years 2018 and 2017 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, 2018, and September 30, 2017, 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 Controller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *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. Department of the 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, present 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, 2018 and 2017, 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 would have on the agency's statements. In addition, in FY 2017, 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 was 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 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. 19-01, *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 Weakness 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 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, one of which we consider to be a material weakness. These issues are summarized below and detailed in Attachment 1.

Material Weakness

SPECIAL ACCOUNTS

EPA's Accounting for Unearned Revenue for Superfund Special Accounts Continues to Be a Material Weakness

We found that the EPA did not properly record \$309,929,010 of unearned revenue for Superfund special account activity. Federal government internal control standards require accurate recording of transactions and SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue and recognize exchanged [earned] revenue at the time a government entity provides goods or services to the public or to another entity.

Significant Deficiencies

CASH

EPA Needs to Undertake Additional Efforts to Resolve Cash Differences with Treasury

As of June 30, 2018, the EPA had not resolved \$2,233,425 in cash differences between EPA and U.S. Treasury cash balances. Pursuant to Treasury guidance, the EPA should correct and resolve any differences between Treasury's balance and the EPA's Fund Balance with Treasury. However, the EPA's Office of the Chief Financial Officer did not have effective internal controls to adequately monitor internal cash differences and ensure that the EPA resolved the differences. Unresolved differences may result in the EPA misstating its Fund Balance with Treasury and financial statements and increase the risk of fraud.

ACCOUNTS RECEIVABLE / REVENUE

EPA Misstated Expenses Uncollectible Debt

We found that the EPA misstated its general ledger Expenses Uncollectible Debt account by reflecting a \$8.5 million credit balance. Federal accounting standards define expenses as having a debit balance. The misstatement occurred when the EPA recorded

transactions to adjust its Allowance for Doubtful Accounts. In doing so, the entries caused incorrect balances in related accounts. As a result, uncollectible expense and accounts related to the entries are misstated in the EPA's financial statements.

EPA Improperly Increased Accounts Receivable and Related Revenue

The EPA improperly increased accounts receivable and related revenue by \$3,715,531. The EPA increased the amount of an account receivable based on cash received rather than an amount stipulated in a legal claim. This occurred because the EPA did not (1) record marketable securities at fair market value when they were received or (2) recognize a gain when marketable securities were sold for an amount higher than the book value. SFFAS No. 1 requires federal entities to recognize accounts receivable when a legal claim exists. The EPA's Resource Management Directive System 2550D states that the agency will record marketable securities at fair market value when they are received. SFFAS No. 7 further requires the recognition of a gain or loss when marketable securities are sold for an amount different from the book value. When unrecorded securities were sold at an amount greater than the receivable, the EPA understated the gains by \$3,715,531 in its financial statements.

EPA Materially Overstated Earned Revenue

During FY 2018, the EPA did not properly eliminate internal Working Capital Fund earned revenue of \$147 million. Agency standards require intra-entity balances to be eliminated for consolidated financial statement reporting. The EPA processed a journal voucher to eliminate internal Working Capital Fund earned revenue; however, the agency did not follow standard operating procedures when preparing the entry or verify the entry properly eliminated Working Capital Fund earned revenue. As a result, the EPA's financial statements are materially misstated.

EXPENSES

EPA Improperly Processed GSA Rent Payments

The EPA processed over \$58,338,789 of rent payments to the General Services Administration (GSA) without proper authorization or approval. EPA guidance states that program offices will be responsible for the oversight and approval of bills for GSA rent invoices. Federal guidance states that transactions are authorized and executed only by persons acting within the scope of their authority.

INFORMATION TECHNOLOGY

EPA Should Restrict Access to Computer Rooms with Financial and Mixed-Financial Systems

The EPA does not adequately restrict access to computer rooms with financial and mixed-financial applications, nor does it adequately train people with access to the

computer rooms, as required by EPA procedures and National Institute of Standards and Technology guidance. This occurred because the EPA did not perform the following control activities:

- Revoke employee access to the computer rooms when access was no longer necessary.
- Review quarterly reports for the Potomac Yard computer room and reviewed incomplete quarterly reports for the National Computer Center computer room.
- Maintain an inventory of cards used by visitors to access the National Computer Center computer room.
- Verify the identity of cardholders prior to allowing access to computer rooms.
- Provide alternative facility training when the contracted vendor stopped offering training.

As a result, the agency increases the risk that computer equipment may be intentionally or unintentionally harmed, which could impact the availability of the financial and mixed-financial applications.

EPA Needs to Perform a Documented Evaluation of Upgrading Equipment Used to Implement Physical Environmental Controls at the National Computer Center

The equipment supporting the physical and environmental controls for the computer room at the EPA's National Computer Center has not been maintained or reviewed to see whether it still meets the needs of the computer center. This computer room became operational in 2002.

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 2018. 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. 19-01, *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, which 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 Accounting for Unearned Revenue as a material weakness in FY 2018. Accounting for Unearned Revenue has been reported as a material weakness since FY 2016. The agency has reported that it is developing a corrective action plan for Accounting for Unearned Revenue.

Details concerning our findings on significant deficiencies can be found in Attachment 1.

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 19-01, *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. Ongoing investigations involving EPA 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.

In its Management Assurances, the EPA reported three incidents of potential violations of the Antideficiency Act. We did not identify any other potential violations of this act during the course of our audit.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

We also performed audit work to meet the requirements found in 42 U.S.C. § 9611(k) with respect to the Hazardous Substance Superfund Trust Fund, and the stipulation 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 its efforts to resolve its long-standing cash differences with the U.S. Treasury.
- Financial management system user account management needs improvement.
- The EPA's Office of the Chief Financial Officer lacks internal controls when assuming responsibility for account management procedures of financial systems.
- The EPA needs controls to monitor direct access to its accounting system.
- The EPA needs to appoint a Project Manager to oversee management of Compass Financials and improve acquisition planning.

Attachment 2 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues. During our audit, we found 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 9, 2018, the Chief Financial Officer responded to our draft report. The EPA agreed with our findings on cash, accounts receivable, revenue, expenses and corresponding Recommendations 1 through 9. The EPA disagreed with our findings regarding restricting access to computer rooms and documenting an evaluation on upgrading equipment used to implement physical environmental controls and corresponding Recommendations 10 through 15. EPA management set up a November 26, 2018, meeting with the OIG to discuss these findings. We consider Recommendations 10 through 15 unresolved pending the agency's response to the final report.

The rationale for our conclusions and a summary of the agency's comments are included in the appropriate sections of this report. The agency's complete response is included as Appendix II of 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 Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 14, 2018

Internal Control Material Weakness and Significant Deficiencies

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1—EPA’s Accounting for Unearned Revenue for Superfund Special Accounts Continues to Be a Material Weakness

We found that the EPA did not properly record \$309,929,010 of unearned revenue for Superfund special account activity. Federal government internal control standards require accurate recording of transactions, and SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue and recognize exchanged [earned] revenue at the time a government entity provides goods or services to the public or to another entity.

The EPA processed a journal voucher to reclassify special account earned and unearned revenue activity for the FY 2018 second quarter. However, the EPA did not consider previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs, and special account collection movements while preparing the special account reclassification entry. During our examination of the FY 2018 second quarter special account reclassification journal entry, we found six errors totaling \$257,127,141 that involved misstated earned and unearned revenue on the financial statements. We also found 21 transactions totaling \$52,801,869 that improperly impacted earned revenue. The EPA did not modify its accounting model to properly record all Superfund special accounts activity or perform a comprehensive reconciliation of Superfund special account general ledger balances to the special accounts database during FY 2018. As a result, the EPA cannot ensure the accuracy of the unearned revenue and earned revenue on the financial statements.

Federal guidance directs agencies to record cash advances received for long-term projects as unearned revenue, and to reconcile general ledger control totals to file totals. For example:

- SFFAS No. 7 is the accounting standard for revenue and other financing sources. The standard directs agencies to record a cash advance for long-term projects as unearned revenue. Revenue should be recognized as costs are incurred to provide 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 cost. 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 U.S. General Accountability Office’s (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.

In FY 2018, the EPA made six errors in the agency’s second quarter special account reclassification entry, which misstated revenue and unearned revenue. Table 1 summarizes the errors that our audit identified.

Table 1: Summary of errors

| Description | Dollar amount (absolute value) |
|--|-----------------------------------|
| Superfund nonfederal special account future cost expenses were reclassified to earned revenue. The EPA's nonfederal special account future cost posting model already recognized earned revenue for those costs. | \$67,552,634.08 |
| Superfund federal special account future cost expenses were reclassified to earned revenue. The EPA previously recognized earned revenue for federal expenses incurred. | 5,766,302.83 |
| Nonfederal Superfund unbilled oversight revenue was inappropriately included in the reclassification entry to unearned revenue. | 26,508,714.64 |
| Federal Superfund unbilled oversight was inappropriately included in the reclassification entry to unearned revenue. | 15,689.74 |
| Superfund special account transactions used to move special account collection activity to other subaccounts were inappropriately included in the reclassification entry to unearned revenue. | 1,936,620.72 |
| Quarterly reclassification journal voucher entry was not flagged to reverse during the third quarter. The entry should automatically reverse during the first month of the next quarter. | 155,347,178.79 |
| Total | \$257,127,140.80 |

Source: OIG analysis.

As a result, the EPA did not properly record revenue and unearned revenue for Superfund special account activity during FY 2018, which misstated earned and unearned revenue on the Consolidated Balance Sheet and the Statement of Net Cost in the EPA's financial statements.

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. The EPA agreed with our recommendations to modify the accounting model in Compass Financials, the agency's accounting system, and to prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail. However, during our testing for the FY 2018 financial audit, we found that the EPA still had not implemented the recommendation and misrecorded 21 transactions totaling over \$52 million of receivable and collection transactions.

Table 2 notes our FY 2016 recommendations to the Chief Financial Officer and the status of the EPA's corrective actions, which should address the accounting for such transactions.

Table 2: FY 2016 recommendations, corrective actions and status

| No. | OIG recommendation | EPA corrective action | Status of corrective action |
|-----|---|--|--|
| 2 | Modify the accounting model in Compass Financials to properly record all special account receivables and collections as unearned revenue and reduce the unearned revenue and recognize earned revenue as expenses are incurred. | The agency will modify accounting models in Compass to properly record Superfund special account receivables once OMB and Treasury have approved the agency's accounting approach. In preparation for year-end processing, configuration of the posting of Compass models is on hold until 02/28/2018. | Not implemented. Revised date of completion is 12/31/2018. |
| 3 | Prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail. | The agency will conduct the quarterly reconciliation of the Superfund special accounts general ledger to the special accounts database detail. In preparation for year-end processing, configuration of the posting of Compass models is on hold until 03/31/2018. | Not implemented. Revised date of completion is 12/31/2018. |

Source: OIG analysis.

When the EPA does not properly record unearned revenue for Superfund special accounts or reconcile Superfund special accounts general ledger balances to the special accounts database detail, the EPA cannot ensure the accuracy of the unearned revenue and financial statements. Improper accounting of these settlement funds could lead to funds being spent on sites not stipulated in the settlement agreements and could jeopardize future clean-up of sites for which the funds were intended. Since the EPA has not implemented either recommendation in Table 2, we continue to report this as a material weakness.

Recommendation

We recommend that the Chief Financial Officer:

1. Ensure that the special account reclassification entry includes a review to determine whether previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs and special account collection movements should or should not be included, and include supporting documents identifying the accounts and amounts reviewed.

Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation. The agency's estimated completion date for corrective actions is March 29, 2019.

2—EPA Needs to Undertake Additional Efforts to Resolve Cash Differences with Treasury

As of June 30, 2018, the EPA had not resolved \$2,223,425 in cash differences between EPA and U.S. Treasury cash balances. Pursuant to Treasury guidance, the EPA should correct and resolve any differences between the Treasury’s balance and the EPA’s Fund Balance with Treasury (FBWT). However, the EPA’s Office of the Chief Financial Officer (OCFO) did not have effective internal controls to adequately monitor internal cash differences and ensure that the EPA resolved the differences. Unresolved differences may result in the EPA misstating its FBWT and financial statements and increase the risk of fraud.

Treasury Financial Manual, Volume 1, Section 3335, titled “Reconciling FMS 224, Section II,” states that agencies should reconcile regional finance center transactions separately from Intra-governmental Payment and Collection (IPAC) transactions by comparing transactions reported in accounting systems with transactions reported to Treasury by regional finance centers and through the IPAC system. In the month following the reporting month, agencies should correct any disclosed differences. For our audit, 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 (RMDS) No. 2540-03-P1, titled *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the EPA to review and track monthly differences between its FBWT and the Treasury’s balance. The directive requires the OCFO’s General Ledger Analysis and Reporting Branch to conduct a monthly review of the EPA’s financial system of record and report any 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 OCFO prepares an internal monthly cash difference report (according to the accounting point and treasury symbol) to identify and resolve differences between Treasury and EPA records. EPA finance centers and responsible staff are required to provide comments, as needed, to the General Ledger Analysis and Reporting Branch concerning the monthly cash difference reports.

Based on the OCFO’s monthly cash difference reports, we have reported in prior audits that EPA finance centers and responsible staff are not resolving cash differences between Treasury and EPA records in a timely manner. Table 3 shows cash differences as of June 30, 2018, which were unresolved for at least 2 months.

Table 3: Cash differences as of June 30, 2018

| Responsible office | Accounting point location code | Amount |
|--|--------------------------------|-------------|
| Las Vegas Finance Center (<i>responsible for payroll accounting point cash reconciliation</i>) | 68010015 | \$769,749 |
| Accounting and Cost Analysis Division (<i>responsible for cash reconciliation of the former Washington Finance Center</i>) | 68010099 | \$1,452,860 |
| Cincinnati Finance Center | 68010727 | \$816 |
| Total | | \$2,223,425 |

Source: OIG analysis of EPA data.

The OCFO did not adequately monitor internal cash differences at the transaction level to ensure that the EPA resolved any differences with the Treasury. The General Ledger Analysis and Reporting Branch relied on EPA finance centers and responsible staff to resolve individual cash differences. However, the OCFO's Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, did not timely resolve cash differences for the accounting point locations stated in Table 3. Therefore, the OCFO did not have effective internal controls to resolve 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 agency's FBWT and EPA financial statements.

Recommendation

We recommend that the Chief Financial Officer:

2. Require the Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, to research and resolve cash differences.

Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation. The agency's estimated completion date for corrective actions is March 29, 2019.

3—EPA Misstated Expenses Uncollectible Debt

We found that the EPA misstated its general ledger Expenses Uncollectible Debt account by reflecting a \$8.5 million credit balance. Federal accounting standards define expenses as having a debit balance. The misstatement occurred when the EPA recorded transactions to adjust its Allowance for Doubtful Accounts. In doing so, the entries caused incorrect balances in related accounts. As a result, uncollectible expense and accounts related to the entries are misstated in the EPA's financial statements.

The U.S. Department of the Treasury's *Treasury Financial Manual*, Volume 1, United States Standard General Ledger Part 1, Section II, requires expense accounts to have a debit balance.

The GAO's *Standards for Internal Control in the Federal Government* sets standards for federal entities. Federal government internal control standards require accurate and timely recording of transactions and events.

In accordance with EPA Comptroller Policy 93-02, *Policies for Documenting Agency Financial Transactions*, the EPA uses standard vouchers to record accounting events that occur on a recurring basis and have predetermined debit(s) and credit(s).

During our examination of accounts, we found that the EPA recorded several transactions resulting in a \$8.5 million credit balance in the Expenses Uncollectible Debt account, which is a debit balance account. A credit balance in this account indicates that the agency has revenue from uncollectible debts or the general ledger account is otherwise misstated. The misstatement occurred because:

- In fiscal year FY 2017, the EPA recorded a standard voucher to correct an error in the fourth quarter Allowance for Doubtful Accounts calculation. The voucher was improperly reversed in the FY 2018 first quarter and caused an incorrect credit posting in the Expense Uncollectible Debt account.
- The EPA recorded a standard voucher to reverse an account receivable and its related Allowance for Doubtful Account. By reversing the receivable and the allowance, which represents cumulative bad debt expense estimates recorded over several years, the EPA created a credit posting in the Expenses Uncollectible Debt account. The proper transaction for recording the removal of the receivable would be to record the difference between the balance in the receivable and allowance as a loss or as an additional write-off of a receivable.
- The agency determined that a receivable previously considered partially uncollectible was collectible and posted a transaction to adjust an allowance for doubtful accounts and related Expenses Uncollectible Debt (bad debt expense). The adjustment resulted in crediting the Expenses Uncollectible Debt account.

As a result, operating expenses and other related accounts are misstated on the financial statements.

Recommendations

We recommend that the Chief Financial Officer:

3. Review the Allowance for Doubtful Accounts calculation to ensure that adjusting entries are accurate.
4. Review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to determine the net impact of expenses and revenues from prior periods and ensure that financial statements are not misstated.
5. Review adjusting entries and their reversals to verify whether account balances are posted properly and do not contain abnormal balances or activity.

Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendations and has completed corrective actions.

4—EPA Improperly Increased Accounts Receivable and Related Revenue

The EPA improperly increased accounts receivable and related revenue by \$3,715,531. The EPA increased the amount of an account receivable based on cash received rather than an amount stipulated in a legal claim. This occurred because the EPA did not (1) record marketable securities at fair market value when they were received or (2) recognize a gain when marketable securities were sold for an amount higher than the book value. SFFAS No. 1 requires federal entities to recognize accounts receivable when a legal claim exists. The EPA's RMDS 2550D states that the agency will record marketable securities at fair market value when they are received. SFFAS No. 7 further requires the recognition of a gain or loss when marketable securities are sold for an amount different from the book value. When unrecorded securities were sold at an amount greater than the receivable, the EPA understated the gains by \$3,715,531 in its financial statements.

SFFAS No. 1, paragraph 41, states, "A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities...based on legal provisions." RMDS 2550D, Chapter 14, 7.a., Recording Securities at Fair Market Value, states, "When EPA receives marketable securities, they will be recorded as a collection at their fair market value on the day they are received." SFFAS No. 7, paragraph 35, states, "When a transaction...at a price is unusual or nonrecurring, a gain or loss should be recognized rather than revenue or expense so as to differentiate such transactions." SFFAS No. 7, paragraph 36(e), states, "When an asset other than inventory is sold, any gain (or loss) should be recognized when the asset is delivered to the purchaser."

The EPA did not appropriately record accounts receivable, revenue or gains on the disposition of assets. The EPA established a \$2.8 million receivable based on the amount stipulated in the consent decree. The EPA received cash and investment securities as outlined in the consent decree. The market value of the securities on the settlement date was approximately \$3,159,860, which is \$1,962,737 more than what should have been recognized as the book value of the securities when they were received.

When the securities were sold, the EPA increased the existing receivable and recognized revenue of \$2,862,323, based on the amount of proceeds received from the sale of securities, which was greater than the outstanding balance due on the receivable. Upon further review of activity related to this receivable, we found that the EPA increased the receivable and recognized revenue in the amount of \$853,208 because of dividend income and the sale of additional securities. The total increase in receivables and revenue recorded was \$3,715,531, which should have been recognized as gains on the disposition of assets. As a result, revenue and gains on the disposition of assets are misstated in the EPA's financial statements.

Recommendations

We recommend that the Chief Financial Officer:

6. Update the policy for the proper accounting and recognition of gains or losses from marketable securities based on the sale of stock.
7. Record or adjust accounts receivables only for amounts stipulated in settlement agreements.

Agency Comments and OIG Evaluation

The EPA agreed with our findings. The agency's estimated completion date for corrective actions on Recommendation 6 is March 29, 2019. Corrective actions for Recommendation 7 have been completed.

5—EPA Materially Misstated Earned Revenue

During FY 2018, the EPA did not properly eliminate internal Working Capital Fund (WCF) earned revenue of \$147 million. Agency standards require intra-entity balances to be eliminated for consolidated financial statement reporting. The EPA processed a journal voucher to eliminate internal WCF earned revenue; however, the agency did not follow standard operating procedures when preparing the entry or verify the entry properly eliminated WCF earned revenue. As a result, the EPA's financial statements are materially misstated.

EPA Office of the Chief Financial Officer's *Standard Operating Procedure for Intra-agency Eliminations* requires the elimination of WCF earned revenue intra-agency balances for financial statement reporting.

Federal government internal control standards require accurate and timely recording of transactions and events. The GAO's *Standards for Internal Control in the Federal Government* sets internal control standards for federal entities.

Our review of FY 2018 year-end general ledger balances identified a balance of \$147 million in the agency's internal WCF earned revenue account. Internal WCF earned revenue should eliminate on a consolidated basis and result in a zero balance for reporting purposes. Upon further review, we determined that the agency's current year elimination entries were not consistent with the prior year. The agency reported that standard operating procedures were not followed for the elimination entry's preparation, and the wrong agency report was used. In addition, the agency did not verify the WCF elimination entry properly eliminated internal WCF earned revenue.

As a result, the EPA did not properly eliminate internal WCF earned revenue, which materially overstated earned revenue on the Statement of Net Cost in the EPA's financial statements. After discussing the issue with the EPA, the agency indicated it would correct the entry to properly eliminate internal WCF earned revenue.

Recommendation

We recommend that the Chief Financial Officer:

8. Update the EPA's standard operating procedures for preparing Working Capital Fund elimination entries to include verification of entries and proper ending balances.

Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation and has completed corrective actions.

6—EPA Improperly Processed GSA Rent Payments

The EPA processed over \$58,338,789 of rent payments to the GSA without proper authorization or approval. EPA guidance states that program offices will be responsible for the oversight and approval of bills for GSA rent invoices. Federal guidance states that transactions are authorized and executed only by persons acting within the scope of their authority.

While EPA program offices improperly authorized or approved GSA rent invoices, the EPA's Cincinnati Finance Center (CFC) processed these rent payments without evidence of proper authorization or approval. By not approving rent invoices prior to payment, material errors could occur in the form of paying for property that was not used and allowing unauthorized transactions to be included in the EPA's financial reporting.

The EPA follows internal directive RMDS 2550C-04-P3, titled *Management of Non-Standard Interagency Agreements (NSIA)*, which states that EPA program offices will “be responsible for project-level oversight of the NSIA and bill approval for NSIA bills unless otherwise specified.” The directive also states that EPA program offices will “approve/disapprove Trading Partner Agency invoices via the Inter-Governmental Document Online Tracking System web link,” and will “review bill/cost information from TPs [Trading Partners] for proper NSIA project review.”

In addition, the GAO's *Standards for Internal Control in the Federal Government* sets internal control standards for federal entities, and notes that “transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into.”

During our testing, we found no evidence to support the review or approval of 6 months of rent payments to GSA totaling \$58,338,789 (Table 4).

Table 4: Summary of GSA rent samples

| Transaction number | Date | Fund code | Sample line item amount |
|--------------------|------------|-----------|-------------------------|
| 1801RENTGSA | 10/27/2017 | B | \$11,569,026 |
| 1802RENTGSA | 11/21/2017 | B | 14,000,000 |
| 1802RENTGSA | 11/21/2017 | C | 3,966,084 |
| 1805RENTGSA | 02/28/2018 | B | 11,000,000 |
| 1806RENTGSA | 03/27/2018 | T | 1,500,000 |
| 1806RENTGSA | 03/27/2018 | B | 16,303,679 |
| | | | \$58,338,789 |

Source: OIG analysis.

EPA project officers responsible for GSA rent payments had previously approved GSA rent invoices via emails to the CFC, but project officers stopped sending such approvals. The most recent approval email that the CFC received from project officers was in June 2017. However, the CFC continued to process payments in Compass, the EPA's financial system, without evidence of review and approval.

We also found that GSA rent invoices are not processed through the Inter-Governmental Document Online Tracking System (IDOTS) using the approval function, which would require project officer approval before processing the payments in Compass. Processing GSA rental payments through IDOTS would not only ensure that project officers are notified when invoices await approval, but also provide evidence of such approvals.

The EPA averages \$19 million per month in GSA rent payments, and annual payments could be over \$235 million. By not approving rent invoices prior to payment, material errors could occur in the form of paying for property that was not used and potentially allowing over \$235 million in unauthorized transactions to be included in the EPA's financial reporting.

Recommendation

We recommend that the Chief Financial Officer:

9. Require project officers to review and submit approvals or disapprovals of General Services Administration rent invoices each month.

Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation and has completed corrective actions.

7—EPA Should Restrict Access to Computer Rooms with Financial and Mixed-Financial Systems

The EPA does not adequately restrict access to computer rooms with financial and mixed-financial applications, nor does it adequately train people with access to the computer rooms, as required by EPA procedures and National Institute of Standards and Technology (NIST) guidance. This occurred because the EPA did not perform the following control activities:

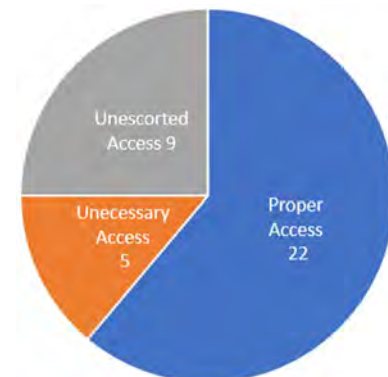
- Revoke employee access to the computer rooms when access was no longer necessary.
- Review quarterly reports for the Potomac Yard (PTY) computer room and reviewed incomplete quarterly reports for the National Computer Center (NCC) computer room.
- Maintain an inventory of cards used by visitors to access the NCC computer room.
- Verify the identity of cardholders prior to allowing access to computer rooms.
- Provide alternative facility training when the contracted vendor stopped offering training.

As a result, the agency increases the risk that computer equipment may be intentionally or unintentionally harmed, which could impact the availability of financial and mixed-financial applications.

We tested access for 36 of the 380 individuals granted access to the NCC or PTY computer rooms. Of the 36 individuals tested (26 for NCC and 10 for PTY), access was not properly restricted for 14 individuals as follows (and shown in Figure 1):

- Five individuals indicated computer room access was unnecessary to perform their current job functions or access was unnecessarily retained by a former EPA employee or contractor.
- Nine individuals had unescorted access to the computer rooms. These individuals indicated that they required access, but their job duties did not involve hardware maintenance of devices in the computer room. This included janitorial staff, individuals who perform pest control and semiannual occupational health and safety inspections, and a carpenter.

Figure 1: Individuals with access to NCC and PTY data centers



Source: OIG image.

Other problems regarding physical access to the EPA's computer rooms included the following:

- The EPA was missing four of the 24 Personal Identity Verification (PIV) cards that allowed access to the NCC computer room for individuals¹ not assigned to that room.
- No one was stationed at each of the computer rooms' entry points, nor did the entry points use multi-factor authentication to verify that PIV cards were being used by individuals authorized to be in the computer rooms. Multi-factor authentication uses multiple items that individuals have or know to validate identity.
- We were informed that the required facility training that covered the use of fire extinguishers and emergency power shutoffs was not provided to individuals who could access the computer room.

To enforce physical access authorizations, as required by *PE-3 Physical Access Control*, NIST Special Publication 800-53, Revision 4, dated April 2013, organizations need to be "[v]erifying individual access authorizations before granting access to the facility."

Part 6 of the EPA's Information Security–Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, requires that the review and approval of the access list and authorization credentials must be done quarterly, and states:

- Access to EPA buildings, rooms, work areas, spaces, and structures housing information systems, equipment, and data shall be limited to authorized personnel.
- The level of access provided to each individual must not exceed the level of access required to complete the individual's job responsibilities.
- Individual access authorizations must be verified before access to the facility is granted.
- All necessary personnel must be informed of the emergency power shutoff locations and they must be trained to operate them safely.
- Personnel must be trained on how to use a fire extinguisher and must receive annual refresher training.

There were multiple reasons why access to the computer rooms was not properly restricted, including:

- We were informed no controls exist to prompt the removal of computer room access for an individual when access by that individual is no longer required.

¹ While most cards have an individual's name and picture, these cards had a description and no picture (e.g., the Fire Department or a contractor).

- Quarterly reviews of computer room access for the NCC computer room are incomplete and were only being performed for the PTY computer room on an as requested basis by the supervisors of individuals who could access the room.
- An Office of Environmental Information representative indicated that individuals with unescorted access and whose job duties did not involve hardware maintenance of devices in the computer room should have a public trust clearance. The representative was uncertain who would monitor these individuals in the computer room.
- No inventory of unassigned PIV cards (with computer room access rights) was taken to promptly remove access granted to the missing cards.
- PIV card scanners do not use multi-factor authentication, and there is no visual verification of individuals accessing the computer room.

Further, Office of Environmental Information representatives indicated that past training covered fire suppression and emergency power cutoff for individuals granted access to the computer room, but the contractor stopped providing that training years ago and the EPA did not find an alternative training solution.

Malicious individuals that gain unauthorized access to a computer room may cause damage to equipment. Additionally, individuals without adequate training on the use of fire suppression and emergency power cutoff may accidentally inflict damage to computer room equipment. If the computer room equipment is damaged, the financial and mixed-financial applications would be unavailable until they are restored.

Recommendations

We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer:

10. Develop and implement controls to remove an individual's Personal Identity Verification card access rights to computer rooms with financial and mixed-financial applications when that individual no longer requires access.
11. As required by the EPA's Information Security–Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, perform quarterly reviews of access to computer rooms with financial and mixed-financial applications, to determine whether individuals require physical access to the equipment in the computer room to complete their job responsibilities.
12. Implement a process to provide access to and monitor individuals who occasionally need access to a computer room with financial and mixed-financial applications but not to the computer equipment.

13. Maintain an inventory of all Personal Identity Verification cards with access to computer rooms with financial and mixed-financial applications that are not assigned to individuals and remove access when cards are discovered missing.
14. Implement controls to enforce the required verification of individuals' identity every time individuals enter the computer rooms.

Agency Comments and OIG Evaluation

The EPA disagreed with our findings and recommendations. The agency would like further meetings to discuss the findings. Recommendations 10 through 14 remain unresolved.

8—EPA Needs to Perform a Documented Evaluation on Upgrading Equipment Used to Implement Physical Environmental Controls at the National Computer Center

Equipment supporting the physical and environmental controls for the computer room at the NCC has not been maintained or reviewed to see if it still meets the needs of the computer center. This computer room became operational in 2002. During our visit to the NCC Data Center we observed that:

- Surveillance cameras used to monitor physical access to the inside of the computer room were not fully functioning because repairs were needed to the joystick used to control the cameras. The computer room operators indicated that the camera system in the computer room has been down on numerous occasions.
- An Office of Administration and Resources Management (OARM) representative indicated that the back-up generator used to provide alternative power to the computer room in the event of an extended power outage holds approximately 2,800 gallons of fuel that would provide energy to the computer room for approximately 24 hours. The OARM representative also indicated that there is an 8,000-gallon fuel tank for a smaller more fuel-efficient generator used to provide emergency energy to heating, ventilation and air conditioning units. The representative indicated that during emergencies, such as hurricanes, it may be difficult to obtain fuel to refill the tanks. The representative indicated that in the event of an extended power outage, it may be too difficult to add updates that would transfer fuel from the larger tank to the smaller tank to support continued operations until the fuel tanks could be replenished. But according to an Office of Environmental Information representative at the NCC, only hosted applications that subscribe to recovery services resume operations within 72 hours. The hosted applications that do not subscribe to recovery services take 30 days to resume operations. This may affect the EPA's financial and mixed-financial applications hosted at the NCC.

A joystick is an input device used to manually change the views of cameras.

NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* PE-6, requires organizations to monitor physical access to a facility where information systems reside to detect and respond to physical security incidents. Further, PE-11 of this publication requires agencies to provide a short-term uninterrupted power supply to facilitate an orderly shutdown of the information system or to transition to a long-term alternate power.

EPA Procedure CIO-2150.3-P-11.1, *Information Security–Interim Physical and Environmental Protection Procedures VI.9*, reflects NIST guidance for requiring the EPA to install surveillance equipment to monitor physical access to information systems.

The EPA's System Life Cycle Management (SLCM) Policy, CIO 2121.1, dated December 21, 2017, specifies Operation and Maintenance as one of six phases in the life cycle of a system in the EPA. The SLCM Procedure, CIO 2121-P-03.0, dated December 21, 2017, establishes the

agency's approach and practices in, among other things, the operation and maintenance of EPA information systems and states:

This phase ensures that the system operates properly in its production environment and that maintenance takes place. During this time, the Project Manager and System Manager maintain schedules and periodically conduct reviews to ensure the health of the system and to validate its suitability for meeting the business requirements. The System Manager uses structured techniques to detect defects, capture user satisfaction, review the system requirements, and evaluate the suitability of existing and emerging technologies to continue to meet the mission need.

SLCM procedures for the "Operations and Maintenance" phase calls for a review of system requirements and an evaluation of the suitability of existing and emerging technologies. OMB Circular A94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, recommends a benefit-cost analysis technique as a formal economic analysis of government programs or projects.

EPA personnel indicated that they were unaware of whether there has been an analysis to determine whether the original generators and surveillance system supporting the physical and environmental controls of the computer room are currently suitable, considering technologies that have emerged on the market since 2002.

Without a functioning surveillance system, the EPA is not readily able to monitor incidents involving individuals and equipment within the NCC computer room that hosts financial and mixed-financial systems. Further, without sufficient fuel for backup generators, the NCC—which hosts financial and mixed financial systems—may not be able to provide long-term power in the event of an extended power outage.

Recommendation

We recommend that the Assistant Administrator for Administration and Resources Management:

15. Perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation.

Agency Comments and OIG Evaluation

The EPA disagreed with our findings and recommendation. The agency would like further meetings to discuss the findings. Recommendation 15 remains unresolved.

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 2018, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, were fully engaged in working with the Audit Follow-Up Coordinators and senior agency leaders to stress the need to for concisely written corrective actions that addressed the intent of the recommendations and that have achievable due dates. The EPA also accomplished other notable actions to strengthen its audit management procedures:

- The OCFO worked closely with Agency Audit Follow-Up Coordinators during FY 2018 to ensure that corrective action dates were being met and the required certification memorandums were being submitted. OCFO efforts significantly helped with the EPA's responses to the OIG's spring and fall 2018 *Semiannual Report to Congress*.
- The agency provided training on the revised EPA Manual 2750, *Audit Management Procedures*, during FY 2018. All Agency Audit Follow-Up Coordinators and other interested parties attended the training.
- The agency continued to have quarterly meetings with Agency Audit Follow-Up Coordinators to discuss issues and concerns, and to emphasize adherence to corrective action due dates and the need to keep the Management Audit Tracking System current. The OIG was asked to participate in the agency's spring quarterly meeting, which resulted in a better understanding of OIG and EPA roles and responsibilities.

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 5 outlines the status of past significant deficiency findings that have not been resolved to date.

Table 5: Significant deficiency issues not fully resolved

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| <ul style="list-style-type: none"> • 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 that 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; and 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. |
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| <ul style="list-style-type: none"> 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's 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 excepted completion date to February 28, 2018. As of June 8, 2018, the Office of General Counsel was unable to provide global examples to correct the corrective action. |
| <ul style="list-style-type: none"> 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. Although the agency implemented corrective actions, we have not assessed the effectiveness of these actions. |
| <ul style="list-style-type: none"> 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 2017, 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 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. |
| <ul style="list-style-type: none"> 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 2017 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 2018 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. |
| <ul style="list-style-type: none"> 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 CFC's timely receipt of legal documents, we still identified instances of untimely receipt during FYs 2015, 2017 and 2018. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate how timely accounts receivable source documents are when received.

- **EPA Should Improve Its Efforts to Resolve 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 the proper separation of duties is 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 Application Management staff. We also recommended that the Chief Financial Officer conduct an inventory of OCFO systems managed by 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 Application Management staff. The agency agreed with our finding and recommendations. In FY 2018, the OCFO extended the completion date for the first and second recommendations to December 31, 2018.

- **EPA Needs Controls to Monitor Direct Access to the Compass Financials Database**
During our FY 2017 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 2017 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 November 1, 2018, 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.
- **EPA Needs to Appoint a Project Manager to Oversee Management of Compass Financials and Improve Acquisition Planning**
During our FY 2017 audit, we found that the EPA's Compass Financials application—a major Information Technology investment—lacks the oversight to ensure that personnel implement agency policies and procedures to guide projects through the acquisition process. Based on our finding, we recommended in our FY 2017 report 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 (2) take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline. The agency concurred with our recommendation. According to the agency's corrective action status report, as of November 1, 2018, the agency now plans to complete the recommendation on October 18, 2019.

Source: OIG analysis.

Status of Current Recommendations and Potential Monetary Benefits

| RECOMMENDATIONS | | | | | | Potential Monetary Benefits (in \$000s) |
|-----------------|----------|--|---------------------|---|-------------------------|---|
| Rec. No. | Page No. | Subject | Status ¹ | Action Official | Planned Completion Date | |
| 1 | 13 | Ensure that the special account reclassification entry includes a review to determine whether previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs and special account collection movements should or should not be included, and include supporting documents identifying the accounts and amounts reviewed. | R | Chief Financial Officer | 3/29/19 | |
| 2 | 15 | Require the Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, to research and resolve cash differences. | R | Chief Financial Officer | 3/29/19 | |
| 3 | 17 | Review the Allowance for Doubtful Accounts calculation to ensure that adjusting entries are accurate. | C | Chief Financial Officer | | |
| 4 | 17 | Review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to determine the net impact of expenses and revenues from prior periods and ensure that financial statements are not misstated. | C | Chief Financial Officer | | |
| 5 | 17 | Review adjusting entries and their reversals to verify whether account balances are posted properly and do not contain abnormal balances or activity. | C | Chief Financial Officer | | |
| 6 | 19 | Update the policy for the proper accounting and recognition of gains or losses from marketable securities based on the sale of stock. | R | Chief Financial Officer | 3/29/19 | |
| 7 | 19 | Record or adjust accounts receivables only for amounts stipulated in settlement agreements. | C | Chief Financial Officer | | |
| 8 | 20 | Update the EPA's standard operating procedures for preparing Working Capital Fund elimination entries to include verification of entries and proper ending balances. | C | Chief Financial Officer | | |
| 9 | 22 | Require project officers to review and submit approvals or disapprovals of General Services Administration rent invoices each month. | C | Chief Financial Officer | | |
| 10 | 25 | Develop and implement controls to remove an individual's Personal Identity Verification card access rights to computer rooms with financial and mixed-financial applications when that individual no longer requires access. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |

RECOMMENDATIONS

| Rec. No. | Page No. | Subject | Status ¹ | Action Official | Planned Completion Date | Potential Monetary Benefits (in \$000s) |
|----------|----------|--|---------------------|---|-------------------------|---|
| 11 | 25 | As required by the EPA's Information Security-Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, perform quarterly reviews of access to computer rooms with financial and mixed-financial applications, to determine whether individuals require physical access to the equipment in the computer room to complete their job responsibilities. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 12 | 25 | Implement a process to provide access to and monitor individuals who occasionally need access to a computer room with financial and mixed-financial applications but not to the computer equipment. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 13 | 26 | Maintain an inventory of all Personal Identity Verification cards with access to computer rooms with financial and mixed-financial applications that are not assigned to individuals and remove access when cards are discovered missing. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 14 | 26 | Implement controls to enforce the required verification of individuals' identity every time individuals enter the computer rooms. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 15 | 28 | Perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation. | U | Assistant Administrator for Administration and Resources Management | | |

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

***EPA's FYs 2018 and 2017
Consolidated Financial Statements***

Agency Response to Draft Report



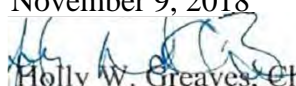
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

NOV 09 2018



MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA&E FY18-0189, "EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements," dated November 9, 2018

FROM: 
Holly W. Greaves, Chief Financial Officer
Office of the Chief Financial Officer

 Vaughn Noga, Principal Deputy Assistant Administrator
Office of Environmental Information

 Donna L. Vizian, Principal Deputy Assistant Administrator
Office of Administration and Resources Management

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

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. The following is a summary of the agency's overall position, along with its position on each of the report recommendations. We have provided high-level intended corrective actions and estimated completion dates to the extent we can.

AGENCY'S OVERALL POSITION

The agency concurs with nine of the recommendations and non-concurs with six recommendations.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion by Quarter and FY |
|------------|--|---|---|
| 1 | We recommend that the special account reclassification entry include a review to determine whether previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs and special account collection movements should or should not be included, and whether to include supporting documents identifying the accounts and amounts reviewed. | The EPA agreed to modify the accounting model in Compass Financials, the agency's accounting system, and to prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database. The accounting models are developed and will be implemented in the second quarter of FY 2019. The conversion of prior accounting data into the approved process will be made at that time. Pending the implemented solution, journal vouchers to reclassify special accounts and earned/unearned revenue activity were processed to ensure the accuracy of the accounts. | March 29, 2019 |
| 2 | We recommend that the Chief Financial Officer require the Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, to research and resolve cash differences. | The agency will continue to review processes and research old cash balance differences. | March 29, 2019 |
| 3 | We recommend that the Chief Financial Officer review the Allowance for Doubtful Accounts calculation to ensure that adjusting entries are accurate. | The EPA reviewed the Allowance for Doubtful Accounts calculation and made an adjusting entry to ensure the account was accurate. | Completed |
| 4 | We recommend that the Chief Financial Officer review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to determine the net impact of expenses and revenues from prior periods and ensure that financial statements are not misstated. | The agency will review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to ensure they are correctly stated. For FY 2018, the agency processed an adjustment to correct the amounts presented in the financial statement. | Completed |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion by Quarter and FY |
|-----|--|--|--|
| 5 | We recommend that the Chief Financial Officer review adjusting entries and their reversals to verify whether account balances are posted properly and do not contain abnormal balances or activity. | The agency has strengthened processes to incorporate flagging stock and rare cash transactions. Additional reviews are now conducted by the appropriate subject matter experts followed by subsequent management approval. | Completed |
| 6 | We recommend that the Chief Financial Officer update the policy for the proper accounting and recognition of gains or losses from marketable securities based on the sale of stock. | The agency will issue an administrative update to RMDS 2550D-14 “ <i>Superfund Accounts Receivable and Billings</i> ”. | March 29, 2019 |
| 7 | We recommend that the Chief Financial Officer record or adjust accounts receivables only for amounts stipulated in settlement agreements. | The agency has recorded, or adjusted accounts receivable based on amounts in stipulated penalties. | Completed |
| 8 | We recommend that the Chief Financial Officer update the EPA’s standard operating procedures for preparing Working Capital Fund elimination entries to include verification of entries and proper ending balances. | The EPA has updated the Financial Statement Review Check List, within the appropriate standard operating procedures, to incorporate verification of elimination amounts. | Completed |
| 9 | We recommend that the Chief Financial Officer require project officers to review and submit approvals or disapprovals of General Services Administration rent invoices each month. | The agencies POs and EPA Real Estate specialists will continue to do their monthly reviews of the invoices and leases, and contact GSA directly when there are discrepancies with the invoice and/or occupancy agreements. In addition, the agency now requires POs to acknowledge receipt of emails providing invoices from the GSA system Rent-on-the-Web. | Completed |

Disagreements

| No. | Recommendation | Agency Explanation/Response | Proposed Alternative |
|-----|---|--|----------------------|
| 10 | We recommend that the Assistant Administrator for Environmental Information and Chief Information | The Office of Environmental Information and The Office of Administration and Resources Management are in the process | N/A |

| | | | |
|----|--|--|-----|
| | Officer develop and implement controls to remove an individual's PIV card access rights to computer rooms with financial and mixed-financial applications when that individual no longer requires access. | of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | |
| 11 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer as required by EPA's Information Security – Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, perform quarterly reviews of access to computer rooms with financial and mixed-financial applications, to determine whether individuals require physical access to the equipment in the computer room to complete their job responsibilities. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |
| 12 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer implement a process to provide access to and monitor individuals who occasionally need access to a computer room with financial and mixed-financial applications but not to the computer equipment. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |
| 13 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer maintain an | The Office of Environmental Information and The Office of Administration and Resources Management are in the process | N/A |

| | | | |
|----|--|--|-----|
| | inventory of all Personal Identity Verification cards with access to computer rooms with financial and mixed-financial applications that are not assigned to individuals and remove access when cards are discovered missing. | of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | |
| 14 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer implement controls to enforce the required verification of individuals' identity every time individuals enter the computer rooms. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |
| 15 | We recommend that the Assistant Administrator for the Office Administration and resources Management perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |

CONTACT INFORMATION

If you have any questions regarding this response, please contact OCFO's Audit Follow-up Coordinator, Benita Deane, at 202-564-2079.

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Resources Management



Section III

Other Accompanying Information



MANAGEMENT INTEGRITY AND CHALLENGES

Overview of EPA's Efforts

Management challenges and integrity weaknesses represent vulnerabilities in program operations that may impair EPA's ability to achieve its mission and threaten the agency's safeguards against fraud, waste, abuse and mismanagement. These areas are identified through internal agency reviews and independent reviews by EPA's external evaluators, such as OMB, GAO, and EPA's OIG. This section of the AFR discusses in detail two components related to challenges and weaknesses: 1) key management challenges identified by EPA's OIG, followed by the agency's response and 2) a brief discussion of EPA's progress in addressing its FY 2018 material weaknesses.

Under the FMFIA, all federal agencies must provide reasonable assurance that internal controls are adequate to support the achievement of their intended mission, goals and objectives. (See Section I, "Management Discussion and Analysis," for the Acting Administrator's Statement of Assurance.) Agencies also must report any material weaknesses identified through internal and/or external reviews and their strategies to remedy the problems. Material weaknesses are vulnerabilities that could significantly impair or threaten fulfillment of the agency's programs or mission. In FY 2018, no new material weaknesses were identified by OIG or the agency. (See following subsection for a discussion of EPA's progress in addressing its material weakness.)

The agency's senior managers remain committed to maintaining effective and efficient internal controls to ensure that program activities are carried out in accordance with applicable laws and sound management policy. The agency will continue to address its remaining weaknesses and report on its progress.

2018 KEY MANAGEMENT CHALLENGES

Office of Inspector General–Identified Key Management Challenges

The Reports Consolidation Act of 2000 requires the OIG to report on the agency’s most serious management and performance challenges, known as the key management challenges. Management challenges represent vulnerabilities in program operations and their susceptibility to fraud, waste, abuse or mismanagement. For FY 2018, the OIG identified five challenges. The table below includes issues the OIG identified as key management challenges facing EPA, the years in which the OIG identified the challenge, and the relationship of the challenge to the agency’s goals in its strategic plan (<http://epa.gov/planandbudget/strategicplan.html>).

| OIG Identified Key Management Challenges for the EPA | FY 2016 | FY 2017 | FY 2018 | EPA strategic goal |
|---|---------|---------|---------|--------------------|
| Oversight of States, Territories, and Tribes Authorized to Accomplish Environmental Goals: The EPA has made important progress, but our work continues to identify challenges throughout agency programs and regions, and many of our recommendations to establish consistent baselines and monitor programs are still not fully implemented. | • | • | • | Cross-Goal |
| Enhancing Information Technology Security to Combat Cyber Threats (<i>formerly Limited Capability to Respond to Cyber Security Attacks</i>): Though the EPA continues to initiate actions to further strengthen or improve its information security program, the agency lacks a holistic approach to managing accountability over its contractors and lacks follow-up on corrective actions taken. | • | • | • | Cross- Goal |
| Workforce Planning / Workload Analysis: The EPA needs to identify its workload needs to that it can more effectively prioritize and allocate limited resources to accomplish its work. | • | • | • | Cross- Goal |
| Mandated Reporting Requirements: The agency faces challenges in tracking and submitting reports mandated by law that contain key program information for Congress, the EPA Administrator and the public. | | | • | Cross-Goal |
| Data Quality for Program Performance and Decision-Making: Poor data quality negatively impacts the EPA’s effectiveness in overseeing programs that directly impact public health. | | | • | Cross-Goal |



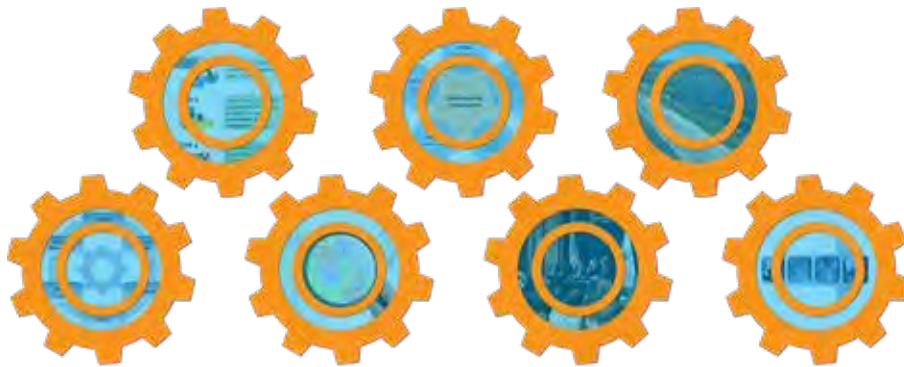
U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



FY 2018

EPA Management Challenges



18-N-0174
May 8, 2018

Abbreviations

| | |
|-----|---------------------------------------|
| EPA | U.S. Environmental Protection Agency |
| FTE | Full-Time Equivalent |
| FY | Fiscal Year |
| GAO | U.S. Government Accountability Office |
| OIG | Office of Inspector General |

Are you aware of fraud, waste or abuse in an EPA program?

EPA Inspector General Hotline

1200 Pennsylvania Avenue, NW (2431T)
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At a Glance

What Are Management Challenges?

According to the Government Performance and Results Act Modernization Act of 2010, major management challenges are programs or management functions, within or across agencies, that have greater vulnerability to waste, fraud, abuse and mismanagement, where a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

As required by the Reports Consolidation Act of 2000, we are providing issues we consider as the U.S. Environmental Protection Agency's (EPA's) major management challenges for fiscal year 2018.

Send all inquiries to our public affairs office at (202) 566-2391 or visit www.epa.gov/oig.

Listing of [OIG reports](#).

EPA's Fiscal Year 2018 Management Challenges

What We Found

Attention to agency management challenges could result in stronger results and protection for the public, and increased confidence in management integrity and accountability.

The EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals:

- The EPA has made important progress, but our work continues to identify challenges throughout agency programs and regions, and many of our recommendations are still not fully implemented.

The EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively:

- The EPA needs to identify its workload needs so that it can more effectively prioritize and allocate limited resources to accomplish its work.

The EPA Needs to Enhance Information Technology Security to Combat Cyber Threats:

- Though the EPA continues to initiate actions to further strengthen or improve its information security program, the agency lacks a holistic approach to managing accountability over its contractors and lacks follow-up on corrective actions taken.

The EPA Needs to Improve on Fulfilling Mandated Reporting Requirements:

- The agency faces challenges in tracking and submitting reports mandated by law that contain key program information for Congress, the EPA Administrator and the public.

The EPA Needs Improved Data Quality for Program Performance and Decision-Making:

- Poor data quality negatively impacts the EPA's effectiveness in overseeing programs that directly impact public health.



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

THE
INSPECTOR
GENERAL

May 8, 2018

MEMORANDUM

SUBJECT: EPA's Fiscal Year 2018 Management Challenges Report
No. 18-N-0174

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, reading "Arthur A. Elkins Jr.", is placed over the "FROM:" line.

TO: Scott Pruitt, Administrator

We are providing you with a list of areas that the Office of Inspector General (OIG) considers as major management challenges confronting the U.S. Environmental Protection Agency (EPA). The project number for this report was OPE-FY18-0101. According to the Government Performance and Results Act Modernization Act of 2010, major challenges are programs or management functions, within or across agencies, that have greater vulnerability to waste, fraud, abuse and mismanagement, where a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

The Inspector General Act of 1978, as amended, directs Inspectors General to provide leadership to agencies through audits, evaluations and investigations, as well as additional analysis of agency operations. The enclosed management challenges reflect findings and themes resulting from many such efforts. Drawing high-level agency attention to these key issues is an essential component of the OIG's mission.

The Reports Consolidation Act of 2000 requires our office to annually report what we consider the most serious management and performance challenges facing the agency. Additional challenges may exist in areas that we have not yet reviewed, and other significant findings could result from additional work. The attachment summarizes what we consider to be the most serious management and performance challenges facing the agency, and assesses the agency's progress in addressing those challenges.

| Challenges | Page |
|---|------|
| The EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals | 1 |
| The EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively | 6 |
| The EPA Needs to Enhance Information Technology Security to Combat Cyber Threats | 11 |
| The EPA Needs to Improve on Fulfilling Mandated Reporting Requirements | 17 |
| The EPA Needs Improved Data Quality for Program Performance and Decision-Making | 20 |

Like the U.S. Government Accountability Office does with its High-Risk List, each year we assess the agency's efforts against the following five criteria required to justify removal of management challenges from the prior year's list:

1. Demonstrated top leadership commitment.
2. Agency capacity – people and resources to reduce risks, and processes for reporting and accountability.
3. Corrective action plan – analysis identifying root causes, targeted plans to address root causes, and solutions.
4. Monitoring efforts – established performance measures and data collection/analysis.
5. Demonstrated progress – evidence of implemented corrective actions and appropriate adjustments to action plans based on data.

The U.S. Government Accountability Office's 2017 High-Risk Series report describes these five criteria as a road map for efforts to improve and ultimately address high-risk issues. Addressing some of the criteria leads to progress, while satisfying all of the criteria is central to removal from the list.

This year, we retained three management challenges from last year's report due to persistent issues, and added two issues (mandated reporting requirements and improved data quality).

We will post this report to our website at www.epa.gov/oig. We welcome the opportunity to discuss our list of challenges and any comments you or your staff might have.

Attachment

CHALLENGE: The EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals

CHALLENGE FOR THE AGENCY

Over the past 10 years both the U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) and the U.S. Government Accountability Office (GAO) have consistently found that the EPA needs to improve its oversight of states, territories and tribes that have authority (or "delegated authority") to implement environmental programs and enforce environmental laws. The agency has improved its oversight and addressed deficiencies. However, our recent audits indicate this remains a management challenge.



BACKGROUND

To accomplish its mission, the EPA develops regulations and establishes programs to implement environmental laws. The EPA can delegate this authority to states, territories and tribes. Delegation occurs after the EPA determines the governmental entity has the legal authority and capacity to operate an environmental protection and enforcement program consistent with federal standards. The EPA then performs oversight to provide reasonable assurance that human health and the environment are being protected. The EPA has to monitor delegated programs to determine whether they continue to meet federal standards and verify that federal funds help achieve environmental protection goals.

The EPA relies on states, territories and tribes with delegated authority to obtain environmental data and implement compliance and enforcement programs. According to the Environmental Council of States, states have assumed more than 96 percent of the delegable authorities under federal law. The table below summarizes the extent that environmental authorities are delegated by the EPA.

Delegated environmental authorities

| Federal law and federal programs delegated by the EPA | States with delegated authority | Territories with delegated authority | Tribes with delegated authority |
|--|---------------------------------|--------------------------------------|---------------------------------|
| <ul style="list-style-type: none">Clean Air ActTitle V | 50 | 5 | 1 |
| <ul style="list-style-type: none">Clean Water ActNational Pollutant Discharge Elimination System | 46 | 1 | 0 |
| <ul style="list-style-type: none">Resource Conservation and Recovery ActHazardous Waste Program¹ | 48 | 1 | 0 |
| <ul style="list-style-type: none">Safe Drinking Water ActPublic Water Supply Supervision Program | 49 | 5 | 1 |

Source: OIG analysis.

¹ The District of Columbia implements a Hazardous Waste Program under the Resource Conservation and Recovery Act.

Even though the states, territories and tribes implement these human health and environmental protection programs, the EPA retains authority to enforce environmental laws. Headquarters and regional staff perform a variety of formal and informal oversight activities but those activities are not always consistently implemented, leading to differences in the effectiveness of delegated programs and results from those programs.

THE AGENCY'S PROGRESS

We first reported this management challenge in fiscal year (FY) 2008. Since then, the EPA has reviewed some of the inconsistencies in its oversight of state, territorial and tribal programs. The agency has also used its enforcement authorities when states, territories or tribes did not use their delegated authority to protect human health and the environment. The EPA continues to develop and implement policies to improve consistency in its oversight of delegated programs.

Strategic Planning and Agency Emphasis on Oversight

The agency's new strategic plan, issued in February 2018, emphasizes oversight of delegated programs as an area of focus. The FYs 2018–2022 Strategic Plan outlines three agency goals:

- 1) Core Mission: Deliver real results to provide Americans with clean air, land, and water, and ensure chemical safety.
- 2) Cooperative Federalism: Rebalance the power between Washington and the states to create tangible environmental results for the American people.
- 3) Rule of Law and Process: Administer the law, as Congress intended, to refocus the agency on its statutory obligations under the law.

The strategic plan seeks to transform how the agency conducts business by refocusing the EPA on its role of supporting the states, territories and tribes in implementing environmental programs. Oversight is essential to each of the three goals. For instance:

- Under Goal 1 (Core Mission), the agency's approval of state/tribal implementation plans, approval of vehicle and engine emission certification applications, and compliance actions in cases of noncompliance are examples of oversight functions the EPA will perform to fulfill one of its core missions—to improve air quality.
- Goal 2 (Cooperative Federalism) reiterates the importance of the EPA's role and, in cases of delegated programs, the relationship between the EPA and states, tribes or territories as co-regulators to protect public health and the environment. This includes oversight by the EPA that is efficient, effective and within its statutory responsibilities.
- Goal 3 (Rule of Law and Process) focuses on the agency's implementation of the rule of law and process as it administers the various environmental laws Congress has charged to the EPA. In doing so, the plan calls for the agency to work with states, tribes and territories to ensure compliance with the law and establish consistency and certainty for the regulated community.

Agency Actions to Improve Oversight

In August 2016, the EPA released “Promoting Environmental Program Health and Integrity: Principles and Best Practices for Oversight of State Permitting Programs,” for the agency and states to use to enhance the efficiency and effectiveness of the oversight system. The document states it was developed to “deliver on a commitment in the EPA’s cross-agency strategy to launch a new era of state, tribal, local and international partnerships and to help respond to recommendations for strengthening oversight from the EPA’s Office of Inspector General.” This strategy is the result of the efforts of the State Program Health and Integrity Workgroup. This interagency workgroup is composed of the EPA’s national program offices for air, enforcement and water, as well as states and media associations. The workgroup gathers and analyzes information on oversight of state practices, identifies gaps, and develops solutions.

Region 1 improved accountability in the performance partnership grant process. According to the agency’s Office of Water 2017 Federal Managers’ Financial Integrity Act assurance letter, Region 1 strengthened the oversight process for performance partnership grants by enhancing the level of detail and documentation required in the states’ reports, routing the annual report to all EPA technical contacts through the use of a SharePoint site, and engaging the participation of EPA senior programmatic managers.

EPA program offices and regions have responded to OIG report recommendations by implementing corrective actions to improve its oversight activities:

- In a June 2016 report ([16-P-0217](#)), on the EPA’s financial oversight of Superfund state contracts, we found that the EPA incurred total obligations and expenditures in excess of the authorized cost ceiling for 51 of the 504 active and closed contracts; did not perform timely, complete and accurate financial closings for 20 such contracts to ensure that both the EPA and the state had satisfied their cost share requirement; and did not have all the up-to-date information needed for an accurate Superfund state contract accrual calculation. The agency completed corrective actions to address the report recommendations.
- In a September 2015 early warning report ([15-P-0298](#)), we recommended that Region 9 withhold \$8,787,000 for the Hawaii Drinking Water State Revolving Fund capitalization grant until the region is satisfied with progress on implementing the corrective action plan. After being briefed on our report, EPA Region 9 initiated an enforcement action against the Hawaii Department of Health for not meeting its loan commitment and disbursement targets. Region 9 advised Hawaii that the FY 2015 Drinking Water State Revolving Fund capitalization grant would be withheld and the region may withhold further awards.
- In response to a February 2015 quick reaction report ([15-P-0099](#)), the EPA completed all corrective actions to address findings that Region 8 was not conducting inspections at establishments in North Dakota that produce pesticides, or inspections of pesticides imported into the state. The EPA initiated inspections, developed a multi-year plan for future inspections, compiled a list of the inspections conducted annually for Region 8’s North Dakota end-of-year report, and reviewed the end-of year report to confirm that inspections have been initiated.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) agency capacity, (2) a corrective action plan and (3) monitoring efforts. EPA leadership needs to demonstrate an organizational commitment to correcting problems with the agency's oversight of key state, territorial and tribal programs designed to protect human health and the environment. To demonstrate this commitment, the agency should show it has the proper people, resources and processes, and has developed a framework for addressing oversight issues. The agency also needs to develop a system for monitoring state, tribal and territorial oversight effectiveness so that it can consistently work toward demonstrating its progress in correcting this management challenge across all program offices. Our recent reports indicate oversight challenges in many EPA programs:

- In a February 2018 report ([18-P-0079](#)), we found that the EPA cannot ensure that its Federal Insecticide, Fungicide, and Rodenticide Act cooperative agreement funding achieves agency goals and reduces risks to human health and the environment from pesticide misuse. We made recommendations to improve oversight. Corrective actions are pending.
- In a September 2017 report ([17-P-0402](#)), we found that EPA Region 2 needs to improve its internal processes over Puerto Rico's assistance agreements. The region may have inefficiently used over \$217,000 in taxpayer funds, may need additional support for grant award decisions, and may not have evidence that taxpayer funds have been properly used under two cooperative agreements. Corrective actions are pending.
- In an April 2017 report ([17-P-0174](#)), we found that while most states and some tribes have fish advisories in place, this information is often confusing, complex, and does not effectively reach appropriate segments of the population. Under the Clean Water Act, the EPA can take a stronger leadership role in working with states and tribes to ensure that effective fish advisory information reaches all such segments of the population. Corrective actions are pending.
- In an October 2016 management alert ([17-P-0004](#)), we found that EPA Region 5 had the authority and sufficient information to issue a Safe Drinking Water Act Section 1431 emergency order to protect residents in Flint, Michigan, from lead-contaminated water as early as June 2015. Corrective actions are pending.
- In a May 2016 report ([16-P-0166](#)), we found that EPA Region 9 needed improved internal controls for oversight of Guam's consolidated cooperative agreements. Without adequate internal controls and oversight, more than \$67 million in consolidated cooperative agreement funds may not have been administered efficiently and effectively. Corrective actions are pending.
- In March 2016 ([16-P-0108](#)), we reported that EPA efforts to bring small drinking water systems into compliance through enforcement and compliance assistance resulted in some improvement over time. However, across EPA Regions 2, 6 and 7, we found inconsistencies in adherence to the EPA's Enforcement Response Policy. Corrective actions are pending.

- In an April 2015 report ([15-P-0137](#)), we found that the U.S. Virgin Islands did not meet program requirements for numerous activities related to implementing Clean Air Act, Clean Water Act, Safe Drinking Water Act and Underground Storage Tank/Leaking Underground Storage Tank programs. Corrective actions are pending.

In addition to EPA OIG findings about oversight of delegated authority, the GAO has also conducted a series of audits related to state issues. A few examples follow:

- In a September 2017 report ([GAO-17-424](#)), the GAO reported that the EPA does not have nationwide information about lead infrastructure because the lead and copper rule does not require states to provide the agency with information on the whereabouts of lead pipe lines. The GAO recommended that the EPA require states to report information about lead pipes as well as all 90th percentile sample results for small water systems. The GAO further recommended that states develop a statistical analysis to identify water systems that might pose a greater likelihood for lead and copper rule violations.
- In a February 2016 report ([GAO-16-281](#)), the GAO reported that the EPA had not collected necessary information or conducted oversight activities to determine whether state and EPA-managed Underground Injection Control class II programs were protecting underground sources of drinking water. Some of the recommendations from the GAO were that the EPA require programs to report well-specific inspections data, clarify guidance on enforcement data reporting, and analyze the resources needed to oversee programs.
- In an August 2015 report ([GAO-15-567](#)), the GAO found that financial indicators collected by the EPA as part of its oversight responsibilities did not show states' abilities to sustain their Clean Water and Drinking Water State Revolving Funds. The GAO recommended that the EPA update its financial indicator guidance to include measures for identifying the growth of the states' funds. The GAO also recommended that, during the reviews, the EPA develop projections of state programs by predicting the future lending capacity.
- In a May 2012 report ([GAO-12-335](#)), the GAO reported that the 2013 Clean Water Act Section 319 oversight guidance was not sufficient. The GAO also found that the agency did not make changes to the Section 319 program measures of effectiveness, as recommended by the GAO.

While there has been progress in improving agency oversight of delegated programs, the audit community continues to identify ways in which the EPA can make further improvements. We maintain this as a management challenge for FY 2018 and will continue to conduct reviews of the EPA's oversight of delegated programs.

CHALLENGE: The EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively

CHALLENGE FOR THE AGENCY

The EPA has not incorporated workload analysis into its resource allocations despite years of reporting by the EPA OIG and GAO. The EPA has not fully implemented controls and a methodology to determine workforce levels based upon analysis of the agency's workload. The EPA's ability to assess its workload—and subsequently estimate workforce levels necessary to carry out that workload—is critically important to mission accomplishment. Due to the broad implications for accomplishing the EPA's mission, we have included this as an agency management challenge since 2012.



BACKGROUND

Over the past 22 years, the EPA OIG and GAO have issued over 15 reports citing the need for the EPA to implement workload analysis into its human resource distributions. In the 1980s, the EPA conducted comprehensive workload analyses to determine appropriate workforce levels and each year, with regional consensus, evaluated need and allocated its human resources accordingly. In 1987, the EPA decided it would discontinue these analyses and instead focus on marginal changes to full-time equivalent (FTE) distribution. The EPA has reported that it has done some limited workforce analyses in the FY 2017 financial statements.

In 2010, we reported that the EPA did not have policies and procedures requiring that workforce levels be determined based upon workload analysis. In 2011, we reported that the EPA does not require program offices to collect and maintain workload data. Without such data, program offices are limited in their ability to analyze their workload and justify resource needs. The GAO also reported in October 2011 that the EPA's process for budgeting and allocating resources did not fully consider the agency's current workload. As recently as 2017, the EPA OIG reported that the distribution of Superfund FTEs among EPA regions did not support the current regional workload. The GAO has also reported on the EPA's workload concerns and issued eight reports between 2000 and 2018.

Since 2005, EPA offices have studied workload issues at least six different times, spending nearly \$3 million for various contractors to study the issues. However, for the most part, the EPA has not used the findings resulting from these studies. According to the EPA, the results and recommendations from the completed studies were generally not feasible to implement.

Over the last decade, the EPA's workforce levels have declined by 2,500 positions (including losses due to early-outs and buyouts in 2014 and 2017). Without a clear understanding of its workload, it is unclear whether this decline jeopardizes the EPA's ability to meet its statutory requirements and

overall mission to protect human health and the environment, or if the decline represents a natural and justifiable progression, because the EPA has completed major regulations implementing environmental statutes and states have assumed primacy over most media programs.

THE AGENCY'S PROGRESS

The agency has not adopted an overall plan to address workforce analysis, but has initiated some pilots and surveys to address the issue.

In 2013, we conducted a follow-up ([13-P-0366](#)) on actions the EPA has taken to address previous OIG recommendations. We found that the EPA:

- Initiated pilot projects in Regions 1 and 6 to analyze the workload for air State Implementation Plans and permits, as well as water grants and permits.
- Surveyed numerous front-line agency managers on the functions performed, thereby creating an inventory of common functions among program offices.
- Through the Office of the Chief Financial Officer, consulted with 23 other federal agencies about their workload methodologies. As a result of that analysis, the EPA selected an approach referred to as the “Table Top” method used by the U.S. Coast Guard, designed to use subject matter experts and actual data to provide estimates of workload. The Table Top approach provides flexibility in implementation, which allows for differences in organizational functions and workloads rather than attempting to fit all regions and programs into a one-size-fits-all approach. The EPA has conducted limited testing on this approach within two program areas—grants and Superfund Cost Recovery. According to EPA officials, while the methodology appears promising for grants, it became overly complicated for Superfund Cost Recovery.

During 2014, the EPA continued to test the workload model in other areas, including:

- Working with Grant Project Officers to evaluate and try to balance uneven workloads.
- Developing a Project Officer Estimator Tool for organizations to examine Project Officer workloads.
- Working with Grants Specialists to refine the Interagency & Grants Estimator Tool.
- Submitting a Draft Funds Control Manual to the Office of Management and Budget, and receiving and incorporating the Office of Management and Budget's comments.

In January 2016, the EPA issued a draft Funds Control Manual. The manual is intended to fulfill the EPA's corrective actions for several unimplemented recommendations from prior OIG reports on workload analysis. The manual highlights several tools the EPA has developed to help programs examine and understand connections between hours of work (or FTEs) and specific tasks, products, results or outcomes. The EPA says that the tools are designed to complement existing financial, budget

and program information that organizations already track and use. As of February 2018, the EPA's draft Funds Control Manual was still awaiting Office of Management and Budget approval. Once implemented, the Funds Control Manual will meet the intent of unimplemented recommendations from two EPA OIG reports.

In a July 2016 report ([16-P-0002](#)), we reported that Grants Specialists in Regions 4 and 5 indicated that workload was the reason administrative baseline monitoring reviews were not completed or were not completed timely. We recommended that the agency develop and implement a plan to complete administrative baseline monitoring reviews as required by scheduling reviews around workload peaks. The EPA's Office of Administration and Resources Management reported implementing a new baseline monitoring approach in October 2017 to have Project Officers obtain information from Grants Specialists regarding indirect costs, disadvantaged business enterprise and single audits, to incorporate in the baseline monitoring review preparations.

In the FY 2017 Agency Financial Report, the EPA responded:

As acknowledged by OIG, there are inherent difficulties in applying workload analyses for the highly variable, multi-year, and non-linear activities that comprise most of the EPA's work. These difficulties limit the utility of detailed FTE-based workload analyses for broader agency program estimates. For example, during the FY 2016 budget process, the agency examined broad workload trends as a basis to move resources to address major challenges. In each specific area, agency senior management considered longer-term trends and overall staffing rather than individual tasks and portions of FTEs, such as increased programmatic requirements. As a result, in its FY 2016 President's Budget proposal, the agency requested and received additional FTE for these programs. In FY 2016, Congress passed additional Toxic Substances Control Act (TSCA) fees legislation and for FY 2016, FY 2017 and moving forward, the agency is examining fee-associated workload.

The agency's strategy is to find the best value to be derived from detailed workload analysis. Rather than detailed FTE models, the EPA focused workload analyses on current operations. The agency found that detailed FTE models created a sense of false precision, quickly became out-of-date due to changing regulations, requirements and systems, and were overly sensitive to relatively small changes in the input. Reflecting on this experience, the workload analysis guidance that the EPA added to the Funds Control Manual (per the IG's recommendation) provides information about several types of workload analyses rather than solely discussing FTE workload models. Instead, the guidance discusses several workload tools that EPA programs can use to help manage their program operations and resources.

Over the last few years, the EPA workload analyses examined task-driven functions, focusing on understanding how much time managers and staff invest in each function's major tasks. The analyses helped the EPA identify major challenges and opportunities, target streamlining and Lean efforts, clarify guidance, prioritize training, and structure

other support efforts and initiatives. Analyses included: grants and interagency agreement officers; project officers; IT security officers; Funds Control Officers; and fee-related duties.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) agency capacity, (2) a corrective action plan and (3) monitoring efforts. Regarding each of these three points:

1. The EPA has not developed and implemented a definitive workload analysis system. The EPA needs to more broadly quantify what its full workload entails so that it can more effectively prioritize and allocate available resources to accomplish agency work. The EPA's ability to assess its workload and estimate workforce levels necessary to carry out that workload is critical to mission accomplishment.
2. EPA offices have not conducted a systematic workload analysis or identified workforce needs for budget justification purposes; such analysis is critically important to mission accomplishment. The EPA currently plans to apply workload analysis tools to task-driven agency functions, such as grants and contracts. While we understand the difficulty in applying such tools to the EPA's highly variable and non-linear activities, the EPA still needs to more broadly quantify what its full workload entails so that it can more effectively prioritize and allocate limited resources to accomplish agency work.
3. The OIG and GAO have recently reported the following workload issues:
 - In 2015, the EPA awarded roughly \$3.9 billion (about 49 percent of its budget) in grants to states, local governments, tribes and other recipients. These grants supported such activities as repairing aging water infrastructure, cleaning up hazardous waste sites, improving air quality and preventing pollution. In its January 2017 report ([GAO-17-144](#)), the GAO concluded that the EPA's ability to manage this portfolio depended primarily on grant specialists and project officers, but the agency did not have the information it needed to allocate grants management resources in an effective and efficient manner. In addition, the EPA had not identified project officer critical skills and competencies or monitored its recruitment and retention efforts for grant specialists. The GAO recommended that the EPA develop documented processes that could be consistently applied by EPA offices to collect and analyze data about grants management workloads, and use the data to inform staff allocation. The GAO also recommended that the EPA review project officer critical skills and competencies and determine training needs to address gaps, develop recruitment and retention performance measures, and collect performance data for these measures. The EPA agreed with the five recommendations; four of the corrective actions are still pending.

- In a September 2017 EPA OIG report ([17-P-0397](#)), we noted that the distribution of Superfund FTEs among EPA regions did not support current regional workloads. As a result, some regions had to prioritize work and slow down, discontinue or not start cleanup work due to lack of personnel. In a survey of EPA regions, six of 10 regions said they were not able to start, or had to discontinue, work due to lack of FTEs, which could impede efforts to protect human health and the environment. The agency agreed with our recommendations, including to implement a national prioritization of Superfund sites and regularly distribute regional FTEs according to the national prioritization. The corrective actions are pending.

We will continue to monitor agency progress through this and other ongoing work.

CHALLENGE: The EPA Needs to Enhance Information Technology Security to Combat Cyber Threats

CHALLENGE FOR THE AGENCY

The EPA continues to face a management challenge in implementing a vigorous cybersecurity program that strengthens its network defenses and data security in a time of ever-increasing threats to federal government networks. The recent 2017 global cyberattack that spread across 150 countries as a result of stolen government hacking tools, used to compromise misconfigured computers for a ransom, highlights the myriad of challenges the EPA faces to protect its network.

Despite progress, recent audits highlight that the need to fully implement information security throughout the EPA still requires continued senior-level emphasis. Most notably, the EPA relies heavily on contractor personnel to implement and manage the configurations and operations of agency-networked resources. However, the EPA lacks processes for verifying that contractors who play a key role in agency operations have the training required to fulfill their responsibilities, or have completed the required background investigations for contractor personnel in high-risk positions with information security responsibilities. A recent audit noted that the EPA's ability to protect its network is hampered by its inability to implement a process to maintain an up-to-date inventory of hardware assets connected to the agency's network. Further, continued management emphasis is required on resolving audit findings citing the need to improve the effectiveness and efficiency of the agency's computer network operations and address emerging challenges for the agency in managing contractors who provide critical support for agency systems.



BACKGROUND

Protecting the EPA's network and data is as important today as it was in 2001 when we first reported this issue as a management challenge. Securing networks that connect to the internet is increasingly more challenging, with sophisticated attacks taking place that affect all interconnected parties, including federal networks. In 2017, there were several high-profile cybersecurity incidents that undermined the public's confidence in information security and the measures employed to protect people's data. This included incidents at industry-leading companies, such as:

- Equifax, where cybercriminals penetrated the company's network and stole the personal data of 145 million people.
- Yahoo, where cybercriminals hacked all of the company's 3 billion accounts, and the company acknowledged the attack could have occurred almost 4 years before the company announced it.

Compromise of data networks extends beyond private industry firms; similar attacks have emphasized the need for federal agencies to be vigilant in protecting their networks. The Office of Personnel Management announced in 2015 that the agency experienced two separate but related cybersecurity incidents that resulted in the loss of 21.5 million individuals' Social Security numbers, 5.6 million fingerprints, and user names and passwords for applicants filling out background investigation forms online. The Office of Personnel Management noted that cybercriminals stole the personnel data for 4.2 million current and former government employees. It is projected that these data breaches could cost the tax payers between \$133.3 to \$329.8 million in response efforts.

To address these complex issues in protecting its network from cyberattack, the EPA has made significant strides in developing a policy framework to enable information technology systems to adhere to federal information security requirements. This includes developing an extensive policy and procedure catalog of a significant portion of federal information security requirements, and making them available to all its 24 headquarters and regional offices across the nation. However, the EPA manages the implementation of this policy framework in a decentralized manner; recent audit and investigative work indicates that insufficient oversight and reporting prevent the agency from realizing a fully implemented information security program capable of effectively managing the remediation of known and emerging security threats.

THE AGENCY'S PROGRESS

In response to our FY 2017 management challenge ([17-N-0219](#)), the EPA indicated that "The agency is committed to protecting its information and technology assets. The EPA understands the prevalence and complexity of the ever-growing cyber security attacks and is aware of the potential impact to the Agency's mission if information assets are compromised." Further, the EPA noted that "It is developing a process to train Contract Officer Representatives on their responsibilities for monitoring contractors to ensure they meet specified EPA information security responsibilities." This includes taking the following actions:

- Monitoring contractors who operate information systems on behalf of the EPA to ensure they perform the mandated information security assessments.
- Ensuring that contractors with significant information security responsibilities complete role-based training.

The EPA continues to initiate actions to further strengthen or improve its information security program. However, our recent audit work continues to highlight that the EPA faces challenges in addressing outstanding weaknesses within its information security program and in managing contractors who provide key support in operating or managing systems on behalf of the agency. The EPA's Office of Environmental Information is primarily responsible for information technology management.

Our FY 2017 annual audit of the EPA's information security program ([17-P-0044](#)) disclosed that more work is needed by the agency to achieve managed and measurable information security functions to manage cybersecurity risks. In this regard, the EPA's information security program was not graded as

effective for any of the Cybersecurity Framework Security Functions defined by the National Institute of Standards and Technology. The table below summarizes the areas where significant management emphasis is needed for the EPA to obtain an effective rating of its information security program:

Results of testing assessed as “Not Met”

| <i>Cybersecurity Framework Security Function</i> | <i>Metric domain</i> | <i>Federal Information Security Modernization Act metric</i> |
|--|---------------------------------------|---|
| Identify | Risk Management | The EPA has not consistently implemented a process for using standard data elements/taxonomy to develop and maintain an up-to-date inventory of hardware assets connected to the organization’s network with the detailed information necessary for tracking and reporting. |
| Protect | Identity and Access Management | The EPA has not fully implemented an Identity, Credential and Access Management strategy to guide its Identity, Credential and Access Management processes and activities. |
| | Security and Privacy Training | The EPA did not identify and track status of specialized security and privacy training for all personnel (including employees, contractors and other organization users) with significant information security and privacy responsibilities requiring specialized training. As a result, the EPA is unaware as to whether information security contractors possess the skills and training needed to protect the agency’s information, data and network from security breaches. |

Source: OIG analysis.

In addition, our annual reports on the EPA’s FYs 2017 and 2016 financial statements ([18-F-0039](#) and [17-F-0046](#), respectively) disclosed that information technology processes need to be improved to protect the integrity of EPA data used for decision-making and that the EPA lags behind in taking steps to remediate longstanding information system controls needed to protect financial data. In particular, our audits noted that:

- The EPA’s financial accounting system (Compass Financials) application—a major information technology investment—lacked an oversight structure to verify that personnel implemented agency policies and procedures, and to guide the project through the acquisition process. Based on the EPA’s \$3 million cost-savings estimate for competitively procuring hosting services for Compass Financials, the agency may have overspent \$250,000 by having to extend the sole-source contract due to lack of oversight.
- The EPA did not have a documented process for handling emergency or unscheduled changes to the Office of the Chief Financial Officer’s financial system’s configuration. Additionally, direct modifications to the Compass Financials database lacked documented approvals, as well as verifications of implemented changes to the database as required.

In particular, increased management oversight is needed over agency contractors to comply with mandated information system security requirements:

- In our September 2015 report on EPA contract systems ([15-P-0290](#)), we noted that personnel with oversight responsibilities for contractor systems were not aware of the requirements outlined in EPA information security procedures. As a result, EPA contractors did not conduct

required annual security assessments, provide security assessment results to the agency for review, and establish the required incident response capability. Data breaches costing from \$1.4 million to over \$12 million could have occurred if the systems were compromised.

- In another September 2015 report ([15-P-0295](#)), of the EPA's administration of cloud services, we found that the EPA was not fully aware of the extent of its use of cloud services and thereby was missing an opportunity to help make the most efficient use of its limited resources regarding cloud-based acquisitions. The inadequate oversight of a cloud service provider resulted in the agency placing an EPA system within the vendor's network that (1) did not comply with federal security requirements and (2) contained vendor terms of service that were not compliant with the Federal Risk and Authorization Management Program.
- Our FY 2015 annual audit of the EPA's information security program ([16-P-0039](#)) disclosed that agency management of contractor systems required significant management attention to correct noted deficiencies. We found that significant improvements were needed to (1) enforce contractor compliance with required security controls, (2) maintain an accurate inventory of contractor systems and (3) identify contractor systems that interface with EPA systems.

The EPA took steps to address some of the recommendations noted in the above reports. Nonetheless, current audit work continues to note that the EPA lacked a holistic approach to managing accountability over its contractors and ensuring personnel responsible for overseeing contractors were aware of their responsibilities.

- Our FY 2016 annual audit of the EPA's information security program ([17-P-0044](#)) disclosed that the agency did not identify and track the status of specialized security training for contractors with significant information security responsibilities. Our follow-up activity during FY 2017 noted that the agency made little progress in correcting this deficiency, and we again reported this issue in our FY 2017 annual report on the EPA's information security program ([18-P-0031](#)).
- Our July 2017 report ([17-P-0344](#)) noted that \$153 million of the \$166 million of contracts did not contain requirements for support contractors to complete required role-based training, even though the contractors had access to EPA systems that could bypass implemented security controls. We found that personnel overseeing contractors were not monitoring whether the contractor completed the required training or knew about the training requirement. Further, we found that the EPA had not reviewed its contracts to verify whether the contracts contained a clause that requires contractors with significant information security responsibilities to complete role-based training, even though the EPA developed a contract clause for this purpose. Also, personnel overseeing the EPA's information security program did not implement an oversight process to monitor the completion of specialized training, or report the status of contractors' completion of role-based training as outlined in EPA policy and other federal guidance.
- Our September 2017 management alert ([17-P-0409](#)) noted that the EPA had not initiated, at a minimum, a Tier 4 background investigation for any of the nine sampled contractor personnel with privileged access to agency information systems and data. The EPA is required to initiate a

background investigation prior to granting access to agency systems and data. The table below summarizes the results of our analysis. These contractor personnel hold various information technology specialist positions with the ability to make changes to security controls in the systems they access, and the personnel should have been assigned a high-risk designation.

Risk designations for contractor personnel

| Contractor | Type of investigation conducted | EPA office's risk designation | Position |
|-------------------|--|--------------------------------------|---|
| 1 | Tier 1 | Not Designated | Email IT Analyst |
| 2 | Tier 2 | Moderate Risk | Computer Security Analyst |
| 3 | Tier 2 | Moderate Risk | Manager Email |
| 4 | Tier 2 | Moderate Risk | Active Directory Engineer |
| 5 | Tier 2 | Moderate Risk | Senior System Engineer |
| 6 | Tier 2 | Moderate Risk | Senior System Analyst |
| 7 | Tier 1 | Not Designated | Enterprise Computer Security Information Manager |
| 8 | Tier 2 | Moderate Risk | System Administrator |
| 9 | Tier 2 | Moderate Risk | Technical Support Analyst I |

Source: OIG analysis of EPA background investigation data from Office of Administrative Services Information System as of June 21, 2017.

The OIG in its investigative role has taken a measured approach in working with the EPA with regard to cybersecurity prevention and remediation. The OIG's Office of Investigations has reached out to the agency's Incident Response Center personnel and the Federal Bureau of Investigation's Cybercrime Task Force to get a broader view of cybersecurity threats and to work with experts in identifying trends and solutions. However, the EPA must be willing to engage in these efforts to create an environment to broaden network situational and threat awareness to proactively combat cyber threats.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) demonstrated top leadership commitment, (2) monitoring efforts and (3) demonstrated progress. The EPA has taken steps to address many of our audit recommendations. However, the following actions remain to address cybersecurity challenges:

1. Develop and implement a process that:
 - a) Strengthens internal controls for monitoring and completing corrective actions on all open audits.
 - b) Maintains appropriate documentation to support completion of corrective actions; if delegated to sub-offices, the process should include regular inspections by the Office of Environmental Information's Audit Follow-Up Coordinator.
 - c) Specifies when sub-offices must complete corrective actions as completed.
 - d) Requires verification that corrective actions fixed the issue(s) that led to the recommendation.
 - e) Requires sub-offices to continue to use the improved processes.
 - f) Requires Office of Environmental Information managers to update the office's Audit Follow-Up Coordinator on the status of upcoming corrective actions.

2. Remediate weaknesses identified during the FY 2017 annual audit of the EPA's information security program.
3. Implement a process to train EPA Contract Officer Representatives on their responsibilities for monitoring contractors to verify they meet specified EPA information security responsibilities.
4. Implement plans to review all EPA contracts and task orders and place the EPA-developed contract clause requiring contractors to complete role-based training into all EPA contracts and task orders.
5. Implement a process to create a listing of agency contractors with significant information security responsibilities who require role-based training, validate that the identified contractors complete the annual role-based training requirement, and report the information as required by the Federal Information Security Modernization Act.
6. Identify the equipment needed to restore operations and network connectivity for the financial and mixed-financial applications housed at the EPA's data center.
7. Monitor the actions of contractors with direct access to data within the agency's core financial application.
8. Create data storage plans for key financial applications.
9. Implement controls within the EPA's financial systems to prevent personnel with incompatible duties from processing financial transactions.
10. Require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the Information Technology specialization.
11. Establish controls for creating and locking administrative accounts in Compass Financials.
12. Develop and implement a methodology to monitor accounts with administrative capabilities in Compass Financials.
13. Enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions.
14. Develop a process for obtaining the current inventory listing and document the process in the National Computer Center's Disaster Recovery Plan and Information System Contingency Plan.
15. Participate and cooperate more with the OIG, external law enforcement agencies and industry experts to take a proactive role in identifying trends and sharing intelligence about cyber threats and solutions. The EPA should do more to expose exploits and vulnerabilities with other federal agencies and work together to combat the issues of cybersecurity.

CHALLENGE: The EPA Needs to Improve on Fulfilling Mandated Reporting Requirements

CHALLENGE FOR THE AGENCY

OIG work over the last 8 years has shown that the agency faces issues in tracking and submitting reports mandated by law that contain key program information for use by Congress, the Administrator and the public. When the EPA does not fulfill reporting requirements, the agency is in violation of the law and does not demonstrate how and whether it is achieving the goals Congress set for the associated programs. Without these reports, Congress and the public are not informed about the EPA's progress toward achieving goals or the challenges programs face during implementation. Our findings across multiple programs emphasize the need for EPA management to take agencywide action to verify that required reports are submitted. As the OIG continues to identify this issue in multiple programs across the EPA, the agency should develop a comprehensive approach to address this challenge.



BACKGROUND

The EPA OIG identified instances across five programs where the EPA has failed to meet legal reporting requirements to Congress between 2010 and 2018. The OIG recommended that the agency meet the specific reporting requirements and establish internal controls to track issuance of these required reports. Fulfilling mandated reporting requirements will inform future rulemaking and decision making. In response to our work, the EPA has issued some required reports that it previously had not provided, and has issued a memorandum to the EPA's Assistant Administrators and Associate Administrators reminding them of the agency's standard practice in tracking reports to Congress. However, much additional work remains.

Congress mandates reports to provide Congress with information about progress, but the reports also provide legislators with information for future legislative and funding decision making. By not fulfilling reporting requirements, Congress and the public, as well as the EPA Administrator, are not receiving information about programs' progress and challenges or about how the EPA is working to fulfill the agency mission to protect human health and the environment.

THE AGENCY'S PROGRESS

The OIG is including required reporting as an EPA management challenge based on our broad findings and on the importance of EPA meeting requirements. Some of the following issues identified in our work over the past 8 years demonstrate the breadth of this challenge and show how the agency has worked to address the issue on a program-by-program basis but needs a comprehensive effort. For the

OIG reports where this issue was identified, the EPA ultimately agreed to or implemented corrective actions by planning and submitting required program reports:

- In response to a July 2016 report ([16-P-0246](#)), the agency issued a required but long-awaited Office of Environmental Education Report to Congress, the EPA Administrator and the public in response to our report on insufficient reporting. The OIG found that after 2005, the office did not fund and convene the National Environmental Education Advisory Council as required by the National Environmental Education Act until 2012. One result of this lapse in funding and convening the council was that the council was not always able to provide congressionally required reports on the extent and quality of environmental education in the nation. The OIG recommended that the EPA ensure that the council is appointed and submits required reports to Congress. The EPA agreed and issued the required report.
- In response to a September 2011 report ([11-P-0708](#)), the agency submitted a long-required report related to residual effects of methamphetamine labs. The OIG had found that the Office of Research and Development failed to submit a report to Congress required under the Methamphetamine Remediation Research Act of 2007 detailing how the agency would use the results of a study of the residual effects of methamphetamine labs to carry out all methamphetamine-related activities. The office completed a literature review on residual effects in 2010, but did not transmit a report to Congress; a copy of its draft research plan was provided in 2009 and the office updated congressional staff on the status of this study in 2010. The EPA agency confirmed there were no internal controls to identify or track the status of EPA's legislative requirements. In lieu of an agencywide control system, individual EPA program offices were responsible for tracking and completing legislative requirements. The OIG recommended that the EPA develop internal controls to ensure that legislative requirements are identified and tracked, and that their status is reported to Congress as required. The agency implemented the recommendation and developed a system to track Reports to Congress and ensure legislative requirements are met.
- In response to a June 2010 report ([10-P-0154](#)), the agency submitted a long-overdue report on urban air toxics. The OIG found that the Office of Research and Development had failed to submit a second report to Congress required under Section 112(k) of the Clean Air Act on actions taken by the agency to reduce risks posed by urban air toxics from area sources. The agency submitted the first required report to Congress in July 2000, which was 2 years after the deadline specified by the Clean Air Act. However, the second report, required in 2002, was not submitted. The OIG concluded that submitting this report would inform Congress on the status of the program and the contributing factors to the delayed implementation of the program. The OIG recommended that the EPA develop and submit the required second Urban Air Toxics Report to Congress by the end of FY 2010. The Office of Research and Development ultimately submitted that required second report to Congress in August 2014.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) demonstrated top leadership commitment, (2) a corrective action plan and

(3) demonstrated progress. Although the EPA is working to implement recommendations to comply with reporting requirements for individual programs, the OIG continues to identify this issue. Therefore, EPA leadership needs to make a comprehensive effort to address this issue across the agency by reducing the rate of missing reports; identifying the causes of not issuing reports, with targeted plans to address the causes; and implementing corrective actions to address these issues.

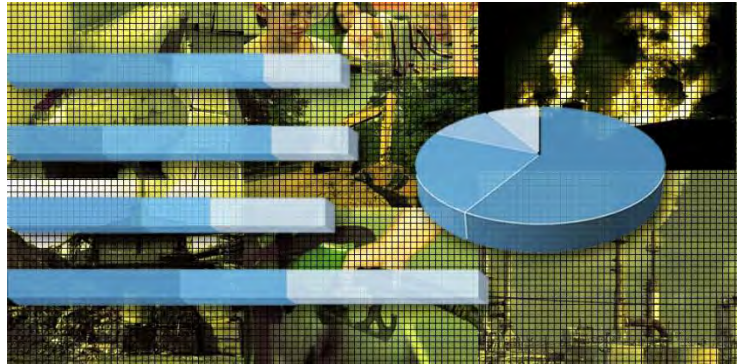
- Following a January 2018 report ([18-P-0071](#)), the agency and the OIG are engaged in resolution efforts to resolve the recommendations to submit required reports to Congress on a water program. The OIG found that the Office of Water failed to fulfill the legal requirement under Section 7 of the Beaches Environmental Assessment and Coastal Health Act of 2000 (known as the BEACH Act) to report to Congress every 4 years on the program's progress and impact on water quality and public health. The act requires that the EPA report to Congress on recommendations for additional criteria or actions to improve water quality, provide a national assessment of the implementation of the act, and note areas for improvement in monitoring. The EPA last submitted this required report to Congress in 2006, though it was due in 2010 and again in 2014. According to EPA staff, lack of resources to complete the report and disagreement between the EPA and Office of Management and Budget on whether the program was still needed led the EPA to cease its congressional reporting. The EPA's guidance for issuing such reports did not include a process for addressing or appealing such disagreements. The OIG recommended that the EPA submit the mandated reports to Congress and review and update controls for identifying, tracking and submitting mandated reports. In response, in March 2018, the agency issued a memorandum, *Reminder of Existing Practices Regarding Statutorily-Mandated Reports to Congress*, as a reminder that all legislatively mandated reports are to be placed in *ADPTracker*. Other recommendations remain unresolved with resolution efforts in progress.
- In response to an August 2016 report ([16-P-0275](#)), the agency agreed to provide some required reports to Congress for an air program but additional reports were required. The OIG had found that the Office of Research and Development failed to fulfill a legal requirement under Section 204 of the Energy Independence and Security Act of 2007 to report to Congress every 3 years on the environmental and resource conservation impacts of the renewable fuel standard program. The office issued an initial report to Congress for the Renewable Fuel Standard Program in 2011, but did not issue subsequent triennial reports. The agency attributed this to competing research priorities, reductions to the office's budget, and the 3-year reporting cycle not allowing time for significant scientific advances to occur. The OIG recommended that the EPA fulfill its obligation to provide triennial reports to Congress on the impacts of biofuels as required. The agency agreed with this recommendation and planned to complete corrective actions in June 2018.

The EPA needs to fulfill its responsibilities by issuing all required reports. To address this agencywide concern, EPA top leadership needs to develop and implement a process for tracking and submitting required reports, including devoting the people and resources required to reduce risks, and establishing processes for reporting and accountability. As the agency works to resolve this issue, the OIG will look for a corrective action plan, evidence of monitoring efforts, and demonstrated progress in issuing all required reports.

CHALLENGE: The EPA Needs Improved Data Quality for Program Performance and Decision-Making

CHALLENGE FOR THE AGENCY

In recent years, our work identified weaknesses in quality controls for EPA program data. Recent work by the OIG continues to support data quality as a management challenge. Data quality—the totality of features and characteristics such as accuracy, reliability and other limitations that bear on the data’s ability to meet the stated or implied needs and expectations of the data user—matters because managers use data to manage the EPA’s programs to achieve the agency’s goals. Thus, it takes high-quality data to support high-quality decisions. Using high-quality data to inform EPA management decisions is enshrined in long-standing policy and public law. Since 1979, EPA policy has required an agencywide quality system supporting environmental programs and by non-EPA organizations performing work in behalf of the EPA through extramural agreements. Further, the Government Performance and Results Act Modernization Act of 2010 states that agencies must execute an annual performance plan that, among other things, includes a description of how the agency will ensure the accuracy and reliability of data used to measure progress toward performance goals.



BACKGROUND

To accomplish its mission, the EPA develops regulations and establishes programs that implement environmental laws. The EPA performs oversight of these programs—including programs implemented by the agency, delegated states, territories or tribes—to protect human health and the environment. Effective oversight should provide reasonable assurance that program goals are achieved and activities comply with all relevant laws and regulations. The EPA relies on data to help assess program performance and public benefit, and those assessments depend on the quality of the data that underpin the analyses.

We identified data standards and data quality in the FY 2007 management challenges report. At that time, we found that the EPA was not routinely incorporating data standards and collecting information for all programs. Data standards and data quality were removed from the management challenges list for FY 2008. However, because recent OIG work points again to a pattern of data quality issues, we are reintroducing data quality for program data as an FY 2018 management challenge.

Recent OIG reports show that poor data quality negatively impacts the EPA’s effectiveness in overseeing programs that directly impact public health, such as managing air quality, Clean Air Act facilities, drinking water, toxic releases to surface waters, Superfund sites and environmental

education. Data quality issues also subject the EPA to significant financial risks and delayed cleanups while the public must endure prolonged exposure to unsafe substances and restrictions on the public use of needed natural resources.

These reports point to a systemic problem with data quality, making data analysis more difficult and less reliable than desired. The EPA and public rely heavily upon the agency's data to determine program performance and benefits to the public. The agency uses a variety of data to manage many programs and inform decisions about those programs. Therefore, for the EPA to effectively manage its programs, data must be timely, accurate and suitable for the intended purposes. Data quality directly impacts decision quality, and poor data quality can also mask risks to public health and tax dollars.

THE AGENCY'S PROGRESS

In response to OIG reports, the EPA took corrective actions to address enforcement data quality for Clean Air Act facilities, benzene standard compliance, and environmental education data quality issues. In addition, the EPA began development of the Safe Drinking Water Information System-Prime, which should allow electronic verification of data and provide data quality functional enhancements. The EPA also opted to improve electronic reporting tools for Toxics Release Inventory and Discharge Monitoring data to address data quality limitations. Details follow:

- In a March 2016 management alert ([16-P-0126](#)), we reported that the EPA had poor data quality and lacked internal controls to oversee and manage its Resource Conservation and Recovery Act and Comprehensive Environmental Response, Compensation, and Liability Act financial assurance program. As such, the EPA was vulnerable to considerable financial exposure, and the public may be at risk for delayed cleanups, prolonged human and environmental exposures to unsafe substances, and extended restrictions on the public use of needed natural resources. The agency completed corrective actions to address the report recommendations.
- In a July 2016 report ([16-P-0246](#)), we noted that the EPA did not obtain consistent performance data from environmental education grantees. Thus, the EPA could not assess its environmental education program results and benefits, was limited to reporting on individual grant and cooperative agreement outputs, and was significantly impaired in its ability to provide evidence of results and instill confidence that it has the capacity to properly manage both the program and its significant grant funds. The agency completed corrective actions to address the report recommendations.
- In a June 2017 report ([17-P-0249](#)), we noted that EPA management controls were not effective in providing reasonable assurance that facility-reported data were of sufficient quality to assess compliance or maintain the integrity of credit-related information for the benzene standards. Benzene is one of three key pollutants contributing the most to cancer risks nationwide, and benzene exposure has been linked to blood disorders and cancers, including leukemia. Mobile sources are responsible for most of the outdoor risks from benzene, and the EPA has classified

benzene as a regional cancer risk driver. EPA staff must research and correct questionable data quality before the EPA can determine whether facilities comply with the benzene standards and purchased credits were proper. Poor data quality can also delay EPA actions to identify and resolve instances where facilities may produce or import gasoline exceeding the benzene standards. The agency completed corrective actions to address the report recommendations.

- In a July 2017 report ([17-P-0326](#)), we noted that recent EPA reviews of public water systems' monitoring and reporting for drinking water quality have not been as comprehensive or nationally consistent as previous reviews. There was also a risk that drinking water quality information reported to the EPA was not always reliable. This situation can lead to conditions where the EPA and public may not know if water arriving at taps meets national drinking water standards. In 2016, approximately one in five public water systems reported monitoring and reporting violations, with 40 percent of those violations related to the Total Coliform Rule and pathogens in drinking water. Another example of this risk is the lapse in effective monitoring and reporting that contributed to prolonged exposure to lead-contaminated drinking water in Flint, Michigan. The lack of in-depth public water system reviews and the low reliability of drinking water data reported to the EPA impede the agency's ability to oversee the national drinking water program. The EPA is currently taking action to address these limitations. No recommendations were issued for this report.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) agency capacity, (2) a corrective action plan, (3) monitoring efforts and (4) demonstrated progress. EPA leadership needs to demonstrate commitment to verify data used for program performance and that management has sufficient quality.

To demonstrate this commitment, the agency should show that it has the proper people and processes in place to deploy the agency data quality policies and procedures to all program data and actively manage its data to achieve the desired quality. Recent reports show that the EPA still needs to address data gaps in financial and enforcement data to ensure information is timely, accurate and suitable for assessing the capacity of companies with multiple environmental liabilities to conduct cleanups without unduly exposing public health or taxpayers to risks. While the move to electronic reporting should ease the agency's access to data and simplify reporting, electronically reported data will still need verification and validation to ensure accuracy, timeliness and proper format.

There are issues related to electronically reported data. For example, while Safe Drinking Water Information System-Prime will provide some electronic data quality enhancements, primacy states (i.e., those states granted primary responsibility for enforcing and implementing the Safe Drinking Water Act) are not required to use that system for data reporting, since it is a voluntary system. States that choose not to participate cause data gaps. Further, the EPA should ensure that all program data used to assess and manage program performance are aligned with the stated program goals and objectives and that the data are of sufficient quality and suitability to inform decisions.

- In a December 2017 report ([18-P-0059](#)), we noted that the EPA lacked a data system with the capability to track multiple environmental liabilities and the resources and technical ability to validate self-insurance for companies with multiple environmental liabilities. The inability to validate a company's self-insurance represents a high-risk issue to the EPA; if a company defaults on its cleanup obligations, EPA and federal funds may be required to finance cleanups that should be paid for by the polluter. Invalid self-insurance may also result in contamination being left at sites for long periods; larger, more complicated cleanups; higher costs; and longer human and environmental exposures to unsafe substances. The agency partially agreed with our recommendations and work is underway to reach agreement on the unresolved recommendations. Other corrective actions are pending.
- In an October 2017 report ([18-P-0001](#)), we noted that the Toxics Release Inventory and the Discharge Monitoring Report Comparison Dashboard had limited utility for identifying possible surface water dischargers that lacked a National Pollutant Discharge Elimination System permit due to a lack of discharger address information. Without specific discharger address information in the Discharge Monitoring Report Pollutant Loading Tool, attempting to manually match a National Pollutant Discharge Elimination System facility to a Toxics Release Inventory facility was resource-intensive and inexact, impacting the EPA's ability to regulate facilities. Further, the Pollutant Loading Tool cannot identify unpermitted dischargers to surface water based on Toxics Release Inventory data, which means the EPA and public cannot know when or how much pollution occurs from those dischargers. Corrective actions are pending.
- In a May 2016 report ([16-P-0164](#)), we noted that the Clean Air Act Facility inspection data on the EPA Enforcement and Compliance History Online website did not reflect that many facilities had received a full compliance inspection, and it was not verified that data were properly migrated into the database used by the website. Inaccurate data hinder EPA oversight and reduce assurance that the delegated compliance programs comply with the agency's guidance. Further, unreported or inaccurate data presented on the publicly available Enforcement and Compliance History Online website could misinform the public about the status of facilities. The EPA completed corrective actions on two recommendations for updating the compliance monitoring system and conducting regular data reviews with state and local agencies. However, the EPA still needs to establish a regular data quality check process, specify the length of time states and local air districts should retain evaluation records, direct California local air districts that do not have a current compliance monitoring plan to submit plans to Region 9 and provide guidance to California local air districts as to how and when to submit compliance monitoring plans, and develop a schedule for reviewing and approving draft compliance monitoring plans.

Challenge #1 - EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals

Agency Response: The EPA recognizes states have the primary role in implementing many federal programs, while the EPA maintains responsibility and accountability for upholding the rule of law, advancing national environmental goals and ensuring that federal statutes are consistently implemented and enforced. As part of the Agency's reform plan on tailoring state oversight, the EPA will define, develop, pilot, evaluate and launch a comprehensive system to evaluate state and local implementation of federal environmental programs by 2020. In FY 2018, the EPA established a State Oversight Workgroup comprised of headquarters and regional representatives, charged with baselining the current state of the Agency's oversight activities, analyzing the variations of oversight activities between regions and states and working to standardize work flows. With input from the Environmental Council of States, the EPA will streamline, reduce and tailor its oversight activities to focus on national program integrity and technical assistance to states as needed.

Efforts the Agency has taken to address this management challenge include the following:

- Conducted a survey of the regions to baseline statutorily-required and discretionary oversight activities.
- Establishing a guiding principles document for state-delegated environmental programs and enforcement policies. The document will draw from the 2016 ECOS Oversight Principles.
- Developing a template intended to establish clear expectations of the oversight for an air permitting program (Title V) and a water permitting program. The template will be tested by selected regions and states.

The EPA anticipates 3-6 region-state pairs will work through the template for a specific oversight activity by the end of FY 2018, with a goal of refining the template and rolling out the template in all states in FY 2019. The EPA will also solicit for the next set of program areas to target.

The EPA has a long-term performance goal supporting Goal 2/Objective 2.1, Enhance Shared Accountability in the *FY 2018 – 2022 EPA Strategic Plan*: “By September 30, 2022, increase the use of alternative shared governance approaches to address state, tribal, and local community reviews” and a supporting FY 2020 annual performance goal “Number of alternative shared governance approaches to address state, tribal, and local community reviews.” The annual performance goal target for FY 2019 is 20 and has not been determined for FY 2020. The FY 2020 target will be determined based on the FY 2018 full year results.

The EPA is working to design a comprehensive and consistent shared governance approach to evaluate the implementation oversight of state delegated programs. Shared governance is the concept where management of federal environmental programs is shared with state, tribal, or local governments. In collaboration with the Environmental Council of the States, the EPA is developing a new oversight framework that tests this concept with the regions and states for the NPDES and Title V programs. This framework is comprised of two documents: 1) Principles to guide oversight of the state delegated programs, including recognition of state primacy, standards of review, effective communication, and elevation of issues, and a 2) Template to guide region-state discussion around oversight activities including standards of review, timelines, and the process for dispute resolution. Together, these will document the shared governance approach.

Responsible Agency Official: Robin Richardson, Principal Deputy Associate Administrator, Office of Congressional and Intergovernmental Relations

Challenge #2 - EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively

Agency Response: The EPA believes it has effectively used workload analyses to examine several critical processes, including grants and IT security. The EPA Lean management system efforts, and multi-year planning initiatives will offer additional options for addressing priority work. Current Kaizen efforts include state oversight, the EPA's field presence, flexibility in state and tribal assistance, community and infrastructure investments, FOIA responses, reporting requirements, the EPA laboratories, environmental permitting, and acquisitions. The Agency also plans to examine its full-time equivalent requests and how they relate to current work and business process improvement efforts.

The Agency agrees with OIG about the importance of grants management, since grants are the largest type of Agency spending with the most direct effect on our state and tribal partners. In the last few years, the Agency conducted workload analyses to examine workload by Project Officer, Grants Specialists and other metrics and used results to update policies, processes and procedures.

The Superfund program will develop a multi-year FTE plan, review Army Corps of Engineers and Naval Facilities Engineering Command workload management and FTE distribution practices, and implement a national risk-based prioritization of all sites. The Agency will explore how to coordinate certain enforcement functions where specialists in one region provide expertise to several other regions.

In addition to these efforts, in the last few years, the EPA conducted workload analysis for:

- IT security officers - Information Security Task Force analyses of Information Security Officer duties
- Funds Control Officers – FCO workload including contracts, payroll, travel, etc.
- Fee-related duties – Existing and new fees workload

Targeted analyses will also contribute to the Agency's multi-year approach to resource and workforce planning by helping identify potential investment opportunities and informing workforce decisions. The multi-year effort will advance the Agency's planning capabilities and identify strategic priorities and opportunities and help inform decisions of how best to align resources and FTE with the Agency's priorities.

Additionally, the budget process incorporates FTE reviews and allocations. In 2018, FTE were re-allocated to better align with the Agency's new strategic goals and objectives.

As the OIG acknowledges, the EPA's highly variable, multi-year, and non-linear functions and activities limit the utility of detailed FTE-based workload analyses to determine precise FTE levels. The Agency deliberately discontinued using comprehensive workload analyses because they require substantial work to develop, maintain and refine, and quickly become out of date, particularly when the Agency is in the midst of numerous efforts to improve processes. The Agency believes these difficulties are why it has been unable to find examples of agencies similar to the EPA using comprehensive workload models in their budget formulation FTE decision-making processes. However, the EPA believes there is value in using trend and macro-level workload reviews to estimate program needs and using workload analyses of task-driven functions.

Responsible Agency Official: Carol Terris, Director, Office of Budget

Challenge #3 - EPA Needs to Enhance Information Technology Security to Combat Cyber Threats

Agency Response: The Agency is committed to protecting its information and technology assets. The EPA understands the prevalence and complexity of the ever-growing cyber security attacks and is aware of the potential impact to the Agency's mission if information assets are compromised. The Agency has established and implemented adequate processes for tracking audit recommendations and the status of corrective actions that will help address concerns associated with this management challenge.

The Agency is working internally to develop a process to train Contract Officer Representatives on their

responsibilities for monitoring the contractors to ensure they meet specified information security responsibilities. This includes:

- Monitoring contractors that operate information systems on behalf of the EPA to ensure they perform the mandated information security assessments.
- Ensuring that contractors with significant information security responsibilities complete role-based training.

The EPA's Office of Environmental Information, in coordination with the Office of Administration and Resources Management and the Office of General Council, developed standard contract clauses to help ensure contractors implement and follow the EPA and federal information security directives. The clauses, known as IPN 17-01, are located on the Office of Transportation and Air Quality intranet site (<http://otagintranet.epa.gov/resources-procurement-contracts-grants/otag-fitara-review-procedures>). During the Federal Information Technology Acquisition Reform Act review, staff in the Office of Information Security and Privacy check for the inclusion of the IPN 17-01 clauses in the appropriate documents.

Additional efforts the Agency has taken to address this management challenge include the following:

- Requires Senior Information Officials to annually submit a written certification of the status of security training for all contractors with significant security responsibility in the SIOs areas of responsibility. The certifications are tracked and maintained by staff that report to the Chief Information Security Officer.
- Developed and is following an Information Security Strategic Plan to improve the Agency's security posture. To facilitate plan implementation, the EPA is working closely with the Department of Homeland Security and the General Services Administration to leverage to the greatest extent possible all Continuous Diagnostics and Mitigation phases.
- Chartered an information security task force to identify how best to implement CISO improvement recommendations. The Agency implemented ISTF implementation recommendations for centralizing and consolidating cyber security functions.
- Developed and published procedures covering all agency information and information systems to include information and information systems used, managed, or operated by contractors, other agencies, or other organizations on behalf of the EPA.

Responsible Agency Official: Robert McKinney, Acting Director, Office of Information Security and Privacy

Challenge #4 - EPA Needs to Improve on Fulfilling Mandated Reporting Requirements

Agency Response: The OIG identified instances across five programs where the EPA has failed to meet legal reporting requirements to Congress between 2010 and 2018. The EPA is committed to making a comprehensive effort to address this issue across the Agency by reducing the missing reports, identifying the causes of not issuing reports, with targeted plans to address the causes, and implementing corrective actions to address these issues.

The EPA recognizes the importance of tracking and submitting Congressionally-mandated reports to ensure legislative requirements are achieved. Working internally, the Agency has determined that the Action Development Process (ADP) Tracker is a viable system to capture and store the comprehensive reporting as provided in environmental statutes. EPA's ADP is an internal agency system. Because regulation or rule development is one of EPA's principal activities, EPA has developed the ADP in order to achieve the timeliest, most efficient, and most effective method for rule development. The process was designed for agency professionals to develop rules based on sound scientific, economic, legal, and policy analyses. The ADP serves as a framework to ensure issues are addressed during appropriate rule development stages. ADP Tracker helps EPA to manage and track Agency actions, including regulations, guidance documents, and other actions. It is managed by the Office of Regulatory Policy and Management and provides improved capability to track milestones, manage workgroups, and track workflow, as well as better security and access.

Currently, the Agency is exploring how the system can be expanded to include the universe of reports that are identified in the EPA's annual appropriations process. To date, the Agency has:

- Met with stakeholders to identify the Agency systems with functionality to capture and report on the required tracking
- Reminded all agency decision makers that all new legislative reporting requirements need to be included in the ADP Tracker.
- Working with internal stakeholders to determine and better define the universe of information that needs to be included in the system.

Responsible Agency Official: Robin Richardson, Principal Deputy Associate Administrator, Office of Congressional and Intergovernmental Relations

Challenge #5 - EPA Needs to Improve Data Quality for Program Performance and Decision-Making

Agency Response: Under the Clinger Cohen Act (1996), EPA Chief Information Officer/Assistant Administrator for the Office of Environmental Information has delegated authority for information quality including oversight responsibility for the EPA's mandatory Quality Program. OEI issues the Agency's Quality Policy and Procedure for Environmental Programs that mandate implementation of a Quality Management System for all EPA programs involved with environmental data operations and organizations funded by the EPA submitting data and information for the EPA's use in programmatic decisions. The Agency's quality program is decentralized and implemented by the National Program Offices and regions with specific responsibilities for assuring the quality of data produced and used are appropriate for their programmatic decisions.

OEI routinely assesses implementation for conformance to the Agency's Quality Policy and effectiveness of the QA practices and management controls implemented by the individual organization. These Quality System Assessments identify best practices, opportunities for improvement and vulnerabilities that may potentially impact the Agency-wide quality program. OEI develops tools and processes to guide consistent implementation of quality across the Agency. One such tool is the Quality Assurance Project Plan that defines a systematic approach for planning, collecting, assessing and documenting quality assurance requirements at the project level. The organization determines the quality and utility of the results of the data and information based on program needs. Organizations report annually to OEI on their QA accomplishments. Cross-cutting issues are reported to the Chief Information Officer routinely.

OEI does not view the data quality issue raised by the OIG as a management challenge. It is critical that the data supporting enforcement, regulatory and other program decisions be based on sound data. Programmatic reviews of the data and metadata collected and used by the regions and program offices to support decisions or actions could help elucidate these issues and inform any corrective actions at the programmatic level. OEI plans to revise the Agency's Quality Assurance policy to include a requirement for Assistant Administrators and Regional Administrators to certify annually that their offices are implementing the policy/procedures and that the quality of data produced and utilized by their offices is appropriate for the data's intended uses and for programmatic decisions that are based on the data.

To ensure continuous improvement and standardization in assuring the quality of data, OEI is developing an Agency-wide Quality Assurance Enterprise Management System to track and report accomplishments and evaluate established QA metrics. These metrics were determined from a Lean Kaizen review of the annual reporting process accomplished in FY 2016. QAPP requirements and processes will be further examined in FY 2019.

Responsible Agency Official: Vincia Holloman, Director, Enterprise Quality Management Division

PROGRESS IN ADDRESSING FY 2018 WEAKNESSES

In FY 2018, the agency did not identify any new material weaknesses. EPA continued to address its four previously identified material weaknesses, completing corrective actions for three. The agency expects to complete corrective actions for the remaining material weakness in FY 2019.

Material Weaknesses

EPA Failed to Capitalize Software Costs

In FY 2014, the agency found it had undercapitalized software, which resulted in a material misstatement of financial statements and led to the restatement of the FY 2013 financial statements. The OIG declared the material misstatement of the financial statements contributed to the assessment that the agency's accounting for software is a material weakness, related to the recording of transactions and capitalization of software costs.

To address this weakness, EPA developed a corrective action plan to resolve the issues identified in the FY 2014 audit. The plan included using LEAN techniques to improve the accuracy of recording IT transactions in the fixed asset system and correcting data entries related to depreciation of IT software assets. The agency validated \$304.5 million of in-development costs for 95 projects and \$296.1 million of production costs (excluding projects that are fully depreciated). A key part of the agency's remediation efforts has been improving procedures for validating expenditures that require capitalization and improving communication between agency program offices and the Office of the Controller. The agency has completed and implemented all corrective actions for this material weakness.

EPA Cannot Adequately Support FIFRA Costs

During the FY 2014 financial statement audit for the Pesticides Reregistration and Expedited Processing Fund, OIG indicated that EPA could not adequately support payroll costs in the amounts of \$34 million.

To address this material weakness, the agency has developed an approach to account for employee time on FIFRA costs within the EPA pay administration system. The agency developed and implemented new codes, trained necessary employees on the use of the codes, and established requirements for employees and supervisors to ensure proper coding as part of the agency's official timekeeping process. This process improvement gives the agency the ability to capture direct and indirect costs of the FIFRA program. The agency will continue to track and monitor the use of the time accounting codes to make sure that coding is consistent, concerns are addressed, and ensure continued compliance. The agency has completed and implemented all corrective actions for this material weakness.

EPA Cannot Adequately Support PRIA Costs

During the FY 2014 financial statement audit for the Pesticides Registration Fund, OIG indicated that EPA could not adequately support payroll costs in the amounts of \$28 million.

To address this material weakness, the agency has developed an approach to account for employee time on FIFRA costs within the EPA pay administration system. The agency developed and implemented new codes, trained necessary employees on the use of the codes, and established requirements for employees and supervisors to ensure proper coding as part of the agency's official timekeeping process. This process improvement gives the agency the ability to capture direct and indirect costs of the PRIA program. The agency will continue to track and monitor the use of the time accounting codes to make sure that coding is consistent, concerns are addressed, and ensure continued compliance. The agency has completed and implemented all corrective actions for this material weakness.

EPA's Accounting for Unearned Revenue

During the FY 2016 financial statement audit, OIG identified material weakness related to the recording and reconciliation of unearned revenue for Superfund special accounts.

To address this material weakness, the agency engaged in deliberations with OMB and the Department of Treasury to develop a new process for managing and accounting for Special Account collections and receivables. In January 2017, OMB provided final approval on the revised process, including updated posting models for recording special account transactions. EPA approved the business case for making changes to the accounting system. The agency updated accounting posting models and anticipates having the new posting models implemented in the accounting system by January 31, 2019. Concurrently, the agency will convert prior accounting data into the approved process. Once the changes in the accounting system and posting models have been made, EPA will reconcile the general ledger to the special accounts collected from past costs. The projected closure date for this material weakness is FY 2019.

Summary of Financial Statement Audit

| | | | | | |
|----------------------------------|--------------------------|------------|-----------------|---------------------|-----------------------|
| Audit Opinion | Unmodified | | | | |
| Restatement | No | | | | |
| | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| Software cost | 1 | 0 | 1 | 0 | 0 |
| Unearned Revenue | 1 | 0 | 0 | 0 | 1 |
| <i>Total Material Weaknesses</i> | 2 | 0 | 1 | 0 | 1 |

Summary of Management Assurances

| Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) | | | | | | |
|--|-------------------|-----|----------|--------------|------------|----------------|
| Statement of Assurance | Modified | | | | | |
| | | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| FIFRA Fund Costs | 1 | 0 | 1 | 0 | 0 | 0 |
| PRIA Fund Costs | 1 | 0 | 1 | 0 | 0 | 0 |
| <i>Total Material Weaknesses</i> | 2 | 0 | 2 | 0 | 0 | 0 |

| Effectiveness of Internal Control Over Operations (FMFIA § 2) | | | | | | |
|---|-------------------|-----|----------|--------------|------------|----------------|
| Statement of Assurance | Unmodified | | | | | |
| | | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Total Material Weaknesses | 0 | 0 | 0 | 0 | 0 | 0 |

| Conformance With Financial Management System Requirements (FMFIA § 4) | | | | | | |
|---|---|-----|----------|--------------|------------|----------------|
| Statement of Assurance | Systems Conform to Financial Management System Requirements | | | | | |
| | | | | | | |
| Non-Conformances | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Total Non-Conformances | 0 | 0 | 0 | 0 | 0 | 0 |

| Compliance With FFMIA | | |
|-------------------------------|------------------------------|------------------------------|
| | Agency | Auditor |
| 1. System Requirement | No lack of compliance noted. | No lack of compliance noted. |
| 2. Accounting Standards | No lack of compliance noted. | No lack of compliance noted. |
| 3. USSGL at Transaction Level | No lack of compliance noted. | No lack of compliance noted. |

REDUCE THE FOOTPRINT

Consistent with Section 3 of the OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the “Reduce the Footprint” (RTF) policy implementing guidance, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2015 baseline.

| Reduce the Footprint Baseline Comparison | | | |
|--|------------------|-----------|-----------|
| | FY 2015 Baseline | FY 2017 | Change |
| Square Footage (SF) | 5,364,495 | 5,099,681 | (264,814) |

EPA’s baseline, derived from the agency’s FY 2015 Federal Real Property Profile (FRPP) submission and FY 2015 General Services Administration (GSA) Occupancy Agreement, is 5,364,495 square feet (SF). The Reduce the Footprint offset square footage is composed of office and warehouse assets reported as excess to GSA. EPA’s RTF total in FY 2017 was 5,099,681 SF, a reduction of 264,814 SF from the baseline.

| Reporting of Operation & Maintenance Costs-Owned and Direct Lease Buildings | | | |
|---|-----------------------|----------------|----------------|
| | FY 2015 Reported Cost | FY 2017 | Change |
| Operations & Maintenance Costs | \$1,106,924.21 | \$1,951,694.47 | \$1,001,425.71 |

EPA remains committed to reducing its environmental footprint through efficient management of its real property portfolio. The agency will continue to take steps to monitor and assess space utilization at each of its facilities and will take the appropriate steps to reduce underutilized space. Additionally, the agency will continue to implement sustainable design, construction, and operations/maintenance projects. In the coming years, EPA will continue to explore options for teleworking, office sharing, and hoteling as alternative work strategies once associated costs and impacts are identified.

PAYMENT INTEGRITY

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires executive branch agencies to review all programs and activities annually, identify those that may be susceptible to significant improper payments and report the results of their improper payment activities to the President and Congress through their annual Agency Financial Report or Performance and Accountability Report.

EPA is dedicated to reducing fraud, waste, and abuse and presents the following improper payment information in accordance with IPIA, as amended; OMB implementing guidance in Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*; and IPIA reporting requirements contained in OMB Circular A-136, *Financial Reporting Requirements*.

OMB implementing guidance directs federal agencies to take the following steps:

- 1) Review all programs and activities to identify those that are susceptible to significant improper payments, defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and \$10 million of estimated improper payments or (2) \$100 million of estimated improper payments (regardless of the rate).
- 2) Obtain a statistically valid estimate of the annual amount of improper payments in programs identified as susceptible to significant improper payments.
- 3) Implement a plan to reduce improper payments in these programs.
- 4) Report annually an estimate of the annual amount and rate of improper payments.

An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts¹, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

The term "payment" means any payment or transfer of federal funds (including a commitment for future payment, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-federal person, non-federal entity, or federal employee, that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity. The term "payment" includes federal awards subject to the Single Audit Act Amendments of 1996 that are expended by both recipients and sub-recipients.

OMB Circular A-123, Appendix C, requires that agencies conduct risk assessments of their programs or activities at least once every three years to determine whether they are susceptible to significant improper payments. In FY 2018, EPA updated its improper payment risk assessments using a systematic approach to

determine whether each program or payment stream is susceptible to significant improper payments. The risk assessments required an evaluation of risk factors that could contribute to potential for significant improper payments. In completing the risk assessments, each office addressed risks known at the time of completion.

EPA has two programs that are currently identified as susceptible to significant improper payments, which are the grants payment stream and Hurricane Sandy funding. The grants payment stream was identified as susceptible to significant improper payments during the Agency's risk assessment process conducted in FY 2016, and Hurricane Sandy is automatically considered susceptible to significant improper payments by the *Disaster Relief Appropriations Act, 2013*.

It should be noted that the Clean Water State Revolving Fund and the Drinking Water SRF were granted relief from annual reporting in FY 2018, as they are no longer considered susceptible to significant improper payments. None of the agency's programs were identified as high priority, defined as exceeding \$2 billion of annual estimated improper payments. Table 1 summarizes the risk level for each of the agency's payment streams.

| Table 1: Risk Level | | | |
|---------------------|------------------------------------|--------------------------------|---------------|
| Payment Stream | Not Susceptible to Significant IPs | Susceptible to Significant IPs | High Priority |
| Commodities | X | | |
| Contracts | X | | |
| CWSRF | X | | |
| DWSRF | X | | |
| Grants | | X | |
| Hurricane Sandy | | X | |
| Payroll | X | | |
| Purchase Cards | X | | |
| Travel | X | | |

I. Payment Reporting

The following tables provide information about EPA's reportable programs. The website <https://paymentaccuracy.gov/> contains more detailed information on improper payments and also includes all of the information reported in prior year AFRs that is not included in the FY 2018 AFR.

| Table 2.1: Improper Payment Reduction Outlook (\$ in millions) | | | | | | | | | |
|---|--------------------|---------------|--------------|--------------------|-------------------|---------------|--------------|------------------|-------------------|
| Program | FY17 \$ Outlays | FY17 \$ IP | FY17 IP % | FY18 \$ Outlays | FY18 \$ Proper | FY18 \$ IP | FY18 IP % | FY18 Proper % | FY19 IP Target |
| CWSRF (1) | 1,431.39 | 2.62 | 0.18% | n/a | n/a | n/a | n/a | n/a | n/a |
| DWSRF (1) | 1,183.94 | 0.76 | 0.06% | n/a | n/a | n/a | n/a | n/a | n/a |
| Grants | 1,726.94 | 12.37 | 0.72% | 2,659.54 | 2,659.23 | 0.31 | 0.01% | 99.99% | 1.00% (2) |
| Hurricane Sandy | 14.32 | 0.04 | 0.28% | 23.15 | 23.15 | 0.00 | 0.00% | 100% | 1.00% (2) |
| Total | 4,356.59 | 15.79 | 0.36% | 2,682.69 | 2,682.38 | 0.31 | 0.01% | 99.99% | n/a |

(1) In FY 2018, CWSRF and DWSRF were granted relief from the annual requirement to measure and report improper payments, as they are no longer susceptible to significant improper payments.

(2) Grants and Hurricane Sandy funding experienced very low improper payment rates in FY18. For FY19 reporting, a target rate of 1% in each program is aggressive and achievable. For grants, compared to the FY18 target of 2.95%, a reduction target of 1% represents a

substantial decrease of 66%. For Hurricane Sandy funding, compared to the FY18 target of 1.5%, a target of 1% also represents a substantial decrease of 50%. In FY 2019, EPA plans to request relief from annual reporting for Hurricane Sandy funding.

| Table 2.2: Improper Payment Reduction Outlook (Continued) | | | | | | |
|---|--------------------|---------------------|-------------------------|--------------------------|--------------------------------|------------------------------|
| (\$ in millions) | | | | | | |
| Program | FY18 \$ Overpay | FY18 \$ Underpay | % of Sample Overpaid | % of Sample Underpaid | Start Date for Sampled Data | End Date for Sampled Data |
| CWSRF | n/a | n/a | n/a | n/a | n/a | n/a |
| DWSRF | n/a | n/a | n/a | n/a | n/a | n/a |
| Grants | 0.31 | 0.00 | 100% | 0% | 4/01/16 | 9/30/17 |
| Hurricane Sandy | 0.00 | 0.00 | 0% | 0% | 10/01/16 | 9/30/17 |
| Total | 0.31 | 0.00 | n/a | n/a | n/a | n/a |

Table 3 provides information on the estimated amount of improper payments made directly by the federal government and the amount of improper payments made by recipients of federal money.

| Table 3: Improper Payment Classification | | |
|--|--|---|
| (\$ in millions) | | |
| Program | Actual Monetary Loss to the Government Identified in the Sample | Estimated Total Monetary Loss to the Government |
| Grants | 0.001 | 0.31 |
| Hurricane Sandy | 0.00 | 0.00 |
| Total | 0.001 | 0.31 |

Table 4 identifies the root causes of error in each program.

| Table 4: Improper Payment Root Cause Category Matrix (\$ in millions) | | | | | |
|--|----------------------------|--------------|---------------|-----------------|---------------|
| Reason for Improper Payment | | Grants | | Hurricane Sandy | |
| | | Overpayments | Underpayments | Overpayments | Underpayments |
| Program Design or Structural Issue | | | | | |
| Inability to Authenticate Eligibility: | Inability to Access Data | | | | |
| | Data Needed Does Not Exist | | | | |
| Failure to Verify: | Death Data | | | | |
| | Financial Data | | | | |
| | Excluded Party Data | | | | |
| | Prisoner Data | | | | |
| | Other Eligibility Data | | | | |
| Administrative or Process Error Made by: | Federal Agency | | | | |
| | State or Local Agency | | | | |
| | Other Party | 0.31 | 0.00 | | |
| Medical Necessity | | | | | |
| Insufficient Documentation to Determine | | | | | |
| Other Reason | | | | | |
| Total | | 0.31 | 0.00 | 0.00 | 0.00 |

I. Recapture of Improper Payments Reporting

IPERA requires agencies to conduct payment recapture audit reviews in any program expending more than \$1 million annually. Past experience has demonstrated that the low dollar value of improper payments recovered by an external payment recapture auditor resulted in an effort that was not cost-effective for the agency or the contractor. Therefore, EPA no longer uses a payment recapture audit firm to conduct formal payment recapture audits.

Nevertheless, the agency performs payment recapture activities internally, leveraging the work of agency employees and agency resources. As part of this process, each payment stream is routinely monitored to assure the effectiveness of internal controls and identify issues that could give rise to overpayments. The agency's payment recapture activities are part of its overall program of internal control over disbursements, which includes establishing and assessing internal controls to prevent improper payments, reviewing disbursements, assessing root causes of error, developing corrective action plans where appropriate, and tracking the recovery of overpayments.

The information provided below describes the actions and methods used by the agency to recoup overpayments, a justification of any overpayments determined not to be collectible, and any conditions giving rise to improper payments and how those conditions are being resolved.

A) Commodities and Contracts

Given the historically low percentage of improper payments in commodities and contracts, the agency relies on its internal review process to detect and recover overpayments. The agency produces monthly reports for each payment stream and uses these reports as its primary tool for tracking and resolving improper payments. These reports identify the number and dollar amount of improper payments, the source and reason for the improper payment, the number of preventive reviews conducted, and the value of recoveries.

The commercial payments are subject to financial review, invoice approval, and payment certification. Since all commercial payments are subject to rigorous internal controls, the agency relies upon its system of internal controls to minimize errors. The following is a brief summary of the internal controls in place over the agency's commercial invoice payment process.

The payment processing cycle requires that all invoices be subjected to rigorous review and approval by separate entities. Steps taken to ensure payment accuracy and validity, which serve to prevent improper payments, include 1) the Research Triangle Park (RTP) Finance Center's review for adequate funding and proper invoice acceptance; 2) comprehensive system edits to guard against duplicate payments, exceeding ceiling cost and fees, billing against incorrect period of performance dates, and payment to wrong vendor; 3) electronic submission of the invoice to Project Officers and Approving Officials for validation of proper receipt of goods and services, period of performance dates, labor rates, and appropriateness of payment, citing disallowances or disapprovals of costs if appropriate; and 4) review by the RTP Finance Center of suspensions and disallowances, if taken, prior to the final payment certification for Treasury processing. Additional preventive reviews are performed by the RTP Finance Center on all credit and re-submitted invoices. Additionally, EPA Contracting Officers perform annual reviews of invoices on each contract they administer, and Defense Contract Audit Agency (DCAA) audits are performed on cost-reimbursable contracts at the request of the agency.

Vendors doing business with federal agencies occasionally offer discounts when invoices are paid in full and within the specified discount period (e.g., within 10 days of billing). EPA makes its best effort to take all discounts, as they represent a form of savings to the agency. However, there are valid reasons for which it is

not feasible to take every discount that is offered, including: 1) an insufficient discount period to process a discount offer, such as a discount offer in which the required processing time for payment exceeds the number of days of the offer; and 2) a situation in which it is not economically advantageous to take the discount. Specifically, if the discount rate exceeds the Treasury's current value of funds rate, taking the discount saves the government money, so the discount is accepted by paying the invoice early. However, if the discount rate is less than the current value of funds rate, taking the discount is not cost-effective for the government, so the discount is rejected, and the invoice is paid as close to the payment due date as possible. Improper payments stemming from lost discounts totaled \$66K in FY 2018 for commodities and contracts combined, and they are tracked in the monthly improper payment reports.

Improper payments can result from typographical errors, payments to incorrect vendors, duplicate payments, or lost discounts. Numerous training sessions have been conducted, and standard operating procedures have been reviewed and updated to ensure the most current processes are properly documented. Any significant changes in policy or procedures are communicated in a timely manner. Despite the agency's best efforts to collect all overpayments, some overpayments are not recoverable. For example, lost discounts can result when the agency is unable to pay an invoice within the time period specified by the vendor. While reported as improper payments, lost discounts are not recoverable and are excluded from the recovery percentage for both contracts and commodities.

B) Clean and Drinking Water State Revolving Funds

Beginning in FY 2018, the SRFs are no longer susceptible to significant improper payments. For the SRFs, the agency both identifies and recovers improper payments during the state review process. EPA Regions are required to conduct annual reviews of state SRF programs using checklists developed by Headquarters. Included in the checklist are questions about potential improper payments which the Regions discuss with the state SRF staff during the reviews. Errors in the SRFs most often arise from duplicate payments, funds drawn from the wrong account, incorrect proportionality used for drawing federal funds, ineligible expenses, transcription errors, or inadequate cost documentation. Many of the payment errors are immediately corrected by the state or are resolved by adjusting a subsequent cash draw. For issues requiring more detailed analysis, the state provides the agency with a plan for resolving the improper payments and reaches an agreement on the planned course of action. The agreement is described in EPA's Program Evaluation Report, and the agency follows up with the state to ensure compliance.

C) Grants

For the agency's grants payment stream, overpayments principally consist of ineligible expenses or lack of supporting documentation. When overpayments arise, EPA seeks to recover them either by establishing a receivable and collecting money from the recipient or by offsetting future payment requests. The agency follows established debt collection procedures to recapture overpayments.

EPA identifies overpayments in grants both through statistical sampling and through non-statistical means. The statistical sampling process is described further in Section IV, "Sampling and Estimation." As part of its non-statistical activity, the agency conducts transaction testing of active grant recipients through Advanced Administrative Monitoring reviews. Recipients selected for non-statistical reviews are chosen based on the results of risk assessments performed by grants management officers. Using a standard protocol, an onsite or desk review is performed, and each recipient's administrative and financial management controls are examined. The reviews include an analysis of the recipient's administrative policies and procedures and the testing of a judgmental sample of three non-consecutive draws.

In addition, the agency responds to single audits and audits conducted by the Office of the Inspector General and uses them as a means of identifying and recovering improper payments. The agency follows established processes for evaluating questioned costs, validating or disallowing costs where appropriate, and seeking

the recovery of any sustained overpayments. EPA also identifies improper payments originating from enforcement actions, grant adjustments, and recipient overdraws. Grant adjustments arise when a recipient must return any unexpended drawn amounts prior to close-out of the grant. Recipient overdraws occur when funds are erroneously drawn in advance of immediate cash needs, and the recipient is directed to repay the funds while also being reminded of the immediate cash needs rule. Depending on the type of error, improper payment information is tracked by the Office of the Controller and the Office of Grants and Debarment (OGD), and the records of each are reconciled to ensure complete and accurate reporting. For current year reporting, two overpayments totaling \$161K were determined to be not recoverable and were written off due to the debtor's inability to pay.

EPA also seeks to prevent improper payments. Prior to the issuance of a grant award, Grants Management Officers (GMO) conduct pre-award certification of non-profit recipients that receive awards in excess of \$200K to ensure their written policies and procedures specify acceptable internal controls for safeguarding federal funds. Re-certifications are conducted every four years. In addition, GMOs are required to ensure that recipients are not listed in the Excluded Parties List System within the System for Award Management. EPA conducts annual baseline monitoring reviews of all recipients to ensure overall compliance with assistance agreement terms and conditions, as well as all applicable federal regulations. If deemed necessary, recipients can be placed on a reimbursement payment plan which requires submission of cost documentation (receipts, invoices, etc.) for review and approval prior to receiving reimbursement.

D) Hurricane Sandy

Hurricane Sandy funding is comprised of expenditures related to its various component streams, which for FY 2018 reporting included contract, grant, and payroll dollars. All transactions in the universe were reviewed for improper payments, and no improper payments were identified.

E) Payroll

The agency's payroll is not susceptible to significant improper payments. Payroll is a largely automated process driven by the submission of employee time and attendance records and personnel actions. When employee debt arises, the employee is notified of the debt, given the right to dispute the debt, provided payment options, and an accounts receivable is recorded. For out-of-service debt, EPA establishes the debt and tracks recovery status. Out-of-service debt can arise when an employee leaves the Agency and owes funds back to EPA following separation. A small portion of EPA's out-of-service debt was uncollectible as a result of the separating employee retiring on disability. In-service debt is monitored by the Interior Business Center (IBC), which EPA utilizes as a shared service provider. IBC provides personnel and payroll support to multiple federal agencies. In-service debt can arise for a variety of reasons during the period of employment. For both in-service and out-of-service debt, recoveries are actively pursued by establishing receivables and following existing debt collection procedures.

The following internal controls are related to the prevention, identification, and recovery of improper payments in payroll. On a bi-weekly basis, employees, timekeepers, and managers are required to attest, review, or approve employee time in the Agency's time and attendance system, PeoplePlus, prior to the time entry and approval deadlines. Automated reminder notifications are sent as needed. When corrections are made to an employee's timesheet, PeoplePlus overwrites the original timesheet with the corrected version to prevent duplicate payments. The original timecards, as well as all corrected entries, are maintained in the EPA Audit Summary Page and the Payable Time Detail. OCFO's Office of Technology Solutions (OTS) performs quarterly reviews of all PeoplePlus access roles to identify separated employees who no longer need functional user access. As an additional control, the recertification of roles assigned in PeoplePlus ensures that the authority to approve employee time is only granted to the appropriate front line managers and supervisors assigned to review employee time. The review of certifications ensures that authorized managers have certified the hours reported on automatically approved timecards are accurate.

F) Purchase Cards

The purchase card program is not susceptible to significant improper payments, and no improper payments were identified in FY 2018. On August 20, 2018, EPA's OIG released the report, "EPA's Purchase Card and Convenience Check Program Controls Are Not Effective for Preventing Improper Purchases." The report's principal finding is that EPA's internal purchase card controls were not effective, indicating that cardholders, approving officials, the purchase card team, and EPA program offices were not providing sufficient oversight needed to achieve consistent compliance with internal controls. Although transactions reviewed by the OIG were not in complete compliance with EPA internal control requirements, no fraudulent or illegal transactions were identified, and none of the cited transactions resulted in monetary loss to the agency or the federal government.

EPA undertook a review of the transactions questioned by the OIG, which totaled \$57K. The agency determined that while the transactions did not comply with certain internal controls consistent with EPA's written purchase guide and procedure requirements, all transactions represented valid requirements and are not considered improper payments by the agency, since there were no incorrect, unauthorized, or fraudulent purchases. In all cases, the correct amounts were paid for the items purchased, they did not involve overpayments or underpayments, the payments were made to eligible recipients for eligible services, and no duplicate payments were involved. The agency is continuing its detailed review of transactions questioned by the OIG and increased oversight of new transactions.

The OIG's audit of purchase cards has helped the agency strengthen its purchase card internal control procedures. The OIG made a total of 11 recommendations in the final audit report. Six of the 11 corrective actions were completed as of October 5, 2018 in whole or in part, and the remaining five are expected to be completed by December 31, 2018. All corrective actions will be completed in their entirety by December 31, 2018.

G) Travel

Travel is not susceptible to significant improper payments. For travel, improper payments can include ineligible expenses and insufficient or missing supporting documentation. When an overpayment is identified for travel, the agency establishes a receivable, and existing procedures are followed to ensure prompt recovery.

The following tables quantify the agency's efforts to identify and recapture improper payments across all payment streams.

| Table 5: Overpayments Recaptured Outside of Payment Recapture Audits (1) <i>(\$ in millions)</i> | | |
|--|-------------------------------------|------------------------------------|
| Program | Amount Identified In FY 2018 | Amount Recovered in FY 2018 |
| Commodities (2) | 0.17 | 0.12 |
| Contracts (2) | 1.37 | 1.25 |
| CWSRF | 0.52 | 2.75 |
| DWSRF | 1.35 | 1.35 |
| Grants | 7.45 | 7.00 |

| | | |
|------------------------------|--------------|--------------|
| Hurricane Sandy | 0.00 | 0.00 |
| Payroll | 1.51 | 1.14 |
| Purchase Cards | 0.00 | 0.00 |
| Travel | 0.015 | 0.014 |
| Other (3) | 0.10 | 0.02 |
| Total | 12.49 | 13.64 |
| Recapture Rate - 109% | | |

- (1) EPA does not conduct a formal payment recapture audit, as a formal audit is not cost-effective. Amounts displayed in this table were identified and recovered using a variety of means available to the agency.
- (2) Amounts for contracts and commodities do not include lost discounts, which are uncollectible.
- (3) "Other" consists of improper payments identified by OIG or GAO audits plus confirmed fraud.

II. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

Enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012 codified requirements for federal agencies to implement the Do Not Pay (DNP) initiative, which is a government-wide solution designed to prevent payment errors and detect waste, fraud, and abuse in programs administered by the federal government.

Since March 2013, EPA's payments have been screened by Treasury's DNP working system to detect improper payments. Treasury analyzes each agency's payments and provides a monthly report itemizing any payments that were made to potentially ineligible recipients. These potential matches are identified when the name of an agency's payee matches the name of an individual or entity listed in federal data sources contained in Treasury's DNP working system.

In FY 2018, Treasury screened EPA payments against the following DNP data sources on a post-payment basis: the Social Security Administration's Death Master File and the General Services Administration's System for Award Management Exclusion List. Through September 30, 2018, approximately \$1.6 billion of EPA payments were screened. No payments were flagged for review, and no improper payments were identified. In addition, 60,000 EPA payments totaling \$3.9 billion were made via the Automated Standard Application for Payments (ASAP), and ASAP's grantee listing is monitored by Treasury. Finally, agency payments are routinely monitored by the Treasury Offset Program, which offsets federal payments to recipients with delinquent federal nontax debt. These different tools provide a valuable external check of the agency's payment integrity.

III. Sampling and Estimation

A) Grants

The sampling methodology for grants is statistically valid and robust, providing a sample size sufficient to estimate the proportion of erroneous payments within a margin of error of plus or minus 2.5 percent and a 95 percent confidence level. The sample size consists of seventy-five recipients with active grant awards in which drawdowns occurred during the eighteen-month sampling timeframe from April 1, 2016 to September 30, 2017. EPA used a two-stage random sampling approach to draw the sample. Stage 1 stratified the recipients by recipient type and resulted in the selection of seventy-five recipients using probability proportionate to size. Stage 2 used simple random sampling to select three draws per recipient for a total of 225 draws.

B) Hurricane Sandy

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, which provided a total of \$50.5 billion in aid for Hurricane Sandy disaster victims and their communities. EPA was appropriated over \$600 million of funds under the Act for Hurricane Sandy recovery and other disaster-related activities. The funding included \$500 million for CWSRF, \$100 million for DWSRF, and \$7 million for non-SRF grants. Sequestration reduced these amounts by 5 percent for a total of \$577 million.

Pursuant to OMB Memorandum M-13-07, Accountability for Funds Provided by the Disaster Relief Appropriations Act, programs and activities receiving funds under the Act were automatically deemed susceptible to significant improper payments and were required to calculate and report an improper payment estimate. As a result, EPA designed a statistically valid and robust sampling plan to test Hurricane Sandy expenditures. The sampling timeframe corresponds to the preceding fiscal year, which for FY 2018 reporting is the twelve months from October 1, 2016 to September 30, 2017. However, it should be noted that for FY 2018 reporting, rather than drawing a statistical sample, EPA reviewed the entire Hurricane Sandy population for improper payments. No improper payments were identified.

C) Other Disaster Relief Funding

On February 9, 2018, the President signed into law the Bipartisan Budget Act of 2018 (Public Law 115 123), which provided federal agencies \$84.4 billion in emergency supplemental appropriations in response to recent hurricanes, wildfires, and other disasters. The Act amended existing federal statutes to specify that Disaster Relief funding is deemed susceptible to significant improper payments. During the FY 2019 improper payments reporting cycle, EPA will address the improper payment reporting requirements identified in OMB Memorandum M-18-14, Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations.

IV. Risk Assessments

Agencies are required to conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments. OMB guidance allows a three-year risk assessment cycle for programs that are not susceptible to significant improper payments. For programs that are susceptible to significant improper payments, which consist of the grants payment stream and Hurricane Sandy funding, the quantitative method used for statistical sampling fulfills the risk assessment requirement. A quantitative risk assessment can consist of a true statistical sample or a non-statistical assessment where a subset of the population is sampled non-randomly, for which the ratio of improper payments is projected to the annual outlays. A qualitative risk assessment is an evaluation of risk factors that could contribute to the occurrence of significant improper payments. EPA utilizes both qualitative and quantitative methods to assess the risk of improper payments in its payment streams. The following risk factors are addressed in the agency's qualitative risk assessments:

- The age of the payment stream;
- The complexity of the payment stream with respect to determining correct payment amounts;
- Whether the number of payments increased substantially since the previous risk assessment was conducted;
- Whether annual outlays increased substantially since the previous risk assessment was conducted;
- The percentage of payment eligibility decisions made outside the Agency;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- Significant deficiencies in the audit reports of the agency including, but not limited to, OIG or Government Accountability Office audit report findings, or other relevant management findings that might hinder accurate payment certification;

- The impact of any significant changes in technology used to support the payment process;
- Whether the agency uses effective systems, techniques, and technologies to prevent or identify illegal, improper, or erroneous purchases;
- Whether control activities are monitored and tested to determine their effectiveness in mitigating fraud risk;
- The inherent risks of improper payments due to the nature of the payment stream or its operations;
- The level of risk associated with prior year improper payment work.
- Whether the agency has adequately addressed the risk factors identified in the Government Charge Card Abuse Prevention Act of 2012;

The qualitative risk assessments consist of a questionnaire designed to evaluate these risk factors in consideration of existing internal controls. Directions for completion are provided to the program managers of each payment stream, and they assign a score to each risk factor. The assigned scores are supported by a brief narrative that provides further analysis. Upon completion, the Office of the Chief Financial Officer (OCFO) tabulates a scorecard providing an overall risk rating for each payment stream on a scale of 1 to 100. If the final score is 33 or below, the payment stream is not susceptible to significant improper payments; if the score is between 33 and 66, the payment stream is susceptible to significant improper payments; and if the score is 66 or above, the payment stream is at high risk of significant improper payments.

In FY 2018, improper payment risk assessments were performed in commodities, contracts, CWSRF, DWSRF, payroll, purchase cards, and travel, all of which were identified as not susceptible to significant improper payments.

V. Conclusion

EPA maintains a robust payment integrity program, which has demonstrated continued success at reducing improper payments. Highlights from FY 2018 include the following:

- Risk assessments were completed, and most of the agency's payment streams were determined to be not susceptible to significant improper payments;
- Only two EPA programs still require annual reporting, and statistical sampling in these programs resulted in improper payment rates well below the IPERA threshold;
- CWSRF and DWSRF were granted relief from annual reporting; and
- No improper payments were identified through ongoing usage of the Do Not Pay program.

In FY 2019, the agency plans to pursue the following activities:

- Request relief from annual reporting for Hurricane Sandy funding;
- Complete a third year of statistical sampling in the grants payment stream;
- Continue tracking Do Not Pay results monthly; and
- Incorporate Disaster Relief funding into the agency's statistical sampling process.

FRAUD REDUCTION REPORT

Fraud Reduction and Data Analytics Act of 2015

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to improve financial and administrative controls to identify and assess fraud risks. In accordance with OMB Circular A-123, *“Management’s Responsibility for Enterprise Risk Management and Internal Control,”* EPA incorporated leading practices identified in the *“GAO Framework for Managing Fraud Risks in Federal Programs,”* and the agency will continue to use a risk-based approach to design and implement controls to mitigate identified fraud risks.

To increase fraud awareness and create an organizational culture that is committed to combating fraud, the agency continued to build on progress made in FY 2017 to incorporate the consideration of fraud risk when determining the overall effectiveness of internal controls. In the agency’s *FY 2018 Guidance for Enterprise Risk-Based Decision Making at EPA: Strategic Reviews and Management Integrity Internal Controls*, which integrates strategic review and internal control processes, national program managers and regional offices were encouraged required to consider fraud when identifying, assessing, and responding to risks. The Office of the Chief Financial Officer conducted agency-wide technical training that included a discussion on fraud and the key elements of the fraud risk assessment process highlighted in the GAO Framework.

The agency conducted internal control reviews and utilized the GAO standards and principles as the basis for determining whether controls are designed, implemented, and operating effectively. Senior managers complied with principle 8 of the *Standards for Internal Control in the Federal Government* and documented controls in place to address fraud risks associated with the strategic objectives as well as for administrative and financial processes.

Additionally, EPA identified and assessed risks, including fraud risks, related specifically to payment streams such as payroll, grants, contracts, travel and purchase cards. These are programs susceptible to high levels of risk and are evaluated on an annual basis as part of the Improper Payment Elimination and Recovery Improvement Act risk assessment. The assessment determined that the likelihood of risk for these payment streams were low and that the controls were operating effectively.

As outlined in the Statement on Auditing Standards Number 122, *Consideration of Fraud in a Financial Statement Audit*, AU-C Section 240, the Chief Financial Officer engaged in a conversation with the Inspector General on the processes for identifying, responding to and monitoring the risk of fraud in the agency.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (“2015 Act”), EPA and other federal agencies are required, starting in January 2017, to annually adjust their statutory civil penalties amounts by January 15 each year to account for inflation. In accordance with this requirement, EPA promulgated the 2018 Civil Monetary Penalty Inflation Adjustment Rule (2018 Rule) on January 10, 2018, which became effective on January 15, 2018. For details on the 2018 Rule, see 83 Fed. Reg. 1190-1194 (January 10, 2017), codified in Table 2 of 40 CFR § 19.4. EPA will amend 40 CFR § 19.4 in January 2019 to adjust penalty levels to reflect changes in inflation since the last adjustment.

Current Statutory Maximum/Minimum Civil Penalties under EPA’s 2018 Civil Monetary Penalty Inflation Adjustment Rule

| U.S. Code Citation | Environmental statute | Year statutory penalty authority was enacted | Latest year of adjustment (via statute or regulation) | Statutory civil penalties for violations that occurred after November 2, 2015 and assessed on or after January 15, 2018 |
|-----------------------------|---|--|---|---|
| 7 U.S.C. 136l.(a)(1) | FEDERAL INSECTICIDE, FUNGICIDE, AND RODENTICIDE ACT (FIFRA) | 1972 | 2018 | \$19,446 |
| 7 U.S.C. 136l.(a)(2) | FIFRA | 1972 | 2018 | \$2,795 |
| 7 U.S.C. 136l.(a)(2) | FIFRA | 1978 | 2018 | \$2,852/\$1,838 |
| 15 U.S.C. 2615(a)(1) | TOXIC SUBSTANCES CONTROL ACT (TSCA) | 2016 | 2018 | \$38,892 |
| 15 U.S.C. 2647(a) | TSCA | 1986 | 2018 | \$11,181 |
| 15 U.S.C. 2647(g) | TSCA | 1990 | 2018 | \$9,239 |
| 31 U.S.C. 3802(a)(1) | PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA) | 1986 | 2018 | \$11,181 |
| 31 U.S.C. 3802(a)(2) | PFCRA | 1986 | 2018 | \$11,181 |
| 33 U.S.C. 1319(d) | CLEAN WATER ACT (CWA) | 1987 | 2018 | \$53,484 |
| 33 U.S.C. 1319(g)(2)(A) | CWA | 1987 | 2018 | \$21,393/\$53,484 |
| 33 U.S.C. 1319(g)(2)(B) | CWA | 1987 | 2018 | \$21,393/\$267,415 |
| 33 U.S.C. 1321(b)(6)(B)(i) | CWA | 1990 | 2018 | \$18,477/\$46,192 |
| 33 U.S.C. 1321(b)(6)(B)(ii) | CWA | 1990 | 2018 | \$18,477/\$230,958 |
| 33 U.S.C. 1321(b)(7)(A) | CWA | 1990 | 2018 | \$46,192/\$1,848 |
| 33 U.S.C. 1321(b)(7)(B) | CWA | 1990 | 2018 | \$46,192 |

| U.S. Code Citation | Environmental statute | Year statutory penalty authority was enacted | Latest year of adjustment (via statute or regulation) | Statutory civil penalties for violations that occurred after November 2, 2015 and assessed on or after January 15, 2018 |
|---|--|--|---|---|
| 33 U.S.C. 1321(b)(7)(C) | CWA | 1990 | 2018 | \$46,192 |
| 33 U.S.C. 1321(b)(7)(D) | CWA | 1990 | 2018 | \$184,767/\$5,543 |
| 33 U.S.C. 1414b(d)(1) | MARINE PROTECTION, RESEARCH, AND SANCTUARIES ACT (MPRSA) | 1988 | 2018 | \$1,231 |
| 33 U.S.C. 1415(a) | MPRSA | 1972 | 2018 | \$194,457/\$256,513 |
| 33 U.S.C. 1901 note (<i>see</i> 1409(a)(2)(A)) | CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO) | 2000 | 2018 | \$14,177/\$35,440 |
| 33 U.S.C. 1901 note (<i>see</i> 1409(a)(2)(B)) | CACSO | 2000 | 2018 | \$14,177/\$177,200 |
| 33 U.S.C. 1901 note (<i>see</i> 1409(b)(1)) | CACSO | 2000 | 2018 | \$35,440 |
| 33 U.S.C. 1908(b)(1) | ACT TO PREVENT POLLUTION FROM SHIPS (APPS) | 1980 | 2018 | \$72,718 |
| 33 U.S.C. 1908(b)(2) | APPS | 1980 | 2018 | \$14,543 |
| 42 U.S.C. 300g-3(b) | SAFE DRINKING WATER ACT (SDWA) | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 300g-3(g)(3)(A) | SDWA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 300g-3(g)(3)(B) | SDWA | 1986/1996 | 2018 | \$11,181/\$38,954 |
| 42 U.S.C. 300g-3(g)(3)(C) | SDWA | 1996 | 2018 | \$38,954 |
| 42 U.S.C. 300h-2(b)(1) | SDWA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 300h-2(c)(1) | SDWA | 1986 | 2018 | \$22,363/\$279,536 |
| 42 U.S.C. 300h-2(c)(2) | SDWA | 1986 | 2018 | \$11,181/\$279,536 |
| 42 U.S.C. 300h-3(c) | SDWA | 1974 | 2018 | \$19,446/\$41,484 |
| 42 U.S.C. 300i(b) | SDWA | 1996 | 2018 | \$23,374 |
| 42 U.S.C. 300i-1(c) | SDWA | 2002 | 2018 | \$136,052/\$1,360,525 |
| 42 U.S.C. 300j(e)(2) | SDWA | 1974 | 2018 | \$9,722 |
| 42 U.S.C. 300j-4(c) | SDWA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 300j-6(b)(2) | SDWA | 1996 | 2018 | \$38,954 |

| U.S. Code Citation | Environmental statute | Year statutory penalty authority was enacted | Latest year of adjustment (via statute or regulation) | Statutory civil penalties for violations that occurred after November 2, 2015 and assessed on or after January 15, 2018 |
|-------------------------|--|--|---|---|
| 42 U.S.C. 300j-23(d) | SDWA | 1988 | 2018 | \$10,260/\$102,606 |
| 42 U.S.C. 4852d(b)(5) | RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992 | 1992 | 2018 | \$17,395 |
| 42 U.S.C. 4910(a)(2) | NOISE CONTROL ACT OF 1972 | 1978 | 2018 | \$36,760 |
| 42 U.S.C. 6928(a)(3) | RESOURCE CONSERVATION AND RECOVERY ACT (RCRA) | 1976 | 2018 | \$97,229 |
| 42 U.S.C. 6928(c) | RCRA | 1984 | 2018 | \$58,562 |
| 42 U.S.C. 6928(g) | RCRA | 1980 | 2018 | \$72,718 |
| 42 U.S.C. 6928(h)(2) | RCRA | 1984 | 2018 | \$58,562 |
| 42 U.S.C. 6934(e) | RCRA | 1980 | 2018 | \$14,543 |
| 42 U.S.C. 6973(b) | RCRA | 1980 | 2018 | \$14,543 |
| 42 U.S.C. 6991e(a)(3) | RCRA | 1984 | 2018 | \$58,562 |
| 42 U.S.C. 6991e(d)(1) | RCRA | 1984 | 2018 | \$23,426 |
| 42 U.S.C. 6991e(d)(2) | RCRA | 1984 | 2018 | \$23,426 |
| 42 U.S.C. 7413(b) | CLEAN AIR ACT (CAA) | 1977 | 2018 | \$97,229 |
| 42 U.S.C. 7413(d)(1) | CAA | 1990 | 2018 | \$46,192/\$369,532 |
| 42 U.S.C. 7413(d)(3) | CAA | 1990 | 2018 | \$9,239 |
| 42 U.S.C. 7524(a) | CAA | 1990 | 2018 | \$46,192/\$4,619 |
| 42 U.S.C. 7524(c)(1) | CAA | 1990 | 2018 | \$369,532 |
| 42 U.S.C. 7545(d)(1) | CAA | 1990 | 2018 | \$46,192 |
| 42 U.S.C. 9604(e)(5)(B) | COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA) | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 9606(b)(1) | CERCLA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 9609(a)(1) | CERCLA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 9609(b) | CERCLA | 1986 | 2018 | \$55,907/\$167,722 |
| 42 U.S.C. 9609(c) | CERCLA | 1986 | 2018 | \$55,907/\$167,722 |
| 42 U.S.C. 11045(a) | EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA) | 1986 | 2018 | \$55,907 |

| U.S. Code Citation | Environmental statute | Year statutory penalty authority was enacted | Latest year of adjustment (via statute or regulation) | Statutory civil penalties for violations that occurred after November 2, 2015 and assessed on or after January 15, 2018 |
|--------------------------|--|--|---|---|
| 42 U.S.C. 11045(b)(1)(A) | EPCRA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 11045(b)(2) | EPCRA | 1986 | 2018 | \$55,907/\$167,722 |
| 42 U.S.C. 11045(b)(3) | EPCRA | 1986 | 2018 | \$55,907/\$167,722 |
| 42 U.S.C. 11045(c)(1) | EPCRA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 11045(c)(2) | EPCRA | 1986 | 2018 | \$22,363 |
| 42 U.S.C. 11045(d)(1) | EPCRA | 1986 | 2018 | \$55,907 |
| 42 U.S.C. 14304(a)(1) | MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT) | 1996 | 2018 | \$15,583 |
| 42 U.S.C. 14304(g) | BATTERY ACT | 1996 | 2018 | \$15,583 |

GRANTS OVERSIGHT & NEW EFFICIENCY (GONE) ACT REQUIREMENTS

EPA has tracked assistance agreement closeout performance since its first five-year Grants Management Plan was issued in 2002. EPA reports to the Office of Management and Budget in its Annual Financial Report on two grants closeout performance measures: 90% of recently expired grants and 99% of grants that expired in earlier years. The agency has consistently exceeded or met these targets or, in limited instances, missed them by a few percentage points. Below is a summary table showing the total number of federal grant and cooperative agreement awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by more than two years.

| CATEGORY | 2-3 Years FY15-16 | >3 5 Years FY13-15 | >5 Years Before FY13 |
|---|----------------------|-----------------------|-------------------------|
| Number of Grants/Cooperative Agreements with Zero Dollar Balances | 29 | 11 | 3 |
| Number of Grants/Cooperative Agreements with Undisbursed Balances | 12 | 3 | 0 |
| Total Amount of Undisbursed Balances | \$7,762,717 | \$1,640,660 | 0 |

The timely closeout of grants can be delayed for a variety of reasons, but generally these include open audits with unresolved findings and where recipient appeal rights have not yet been exhausted; or lack of required documentation from the recipient. EPA monitors unliquidated obligations (ULOs) on expired assistance agreements as well, requiring an annual review of ULOs to determine if funds are no longer needed and can be deobligated and the assistance agreement closed out.

BIENNIAL REVIEW OF USER FEES

In accordance with *OMB Circular A-25, User Charges*, and the Chief Financial Officer's Act of 1990, EPA conducted reviews of its programs to assess the Agency's activities that convey special benefits to recipients beyond those accruing to the general public. The purpose of this review was to:

- a) Ensure that each service, sale, or use of Government goods or resources provided by the EPA to specific recipients be self-sustaining;
- b) Promote efficient allocation of the Nation's resources by establishing charges for special benefits provided to the recipient that are at least as great as costs to the Government of providing the special benefits; and
- c) Allow the private sector to compete with the Government without disadvantage in supplying comparable services, resources, or goods where appropriate.

EPA's FY 2018 user fee review included an assessment of six existing user fee programs to evaluate the cost activities of the fee programs and if necessary, make recommendations to adjust fees to reflect unanticipated changes in costs or market values. EPA's FY 2018 review confirmed that the Agency's existing user fee programs are in compliance with statutory requirements to recover the cost of their activities. No recommendations were made to adjust the levels of existing fee collections. In FY 2018 these six programs collected \$61 million, while the Agency expended \$194M to implement those six programs. EPA currently implements the following 6 existing user fee programs, in accordance with each program's underlying statute:

| Fiscal Year 2018 Biennial User Fee Programs Reviewed | |
|---|---|
| Clean Air Part 71 | Motor Vehicles and Engine Compliance Program |
| Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) | Pesticide Registration Improvement Extension Act (PRIA) |
| Lead-Based Paint Program | Pre-Manufacture Notice (PMN) |

Along with reviewing EPA's existing user fee programs, the Agency is conducting an agencywide initial assessment to determine whether fees should be assessed for those programs that provide special benefits to recipients beyond those that accrue to the general public. EPA will be working with OMB in FY 2019 to determine whether or not exceptions are justified for each program, since the cost of collecting fees can often represent and unduly large part of the fee activity, or other conditions may exist that would cause the implementation of a fee to be inappropriate.

In accordance with *OMB Circular A-25 Revised, User Charges*,

EPA is also exploring options and opportunities for programs where collecting fees may be appropriate, for which EPA is not recommending an exception to OMB. For instance, in the FY 2019 President's Budget, EPA outlined the following legislative proposals to authorize EPA to collect (or adjust existing) fees:

1. The FY 2019 Budget included a proposal to authorize the EPA to establish user fees for entities that participate in the ENERGY STAR program. By administering the ENERGY STAR program through the collection of user fees, the EPA would continue to provide a trusted resource for consumers and businesses who want to purchase products that save them money and help protect the environment.
2. The FY 2019 Budget included a proposal to expand the range of activities that EPA can fund with existing pesticide registrations service fees and maintenance fees.
3. The FY 2019 Budget requests authorization for the EPA Administrator to collect and obligate fees

to provide compliance assistance services for owners or operators of a non-transportation related onshore or offshore facility located landward of the coastline required to prepare and submit Spill Prevention Control and Countermeasure Plans or Facility Response Plans under section 311(j) of the Federal Water Pollution Control Act. Allowing these facilities to voluntarily request and pay for a service whereby EPA conducts an on-site, walk-through of the facility will help expand awareness and understanding of accident prevention processes, improve the safety of industrial operations, and reduce inadvertent regulatory compliance violations.

4. The FY 2019 Budget requests authorization for the Administrator to collect and obligate fees to provide compliance assistance services for owners or operators of a stationary source required to prepare and submit a Risk Management Plan under Section 112(r)(7) of the Clean Air Act. Allowing these facilities to voluntarily request and pay for a service whereby EPA conducts an on-site, walk-through of the facility will help expand awareness and understanding of accident prevention processes, improve the safety of industrial operations, and reduce inadvertent regulatory compliance violations.

In FY 2018, EPA also evaluated the new methodology implemented in FY 2015 to track project costs using a unique identifier code in the agency's financial system, issuing updated biennial user fee guidance, conducting webinars to train personnel on the review process, and increasing oversight of the biennial user fee review process.

To increase efficiency when capturing program activity and estimating costs, the agency implemented the following:

- Improved communication between OC and user fee program staff to ensure their understanding of the coding structure and the necessity of timely code entry.
- Performed monthly reviews and created standardized reports for user fee program stakeholders, to ensure accurate and timely entry of user fee data entry.

A scenic photograph of a river flowing over moss-covered rocks. The water is white and turbulent as it cascades over the dark, mossy stones. The background is a dense forest of green trees. In the top right corner, there is a semi-transparent dark green rectangular box containing the text "Section IV Appendices" in white serif font. There are also several smaller, lighter green rectangular boxes in the top left area of the image.

Section IV Appendices

APPENDIX A

PUBLIC ACCESS

EPA invites the public to access its website at www.epa.gov to obtain the latest environmental news, browse agency topics, learn about environmental conditions in their communities, obtain information on interest groups, research laws and regulations, search specific program areas, or access EPA's historical database.

EPA newsroom: www.epa.gov/newsroom

News releases: www.epa.gov/newsroom/news-releases

Regional newsrooms: <https://www.epa.gov/newsroom/browse-news-releases#regions>

Laws, regulations, guidance and dockets: <https://www.epa.gov/laws-regulations>

Major environmental laws: <https://www.epa.gov/laws-regulations/laws-and-executive-orders>

EPA's *Federal Register* website: www.epa.gov/fedrgstr

Where you live: <https://www.epa.gov/children/where-you-live>

Community Information: <https://www.epa.gov/nutrientpollution/what-you-can-do-your-community>

EPA regional offices: <https://www.epa.gov/aboutepa/visiting-regional-office>

Information sources: <https://www.epa.gov/quality/epa-information-quality-guidelines>

Hotlines and clearinghouses: <https://www.epa.gov/home/epa-hotlines>

Publications: <https://nepis.epa.gov/EPA/html/pubindex.html>

Education resources: www.epa.gov/students/

Office of Environmental Education: www.epa.gov/education

About EPA: www.epa.gov/aboutepa

EPA organizational structure: www.epa.gov/aboutepa/epa-organizational-structure

EPA programs with a geographic focus: <https://www.epa.gov/environmental-topics/environmental-information-location>

EPA for business and nonprofits: <https://www.epa.gov/grants/guidance-non-profit-organizations-purchasing-supplies-equipment-and-services-under-epa-grants>

Small Business Gateway: www.epa.gov/osbp/

Grants, fellowships, and environmental financing: <https://www.epa.gov/grants>

Budget and performance: www.epa.gov/planandbudget

Careers: www.epa.gov/careers/

EPA en Español: espanol.epa.gov

EPA tiếng Việt: <https://www.epa.gov/lep/vietnamese>

EPA 한국어: www.epa.gov/korean

APPENDIX B

ACRONYMS AND ABBREVIATIONS

| | | | |
|---------|---|--------|--|
| ACE | Affordable Clean Energy | FIFRA | Federal Insecticide, Fungicide and Rodenticide Act |
| ADA | Anti-deficiency Act | FISMA | Federal Information Security Management Act Federal Managers' |
| ADP | Action Development Process | FMFIA | Financial Integrity Act of 1982 |
| AFR | Agency Financial Report | FRPP | Federal Real Property Profile |
| AICPA | American Institute of Certified Public Accountants | FTEFY | Full-time Equivalent fiscal year |
| APPS | Act to Prevent Pollution from Ships | GAAP | generally accepted accounting principles |
| APR | Annual Performance Report | GAO | Government Accountability Office |
| ASAP | Automated Standard Application for Payments | GMO | Grants Management Officer |
| B&F | building and facilities | G-PP&E | General –Plant, Property and Equipment |
| BFS | Bureau of Fiscal Services | GPRAMA | Government Performance and Results Act Modernization Act of 2010 |
| CAA | Clean Air Act | GSA | U.S. General Services Administration |
| CACSO | Certain Alaskan Cruise Ship Operations | HVAC | heating, ventilation, and air conditioning |
| CERCLA | Comprehensive Environmental Response Compensation and Liability Act | IBC | Interior Business Center |
| CFO | Chief Financial Officer | IPERA | Improper Payments Elimination and Recovery Act |
| CO CSRS | contracting officer Civil Service Retirement System | IPERIA | Improper Payments Elimination and Recovery Improvement Act |
| CWA | Clean Water Act | IPIA | Improper Payments Information Act |
| CWSRF | Clean Water State Revolving Fund | | |
| DATA | Data Accountability and Transparency Act | | |
| DCAA | Defense Contract Audit Agency | | |

| | | | |
|---------|---|----------|--|
| DEAR | DATA Act Evaluation and Approval Repository | LMS | Lean Management Systems |
| DM&R | Deferred Maintenance and Repairs | LUST | leaking underground storage tank |
| DNP | Do Not Pay | MPRSA | Marine, Protection, Research, and Sanctuaries Act |
| DWSRF | Drinking Water State Revolving Fund | NASA | National Aeronautics and Space Administration |
| ELMS | EPA Lean Management Systems | NPL | National Priorities List |
| EPA | U.S. Environmental Protection Agency | NRDA | Natural Resource Damages Assessment |
| EPCRA | Emergency Planning and Community Right-to-know Act | OCFO OIG | Office of the Chief Financial Officer Office of Inspector General |
| EPM ERM | Environmental Programs and Management Enterprise Risk Management | OMB | OMB Office of Management and Budget |
| FAS | Fixed Assets Subsystem | OPA | OPA Oil Pollution Act |
| FASAB | Federal Accounting Standards Advisory Board | | |
| FBWT | Fund Balance with Treasury | | |
| FCO | Funds Control Officer | | |
| FECA | Federal Employees Compensation Act | | |
| FERS | Federal Employees Retirement System | | |
| FFMIA | Federal Financial Management Improvement Act of 1996 | | |

| | | | |
|---------|---|-------|---|
| OPM | Office of Personnel Management | SARA | Superfund Amendments & Reauthorization Act |
| ORD | Office of Research and Development | SDWA | Safe Drinking Water Act |
| PCA | Payroll Cost Allocation | SFFAS | Statement of Federal Financial Accounting Standards |
| PFCRA | Program Fraud Civil Liberties Act | SPA | state program approval |
| PP&E | Plant, Property and Equipment | SRAF | Service Receipts Account Fund |
| PRASA | Puerto Rico Aqueduct and Sewer Authority | SRF | State Revolving Fund |
| PRFA | Pollution Removal Funding Agreements | SSC | Superfund State Contracts |
| PRIA | Pesticides Registration Improvement Act | S&T | Science & Technology |
| PROMESA | Puerto Rico Oversight, Management, and Economic Stability Act | STAG | State and Tribal Assistance Grants |
| PRP | Potential Responsible Party | TSCA | Toxic Substances Control Act |
| RCRA | Resource Conservation and Recovery Act | ULO | unliquidated obligations |
| R&I | repair and improvement | USDA | U.S. Department of Agriculture |
| RTF | Reduce the Footprint | USSGL | U.S. Standard General Ledger |
| RTP | Research Triangle Park | UST | Underground Storage Tank |
| | | WCF | Working Capital Fund |
| | | WIFIA | Water Infrastructure Finance and Innovation Act |

WE WELCOME YOUR COMMENTS!

Thank you for your interest in the U.S. Environmental Protection Agency's *Fiscal Year 2018 Agency Financial Report*. We welcome your comments on how we can make this report a more informative document for our readers. Please send your comments to:

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