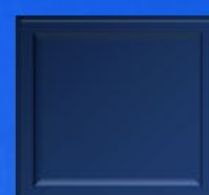


# Fiscal Year **2019**

## Agency Financial Report



# ABOUT THIS REPORT

The U.S. Environmental Protection Agency (EPA) Fiscal Year 2019 Agency Financial Report (AFR) provides an overview of the financial and performance results for the fiscal year (FY) spanning October 1, 2018 through September 30, 2019.

The information, data, and analyses provided in this AFR assists the President, Congress, and the American people in assessing the agency's yearly activities and accomplishments towards its mission of protecting human health and the environment.

The FY 2019 AFR includes EPA's FY 2019 Financial Statements Audit Report and the Agency's FY 2019 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 2019 progression in addressing Office of Inspector General (OIG) audit recommendations.

The AFR includes information 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 2019 performance results as measured against the targets established in its FY 2019 Performance Plan and Budget and the goals established in its FY 2018–2022 Strategic Plan. EPA's FY 2019 APR will be included with the Agency's FY 2020 Congressional Budget Justification submission and will be posted on the Agency's website.

The AFR and APR combined will present a complete overview of the Agency's activities, accomplishments, progress, and financial information for each fiscal year. Both prior year reports are available on EPA's internet at: <http://www.epa.gov/planandbudget/results>.

## How the Report Is Organized

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EPA's FY 2019 AFR is organized into three sections to provide clear insight into the Agency's financial results.

### **Section I—Management's Discussion and Analysis**

This section contains an overview on EPA's mission and organizational structure; a summary of performance results; an analysis of the financial statements and stewardship data; information on systems, legal compliance, and controls; and other management initiatives.

### **Section II—Financial Section**

This section 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 Integrity and Challenges” 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 information on the Agency website and a glossary of acronyms and abbreviations.

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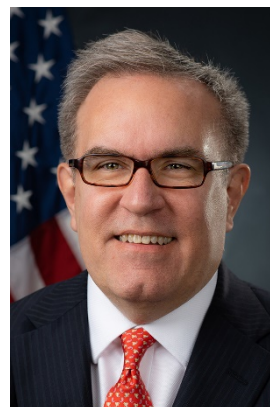
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# Message from the Administrator

November 19, 2019

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



Dear Mr. President:

It is my privilege to present you with the U.S. Environmental Protection Agency's Fiscal Year 2019 Agency Financial Report. This report outlines the EPA's use of taxpayer resources to advance the Administration's environmental priorities, ensuring accountability and demonstrating our financial integrity. I am proud to report that this marks the 20<sup>th</sup> consecutive year that the agency has earned a clean, unmodified financial audit opinion from its independent auditors – an achievement that speaks to the dedication, professionalism and integrity of the agency's career staff. As the EPA approaches its 50<sup>th</sup> year of working toward our mission of protecting human health and the environment, we have a lot to celebrate.

When you called on me to take the lead as EPA Administrator, you asked me to do three things: continue to clean up the air, continue to clean up the water, and continue to deregulate to help the economy thrive and create more jobs for American workers. As you will see, we are doing all of those things, and more. My vision is that the agency's decisions help bring certainty to those whom they affect. This means certainty for the states, tribes and local governments that implement the EPA's rules and rely on the EPA's guidance; certainty within the EPA's programs, such as permitting and enforcement actions; and certainty in risk communication so that Americans can be better informed of environmental threats.

Through the EPA's *Water Infrastructure Finance and Innovation Act* Loan program, we are investing in America's water infrastructure like never before. FY 2019 was only the second year the agency has issued loans under the new WIFIA program, and the agency has processed approximately \$3 billion in WIFIA loan requests from our state, local and tribal partners. These infrastructure investments help ensure that communities across the nation have access to clean and safe drinking water by helping communities replace old, outdated, and often lead-containing drinking water systems. Additionally, the loan program has already resulted in the creation of more than 12,000 jobs. And the WIFIA program's active pipeline of pending applications and projects will lead to billions of dollars of future investments and the creation of thousands of additional jobs.

The EPA is also focused on continuing to reduce carbon dioxide emissions and improve air quality for all Americans. The agency recently issued the final Affordable Clean Energy rule, which we project will help reduce U.S. power sector carbon dioxide emissions by as much as 35 percent below 2005 levels by 2030 – even as the economy improves. The ACE rule operates within the *Clean Air Act* and establishes emission guidelines for limiting CO<sub>2</sub> emissions from the power sector. As a result, the agency anticipates approximate annual net benefits to the public of \$120 to \$730 million. These benefits build upon the amazing clean air results that we have already seen as a nation. Between 1970 and 2018, the combined emissions of six key pollutants dropped by 74 percent, while the U.S. economy grew 275 percent.

One of our top priorities remains protecting children's health. I recently reaffirmed the agency's Policy on Evaluating Health Risks to Children as we work to ensure that all children, especially those in vulnerable communities, can thrive by living, learning and playing in healthy environments. Under your tenure, we are doing what previous administrations have failed to do by updating and improving federal regulations protecting our drinking water from lead and copper. In October, the EPA proposed the first major overhaul of the Lead and Copper Rule since 1991, marking a critical step in advancing the Trump Administration's Federal Action Plan to Reduce Childhood Lead Exposures. This includes a focus on infrastructure improvements, such as lead service line identification and replacement, requiring water systems to replace their portion of a lead service line when a customer chooses to replace their portion of the line. The proposal also focuses on five additional areas that would require a community water system to take new actions, including identifying the most impacted areas by requiring lead service line inventories; strengthening drinking water treatment by requiring corrosion control treatment; increasing drinking water sampling reliability; improving risk communication to customers by requiring notifications within 24 hours if a sample collected in their home is above 15 parts per billion of lead; and requiring water systems to take drinking water samples from the schools and child care facilities served by the system. The EPA has also funded our states and tribal governments with approximately \$24 million to test for lead in drinking water in schools and childcare facilities. And we awarded more than \$9 million in rebates to school bus fleets to help replace older, dirtier school buses with newer, cleaner vehicles. In the FY 2020 Budget, the agency also proposed a new EPA program that would provide \$50 million to establish a new Healthy Schools Grant Program. This new program is intended to address gaps in school environmental health programs by working with and through our state, tribal and community partners to reduce asthma triggers, promote integrated pest management and reduce or eliminate childhood exposure to lead and toxics in schools across all environmental media.

The agency has also continued to elevate the Superfund program as a top priority. In FY 2019, seven additional sites were added to the National Priorities List. By adding these sites, the agency is taking action to clean up some of the most contaminated sites, protect the health of the local communities and return sites to safe and productive reuse. While seven sites were added to the NPL, 12 sites were fully deleted last year. Superfund cleanups provide health and economic benefits to communities. The program is credited for significant reductions in birth defects and blood-lead levels among children living near sites as well as leveraging more than \$13 billion in economic activity at 529 Superfund sites returned to productive use.

As envisioned in the *Hazardous Waste Electronic Manifest Establishment Act of 2012*, the agency continues to use an e-Manifest system to track hazardous waste. Implemented in late FY 2018, the system is transitioning paper-based manifests into an electronic tracking system for hazardous waste shipments, reducing burden for state and industry users. During FY 2019, using the agency's e-Manifest system reduced the state and industry burden for processing hazardous waste manifests by over \$15 million.

Every year, the EPA responds to damages and contamination resulting from hurricanes, floods, wildfires and other natural disasters. In FY 2019, the agency entered into a Memorandum of Understanding to streamline coordination between the EPA's State Revolving Fund programs and the Federal Emergency Management Agency to respond more quickly to disasters and restore water infrastructure more efficiently. This first-of-its-kind MOU will have a strong impact on our response efforts in future disasters and delivers on the Administration's commitment to protect human health and the environment by helping communities and utilities prepare for and respond to natural disasters and other emergencies. Another aspect of our emergency response is safeguarding sites during natural disasters or emergencies. When Hurricane Maria left massive destruction in Puerto Rico, the EPA responded by mobilizing several hundred staff to help

collect hazardous materials. When wildfires broke out in northern California, the EPA and its federal, state, and local partners conducted Superfund site assessments, debris removal, and air quality monitoring. And when Hurricane Florence hit North Carolina's coast, we worked with our partners to ensure that Superfund sites and other facilities in the storm's path were secured.

The EPA also continues to implement a number of agency reform efforts intended to standardize and modernize agency operations. We have created an Office of Continuous Improvement and are implementing an agencywide EPA Lean Management System designed to promote more efficient and effective operations across the agency. Also, by supporting the President's Management Agenda, the EPA is advancing process improvements and reducing long-term costs. Our efforts to migrate to shared services in support of the PMA and the Cross-Agency Priority goals will continue to save taxpayers money as the agency uses federal solutions such as the General Service Administration's badging program and the Department of the Interior's training tool. In another example, through our efforts on the Getting Payments Right CAP goal, the agency is working to improve payment processing and the accuracy of payment issuance.

I take pride in this report and ensuring the financial and performance data is a reliable, complete and fully transparent reflection of our efforts to continue improving financial management, performance and accountability. My assurance statement, as required under the *Federal Managers' Financial Integrity Act*, appears in Section I, "Management's Discussion and Analysis," of this report. Section III of this report identifies areas that need improvement by the assessment, including our management challenges as identified by the Office of Inspector General. We will use their findings and recommendations as a guide to strive for continuous improvement. More results for FY 2019 will be highlighted in the upcoming FY 2021 Annual Performance Plan and Budget.

It is my honor to work among colleagues who have devoted their careers to protecting human health and the environment. The agency's accomplishments are the result of our collective commitment to the EPA's mission and our enduring responsibility to help create a safer, cleaner and healthier environment for all Americans.

Most Respectfully,

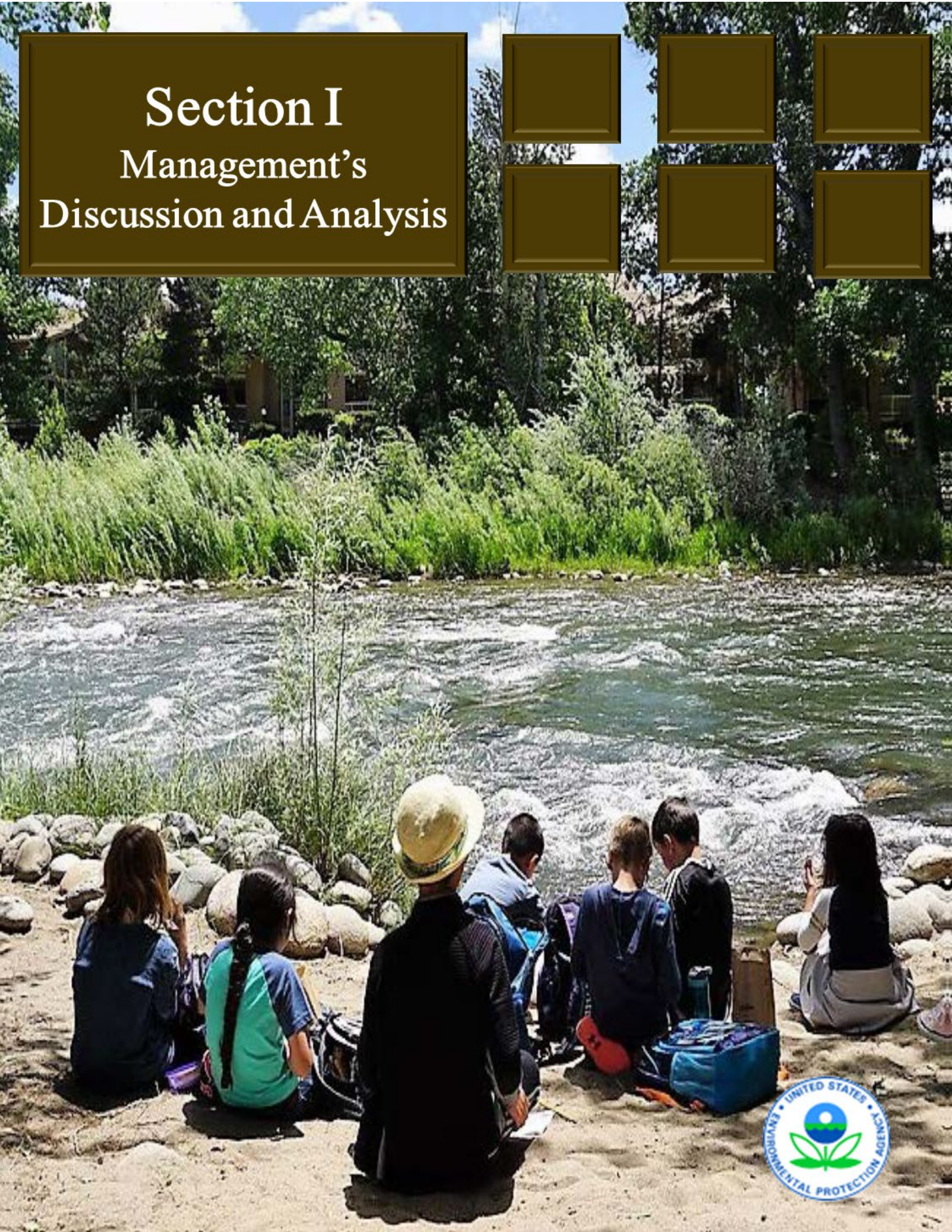
A handwritten signature in black ink, appearing to read "Andrew Wheeler". The signature is fluid and cursive, with a long horizontal stroke at the end.

Andrew R. Wheeler  
Administrator



# Section I

## Management's Discussion and Analysis



# ABOUT EPA

## History and Purpose

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The American people deserve a clean, healthy, and safe 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 sustainable solutions to existing and emerging environmental concerns.

EPA incorporates environmental research, monitoring, standard-setting, and enforcement functions under the guidance of a single agency. As a result, the Agency ensures 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 providing a cleaner, safer, and healthier environment for all Americans and future generations. 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 and communication among a diverse group of partnerships, 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

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### 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 accomplish this mission, EPA depends upon the most accurate scientific information to identify human health and environmental concerns that affect policy decisions and enforcement actions. EPA works to ensure all communities, individuals, businesses, and state, local and tribal governments have access to accurate information sufficient to effectively participate in delivering a cleaner, safer, and healthier environment. EPA will continue to effectively and efficiently serve the American people and conduct business with transparency in a manner worthy of the public's trust and confidence.

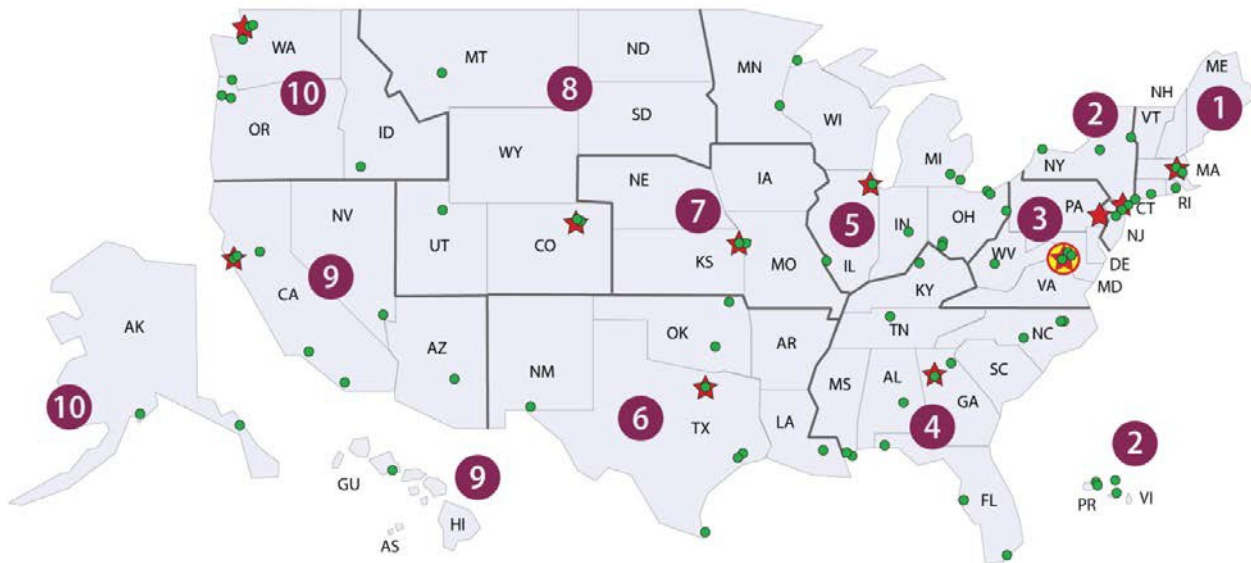
## Organization

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

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### EPA Offices and Facilities

-  EPA National Headquarters
-  EPA Regional Headquarters
-  EPA Regional and Program Laboratories and Facilities

## Collaborating with Partners and Stakeholders

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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 2019 PROGRAM PERFORMANCE

Detailed FY 2019 performance results will be presented in EPA's *FY 2019 Annual Performance Report (APR)*. EPA will include its *FY 2019 APR* with its *FY 2021 Annual Performance Plan and Budget*. These reports, along with FY 2019 performance results are posted at <http://www.epa.gov/planandbudget> concurrent with the publication of the *FY 2021 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 2019:

- **Agency Financial Statements.** For the 20<sup>th</sup> consecutive year, EPA's OIG issued a "clean" audit opinion, unmodified, in the Agency's financial statements. This accomplishment underlines EPA's consistency in timely, reliable, and accurate financial information that is reported in all material aspects.
- **Anti-Deficiency Act.** In FY 2019, EPA reported two sets of Anti-Deficiency Act violations related to the voluntary services prohibition, which occurred at various points between 2011 and 2016. The agency began taking corrective actions in July 2017 and has fully corrected these violations.
- **Water Infrastructure Finance and Innovation Act.** Through ongoing collaboration with states, tribes, municipalities, and private entities, the EPA was able to issue 9 WIFIA loans nationwide to fund high-priority infrastructure investments, each of which ensure our mission of protecting human health and the environment.
- **EPA's Lean Management System.** EPA implemented an agencywide initiative of continuous improvement systems to assess and increase efficiency for various financial processes, including Superfund Billing, Internal Control Reviews, processing Freedom of Information Act requests, Conference Spending reporting, and the Governmentwide Treasury Account Symbol Submission process. These lean management approaches, which identify and solve problems as they occur, has resulted in more streamlined processes and increased transparency.
- **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 2018 improper payment reporting determined EPA was in full compliance with IPERA, which marks the sixth consecutive year of compliance for EPA. The agency anticipates achieving a seventh straight year of compliance for FY 2019 reporting.
- **e-Manifest.** During FY 2019, the EPA continued to reduce the burden of costs associated with hazardous waste manifests through the use of the agency's e-Manifest system, reducing the state burden for processing manifests by over \$15 million.
- **Superfund Interagency Agreements.** This fiscal year, the Office of the Inspector General's audit of Superfund Interagency Agreements (IA) identified over \$3 billion in EPA active agreements. The audit noted this success is due to the Agency maintaining an effective system for monitoring IA projects between other federal agencies for Superfund work.
- **G-Invoicing.** EPA has begun working with federal agencies to implement the Government Invoicing solution to transition all interagency buy/sell activities for over 1,400 open agreements. During this change in business process the agency will continue improving the quality of Intragovernmental Transactions, while also being able to maintain our core mission in the most effective and efficient manner.
- **E-Invoicing.** To maintain financial integrity and accountability the agency is implementing electronic invoicing through a web-based system, Invoice Processing Platform (IPP), that streamlines invoice processing into a centralized location. This system has the potential to save taxpayer dollars and

minimize improper payments.

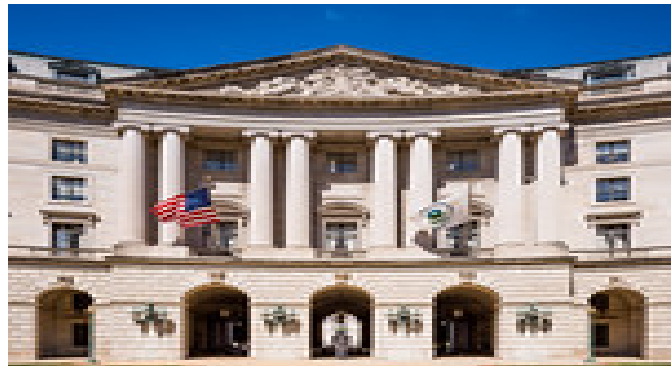
- **Working Capital Fund Financial Statements.** The EPA's Working Capital Fund provides common administrative services to the EPA and other federal agencies, where the costs of goods and services provided are charged to users on a fee-for-service basis. In FY 2019, the WCF began its twenty-third year of operation. The WCF is not mandated to be audited by a third-party; however, the EPA's WCF has contracted with an external CPA firm to conduct an annual audit. For the 16<sup>th</sup> consecutive year, the EPA's WCF received a clean opinion, indicating its financial statements were presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.
- **Financial Management Challenges.** During the FY 2019, Financial Statements audit, the Office of Inspector General identified one new material weakness related to the agency's preparation of the financial statements. The agency will continue to review its processes for preparing financial statements and identify process improvements to strengthen the preparation process further.

## 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, 2019, and September 30, 2018. 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 2017.



### Key Terms

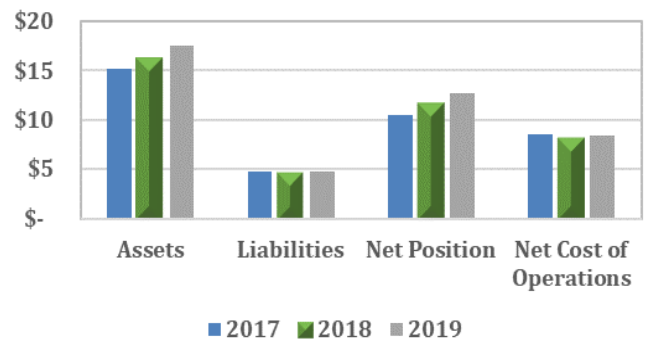
**Assets:** What EPA owns and manages.

**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.

### Balance Sheet Trend (dollars in billions)

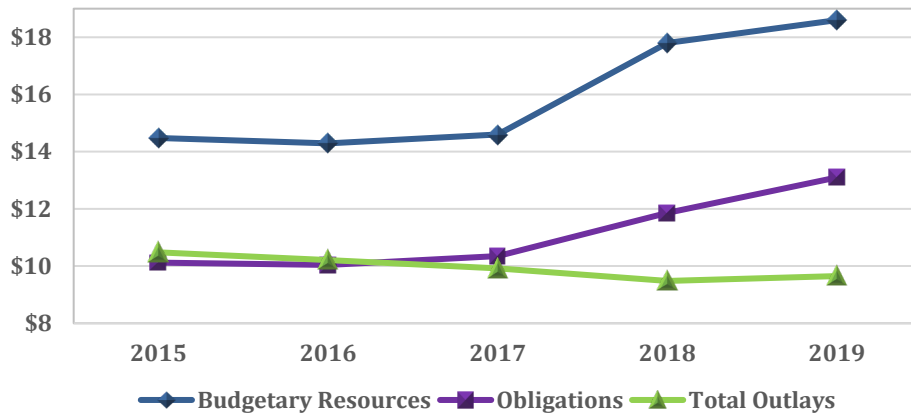




**EPA Resources and Spending**

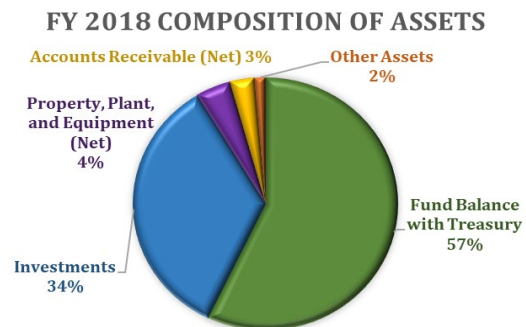
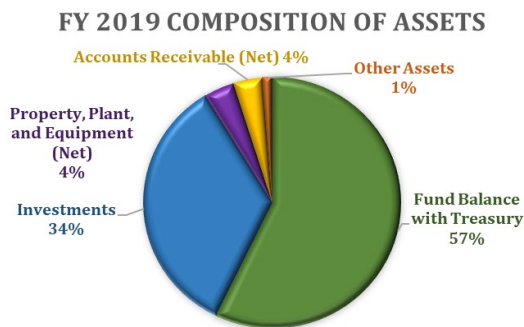
The figure below depicts EPA’s aggregate budgetary resources (congressional appropriations and some agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last five fiscal years. The Statement of Budgetary Resources in Section II provides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

**EPA Financial Trends  
(dollars in billions)**



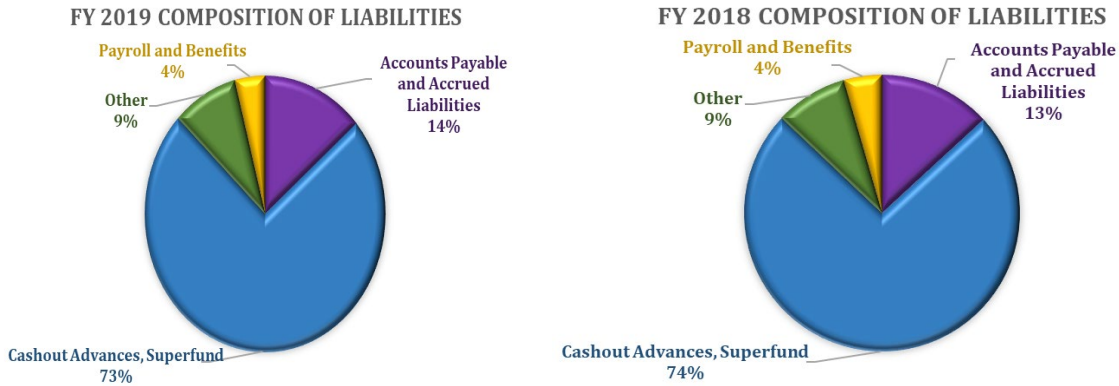
**Assets—What EPA Owns and Manages**

EPA’s assets totaled \$17.48 billion at the end of FY 2019, an increase of \$1.42 billion from the FY 2018 level. In FY 2019, 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 2019 and FY 2018 assets by major categories.



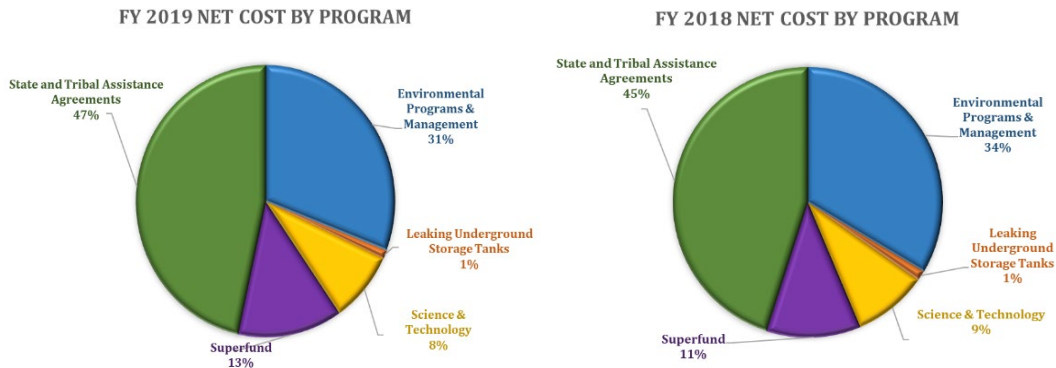
**Liabilities—What EPA Owes**

EPA’s liabilities were \$4.76 billion at the end of FY 2019, a decrease of \$238 million from the FY 2018 level. In FY 2019, EPA’s largest liability (73 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 2019 and FY 2018 liabilities by major categories.



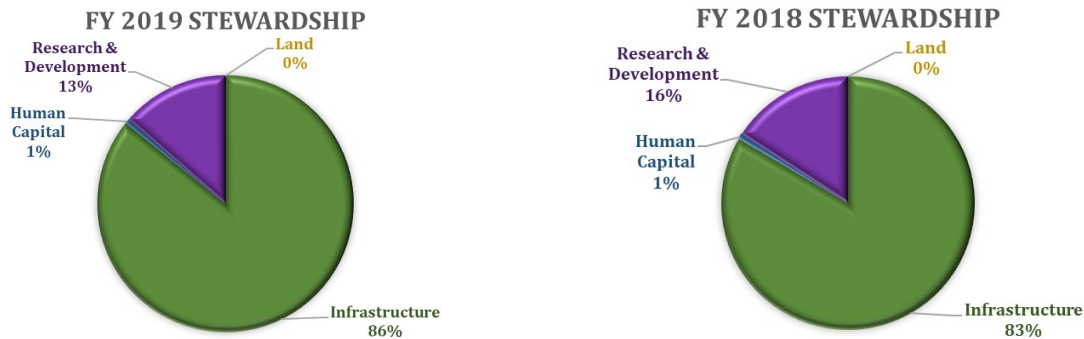
**Net Cost of Operations—How EPA Used Its Funds**

The graph that follows show how EPA’s funds are expended among five expenditure accounts in FY 2019 and FY 2018.



## 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 2019, EPA devoted a total of \$3.8 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 water infrastructure projects, such as 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 \$3.32 billion in FY 2019 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 water bodies 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 may acquire easements that are in good and usable condition. These easements may 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

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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.

## Limitations of the Principal Financial Statements

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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 2019, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 240 recommendations accounting for over \$314.0 million in potential savings and recoveries;
- 119 actions taken by the Agency for improvement from OIG recommendations; and
- 384 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 2019, the agency exceeded the grant competition metric by 5%, and was just under both the 99% and 90% targets for grant closeouts.

Grants Management Performance Measures for EPA			
Performance Measure	Target	Progress in FY 2019	Progress in FY 2018
Percentage of eligible grants closed out	90%*	87.3% of grants that expired in 2018	83.3 % of grants that expired in 2017
	99%**	97.7% of grants that expired in 2017 and earlier	99% of grants that expired in 2016 and earlier
Percentage of new grants subject to the competition policy that are competed***	90%	95%	93%

\*Percentage of open grants that expired in 2018 that were closed in performance year.

\*\*Percentage of open grants that expired in 2017 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)**

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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.

During FY 2019, 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, the 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 Administrator's overall statement of assurance on the adequacy of the EPA's internal controls over operations and financial management systems.

In FY 2019, the EPA identified one new material weakness related to the agency's preparation of the financial statements. The Agency had one existing material weakness related to internal controls over financial reporting and has completed all corrective actions for this weakness. The 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***

The Agency has evaluated the key internal controls spanning its financial processes. Based on this evaluation, no new material weaknesses were identified. Subsequent to the Agency's review, the EPA's OIG identified one new material weaknesses during the FY 2019 financial statement audit.

### ***Internal Controls Over Financial Management Systems***

The Federal Financial Management Improvement 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 new 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. The 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 2019 evaluations, the 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**

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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 OMB and the Department of the Treasury, for publication on USASpending.gov.

In FY 2017, the 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. The 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, the 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.

In FY 2019, the agency continued to provide accurate and timely data for the DATA Act. The agency has continually worked to resolve data issues as they have arisen during submissions or in the form of warnings. Also, in FY 2019, the agency developed its Data Quality Plan, as per Treasury guidance. The goal of this plan is to look at areas of data quality to help improve the presentation within USASpending.gov. Many of the issues identified in the plan are long-term and multi-year projects, as they involve improving the integration between administrative and financial systems. However, the agency also identified some short-term action items that can be investigated and implemented in FY 2020.

## Federal Financial Management Improvement Act (FFMIA)

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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 2019 assessment included the following:

- A-123 review found no significant deficiencies.
- An Office of Inspector General's (OIG) FY 2019 report identified items in the information security program as a management challenge. The report states:
  - The Agency lacks a holistic approach to managing accountability over its contractors and lacks follow-up on corrective actions taken. The Agency closed one of the two applicable findings in July 2019 and submitted documentation to close the second in September 2019.
  - Agency personnel did not create the required Plan of Action and Milestones (POA&M) to correct unremediated weaknesses for their respective systems. The Agency subsequently developed and provided a corrective action plan with a milestone date for implementing a strategy to address the deficiency. As part of the strategy, the EPA further acknowledged that it would implement an appropriate control to validate that agency personnel are creating POA&Ms to manage weaknesses from vulnerability scans.
  - The Agency lacks two key management controls over its information security weakness tracking system: controls that allow only authorized activities to occur and controls that reflect data modification in audit logs. The Agency established a process to periodically review settings in the agency's information security weakness tracking system to validate that each setting is appropriately implemented and compliant with the agency's standards. The Agency is collaborating with the tracking system vendor and, if possible, will implement system changes to capture data changes.
- The Agency's annual Federal Information Security Modernization Act Report is not final as of this draft. 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 2019.



## Fiscal Year 2019 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 controls 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 FMFIA requirements.

The EPA did not identify any new material weaknesses during FY 2019 and completed corrective actions for one previously identified material weakness regarding unearned revenue. In FY 2019, the agency updated, validated and implemented new accounting models in the accounting system. More information on the previously identified material weakness is provided in Section III, "Other Accompanying Information," of the Agency Financial Report.

Subsequently, during the FY 2019 Financial Statements audit, the Office of Inspector General identified one material weakness related to the agency's preparation of the financial statements. The agency will continue to review its processes for preparing financial statements and identify process improvements to strengthen the preparation process further.

Based on the results of the EPA's assessments and recent program improvements, I can provide reasonable assurance that the agency's internal controls over operations were operating effectively and that financial management systems conform to governmentwide standards as of September 30, 2019. The agency's internal controls over financial reporting were operating effectively as well.



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Andrew R. Wheeler  
Administrator

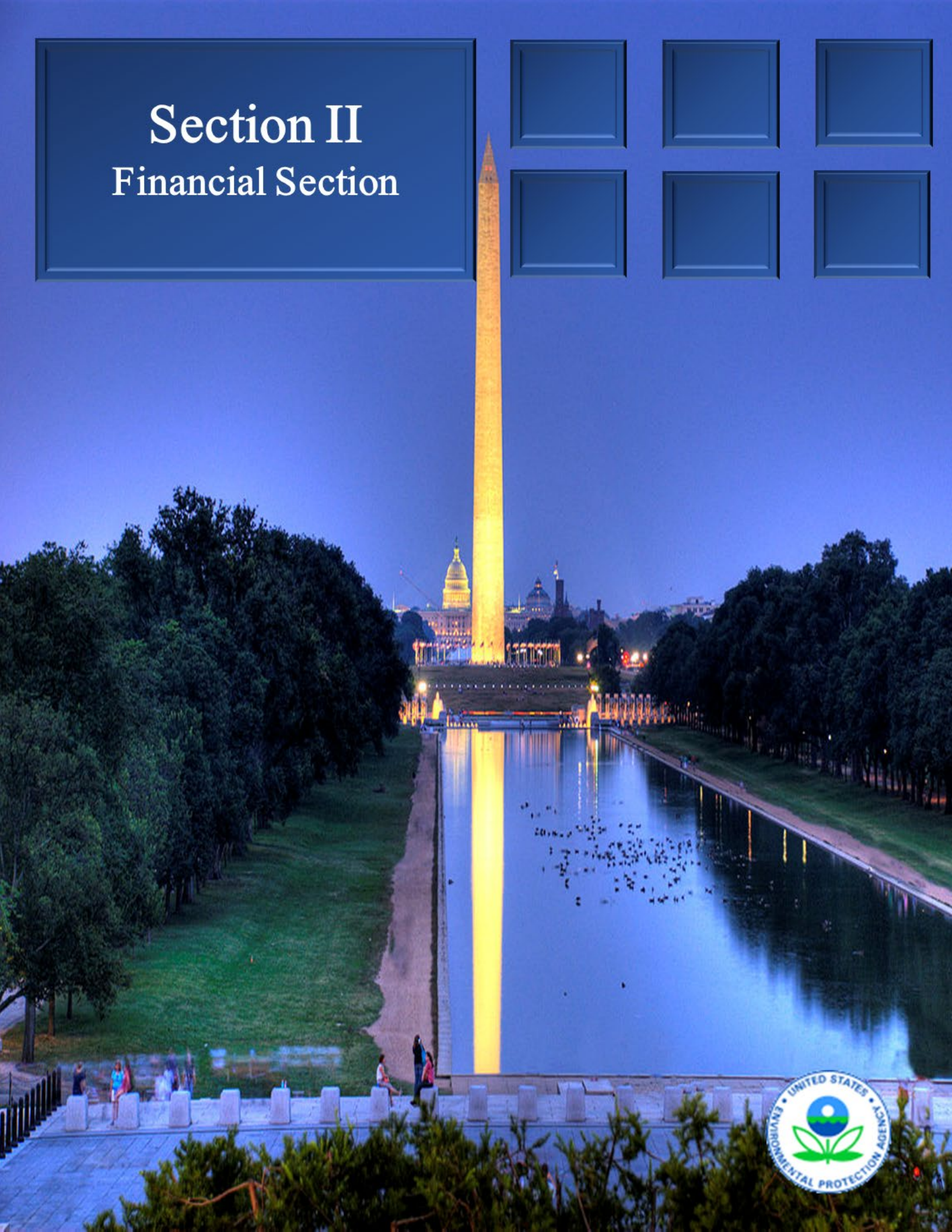
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Date

# Section II

## Financial Section



# Message from the Acting Chief Financial Officer



I am pleased to present the U.S. Environmental Protection Agency's FY 2019 Agency Financial Report. This report lays out the EPA's FY 2019 accomplishments and provides transparency into how the agency effectively uses the resources entrusted to us to protect human health and the environment.

FY 2019 marks the 20<sup>th</sup> consecutive year that the EPA achieved an unmodified "clean" audit opinion on its financial statements. It is a milestone that few other federal agencies have achieved. I am honored to work with the dedicated staff who have – through their commitment to the agency's mission – maintained the financial integrity of the organization across administrations while achieving environmental results that benefit everyone who breathes air and drinks water in the United States.

The EPA is continuously working to strengthen its internal operations. The agency has one new material weakness and a corrective action plan has been established to mitigate in FY2020. In addition, in FY 2019, the EPA implemented corrective actions and issued additional guidance for awarding and managing Superfund Interagency Agreements which improved the fiscal responsibility for Superfund activities. This allowed the agency to better use funds in the Superfund program and save approximately \$2.5 million that would have been spent on operational expenditures.

As Acting Chief Financial Officer, I have made it a priority to standardize the agency's financial business practices and modernize our information technology systems. To support the President Management Agenda's Cross-Agency Priorities Goals, the EPA is working to increase its use of federal shared service providers to streamline and standardize internal operational processes. In FY 2019, for example, the agency introduced a Payment Processing Modernization strategy to improve service delivery while decreasing redundancies and costs.

During FY 2019, the EPA performed risk management assessments across the agency, including in the financial management and financial systems areas. These assessments assist the agency in continuing efforts to strengthen internal controls, mitigate risk, and prevent fraud, waste, and abuse of our resources. They also serve to help identify potential areas to explore business process improvements, standardization, and economies of scale.

The agency is dedicated to serving our mission and the public. The Office of the Chief Financial Officer's continued participation in the EPA's Lean Management System will help us strengthen our ability to maintain the highest financial management standards. As we embrace a culture of continuous improvement, I am dedicated to strengthening partnerships with our stakeholders and improving our processes to enhance operational efficiency. Our financial management team remains committed to our fiduciary responsibilities and will continue supporting the agency as it delivers real results for the American people.

A handwritten signature in black ink, appearing to read "D. Bloom", with a large, stylized flourish on the left side.

David A. Bloom  
Acting Chief Financial Officer  
November 19, 2019

**EPA'S FISCAL YEARS 2019 AND 2018  
CONSOLIDATED FINANCIAL STATEMENTS**

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**Principal Financial Statements United States Environmental Protection Agency**  
**Consolidated Balance Sheet**  
**As of September 30, 2019 and 2018 (Restated)**  
**(Dollars in Thousands)**

	<b>2019</b>	<b>Restated 2018</b>
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 10,056,926	\$ 9,184,092
Investments (Note 4)	5,997,657	5,498,047
Accounts Receivable, Net (Note 5)	34,802	17,849
Other (Note 6)	210,591	212,509
Total Intragovernmental	16,299,976	14,912,497
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	500,886	458,456
Loans Receivable, Net (Note 7)	263	-
Property, Plant and Equipment, Net (Note 9)	671,207	687,393
Other (Note 6)	7,714	3,288
<b>Total Assets</b>	<b>\$ 17,480,056</b>	<b>\$ 16,061,644</b>
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	\$ 136,825	\$ 130,462
Debt Due to Treasury (Note 10)	266	-
Custodial Liability (Note 12)	36,494	26,544
Other (Notes 13 and 37)	177,294	125,495
Total Intragovernmental (Note 37)	350,879	282,501
Accounts Payable and Accrued Liabilities (Notes 8 and 37)	540,235	522,989
Pensions and Other Actuarial Liabilities (Note 15)	42,044	43,679
Environmental Cleanup Costs (Note 20)	32,810	32,958
Cashout Advances, Superfund (Notes 16 and 37)	3,453,124	3,305,023
Commitments and Contingencies (Note 17)	-	-
Payroll and Benefits Payable (Note 31)	203,985	202,019
Other (Notes 13 and 37)	140,549	136,069
Total Liabilities	4,763,626	4,525,238
<b>NET POSITION</b>		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	(1,264)	2,790
Unexpended Appropriations - Other Funds (Note 37)	8,929,585	8,058,744
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	3,290,710	2,966,236
Cumulative Results of Operations - Other Funds (Note 37)	497,399	508,636
Total Net Position	12,716,430	11,536,406
<b>Total Liabilities and Net Position</b>	<b>\$ 17,480,056</b>	<b>\$ 16,061,644</b>

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, 2019 and 2018 (Restated)**  
**(Dollars in Thousands)**

	<b>2019</b>	<b>Restated 2018</b>
	<hr/>	<hr/>
<b>COSTS</b>		
Gross Costs (Note 37)	\$ 8,883,930	\$ 8,694,112
Earned Revenue	<u>458,873</u>	<u>660,708</u>
<b>NET COST OF OPERATIONS (Notes 34 and 37)</b>	<b><u>\$ 8,425,057</u></b>	<b><u>\$ 8,033,404</u></b>

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, 2019  
(Dollars in Thousands)**

	<u>Environmental Programs &amp; Management</u>	<u>Leaking Underground Storage Tanks</u>	<u>Science &amp; Technology</u>	<u>Superfund</u>	<u>State Tribal Assistance Agreements</u>	<u>Other</u>	<u>Totals</u>
Costs:							
Gross Costs	\$ 2,650,992	\$ 89,019	\$ 709,019	\$ 1,392,940	\$ 3,876,041	\$ 398,223	\$ 9,116,234
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(232,304)</u>	<u>(232,304)</u>
Total Costs	<u>2,650,992</u>	<u>89,019</u>	<u>709,019</u>	<u>1,392,940</u>	<u>3,876,041</u>	<u>165,919</u>	<u>8,883,930</u>
Less:							
Earned Revenue	79,874	-	5,963	299,231	-	305,887	690,955
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(232,082)</u>	<u>(232,082)</u>
Total Earned Revenue	<u>79,874</u>	<u>-</u>	<u>5,963</u>	<u>299,231</u>	<u>-</u>	<u>73,805</u>	<u>458,873</u>
<b>NET COST OF OPERATIONS</b>	<b><u>\$ 2,571,118</u></b>	<b><u>\$ 89,019</u></b>	<b><u>\$ 703,056</u></b>	<b><u>\$ 1,093,709</u></b>	<b><u>\$ 3,876,041</u></b>	<b><u>\$ 92,114</u></b>	<b><u>\$ 8,425,057</u></b>

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

	<u>Environmental Programs &amp; Management</u>	<u>Leaking Underground Storage Tanks</u>	<u>Science &amp; Technology</u>	<u>Superfund</u>	<u>State Tribal Assistance Agreements</u>	<u>Other</u>	<u>Totals</u>
Costs:							
Gross Costs	\$ 2,859,581	\$ 93,896	\$ 711,350	\$ 1,328,447	\$ 3,553,001	\$ 359,779	\$ 8,906,054
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(211,942)</u>	<u>(211,942)</u>
Total Costs	<u>2,859,581</u>	<u>93,896</u>	<u>711,350</u>	<u>1,328,447</u>	<u>3,553,001</u>	<u>147,837</u>	<u>8,694,112</u>
Less:							
Earned Revenue	173,244	-	5,177	422,277	-	272,396	873,094
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(212,386)</u>	<u>(212,386)</u>
Total Earned Revenue	<u>173,244</u>	<u>-</u>	<u>5,177</u>	<u>422,277</u>	<u>-</u>	<u>60,010</u>	<u>660,708</u>
<b>NET COST OF OPERATIONS (Note 37)</b>	<b><u>\$ 2,686,337</u></b>	<b><u>\$ 93,896</u></b>	<b><u>\$ 706,173</u></b>	<b><u>\$ 906,170</u></b>	<b><u>\$ 3,553,001</u></b>	<b><u>\$ 87,827</u></b>	<b><u>\$ 8,033,404</u></b>

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



**United States Environmental Protection Agency**  
**Consolidated Statement of Changes in Net Position**  
**For the Fiscal Year Ending September 30, 2019**  
**(Dollars in Thousands)**

	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Cumulative Results of Operations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 2,966,236	\$ 508,636	\$ 3,474,872
<b>Budgetary Financing Sources:</b>			
Appropriations Used (Note 37)	4,054	8,190,426	8,194,480
Nonexchange Revenue - Securities Investment (Note 33)	134,699	-	134,699
Nonexchange Revenue - Other (Note 33)	270,253	(58)	270,195
Transfers In/Out	15,608	21,330	36,938
Transfers In/Out - Nonmonetary	-	142	142
Trust Fund Appropriations	<u>1,083,758</u>	<u>(1,083,758)</u>	<u>-</u>
<b>Total Budgetary Financing Sources</b>	<b>1,508,372</b>	<b>7,128,082</b>	<b>8,636,454</b>
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed Financing Sources (Note 30)	<u>16,635</u>	<u>85,205</u>	<u>101,840</u>
<b>Total Other Financing Sources</b>	<b>16,635</b>	<b>85,205</b>	<b>101,840</b>
Net Cost of Operations	\$ (1,200,533)	\$ (7,224,524)	\$ (8,425,057)
Net Change	<u>324,474</u>	<u>(11,237)</u>	<u>313,237</u>
<b>Cumulative Results of Operations</b>	<b><u>\$ 3,290,710</u></b>	<b><u>\$ 497,399</u></b>	<b><u>\$ 3,788,109</u></b>
	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Unexpended Appropriations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 2,790	\$ 8,058,744	\$ 8,061,534
<b>Budgetary Financing Sources:</b>			
Appropriations Received	-	9,288,440	9,288,440
Appropriation Transfers-In/Out	-	2,717	2,717
Other Adjustments (Note 32)	-	(229,890)	(229,890)
Appropriations Used (Note 37)	<u>(4,054)</u>	<u>(8,190,426)</u>	<u>(8,194,480)</u>
<b>Total Budgetary Financing Sources</b>	<b>(4,054)</b>	<b>870,841</b>	<b>866,787</b>
<b>Total Unexpended Appropriations</b>	<b><u>(1,264)</u></b>	<b><u>8,929,585</u></b>	<b><u>8,928,321</u></b>
<b>TOTAL NET POSITION</b>	<b><u>\$ 3,289,446</u></b>	<b><u>\$ 9,426,984</u></b>	<b><u>\$ 12,716,430</u></b>

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

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

	<u>Funds from Dedicated Collections</u>	<u>All Other Funds</u>	<u>Consolidated Total</u>
<b>Cumulative Results of Operations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 2,638,364	\$ 572,065	\$ 3,210,429
Adjustment:			
(a) Changes in Accounting Principles	-	-	-
(b) Corrections of Errors (Note 37)	<u>-</u>	<u>12,994</u>	<u>12,994</u>
Beginning Balances, as Adjusted	2,638,364	585,059	3,223,423
<b>Budgetary Financing Sources:</b>			
Appropriations Used (Note 37)	4,144	7,931,651	7,935,795
Nonexchange Revenue - Securities Investment (Note 33)	80,893	-	80,893
Nonexchange Revenue - Other (Note 33)	244,969	-	244,969
Transfers In/Out	(4,763)	23,976	19,213
Trust Fund Appropriations	<u>1,000,646</u>	<u>(1,094,046)</u>	<u>(93,400)</u>
Total Budgetary Financing Sources (Note 37)	1,325,889	6,861,581	8,187,470
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed Financing Sources (Note 30)	<u>14,598</u>	<u>82,785</u>	<u>97,383</u>
Total Other Financing Sources	14,598	82,785	97,383
Net Cost of Operations (Note 37)	\$ (1,012,615)	\$ (7,020,789)	\$ (8,033,404)
Net Change (Note 37)	<u>327,872</u>	<u>(76,423)</u>	<u>251,449</u>
<b>Cumulative Results of Operations (Note 37)</b>	<b><u>\$ 2,966,236</u></b>	<b><u>\$ 508,636</u></b>	<b><u>\$ 3,474,872</u></b>
	<u>Funds from Dedicated Collections</u>	<u>All Other Funds</u>	<u>Consolidated Total</u>
<b>Unexpended Appropriations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 3,697	\$ 7,302,077	\$ 7,305,774
<b>Budgetary Financing Sources:</b>			
Appropriations Received	3,237	8,862,285	8,865,522
Other Adjustments (Note 32)	-	(173,967)	(173,967)
Appropriations Used (Note 37)	<u>(4,144)</u>	<u>(7,931,651)</u>	<u>(7,935,795)</u>
Total Budgetary Financing Sources (Note 37)	(907)	756,667	755,760
<b>Total Unexpended Appropriations (Note 37)</b>	<b><u>2,790</u></b>	<b><u>8,058,744</u></b>	<b><u>8,061,534</u></b>
<b>TOTAL NET POSITION (Note 37)</b>	<b><u>\$ 2,969,026</u></b>	<b><u>\$ 8,567,380</u></b>	<b><u>\$ 11,536,406</u></b>

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, 2019 and 2018**  
(Dollars in Thousands)

	2019		2018	
	Non- Budgetary Credit Reform Financing		Non- Budgetary Credit Reform Financing	
	Budgetary	Account	Budgetary	Account
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance from Prior Year Budget				
Authority, Net (discretionary and mandatory)	\$ 4,714,826	\$ 1,461,572	\$ 4,479,928	\$ -
Appropriations (discretionary and mandatory)	10,801,690	-	10,225,913	-
Borrowing Authority (discretionary and mandatory)	-	1,083,500	-	2,500,000
Spending Authority (discretionary and mandatory)	<u>557,467</u>	<u>5</u>	<u>610,290</u>	<u>-</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 16,073,983</u></b>	<b><u>\$ 2,545,077</u></b>	<b><u>\$ 15,316,131</u></b>	<b><u>\$ 2,500,000</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
New Obligations and Upward adjustments (total)	\$ 10,613,226	\$ 2,524,163	\$ 10,823,821	\$ 1,038,428
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,273,498	20,914	4,210,746	1,461,572
Unapportioned, Unexpired accounts	917	-	194,768	-
Expired Unobligated Balance, End of Year	<u>186,342</u>	<u>-</u>	<u>86,796</u>	<u>-</u>
Unobligated Balance, End of Year (total):	<u>5,460,757</u>	<u>20,914</u>	<u>4,492,310</u>	<u>1,461,572</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 16,073,983</u></b>	<b><u>\$ 2,545,077</u></b>	<b><u>\$ 15,316,131</u></b>	<b><u>\$ 2,500,000</u></b>
<b>OUTLAYS, NET</b>				
Outlays, Net (total) (discretionary and mandatory)	\$ 9,648,346	\$ 264	\$ 9,484,562	\$ -
Distributed Offsetting Receipts (-) (Note 28)	<u>(1,584,783)</u>	<u>-</u>	<u>(1,399,483)</u>	<u>-</u>
Agency Outlays, Net (discretionary and mandatory)	<b><u>\$ 8,063,563</u></b>	<b><u>\$ 264</u></b>	<b><u>\$ 8,085,079</u></b>	<b><u>\$ -</u></b>

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, 2019 and 2018**  
**(Dollars in Thousands)**

	<b>2019</b>	<b>2018</b>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Fines and Penalties	\$ 352,092	\$ 78,596
Other	<u>(4,359)</u>	<u>23,087</u>
Total Cash Collections	347,733	101,683
Accrual Adjustment	<u>8,912</u>	<u>2,467</u>
<b>Total Custodial Revenue (Note 23)</b>	<b><u>\$ 356,645</u></b>	<b><u>\$ 104,150</u></b>
 <b>Disposition of Collections:</b>		
Transferred to Others (General Fund)	\$ 347,711	\$ 101,615
Increases/Decreases in Amounts to be Transferred	<u>8,934</u>	<u>2,535</u>
<b>Total Disposition of Collections</b>	<b><u>\$ 356,645</u></b>	<b><u>\$ 104,150</u></b>
 <b>Net Custodial Revenue Activity</b>	 <b><u>\$ -</u></b>	 <b><u>\$ -</u></b>

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

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**Fiscal Years ended September 30, 2019 and September 30, 2018**  
**(Dollars in Thousands)**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting 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 2019 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. The Statement of Custodial Activity and the Statement of Budgetary Resources are presented on a combined basis. The financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

**B. Basis of Presentation**

The 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. Annual appropriations for the Science and Technology (S&T), Environmental Programs and Management (EPM) and for the Office of Inspector General (OIG) are 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 the Hazardous Waste Electronic Manifest System Fund to recover the full cost of providing the hazardous waste electronic manifest fund system related services.

The EPA receives two-year appropriated funds to carry out the Frank R. Lautenberg Chemical Safety for the 21<sup>st</sup> Century Act. Under the Act, the Agency is authorized collect users fees (up to \$25 million annually) from chemical manufacturers and processors. Fees collected will defray costs for new chemical reviews and a range of TSCA implementation activities for existing chemicals.

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

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
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loans are disbursed. The Agency received two-year appropriations in fiscal years 2019 and 2018 to finance the administration portion of the program.

EPA re-estimates the risk on each individual loan 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 U.S. Department of the 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 U.S. Treasury through the Government-Wide Treasury Account Symbol Adjusted Trial Balance System.

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**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 began to fully utilize this receipt account on January 31, 2019.

**VI. Classified Activities**

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

**VII. 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.

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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.



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**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 the 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 an 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.

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**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.

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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 was 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 was 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.

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**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 and Restatements**

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. For detailed information on the restatements of the FY 2018 Consolidated Financial Statements, refer to Note 37, Restatements.

**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.

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**T. Puerto Rico Insolvency**

In February 2016, the Puerto Rico Aqueduct and Sewer Authority (PRASA) requested a restructuring of the Clean Water (CW) and Drinking Water (DW) 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. Since that time, the forbearance agreement was extended multiple times with a final expiration date of July 31, 2019.

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. Negotiations concluded on July 26, 2019, when the Puerto Rico CW and DW SRF programs closed on loan agreements that restructure 200 delinquent loans held by PRASA and total approximately \$571 million in principal. The restructuring agreements supersede the forbearance and ensure the repayment of PRASA's SRF loans. The restructuring also means that PRASA will once again be eligible to apply for financial assistance from the Puerto Rico SRFs.

**U. 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.

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**V. Reclassifications and Comparative Figures**

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

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**Note 2. Fund Balance With Treasury (FBWT)**

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

	2019			2018		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
<b>Trust Funds:</b>						
Superfund	\$ 77,906	\$ -	\$ 77,906	\$ 140,013	\$ -	\$ 140,013
LUST	21,902	-	21,902	10,425	-	10,425
Oil Spill & Misc.	12,109	-	12,109	8,822	-	8,822
<b>Revolving Funds:</b>						
FIFRA/Tolerance	58,133	-	58,133	47,864	-	47,864
Working Capital	129,185	-	129,185	128,909	-	128,909
Credit Reform Financing	-	-	-	-	-	-
E-Manifest	8,029	-	8,029	4,294	-	4,294
WIFIA	-	-	-	-	-	-
NRDA	1,551	-	1,551	2,057	-	2,057
<b>Appropriated</b>	9,236,309	-	9,236,309	8,348,172	-	8,348,172
<b>Other Fund Types</b>	<u>507,871</u>	<u>3,929</u>	<u>511,800</u>	<u>489,727</u>	<u>3,809</u>	<u>493,536</u>
<b>Total</b>	<u><b>\$10,052,997</b></u>	<u><b>\$ 3,929</b></u>	<u><b>\$10,056,926</b></u>	<u><b>\$ 9,180,283</b></u>	<u><b>\$ 3,809</b></u>	<u><b>\$ 9,184,092</b></u>

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:**

	2019	2018
<b>Unobligated Amounts in Fund Balance:</b>		
Available for Obligation	\$ 5,294,411	\$ 4,405,970
Unavailable for Obligation	187,260	86,796
Net Receivables from Invested Balances	(5,096,874)	(4,758,627)
Balances in Treasury Trust Fund (Note 35)	14,912	1,807
Obligated Balance not yet Disbursed	9,160,730	8,974,558
Non-Budgetary FBWT	<u>496,487</u>	<u>473,588</u>
<b>Total</b>	<u><b>\$ 10,056,926</b></u>	<u><b>\$ 9,184,092</b></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 2019 and FY 2018, 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, 2019 and September 30, 2018, the balance in the imprest fund was \$10 thousand.

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**Note 4. Investments**

As of September 30, 2019 and 2018, investments related to Superfund and LUST consist of the following:

		<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Interest Receivable</u>	<u>Investments, Net</u>	<u>Market Value</u>
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2019	\$ 6,024,413	32,170	5,414	5,997,657	\$ 5,997,657
Non-Marketable	FY 2018	\$ 5,537,630	44,298	4,715	5,498,047	\$ 5,498,047

CERCLA, as amended by SARA, authorizes the EPA to recover monies to clean up Superfund sites from PRPs. Some PRPs 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 PRPs 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.



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**Note 5. Accounts Receivable, Net**

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

	<u>2019</u>	<u>2018</u>
<b>Intragovernmental:</b>		
Accounts & Interest Receivable	\$ 34,802	\$ 17,849
Less: Allowance for Uncollectible	-	-
<b>Total</b>	<u>\$ 34,802</u>	<u>\$ 17,849</u>
<b>Non-Federal:</b>		
Unbilled Accounts Receivable	\$ 109,545	\$ 234,731
Accounts & Interest Receivable	2,573,004	2,385,341
Less: Allowance for Uncollectible	<u>(2,181,663)</u>	<u>(2,161,616)</u>
<b>Total</b>	<u>\$ 500,886</u>	<u>\$ 458,456</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, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
<b>Intragovernmental:</b>		
Advances to Federal Agencies	\$ 210,498	\$ 212,334
Advances for Postage	<u>93</u>	<u>175</u>
<b>Total</b>	<u>\$ 210,591</u>	<u>\$ 212,509</u>
<b>Non-Federal:</b>		
Travel Advances	\$ 90	\$ 119
Other Advances	7,607	2,954
Inventory Purchased for Resale	<u>17</u>	<u>215</u>
<b>Total</b>	<u>\$ 7,714</u>	<u>\$ 3,288</u>

**Note 7. Loans Receivable, Net**

Loans Receivable disbursed from obligations made prior to FY 1992 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 a cost in the year the loan is disbursed. The net loan present value is the gross loan receivable less the subsidy present value. EPA does not have any loans obligated prior to 1992.

EPA administers the WIFIA Direct Loans program. In fiscal year 2019 and 2018, the Agency received borrowing authority of \$920 million and \$2.5 billion for the non-subsidy portion of loan proceeds disbursed,

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respectively, for a total of \$3.42 billion in borrowing authority. The cumulative loan limit for the WIFIA Loan Program through fiscal year 2019 is \$17.1 billion. For the fiscal year ended September 30, 2019 and 2018, the Agency closed \$2.5 billion and \$1 billion in WIFIA loans, respectively.

Interest on the loans is accrued based on the terms of the loan agreement. For the fiscal years ended September 30, 2019 and 2018, the WIFIA program has incurred \$7.3 and \$4.0 million in administrative expenses, respectively.

**Obligated after FY 1991**

<b>Direct Loan Program</b>	<b>2019 Loans Receivable, Gross</b>	<b>Interest Receivable</b>	<b>Foreclosed Property/ Allowance for Loan Losses</b>	<b>Allowance for Subsidy Cost</b>	<b>Value of Assets Related to Direct Loans, Net</b>
WIFIA	\$ 261	-	-	2	\$ 263

**Total Amount of Direct Loans Disbursed (Post-1991)**

<b>Direct Loan Program</b>	<b>2019</b>	<b>2018</b>
WIFIA	\$ 261	-

**Subsidy Expense for Direct Loans by Program and Component**  
**Subsidy Expense for New Direct Loans Disbursed**

<b>Direct Loan Program</b>	<b>2019 Interest Differential</b>	<b>Defaults</b>	<b>Fees and Other Collections</b>	<b>Other Subsidy Costs</b>	<b>Total</b>
WIFIA	\$ -	-	-	2	\$ 2

**Modifications and Reestimates**

<b>Direct Loan Program</b>	<b>2019 Total Modifications</b>	<b>Interest Rate Reestimates</b>	<b>Technical Reestimates</b>	<b>Total Reestimates</b>
WIFIA	\$ -	4	-	\$ 4

**Budget Subsidy Rates for Direct Loans for the Current Year Cohort**

<b>Direct Loan Program</b>	<b>2019 Interest Differential</b>	<b>Defaults</b>	<b>Fees and Other Collections</b>	<b>Other Subsidy Costs</b>	<b>Total</b>
WIFIA	0%	0%	0%	.69%	.69%

The subsidy rates disclosed pertain to the current year's cohort. The rates cannot be applied to the direct

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loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursement of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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**Schedule for Reconciling Subsidy Cost Allowance Balances**

**Beginning Balance, Changes and Ending Balance**

	<u>2019</u>	<u>2018</u>
Beginning Balance of the Subsidy Allowance	\$ -	\$ -
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	-	-
Fees and Other Collections	-	-
Other Subsidy Costs	<u>2</u>	<u>2</u>
<b>Total of the Above Subsidy Expense Components</b>	<b>2</b>	<b>2</b>
Adjustments		
Loan Modifications	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	-	-
Other	<u>-</u>	<u>-</u>
<b>Ending Balance of the Subsidy Cost Allowance Before Reestimates</b>	<b>-</b>	<b>-</b>
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	<u>-</u>	<u>-</u>
<b>Total of the Above Reestimate Components</b>	<b>-</b>	<b>-</b>
<b>Ending Balance of the Subsidy Cost Allowance</b>	<b><u>\$ 2</u></b>	<b><u>\$ 2</u></b>

The economic assumptions of the WIFIA upward and downward adjustments were a reassessment of risk levels as well as estimated changes in future cash flows on loans. Actual interest rates used for FY 2019 loan disbursements were lower than the interest rate assumptions used during the budget formulation process at loan origination.

**Note 8. Accounts Payable and Accrued Liabilities (Restated)**

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

	<u>2019</u>	<u>Restated 2018</u>
<b>Intragovernmental:</b>		
Accounts Payable	\$ 5,719	\$ 3,902
Liability for Allocation	226	-
Accrued Liabilities	<u>130,880</u>	<u>126,560</u>
<b>Total</b>	<b><u>\$ 136,825</u></b>	<b><u>\$ 130,462</u></b>

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	<b>2019</b>	<b>Restated 2018</b>
<b>Non-Federal:</b>		
Accounts Payable	\$ 68,012	\$ 67,003
Advances Payable	(2,454)	(1,355)
Interest Payable	5	5
Grant Liabilities	325,335	288,526
Other Accrued Liabilities	149,337	168,810
<b>Total</b>	<b>\$ 540,235</b>	<b>\$ 522,989</b>

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

	2019			2018		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 304,453	\$ (212,886)	\$ 91,567	\$ 299,732	\$ (203,434)	\$ 96,298
Software (production)	439,787	(398,613)	41,174	441,571	(365,206)	76,365
Software (development)	27,046	-	27,046	7,908	-	7,908
Contractor Held Equip.	44,707	(28,593)	16,114	40,437	(26,706)	13,731
Land and Buildings	794,192	(303,239)	490,953	774,146	(286,224)	487,922
Capital Leases	24,485	(20,132)	4,353	24,485	(19,316)	5,169
<b>Total</b>	<b>\$ 1,634,670</b>	<b>\$ (963,463)</b>	<b>\$ 671,207</b>	<b>\$ 1,588,279</b>	<b>\$ (900,886)</b>	<b>\$ 687,393</b>

**Note 10. Debt Due to Treasury**

All debt is classified as not covered by budgetary resources, except for direct loan and guaranteed loan financing account debt to Treasury and that portion of other debt covered by budgetary resources at the Balance Sheet date.

EPA borrows funds from The Bureau of Public Debt right before funds are disbursed to the borrower for the non-subsidy portion of WIFIA loans. As of September 30, 2019, the EPA had debt due to Treasury of \$266 thousand consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program. In FY 2018, the EPA did not borrow funds to finance the WIFIA Direct Loan Program as there were no disbursements of loan proceeds.

**Note 11. Stewardship Property, Plant and 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

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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, 2019 and 2018, the Agency possessed the following land and land rights:

	<u>2019</u>	<u>2018</u>
<b>Superfund Sites with Easements:</b>		
Beginning Balance	\$ 39	\$ 39
Additions	1	-
Withdrawals	-	-
Ending Balance	<u>\$ 40</u>	<u>\$ 39</u>
<b>Superfund Sites with Land Acquired:</b>		
Beginning Balance	\$ 32	\$ 34
Additions	-	-
Withdrawals	(1)	(2)
Ending Balance	<u>\$ 31</u>	<u>\$ 32</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, 2019, and 2018, custodial liability is approximately \$36,494 thousand and \$26,544 thousand, respectively.

**Note 13. Other Liabilities**

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

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Resources</u>	<u>Total</u>
<b>Current</b>			
Employer Contributions & Payroll Taxes	\$ 19,161	\$ -	\$ 19,161
WCF Advances	3,504	-	3,504
Other Advances	6,062	-	6,062
Advances HRSTF Cashout	82	-	82
Deferred HRSTF Cashout	117,256	-	117,256
Liability for Deposit Funds	-	-	-
<b>Non-Current</b>			
Unfunded FECA Liability	-	9,229	9,229
Unfunded Unemployment Liability	-	-	-
Payable to Treasury Judgement Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<u>\$ 146,065</u>	<u>\$ 31,229</u>	<u>\$ 177,294</u>

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**Other Liabilities - Non-Federal**

**Current**

Unearned Advances, Non-Federal	\$ 134,076	\$ -	\$ 134,076
Liability for Deposit Funds, Non-Federal	3,769	-	3,769
Capital Lease Liability	-	343	343

**Non-Current**

Capital Lease Liability	-	<u>2,361</u>	<u>2,361</u>
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<b>Total Non-Federal</b>	<u>\$ 137,845</u>	<u>\$ 2,704</u>	<u>\$ 140,549</u>
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Other Liabilities consist of the following as of September 30, 2018 (Restated):

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Resources</u>	<u>Total</u>
<b>Current</b>			
Employer Contributions & Payroll Taxes	\$ 17,574	\$ -	\$ 17,574
WCF Advances	1,651	-	1,651
Other Advances	6,161	-	6,161
Advances HRSTF Cashout	60,048	-	60,048
Deferred HRSTF Cashout	9,069	-	9,069
Liability for Deposit Funds	(1)	-	(1)
<b>Non-Current</b>			
Unfunded FECA Liability	-	8,906	8,906
Unfunded Unemployment Liability	-	87	87
Payable to Treasury Judgement Fund	-	<u>22,000</u>	<u>22,000</u>
<b>Total Intragovernmental</b>	<u>\$ 94,502</u>	<u>\$ 30,993</u>	<u>\$ 125,495</u>

**Other Liabilities - Non-Federal**

**Current**

Unearned Advances, Non-Federal	\$ 127,132	\$ -	\$ 127,132
Liability for Deposit Funds, Non-Federal	5,942	-	5,942
Capital Lease Liability (Restated)	-	291	291

**Non-Current**

Capital Lease Liability (Restated)	-	<u>2,704</u>	<u>2,704</u>
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<b>Total Non-Federal</b>	<u>\$ 133,074</u>	<u>\$ 2,995</u>	<u>\$ 136,069</u>
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**Note 14. Leases**

The value of assets held under Capital Leases as of September 30, 2019 and 2018 (restated), are as follows:

**A. Capital Leases:**

	<u>2019</u>	<u>Restated 2018</u>
<b>Summary of Assets Under Capital Lease:</b>		
Real Property	\$ 24,485	\$ 24,485
Personal Property	-	-
<b>Total</b>	<u>24,485</u>	<u>24,485</u>
Accumulated Amortization	<u>\$ 20,132</u>	<u>\$ 19,316</u>

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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><b>Fiscal Year</b></u>	<u><b>Capital Leases</b></u>
2020	\$ 769
2021	769
2022	769
2023	769
2024	769
After five years	<u>256</u>
<b>Total Future Minimum Lease Payments</b>	4,101
Less: Imputed Interest	<u>(1,397)</u>
<b>Net Capital Lease Liability</b>	<u>2,704</u>
<b>Liabilities not Covered by Budgetary Resources</b>	<u>\$ 2,704</u>

The capital lease payments have been adjusted to reflect payments in the lease agreement. Per the lease agreement, yearly lease payments of \$4,215 thousand are due for 20 years from 1995 until 2015. Upon exercise of a 10-year renewal, the yearly lease payment will be \$769 thousand from 2015 until 2025. Note 37 provides additional information about the restatement of lease data.

**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:

<u><b>Fiscal Year</b></u>	<u><b>Operating Leases, Land and Buildings</b></u>
2020	<u>\$ 36</u>
<b>Total Future Minimum Lease Payments</b>	<u>\$ 36</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.



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The FECA Actuarial Liability as of September 30, 2019 and 2018, was \$42,044 thousand and \$43,679 thousand, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2019 present value of these estimated outflows is calculated using a discount rate of 2.610 percent in the first year, and 2.610 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, 2019 and 2018 (restated), cash-out advances total \$3,453,124 thousand and \$3,305,023 thousand, 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, 2019 and 2018, 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, 2019, EPA has received 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. The amounts estimated related to the Gold King Mine are \$2 billion but they are only reasonably possible, and the

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final outcomes are not probable.

**B. Flint, Michigan**

The EPA has received claims from over 7,000 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. There is no estimated loss amounts related to the water health crisis and 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, 2019, 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. Judgement 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, 2019, 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, 2019 and \$2.5 million in the period ending September 2018.

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 \$8.3 million in the period ending September 2018 and \$8.3 million in the period ending September 2019.

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**Note 18. Funds from Dedicated Collections (Unaudited)**

	<u>Environmental Services</u>	<u>LUST</u>	<u>Superfund</u>	<u>Other Funds from Dedicated Collections</u>	<u>Total Funds from Dedicated Collections</u>
<b>Balance sheet as of September 30, 2019</b>					
Assets					
Fund Balance with Treasury	\$ 491,972	\$ 21,902	\$ 77,906	\$ 95,702	\$ 687,482
Investments	-	773,397	5,224,260	-	5,997,657
Accounts Receivable, Net	-	92,029	357,602	1,198	450,829
Other Assets	-	176	56,705	7,255	64,136
Total Assets	<u>491,972</u>	<u>887,504</u>	<u>5,716,473</u>	<u>104,155</u>	<u>7,200,104</u>
Other Liabilities					
Total Liabilities	<u>-</u>	<u>99,012</u>	<u>3,733,012</u>	<u>78,635</u>	<u>3,910,659</u>
Unexpended Appropriations	-	-	(2)	(1,262)	(1,264)
Cumulative Results of Operations	<u>491,972</u>	<u>788,492</u>	<u>1,983,465</u>	<u>26,781</u>	<u>3,290,710</u>
Total Liabilities and Net Position	<u>491,972</u>	<u>887,504</u>	<u>5,716,475</u>	<u>104,154</u>	<u>7,200,105</u>
<b>Statement of Net Cost for the Fiscal Year Ended September 30, 2019</b>					
Gross Program Costs	-	89,019	1,392,940	82,167	1,564,126
Less: Earned Revenues	-	-	299,231	64,362	363,593
Net Costs of Operations	<u>\$ -</u>	<u>\$ 89,019</u>	<u>\$ 1,093,709</u>	<u>\$ 17,805</u>	<u>\$ 1,200,533</u>
<b>Statement of Changes in Net Position for the Fiscal Year Ended September 30, 2019</b>					
Net Position, Beginning of Period	\$ 469,191	\$ 623,356	\$ 1,856,334	\$ 20,145	\$ 2,969,026
Nonexchange Revenue - Securities Investments	-	16,183	117,318	1,198	134,699
Nonexchange Revenue	22,781	237,962	6,197	3,314	270,254
Other Budgetary Finance Sources	-	-	1,080,982	18,384	1,099,366
Other Financing Sources	-	10	16,341	283	16,634
Net Cost of Operations	<u>-</u>	<u>(89,019)</u>	<u>(1,093,709)</u>	<u>(17,805)</u>	<u>(1,200,533)</u>
Change in Net Position	<u>22,781</u>	<u>165,136</u>	<u>127,129</u>	<u>5,374</u>	<u>320,420</u>
Net Position	<u>\$ 491,972</u>	<u>\$ 788,492</u>	<u>\$ 1,983,463</u>	<u>\$ 25,519</u>	<u>\$ 3,289,446</u>

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	<u>Environmental Services</u>	<u>LUST</u>	<u>Superfund</u>	<u>Other Funds from Dedicated Collections</u>	<u>Total Funds from Dedicated Collections</u>
<b>Balance sheet as of September 30, 2018</b>					
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	54,723	7,614	62,546
Total Assets	<u>469,194</u>	<u>718,382</u>	<u>5,378,961</u>	<u>92,969</u>	<u>6,659,506</u>
Other Liabilities					
Total Liabilities	<u>3</u>	<u>95,026</u>	<u>3,522,627</u>	<u>72,824</u>	<u>3,690,480</u>
Unexpended Appropriations	-	-	(2)	2,792	2,790
Cumulative Results of Operations	<u>469,191</u>	<u>623,356</u>	<u>1,856,336</u>	<u>17,353</u>	<u>2,966,236</u>
Total Liabilities and Net Position	<u>469,194</u>	<u>718,382</u>	<u>5,378,961</u>	<u>92,969</u>	<u>6,659,506</u>

**Statement of Net Cost for the Fiscal  
Year 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 Costs 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 Fiscal Year 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>

**A. Funds from Dedicated Collections**

*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

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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

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prohibited by statute enacted in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

***v. Hazardous Waste Electronic Manifest System***

The Hazardous Waste Electronic Manifest System Fund, authorized in 2014, receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System.

**Note 19. Cost of Stewardship Land**

EPA had two Stewardship-Superfund Real Estate Actions in FY19.

The first action was for site: Santaquin City, Utah. It was for release of lien and an affidavit asserting a new lien. This allowed the City to proceed with the construction of a road, with EPA maintaining its security interest on a portion of the property. Because Santaquin City Corporation will continue to own the land, and EPA would be owed all proceeds of a sale only when Santaquin eventually disposes the portion of the property that EPA would have a 100% interest, no cash transaction took place (apart from the sum of \$1 that Santaquin is providing as consideration for EPA's release of its lien). This action was effectuated via the signing of the Quit Claim Deed, signed on May 21, 2019.

The second action was for site: Crossley Farm Superfund Site; Hereford Township, Berks County, Pennsylvania. EPA authorized the Army Corps of Engineers to acquire a 30-year easement for the continuation of remedial actions and maintenance on the Crossley Farm Superfund site. Pennsylvania state recently revised their Hazardous Site Cleanup Act (HSCA) order that applies to the location to confine restrictions. The revision left out the access road to the site which is now private property. The easement will allow unfettered access to the site as necessary. The Authorization was signed on May 8, 2019.

**Note 20. 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 30 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.

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As of September 30, 2019, the EPA has one 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 30 sites for which it is required to fund the environmental cleanup. As of September 30, 2019, the estimated costs for site clean-up were \$32.8 million unfunded, and \$551 thousand funded, respectively. In 2018 the estimated costs for site clean-up were \$33.0 million unfunded, and \$1.1 million funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2019, the estimate for unfunded clean-up cost decreased by \$0.2 million from the FY 2018 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 21. 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, 2019 and 2018, the total remaining state credits have been estimated at \$21.3 million, and \$21.4 million, respectively.

**Note 22. 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, 2019, the EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling \$6.3 million. As of September 30, 2018, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling \$6.7

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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 23. 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.

	<b>2019</b>	<b>2018</b>
<b>Fines, Penalties and Other Miscellaneous Receipts</b>	<u>\$ 356,645</u>	<u>\$ 104,150</u>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:</b>		
Accounts Receivable	\$ 166,089	\$ 158,990
Less: Allowance for Uncollectible Accounts	<u>(129,680)</u>	<u>(131,494)</u>
<b>Total</b>	<u><b>\$ 36,409</b></u>	<u><b>\$ 27,496</b></u>

**Note 24. Reconciliation of President's Budget to the Statement of Budgetary Resources**

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2019 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2019 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2019 has not yet been published. We expect it will be published by early 2020, 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, 2018 are listed immediately below (dollars in millions):

<b>FY 2018</b>	<b>Budgetary Resources</b>	<b>Obligations</b>	<b>Offsetting Receipts</b>	<b>Net Outlays</b>
<b>Statement of Budgetary Resources</b>	\$ <u>17,816</u>	\$ <u>11,862</u>	\$ <u>1,399</u>	\$ <u>9,485</u>
<b>Reported in the Budget of the U.S. Government</b>	\$ <u>17,720</u>	\$ <u>11,853</u>	\$ <u>1,399</u>	\$ <u>9,477</u>

**Note 25. 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, 2019, and 2018:

	<b>2019</b>	<b>2018</b>
Net Adjustments to Unobligated Balance Brought Forward, Oct 1.	<u>\$ 226,028</u>	<u>\$ 232,751</u>
Temporarily Not Available - Rescinded Authority	<u>(4,592)</u>	<u>(11,217)</u>
Permanently Not Available:		
Rescinded Authority	(210,529)	(148,848)
Cancelled Authority	<u>(19,588)</u>	<u>(24,200)</u>
<b>Total Permanently Not Available</b>	<u><b>\$ (230,117)</b></u>	<u><b>\$ (173,048)</b></u>



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**Note 26. Unobligated Balances Available**

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

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

	<u>2019</u>	<u>2018</u>
Unexpired Unobligated Balance	\$ 5,295,329	\$ 5,867,574
Expired Unobligated Balance	<u>186,342</u>	<u>86,796</u>
<b>Total</b>	<b><u>\$ 5,481,671</u></b>	<b><u>\$ 5,954,370</u></b>

**Note 27. Undelivered Orders at the End of the Period**

Budgetary resources obligated for undelivered orders at September 30, 2019 and 2018, were \$12.7 billion and \$10.0 billion, respectively.

**Note 28. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2019 and 2018, the following receipts were generated from these activities:

	<u>2019</u>	<u>2018</u>
Trust Fund Recoveries	\$ 73,266	\$ 40,664
Special Fund Environmental Services	22,778	24,558
Trust Fund Appropriation	1,455,299	1,292,678
Miscellaneous Receipt and Clearing Accounts	<u>33,440</u>	<u>41,583</u>
<b>Total</b>	<b><u>\$ 1,584,783</u></b>	<b><u>\$ 1,399,483</u></b>

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**Note 29. Transfers-In and Out, Statement of Changes in Net Position**

**A. Appropriations Transfers, In/Out:**

For September 30, 2019 and 2018, 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, 2019, and 2018:

	<u>2019</u>	<u>2018</u>
Net Transfers from Invested Funds	\$ 1,572,990	\$ 1,306,784
Transfer to the Department of Transportation	89,000	142,400
Transfers to Another Agency	2,884	1,004
Allocations Rescinded	-	6,600
<b>Total of Nets Transfers on The Statement of Budgetary Resources</b>	<b><u>\$ 1,664,874</u></b>	<b><u>\$ 1,456,788</u></b>

**B. Transfers In/Out Without Reimbursement, Budgetary:**

For September 30, 2019 and 2018, 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, 2019, and 2018:

<b>Type of Transfer/Funds:</b>	<u>2019</u>		<u>2018</u>	
	<u>Funds From Dedicated Collections</u>	<u>Other Funds</u>	<u>Funds From Dedicated Collections</u>	<u>Other Funds</u>
Transfers-in (out) nonexpenditure, Earmark to Science and Technology and Office of The Inspector General funds	\$ (2,776)	\$ 24,048	\$ (23,976)	\$ 23,976
Transfers-in (out) nonexpenditure, Oil Spill	18,209	-	18,209	-
Transfers-in (out) nonexpenditure, e-Manifest	8	-	-	-
Transfers-in (out), TSCA	-	(2,718)	-	-
National Resource Damage Assessment	167	-	1,004	-
<b>Total Transfer in (out) without Reimbursement, Budgetary</b>	<b><u>\$ 15,608</u></b>	<b><u>\$ 21,330</u></b>	<b><u>\$ (4,763)</u></b>	<b><u>\$ 23,976</u></b>

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**Note 30. 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 2019 were \$81.1 million. For FY 2018, the estimates were \$73.0 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 2019 total imputed costs were \$16.8 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 2019, entries for Judgment Fund payments totaled \$3.9 million. For FY 2018, entries for Judgment Fund payments totaled \$2.3 million.

**Note 31. Payroll and Benefits Payable**

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

	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>FY 2019 Payroll and Benefits Payable</b>			
Accrued Funded Payroll and Benefits	\$ 50,890	\$ -	\$ 50,890
Withholdings Payable	10,582	-	10,582
Employer Contributions Payable - Thrift Savings Plan	810	-	810
Accrued Unfunded Annual Leave	-	141,703	141,703
<b>Total - Current</b>	<b>\$ 62,282</b>	<b>\$ 141,703</b>	<b>\$ 203,985</b>

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	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>FY 2018 Payroll and Benefits Payable</b>			
Accrued Funded Payroll and Benefits	\$ 40,487	\$ -	\$ 40,487
Withholdings Payable	20,553	-	20,553
Employer Contributions Payable - Thrift Savings Plan	2,795	-	2,795
Accrued Unfunded Annual Leave	-	138,184	138,184
<b>Total - Current</b>	<b><u>\$ 63,835</u></b>	<b><u>\$ 138,184</u></b>	<b><u>\$ 202,019</u></b>

**Note 32. 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.

	<b>Other Funds 2019</b>	<b>Other Funds 2018</b>
Cancelled General Authority	<u>\$ 229,890</u>	<u>\$ 173,967</u>
<b>Total Other Adjustments</b>	<b><u>\$ 229,890</u></b>	<b><u>\$ 173,967</u></b>

**Note 33. 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, 2019 and 2018 consists of the following items:

	<b>2019</b>		<b>2018</b>	
	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>
Interest on Trust Fund	\$ 134,699	-	\$ 80,893	\$ -
Tax Revenue, Net of Refunds	237,963	-	210,731	-
Fines and Penalties Revenue	6,195	-	6,598	-
Special Receipt Fund Revenue	26,095	(58)	27,640	-
<b>Total Nonexchange Revenue</b>	<b><u>\$ 404,952</u></b>	<b><u>(58)</u></b>	<b><u>\$ 325,862</u></b>	<b><u>\$ -</u></b>

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**Note 34. Reconciliation of Net Cost of Operations to Budget**

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2019</u>
<b>NET COST</b>	<b>\$ 1,209,171</b>	<b>\$ 7,215,886</b>	<b>\$ 8,425,057</b>
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Property, Plant and Equipment Depreciation	-	(77,679)	(77,679)
Property, Plant and Equipment Disposal & Revaluation	-	(1,160)	(1,160)
Year-end Credit Reform Subsidy Re-estimates	4	-	4
Other	-	62,120	62,120
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	16,953	42,430	59,383
Loans Receivable	-	263	263
Investments	499,610	-	499,610
Other Assets	(1,918)	4,426	2,508
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable and Accrued Liabilities	(6,364)	(17,245)	(23,609)
Debt Due to Treasury	(266)	-	(266)
Pensions and Other Actuarial Liabilities	-	1,635	1,635
Environmental Cleanup Costs	-	148	148
Cashout Advances, Superfund	-	(148,101)	(148,101)
Commitments and Contingencies	-	-	-
Payroll and Benefits Payable	-	(1,966)	(1,966)
Other Liabilities	(51,799)	(4,481)	(56,280)
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	81,061	-	81,061
Transfer Out (In) Without Reimbursement	2,256,131	-	2,256,131
Other Imputed Financing	<u>20,779</u>	<u>-</u>	<u>20,779</u>
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>4,023,362</b>	<b>7,076,276</b>	<b>11,099,638</b>
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	194	194
Acquisition of Other Assets	-	21,059	21,059
Other	-	(2,908,480)	(2,908,480)
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	<b><u>-</u></b>	<b><u>(2,887,227)</u></b>	<b><u>(2,887,227)</u></b>
<b>Other Temporary Timing Differences</b>	<b>-</b>	<b>(148,584)</b>	<b>(148,584)</b>

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**NET OUTLAYS** **\$ 4,023,362** **\$ 4,040,465** **\$ 8,063,827**

**Note 35. 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, 2019 and 2018. 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.

<b>SUPERFUND FY 2019</b>	<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 3,003	\$ 3,003
Total Undistributed Balance	-	3,003	3,003
Interest Receivable	-	5,413	5,413
Investments, Net	<u>4,962,820</u>	<u>277,526</u>	<u>5,240,346</u>
<b>Total - Assets</b>	<b>\$ <u>4,962,820</u></b>	<b>\$ <u>285,942</u></b>	<b>\$ <u>5,248,762</u></b>
<b>Liabilities and Equity</b>			
Equity	<u>4,962,820</u>	<u>285,942</u>	<u>5,248,762</u>
<b>Total Liabilities and Equity</b>	<b><u>4,962,820</u></b>	<b><u>285,942</u></b>	<b><u>5,248,762</u></b>
<b>Receipts</b>			
Corporate Environmental	-	-	-
Cost Recoveries	-	444,806	444,806
Fines and Penalties	-	2,504	2,504
Total Revenue	-	447,310	447,310
Appropriations Received	-	1,083,758	1,083,758
Interest Income	-	117,318	117,318
<b>Total Receipts</b>	<b><u>-</u></b>	<b><u>1,648,386</u></b>	<b><u>1,648,386</u></b>
<b>Outlays</b>			
Transfers to/from EPA, Net	<u>1,592,858</u>	<u>(1,592,858)</u>	<u>-</u>
<b>Total Outlays</b>	<b><u>1,592,858</u></b>	<b><u>(1,592,858)</u></b>	<b><u>-</u></b>
<b>Net Income</b>	<b>\$ <u>1,592,858</u></b>	<b>\$ <u>55,528</u></b>	<b>\$ <u>1,648,386</u></b>

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In FY 2019, 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, 2019 and 2018, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of \$52 billion and \$5.0 billion, respectively.

<b>SUPERFUND FY 2018</b>	<b><u>EPA</u></b>	<b><u>Treasury</u></b>	<b><u>Combined</u></b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ <u>-</u>	\$ <u>1,807</u>	\$ <u>1,807</u>
Total Undistributed Balance	-	1,807	1,807
Interest Receivable	-	-	-
Investments, Net	<u>4,671,302</u>	<u>201,942</u>	<u>4,873,244</u>
<b>Total - Assets</b>	<b><u>\$ 4,671,302</u></b>	<b><u>\$ 203,749</u></b>	<b><u>\$ 4,875,051</u></b>
<b>Liabilities and Equity</b>			
Equity	<u>4,671,302</u>	<u>208,391</u>	<u>4,879,693</u>
<b>Total Liabilities and Equity</b>	<b><u>4,671,302</u></b>	<b><u>208,391</u></b>	<b><u>4,879,693</u></b>
<b>Receipts</b>			
Corporate Environmental	-	-	-
Cost Recoveries	-	239,297	239,297
Fines and 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
<b>Total Receipts</b>	<b><u>-</u></b>	<b><u>1,406,153</u></b>	<b><u>1,406,153</u></b>
<b>Outlays</b>			
Transfers to/from EPA, Net	<u>1,324,412</u>	<u>(1,324,412)</u>	<u>-</u>
<b>Total Outlays</b>	<b><u>1,324,412</u></b>	<b><u>(1,324,412)</u></b>	<b><u>-</u></b>
<b>Net Income</b>	<b><u>\$ 1,324,412</u></b>	<b><u>\$ 81,741</u></b>	<b><u>\$ 1,406,153</u></b>

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**B. LUST**

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2019 and 2018, 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.

<b>LUST FY 2019</b>	<u><b>EPA</b></u>	<u><b>Treasury</b></u>	<u><b>Combined</b></u>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 11,909	\$ 11,909
Total Undistributed Balance	-	11,909	11,909
Interest Receivable	-	-	-
Investments, Net	92,029	681,367	773,396
<b>Total - Assets</b>	<u><b>\$ 92,029</b></u>	<u><b>\$ 693,276</b></u>	<u><b>\$ 785,305</b></u>
<b>Liabilities and Equity</b>			
Equity	92,029	693,276	785,305
<b>Total Liabilities and Equity</b>	<u><b>92,029</b></u>	<u><b>693,276</b></u>	<u><b>785,305</b></u>
<b>Receipts</b>			
Highway TF Tax	-	213,944	213,944
Airport TF Tax	-	11,971	11,971
Inland TF Tax	-	15	15
Total Revenue	-	225,930	225,930
Interest Income	-	16,183	16,183
<b>Total Receipts</b>	<u><b>-</b></u>	<u><b>242,113</b></u>	<u><b>242,113</b></u>
<b>Outlays</b>			
Transfers to/from EPA, Net	93,441	(93,441)	-
<b>Total Outlays</b>	<u><b>93,441</b></u>	<u><b>(93,441)</b></u>	<u><b>-</b></u>
<b>Net Income</b>	<u><b>\$ 93,441</b></u>	<u><b>\$ 148,672</b></u>	<u><b>\$ 242,113</b></u>



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

**Note. 36 Reclassification of Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position for the FR Compilation Process**

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows EPA's financial statements and the EPA's reclassified statements prior to the elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found here: <https://www.fiscal.treasury.gov/reports-statements/> and a copy of the 2019 FR will be posted to this site as soon as it is released.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transaction with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

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<b>Reclassification of Balance Sheet to Line Items used for the Government-wide Balance Sheet as of September 30, 2019</b>			
<b>FY 2019 EPA Balance Sheet</b>		<b>Line Items Used to Prepare the FY 2019 Government-wide Balance Sheet</b>	
<b>Financial Statement Line</b>	<b>Amounts</b>	<b>Amounts</b>	<b>Reclassified Statement Line</b>
<b>ASSETS</b>			<b>ASSETS</b>
<b>Intra-Governmental Assets</b>			<b>Intra-Governmental Assets</b>
FBWT	10,056,926	10,056,926	FBWT
		5,992,244	Federal Investments
Investments, Net	5,997,657	5,413	Interest Receivable - Investments
<i>Total Investments, Net</i>	5,997,657	5,997,657	<i>Total Reclassified Investments, Net</i>
Accounts Receivable	34,802	13,501	Accounts Receivable
<i>Total Accounts Receivable</i>	34,802	13,501	<i>Total Reclassified - A/R</i>
Other	210,591	210,591	Advances to Others and Prepayments
<i>Total Other</i>	210,591	210,591	<i>Total Reclassified Other</i>
<b>Total Intra-Governmental Assets</b>	<b>16,299,976</b>	<b>16,278,675</b>	<b>Total Intra-Governmental Assets</b>
Cash and Other Monetary Assets	10	10	Cash and Other Monetary Assets
Accounts Receivable, Net	500,886	500,716	Accounts and Taxes Receivable, Net
Direct Loans, Net	263	263	Loans Receivable, Net
Inventory and Related Property, Net	17	17	Inventory and Related Property, Net
General PP&E	671,207	645,437	PP&E, Net
Other	7,697	19,887	Other
<b>Total Assets</b>	<b>17,480,056</b>	<b>17,445,005</b>	<b>Total Assets</b>
<b>LIABILITIES</b>			<b>LIABILITIES</b>
<b>Intra-Governmental Liabilities</b>			<b>Intra-Governmental Liabilities</b>
Accounts Payable	136,825	161,026	Accounts Payable
Debt	266	266	Debt
Other - Custodial Liability	36,494	45,248	Other - Custodial Liability
Other - Miscellaneous Liabilities	177,294	24,793	Benefit Program Contributions Payable
	-	126,433	Advances from Others & Deferred Credits
	-	2,981	Other Liabilities
<i>Total Other - Miscellaneous Liabilities</i>	177,294	154,207	<i>Total Reclassified Other - Miscellaneous Liabilities</i>
<b>Total Intra-Governmental Liabilities</b>	<b>350,879</b>	<b>360,747</b>	<b>Total Intra-Governmental Liabilities</b>
Accounts Payable	540,235	66,757	Accounts Payable
Federal Employee and Veteran Benefits	42,044	43,872	Federal Employee and Veteran Benefits
Environmental and Disposal Liabilities	32,810	32,810	Environmental and Disposal Liabilities
Contingent Liabilities	-	-	Contingent Liabilities
Advances and Deferred Revenue	3,453,124	-	
Miscellaneous Liabilities	344,534	4,391,803	Other Liabilities
<i>Total Miscellaneous Liabilities</i>	344,534	4,535,242	<i>Total Reclassified Miscellaneous Liabilities</i>
<b>Total Liabilities</b>	<b>4,763,626</b>	<b>4,895,989</b>	<b>Total Liabilities</b>

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<b>NET POSITION</b>			<b>NET POSITION</b>		
Unexpended Appropriations - Funds from Dedicated Collections	(1,264)	2,120,704	Net Position - Funds from Dedicated Collections		
Unexpended Appropriations - Other Funds	8,929,585	10,428,312	Net Position - Funds Other Than Those From Dedicated Collections		
Cumulative Results of Operations - Funds from Dedicated Collections	3,171,087	-			
Cumulative Results of Operations - All Other	496,905	-			
Total Net Position	12,596,313	12,549,016			
<b>Total Liabilities &amp; Net Position</b>	<b>17,359,939</b>	<b>17,445,005</b>	<b>Total Liabilities &amp; Net Position</b>		

<b>Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2019</b>			
<b>FY 2019 EPA SNC</b>		<b>Line Items Used to Prepare the FY 2019 Government-wide SNC</b>	
<b>Financial Statement Line</b>	<b>Amounts</b>	<b>Amounts</b>	<b>Reclassified Statement Line</b>
<b>Gross Costs</b>	8,883,930		<b><i>Non-Federal Costs</i></b>
	-	7,635,954	Non-Federal Gross Costs
	-	7,635,954	<b><i>Total Non-Federal Costs</i></b>
			<b><i>Intragovernmental Costs</i></b>
	-	357,395	Benefits Program Costs
	-	101,839	Imputed Costs
	-	834,250	Buy/Sell Costs
	-	21,154	Purchase of Assets
	-	8	Borrowing and Other Interest Expense
	-	(1,007)	Other Expenses (w/o Reciprocals)
	-	1,313,639	<b><i>Total Intragovernmental Costs</i></b>
<b>Total Gross Costs</b>	8,883,930	8,949,593	<b><i>Total Reclassified Gross Costs</i></b>
<b>Earned Revenue</b>	349,935	338,073	Non-Federal Earned Revenue
			<b><i>Intragovernmental Revenue</i></b>
	108,938	108,829	Buy/Sell Revenue
	-	21,154	Purchase of Assets Offset
	-	134,698	Federal Securities Interest Revenue Including Associated Gain/Losses Exchange
	-	1	Borrowing and Other Interest Revenue
	-	19	Accrual of Custodial Collections Yet to be Transferred to a TAS Other Than The General Fund
	-	264,701	<b><i>Total Intragovernmental Earned Revenue</i></b>
<b>Total Earned Revenue</b>	458,873	602,774	<b><i>Total Reclassified Earned Revenue</i></b>
<b>NET COST</b>	<b>8,425,057</b>	<b>8,346,819</b>	<b>NET COST</b>

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<b>Reclassification of Statement on Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2019</b>			
<b>FY 2019 EPA SCNP</b>		<b>Line Items Used to Prepare the FY 2019 Government-wide SCNP</b>	
<b>Financial Statement Line</b>	<b>Amounts</b>	<b>Amounts</b>	<b>Reclassified Statement Line</b>
<b>UNEXPENDED APPROPRIATIONS</b>			<b>UNEXPENDED APPROPRIATIONS</b>
Unexpended appropriations, Beginning Balance	8,061,534	8,120,376	Net Position Beginning of Period
Corrections of Errors	-	(82,569)	Corrections of Errors
		(37,547)	Corrections of Errors - Years Preceding the Prior Year
<b>Total Correction of Errors</b>	-	(120,116)	<b>Total Correction of Errors</b>
Appropriations Received	9,288,440	9,058,323	Appropriations Received as Adjusted
Other Adjustments	(227,173)	-	Other Adjustments
Appropriations Used	(8,194,480)	(8,253,323)	Appropriations Used
<b>Total Unexpended Appropriations</b>	<b>8,928,321</b>		
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
Cumulative Results, Beginning Balance	3,474,872	3,434,403	Cumulative Results, Beginning Balance
Appropriations Used	8,194,480	8,253,323	Appropriations Used
			<b>Non-Federal Non-Exchange Revenues</b>
Nonexchange Revenue - Securities Investment	134,699	-	
Nonexchange	-	-	
Nonexchange Revenue - Other	270,195	57,531	Other Taxes and Receipts
	404,894	57,531	<b>Total Non-Federal Non-Exchange Revenues</b>
	-	2	Borrowings and Other Interest Revenue
	-	225,930	Other Taxes and Receipts
Transfers In/Out w/o Reimbursement-Budgetary	36,938	18,209	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
	142	142	Transfers-in without reimbursement
	-	-	Transfers-out without reimbursement
<b>Total Transfers In/Out w/o Reimbursement-Budgetary</b>	<b>142</b>	<b>142</b>	<b>Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary</b>
Imputed Financing Sources	101,840	101,840	Imputed Financing Sources (Federal)
	-	(1,226)	Non-entity collections transferred to the General Fund of the U.S. Government
	-	421	Accrual or non-entity amounts to be collected and transferred to the General Fund of the U.S. Government
<b>Total Financing Sources</b>	<b>101,982</b>	<b>101,177</b>	
<b>Net Cost of Operations</b>	<b>(8,425,057)</b>	<b>(8,346,819)</b>	<b>Net Cost of Operations</b>
<b>Ending Balance - Cumulative Results of Operations</b>	<b>3,788,109</b>	<b>3,743,756</b>	
<b>Total Net Position</b>	<b>12,716,430</b>	<b>12,549,016</b>	<b>Total Net Position</b>

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**Note 37. Restatements**

Capital Lease

EPA performed a review of its capital lease in FY 2019. The review revealed that the lease liability schedule did not align with the lease agreement because of the following:

1. The lease agreement required a change in payment upon exercise of a 10-year renewal option
2. In 2015, the agency exercised the 10-year renewal option, but the lease schedule did not reflect the new payment

To address these findings, the EPA revised the capital lease schedule to agree with the terms of the lease agreement. The agency corrected the lease liability payment schedule and made corrections to the accumulated amortization schedule for the leasehold asset.

As a result of these corrections, the agency restated FY 2018 financial statements. The changes impacted the FY 2018 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

Contract Accrual

During a review in FY 2019, EPA determined that the amount accrued for contracts in FY 2018 was understated by approximately \$59 million. To address this finding, EPA restated its FY 2018 financial statements. The changes impacted the FY 2018 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

## Required Supplementary Information (Unaudited)

**United States Environmental Protection Agency**  
**September 30, 2019 and September 30, 2018**  
**(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 2019:

<b>Asset Category</b>	<u><b>2019</b></u>	<u><b>2018</b></u>
Buildings	\$ 131,059	\$ 136,407
EPA Held Equipment	-	120
Vehicles	-	-
Total Deferred Maintenance	<u>\$ 131,059</u>	<u>\$ 136,527</u>

In Fiscal Year 2019, 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:**

<b>Policy</b>	<b>Explanation</b>
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:**

<b>Policy</b>	<b>Explanation</b>
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:**

<b>Policy</b>	<b>Explanation</b>
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 (Unaudited)

### United States Environmental Protection Agency For the Fiscal Year Ending September 30, 2019 (Dollars in Thousands)

	Environmental Programs & <u>Management</u>	Leaking Underground Storage <u>Tanks</u>	Science & Technology <u>Technology</u>	Superfund <u>Superfund</u>	State Tribal Assistance <u>Agreements</u>	Other <u>Other</u>	Totals <u>Totals</u>
<b>BUDGETARY RESOURCES</b>							
Unobligated Balance From Prior Year Budget Authority, Net	\$ 454,823	\$ 11,233	\$ 137,615	\$ 3,411,496	\$ 402,241	\$ 1,758,990	\$ 6,176,398
Appropriations (discretionary and mandatory)	2,602,978	93,441	707,073	1,592,437	4,542,863	1,262,898	10,801,690
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	1,083,500	1,083,500
Spending Authority From Offsetting Collection	123,718	-	23,200	96,591	-	313,963	557,472
<b>Total Budgetary Resources</b>	<u>\$ 3,181,519</u>	<u>\$ 104,674</u>	<u>\$ 867,888</u>	<u>\$ 5,100,524</u>	<u>\$ 4,945,104</u>	<u>\$ 4,419,351</u>	<u>\$ 18,619,060</u>
<b>STATUS OF BUDGETARY RESOURCES</b>							
New Obligations and Upward adjustments (total)	\$ 2,702,112	\$ 98,173	\$ 720,888	\$ 1,495,522	\$ 4,068,669	\$ 4,052,025	\$ 13,137,389
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	314,672	6,501	128,540	3,605,002	876,435	363,262	5,294,412
Unapportioned, Unexpired accounts	-	-	-	-	-	917	917
Expired Unobligated Balance, End of Year	164,735	-	18,460	-	-	3,147	186,342
Unobligated Balance, End of Year (total):	<u>479,407</u>	<u>6,501</u>	<u>147,000</u>	<u>3,605,002</u>	<u>876,435</u>	<u>367,326</u>	<u>5,481,671</u>
<b>Total Status of Budgetary Resources</b>	<u>\$ 3,181,519</u>	<u>\$ 104,674</u>	<u>\$ 867,888</u>	<u>\$ 5,100,524</u>	<u>\$ 4,945,104</u>	<u>\$ 4,419,351</u>	<u>\$ 18,619,060</u>
<b>OUTLAYS, NET</b>							
Outlays, Net (total) (discretionary and mandatory)	\$ 2,503,735	\$ 89,432	\$ 674,801	\$ 1,363,556	\$ 3,826,088	\$ 1,190,998	\$ 9,648,610
Distributed Offsetting Receipts (-)	-	-	-	(1,528,564)	-	(56,219)	(1,584,783)
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 2,503,735</u>	<u>\$ 89,432</u>	<u>\$ 674,801</u>	<u>\$ (165,008)</u>	<u>\$ 3,826,088</u>	<u>\$ 1,134,779</u>	<u>\$ 8,063,827</u>

## Required Supplemental Stewardship Information (Unaudited)

**United States Environmental Protection Agency**  
**Required Supplemental Stewardship Information (Unaudited)**  
**For the Fiscal Year Ended September 30, 2019**  
**(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 2019, the full cost of the Agency's Research and Development activities totaled over \$525M. Below is a breakout of the expenses (dollars in thousands):<sup>1</sup>

	2015	2016	2017	2018	2019
Programmatic Expenses	\$ 535,352	\$ 541,190	\$ 532,153	\$ 492,648	\$ 469,769
Allocated Expenses	\$ 78,028	\$ 82,646	\$ 103,451	\$ 54,684	\$ 55,339

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

<sup>1</sup>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 FY19 WIFIA appropriation of \$68 million could potentially spur up to \$11 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):

	2015	2016	2017	2018	2019
Construction Grants	\$ 17,462	\$ 11,344	\$ 8,686	\$ -	\$ 843
Clean Water SRF	\$ 1,715,630	\$ 1,459,820	\$ 1,247,919	\$ 1,422,613	\$ 1,708,175
Drinking Water SRF	\$ 1,268,360	\$ 1,213,201	\$ 994,297	\$ 890,460	\$ 1,016,071
Other Infrastructure Grants	\$ 96,439	\$ 62,011	\$ 44,916	\$ 48,198	\$ 24,243
Allocated Expenses	\$ 590,595	\$ 529,815	\$ 480,415	\$ 438,823	\$ 499,466
WIFIA <sup>2</sup>	\$ -	\$ -	\$ 30,000	\$ 63,000	\$ 68,000

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.

<sup>2</sup> 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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Training and Awareness Grants	\$ 27,047	\$ 29,116	\$ 22,090	\$ 19,351	\$ 21,072
Fellowships	6,579	4,630	2,077	1,460	442
Allocated Expenses	<u>5,146</u>	<u>5,336</u>	<u>4,073</u>	<u>2,525</u>	<u>2,831</u>
Total	\$ 38,772	\$ 39,082	\$ 28,240	\$ 23,336	\$ 24,345



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

*Operating efficiently and effectively*

# **EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements**

Report No. 20-F-0033

November 19, 2019

## Abbreviations

EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
NIST	National Institute of Standards and Technology
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Office of Mission Support
PII	Personally Identifiable Information
SFFAS	Statement of Federal Financial Accounting Standards
SPII	Sensitive Personally Identifiable Information
U.S.C.	United States Code

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# At a Glance

## Why We Did This Audit

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.*

Address inquiries to our public affairs office at (202) 566-2391 or [OIG\\_WEBCOMMENTS@epa.gov](mailto:OIG_WEBCOMMENTS@epa.gov).

List of [OIG reports](#).

## EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements

### EPA Receives an Unmodified Opinion for FY 2019 and 2018

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2019 and 2018 (restated), 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 needs to improve its financial statement preparation process.

We noted the following significant deficiencies:

- The EPA improperly recorded e-Manifest receivables and earned revenue.
- The EPA misclassified e-Manifest user fee revenue.
- The EPA understated its contract accrued liabilities.
- The EPA needs to improve the process to disable user accounts for financial and mixed financial systems.
- The EPA's Office of the Chief Financial Officer needs to protect personally identifiable information on its server used to transfer data with vendors.

### 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 all 17 recommendations and has either completed corrective actions or provided an estimated time frame for completion.



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

OFFICE OF  
INSPECTOR GENERAL

November 19, 2019

**MEMORANDUM**

**SUBJECT:** EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements  
Report No. 20-F-0033

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

A handwritten signature in black ink, appearing to read "Paul C. Curtis".

**TO:** David Bloom, Acting Chief Financial Officer

Donna Vizian, Principal Deputy Assistant Administrator  
Office of Mission Support

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2019 and 2018 (restated) consolidated financial statements. The project number for this audit was OA&E-FY19-0201. We are reporting one internal control material weakness and five 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 the recommendations in this report and, therefore, no further response is required. If you nonetheless choose to provide a response, your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

This report will be available at [www.epa.gov/oig](http://www.epa.gov/oig).

Attachments



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### *Material Weakness*

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### *Significant Deficiencies*

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# Inspector General's Report on EPA's Fiscal Years 2019 and 2018 (Restated) 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, 2019, and September 30, 2018 (restated), and the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since the 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, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Restatement FY 2018***

As described in Note 37, the EPA made certain restatements in its FY 2018 financial statements to correct misstatements for a capitalized lease and contract accruals. Our opinion is not modified with respect to these corrections.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information in the Required Supplementary Steward Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis sections be presented to supplemental EPA's financial statements. Such information, although not a part of the basic consolidated financial statements, is required by OMB and the Federal Accounting Standards Advisory Board who consider it to be an essential part of the financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during the audit of the

basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **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. 19-03. 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 over financial reporting 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, which we discuss below, involving the internal control and its operation that we consider to be significant deficiencies. We consider one of these matters to be a material weakness. These issues are summarized below and detailed in Attachment 1.

### **Material Weakness**

#### **FINANCIAL STATEMENT PREPARATION**

##### **EPA Needs to Improve Its Financial Statement Preparation Process**

We found multiple instances whereby the agency had major misstatements of its financial transactions and financial statements. The OMB requires that information in the financial statements be presented in accordance with Generally Accepted Accounting Principles. Agency personnel initially failed to make the appropriate adjustments to the financial

statements, believing their accounting was accurate. Failure to correct the errors resulted in the agency's misstating its financial statements, requiring a restatement. Furthermore, failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

## **Significant Deficiencies**

### **E-Manifest Accounts Receivables and Revenue**

#### **EPA Improperly Recorded e-Manifest Receivables and Earned Revenue**

The EPA did not properly record \$15,682,808 of e-Manifest receivables during FY 2019. Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize exchange revenue when goods or services are provided to the public or another government entity at a price. The EPA did not establish proper accounting models to record account receivables for e-Manifest fees, interest and penalties or to recognize earned revenue from federal versus nonfederal sources at the transaction level. As a result, the EPA is noncompliant with accounting standards because account receivables and earned revenue are understated during the year. Consequently, interest, penalties, and federal revenue are misstated in the financial statements.

#### **EPA Misclassified e-Manifest User Fee Revenue**

The EPA misclassified \$10.7 million of user fees collected for services provided as nonexchange revenue instead of exchange revenue. Federal accounting standards require the recognition of exchange revenue when a government entity provides goods or services to the public or another government entity and when each party sacrifices value and receives value in return. However, the agency recognized \$10.7 million as nonexchange revenue because it had not updated its accounting posting model. As a result, there was a high risk that the EPA would continue to misclassify user fee revenues and would potentially overstate its net cost of operations. Further, such overstatement inaccurately presented the EPA's ability to sustain program operation costs through user fee revenues.

## **ACCRUED LIABILITIES**

### **EPA Understated Its Contract Accrued Liabilities**

We found that the EPA understated its FY 2018 contract accrued liabilities by \$59 million. EPA policy states that accrual estimates should closely reflect the actual liabilities outstanding at the end of the reporting period. The misstatement occurred because the EPA relied on 1 month of subsequent disbursements to proof its accrual estimate, even though contract payments for FY 2018 liabilities continued throughout FY

2019. Consequently, the EPA's FY 2018 understatement of accruals also resulted in an overstatement of its FY 2019 contract expenses.

## **INFORMATION TECHNOLOGY**

### **EPA Needs to Improve Process to Disable User Accounts for Financial and Mixed Financial Systems**

The Office of the Chief Financial Officer (OCFO) and the Office of Mission Support (OMS) did not consistently remove user access to financial and mixed financial systems when employees were separated or terminated from the EPA. Removing each departing employee access to information technology infrastructure is critical to protecting systems and data. Federal and EPA directives require that user access to systems be removed when access is no longer needed. However, account managers for the systems were not consistently notified to remove access when employees no longer worked for the agency. As a result, former agency employees could inappropriately access critical financial and mixed financial systems and had the ability to inappropriately use or disclose EPA's data.

### **OCFO Needs to Protect Personally Identifiable Information on Its Server Used to Transfer Data with Vendors**

The OCFO lacks controls to protect personally identifiable information (PII) and sensitive PII (SPII) stored on a file transfer server that is used to exchange data with EPA vendors. Federal and EPA directives require the EPA to secure this type of information. However, the OCFO did not encrypt, restrict access rights or remove files containing PII and SPII on the file transfer server. Without proper security and access controls, PII and SPII collected by EPA are vulnerable to unauthorized access and a breach of privacy that could lead to identity theft.

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 2019. 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. 19-03, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit, that were not reported in the agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB Bulletin No. 19-03 defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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 *Codification of Statements on Auditing Standards*, AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin No.19-03, 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, regulations, contracts and grant agreements 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, *Implementation Guidance for the Federal Financial Management Improvement Act*, dated January 9, 2009, to determine whether there was any 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, regulations, contracts or grant agreements related to the agency's financial management systems that came to our attention during the course of the audit. In its representations to us, the EPA reported one incident of potential violations of the Antideficiency Act regarding a U.S. Government Accountability Office opinion related to the potential violation. 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 (as detailed in Attachment 2) that impacted our audit objectives in the following areas:

- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA materially overstated earned revenue.
- The EPA improperly increased accounts receivable and related revenue.
- 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 need improvement.
- The EPA's OCFO lack internal controls when assuming responsibility for account management procedures of financial systems.
- The EPA need controls to monitor direct access to its accounting system.
- The EPA need to perform a documented evaluation on upgrading equipment used to implement physical environmental controls at the National Computer Center.

This report is intended solely for the information and use of the management of the EPA, the 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 Directorate  
Office of Audit and Evaluation  
Office of Inspector General  
U.S. Environmental Protection Agency  
November 19, 2019

# ***Internal Control Material Weakness and Significant Deficiencies***

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## 1—EPA Needs to Improve Its Financial Statement Preparation Process

We found multiple instances whereby the agency had major misstatements of its financial transactions and financial statements. The OMB requires that information in the financial statements be presented in accordance with Generally Accepted Accounting Principles. Agency personnel initially failed to make the appropriate adjustments to the financial statements, believing their accounting was accurate. Failure to correct the errors resulted in the agency's misstating its financial statements, requiring a restatement. Furthermore, failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

OMB Circular A-136, *Financial Reporting Requirements*, Section II.3, requires that information in the financial statements be presented in accordance with Generally Accepted Accounting Principles, which include the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS). The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. Management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal controls. Management is to clearly document internal control, all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The standard for control activities additionally requires accurate and timely recording of transactions and events.

We found multiple instances whereby the agency had major misstatements of its financial transactions and financial statements. Specifically, we found that the agency misreported a capitalized lease; contract accruals; expenses incurred for Superfund sites, including unbilled costs and unearned revenue; and other revenue:

- Capitalized Lease. In fiscal year (FY) 2016, we reported that the agency erroneously reclassified the real property capital lease as an operating lease without making a proper determination. SFFAS 5, *Accounting for Liabilities of The Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, provide specific requirements for classifying a lease as capital. In FY 2019, the agency performed a review of its capital lease. Initially, the agency decided to record remaining future payments on its capitalized lease as a lease expense, thereby reclassifying it as an operating lease, even though the terms of the lease had not changed since its inception. The agency later corrected the lease liability and affected accounts, and it posted an adjustment.
- Contract Accruals. In FY 2018, we informed the agency that it had understated its contract accruals. The agency maintained that its amounts were correct. While the agency did post an adjustment to correct some of the difference, the contract accrual was still understated, as discussed in Significant Deficiency 4, which is titled "EPA Understated Its Contract Accrued Liabilities."

- Superfund Unbilled Oversight Costs. During our analysis of the agency's manual adjustments to unearned revenue, we noticed a restated amount posted for FY 2018 and material adjustments to FY 2019. When we inquired about these adjustments, agency staff indicated that they were changing the financial statements to reflect a new accounting model used for special accounts. However, our analysis indicated that the agency was not properly matching revenue with expenses incurred, in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The agency also failed to provide sufficient documentation to determine the validity of actions taken, affecting our ability to conclude that the entries made were accurately recorded.
- Other. We found other discrepancies in the agency's financial statements. Specifically, in the November 14, 2019, version of the financial statements, the agency recorded negative revenue of \$371 million. This material change was the result of late journal entries. After we inquired about this negative balance, agency staff indicated that they would make corrections.

Agency personnel initially failed to make the appropriate adjustments to the financial statements, believing their accounting was accurate. In each case, the agency's initial accounting for the transactions was in error, as was its intended corrections. It was only after we conducted an account analysis of the activity and questioned the agency's actions that staff made adjustments to correct the errors. Had it not been for the intensive inquiry by our auditors, major and material errors would have impacted the financial statements. These issues highlight the need for the agency to strengthen its processes so that data are accurate; comply with federal accounting standards; and are readily available on a timely basis to prepare the financial statements.

Failure to correct the errors resulted in the agency misstating its FY 2018 financial statements, requiring a restatement. Furthermore, failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

## Recommendations

We recommend that the Chief Financial Officer:

1. Evaluate and improve the EPA's process for preparing financial statements.
2. Provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendations. The agency's estimated completion date for corrective actions is July 31, 2020, for Recommendation 1 and February 29, 2020, for Recommendation 2.

## 2—EPA Improperly Recorded e-Manifest Receivables and Earned Revenue

The EPA did not properly record \$15,682,808 of e-Manifest receivables during FY 2019.<sup>1</sup> Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize exchange revenue when goods or services are provided to the public or another government entity at a price. The EPA did not establish proper accounting models to record account receivables for e-Manifest fees, interest and penalties or to recognize earned revenue from federal versus nonfederal sources at the transaction level. As a result, the EPA is noncompliant with accounting standards because account receivables and earned revenue are understated during the year. Consequently, interest, penalties, and federal revenue are misstated in the financial statements.

SFFAS 1, *Accounting for Selected Assets and Liabilities*, states:

A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, ... or goods or services provided. ... [Further,] [r]eceivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.

In addition:

Interest [receivable] should be recognized on outstanding accounts receivable and other U.S. government claims against persons and entities in accordance with provisions in 31 U.S.C. 3717, Interest and Penalty Claims. ... Interest receivable from federal entities should be accounted for and reported separately from interest receivable from the public.

SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states:

Exchange revenue and gains are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return.

The EPA did not create appropriate accounting models to record e-Manifest accounts receivable or to recognize revenue when costs were incurred. We found three collection transactions during our sample testing that reduced accounts receivable in General Ledger account 13100044, “Billed Emanifest [sic] Receipts Public.” However, no prior receivable had been recorded for these transactions. Upon further review of activity during the fiscal year, we identified \$15,682,808 of receivables that were not properly recorded.

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<sup>1</sup> The e-Manifest system is the EPA’s national system for electronically tracking hazardous waste shipments.

The Office of Land Emergency Management compiles invoice data based on the electronic manifest documents received from waste handlers and transmits invoices from the e-Manifest system to individual facilities. However, the e-Manifest system is not integrated with Compass Financials; therefore, no financial data for the invoiced amounts or earned revenue for services provided are recorded in Compass at the transaction level. Facilities receive the invoices and remit payments, which are recorded in Compass. The EPA records a standard voucher at the end of each month to record receivables and recognize revenue, but this standard voucher is recorded solely for financial reporting purposes, not to record individual receivable and earned revenue transactions. Although the standard voucher, combined with the collection entries, offsets the receivables and recognizes earned revenue, the receivables and earned revenue are still not recorded at the transaction level. The EPA is therefore not compliant with federal accounting standards during the year, and accounts are misstated until the monthly standard voucher is posted.

We also found that penalties, interest and federal revenue are also not properly recorded in Compass. According to the Office of Land Emergency Management, interest and penalties are assessed automatically within the e-Manifest system and are combined with the amount of fees due in invoices. Finally, the EPA does not differentiate its reporting of earned revenue from federal versus nonfederal sources. According to information provided by Office of Land Emergency Management, e-Manifest collections are from both federal and nonfederal vendors. However, this activity was not accounted for separately in the agency's accounting system, which misstates earned revenue due to the failure to differentiate between federal versus nonfederal sources.

By not creating proper accounting models for e-Manifest transactions to record accounts receivable and earned revenue at the transaction level, account receivables and earned revenue are understated during the year, and interest, penalties and federal revenue are misstated in the EPA's financial statements. Furthermore, the EPA is not in compliance with either SFFAS 1, which requires the recognition of a receivable when a legal claim exists, or SFFAS 7, which requires revenue recognition when the goods or services were provided.

## **Recommendations**

We recommend that the Chief Financial Officer:

3. Update the accounting models to properly record collections and not reduce an account receivable account.
4. Establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level.
5. Establish accounting models to properly classify and record interest, fines, penalties and fees.
6. Establish accounting models to properly record receivables, collections and earned revenue from federal versus nonfederal vendors.

## **Agency Comments and OIG Evaluation**

The EPA agreed with our findings and recommendations. The agency's estimated completion date for corrective actions is September 30, 2021.

7.

### 3—EPA Misclassified e-Manifest User Fee Revenue

The EPA misclassified \$10.7 million of user fees collected for services provided as nonexchange revenue instead of exchange revenue. Federal accounting standards require the recognition of exchange revenue when a government entity provides goods or services to the public or another government entity and when each party sacrifices value and receives value in return. However, the agency recognized \$10.7 million as nonexchange revenue because it had not updated its accounting posting model. As a result, there was a high risk that the EPA would continue to misclassify user fee revenues and would potentially overstate its net cost of operations. Further, such overstatement inaccurately presented the EPA’s ability to sustain program operation costs through user fee revenues.

SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states:

Exchange revenue and gains are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises when a Government entity provides something of value to the public or another Government entity at a price.

This standard also states that “[e]xchange revenue includes most user charges other than taxes.” In addition, according to the Hazardous Waste Electronic Manifest Establishment Act (e-Manifest Act), 42 U.S.C. § 6939g(c)(2), the EPA is required to recover the full cost of providing system-related services through the established user fees.

In FY 2019, the OCFO misclassified four vouchers—with a total of \$10.7 million of e-Manifest<sup>2</sup> user fees collected for services provided—as nonexchange revenue instead of exchange revenue. Table 1 sets forth the user fee summary totals recorded as nonexchange revenue in the EPA’s general ledger.

**Table 1: User fee vouchers posted as nonexchange revenue**

Voucher number	Date	Amount
RAS19081AJS	3/27/19	\$5,981,552.10
RAS19125TWJ	4/10/19	1,008,967.00
RAS19146CYL	5/24/19	1,986,986.64
RAS19159TWJ	6/6/19	1,761,742.40
<b>Total</b>		<b>\$10,739,248.14</b>

Source: Office of Inspector General analysis.

According to OCFO staff, they initially believed that the revenue received from e-Manifest user fees was not equal in value to the services the agency provided to the public. After we discussed our finding with OCFO staff, however, they agreed that the fees should have been recorded as

<sup>2</sup> The e-Manifest is the EPA’s national system for electronically tracking hazardous waste shipments.



exchange revenue. In response to our finding, the staff said that they will change their accounting posting model to correctly record the e-Manifest user fees as exchange revenue.

If the agency did not change the accounting posting model, the EPA could have continued to misclassify user fee revenues and potentially overstated its net cost of operations. Further, such overstatement would inaccurately present the EPA's ability to sustain the program's operations and recover its full cost through user fee revenues, as required by the e-Manifest Act.

Based on our finding, the OCFO updated the voucher posting model to record e-Manifest user fees as exchange revenue. In addition, the OCFO reclassified the \$10.7 million as exchange revenue. Since the agency has already acted on our finding, we make no recommendations.

## 4—EPA Understated Its Contract Accrued Liabilities

We found that the EPA understated its FY 2018 contract accrued liabilities by \$59 million. EPA policy states that accrual estimates should closely reflect the actual liabilities outstanding at the end of the reporting period. The misstatement occurred because the EPA relied on 1 month of subsequent disbursements to proof its accrual estimate, even though contract payments for FY 2018 liabilities continued throughout FY 2019. Consequently, the EPA's FY 2018 understatement of accruals also resulted in an overstatement of its FY 2019 contract expenses.

Statement of Federal Financial Accounting Standard No. 5, *Accounting for Liabilities of the Federal Government*, requires that all liabilities be recognized when incurred, regardless of whether they are covered by available budgetary resources. In addition, the EPA's Resource Management Directive System No. 2540-04-P4, *Recognizing Year-End Accrued Liabilities*, states that “[w]hile the amounts recorded as accruals are estimates of liabilities, reasonable efforts should be made to develop a methodology that will closely reflect the actual amount outstanding at the end of the reporting period.”

The EPA recorded \$67 million as its contract accrued liability as of September 30, 2018. At that time, we estimated that the EPA's contract accrual should have been approximately \$116 million, a difference of \$49 million. We discussed our finding with the EPA and reported an audit difference of \$49 million during our FY 2018 audit. The EPA decided not to record the audit difference.

In FY 2018, the EPA changed its contract accrual methodology. To support the reasonableness of its new methodology, the EPA calculated a proof of its contract accrual for FY 2018. The EPA's initial proof was based on FY 2018 contract payments disbursed during the first month of FY 2019. However, we found that EPA payments on contracts for work performed in FY 2018 continued throughout FY 2019. As a result, the contract accrual should have been approximately \$126 million, which means the EPA understated the accrual amount by \$59 million.

After we discussed these findings with the EPA, the agency agreed that its new accrual methodology did not closely reflect the actual expenses for the reporting period. The EPA therefore decided to restate its FY 2018 financial statements by posting a \$49 million adjustment. Subsequently, the EPA updated its contract accrual methodology for FY 2019. However, based on the actual disbursements, we estimate that the FY 2018 restated financial statements are still understated by approximately \$10 million.

By understating the FY 2018 accrued liabilities, the EPA overstated its FY 2019 contract expenses.

### Recommendations

We recommend that the Chief Financial Officer:

7. Adjust the fiscal year 2018 contract accrued liabilities by \$9,853,030.26.
8. Perform a proof of the contract accrual methodology using actual expenses to verify the accuracy of the EPA's accruals.

## **Agency Comments and OIG Evaluation**

The EPA agreed with our findings and recommendations and has completed corrective actions.  
9.

## **5—EPA Needs to Improve Process to Disable User Accounts for Financial and Mixed Financial Systems**

The OCFO and the OMS did not consistently remove user access to financial and mixed financial systems when employees were separated or terminated from the EPA. Removing each departing employee access to information technology infrastructure is critical to protecting systems and data. Federal and EPA directives require that user access to systems be removed when access is no longer needed. However, account managers for the systems were not consistently notified to remove access when employees no longer worked for the agency. As a result, former agency employees could inappropriately access critical financial and mixed financial systems and had the ability to inappropriately use or disclose EPA’s data.

### ***Federal and EPA Requirements for Termination of Access Control***

National Institute of Standards and Technology’s (NIST’s) Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Access Control-2, states that each federal agency or organization:

- “Creates, enables, modifies, disables, and removes information system accounts in accordance with” organization-defined procedures or conditions.
- “Notifies account managers ... When users are terminated or transferred.”

Section AC-2 of the EPA’s *Information Security – Access Control Procedure* (CIO-2150-P-01.2, dated September 21, 2015) states:

When a user’s official association with the EPA or authorization to access EPA information systems is terminated, all accounts associated with that user are disabled immediately. Such accounts include network access, e-mail access, etc.

### ***EPA Did Not Remove User Access for Separated Employees***

The OCFO and the OMS did not always follow procedures to enforce access controls procedures to notify account managers when users are separated from the agency. We reviewed user access to four systems; some financial and some mixed financial systems:

- Three under the purview of the OCFO—the Automated Standard Application for Payments, Compass Financials and the Grants Payment Allocation System.
- One under the purview of the OMS—the Integrated Grants Management System.

For these four systems, we interviewed the three account managers and found they had differing prompts for disabling user accounts:

- One removes or disables user accounts via direct notification, while the other removes or disables user accounts via indirect notification.
- One relies upon annual reviews to certify that users still need system access, even though EPA policy requires system access to be removed immediately.

As a result, eight former EPA employees who separated from the agency from May 1, 2018, through May 31, 2019, retained access to one financial and two mixed financial systems we reviewed (Table 2).

**Table 2: Active accounts for former employees who separated from the EPA from May 1, 2018, through May 31, 2019**

System name	System purpose	Separated employees with active accounts
Automated Standard Application for Payments	This Department of the Treasury system is used by federal agencies to enroll recipient organizations, authorize payments and manage accounts.	2 <sup>3</sup>
Compass Financials	This web application provides the tools needed to manage, budget and track expenditures.	1
Integrated Grants Management System	This system exchanges data with Grants.gov, the central portal for applicants to apply for federal grants. The system receives electronic applications and makes them available to EPA employees for review, approval, and funding and post-award management.	4
<b>Total separated employees with access</b>		<b>7</b>

Source: OIG analysis.

If the EPA does not take immediate action to remove system access when employees separate or are terminated from the agency, these active accounts could be used to gain unauthorized access to the agency’s financial and mixed financial systems, leaving data vulnerable to unauthorized use and disclosure.

## Recommendations

We recommend that the Chief Financial Officer:

9. Implement a process to timely notify the Compass Financials and Automated Standard Application for Payment user account administrators of individuals who are separated or terminated from the EPA and remove their access to these systems.
10. Remove user access of the separated Compass Financial user identified with an active account.

We recommend that the Assistant Administrator for Mission Support:

11. Implement a process to timely notify the Integrated Grants Management System user account administrator of individuals who separate from the EPA and remove their access to this system.
12. Remove user access of the separated Integrated Grants Management System users identified with active accounts.

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<sup>3</sup> Two former employees separated effective March 30, 2019. These former employees were included in the analysis because user access was not disabled until April 22, 2019.

## Agency Comments and OIG Evaluation

The EPA agreed with our recommendations and provided acceptable corrective actions and milestone dates. Specifically:

- For Recommendation 9, the agency stated that it had an internal control process that provided automated notifications to terminate access when users separated from the agency, but this process failed in the spring of 2019. Management indicated that it is currently using a manually executed report and will update the internal controls so that access to the EPA network is revoked when employees are separated.
- For Recommendation 10, the agency indicated that it removed the Compass access for the employees identified in the finding.
- For Recommendation 11, the agency indicated that it will identify specific areas where improvement is necessary in the deprovisioning process of user accounts and licenses. The agency said that it will then implement, where appropriate, a technical solution for these improvements.
- For Recommendation 12, the agency indicated that it has removed the IGEMS access for the employees identified in the finding.

Recommendations 9 and 11 are resolved with corrective actions pending. The agency provided documentation supporting that corrective actions to address Recommendations 10 and 12 have been completed. Therefore, Recommendations 10 and 12 are completed. The EPA's full response to our draft report is in Appendix II.

## 6—OCFO Needs to Protect Personally Identifiable Information on Its Server Used to Transfer Data with Vendors

The OCFO lacks controls to protect PII and SPII stored on a file transfer server that is used to exchange data with EPA vendors. Federal and EPA directives require the EPA to secure this type of information. However, the OCFO did not encrypt, restrict access rights or remove files containing PII and SPII on the file transfer server. Without proper security and access controls, PII and SPII collected by EPA are vulnerable to unauthorized access and a breach of privacy that could lead to identity theft.

**PII:** Information used to distinguish, trace or identify an individual's identity, such as name, date of birth and home address.

**SPII:** A subset of PII, this information includes Social Security numbers or comparable identification numbers, as well as passport, biometric, medical or financial data.

### ***Federal and EPA Standards Require Protection of Information***

NIST Special Publication 800-53 specifies the following controls for protecting PII:

- *System and Communications Protection-28, Protection of Information at Rest.* This control addresses the confidentiality and/or integrity of information at rest, which refers to the state of information when it is located on storage devices as specific components of information systems. Pursuant to this control, “Organizations have the flexibility to either encrypt all information on storage devices (i.e., full disk encryption) or encrypt specific data structures (e.g., files, records, or fields).”
- *Access Control-6, Least Privilege.* This control provides, “The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.” This control is also defined in the EPA’s *Information Security – Access Control Procedure*.

The **principle of least privilege** is the principle where users have the minimum system access necessary to perform their work.

The EPA’s *Protecting Sensitive Personally Identifiable Information (SPII)*, Chief Information Officer Directive No. 2151-P-10.0, dated December 19, 2016, provides that security and controls are required to protect SPII due to the harm it could cause if an information system is breached. This procedure states system owners are responsible for properly destroying copies and files containing SPII after 90 days. In addition, pursuant to this directive, all employees, must:

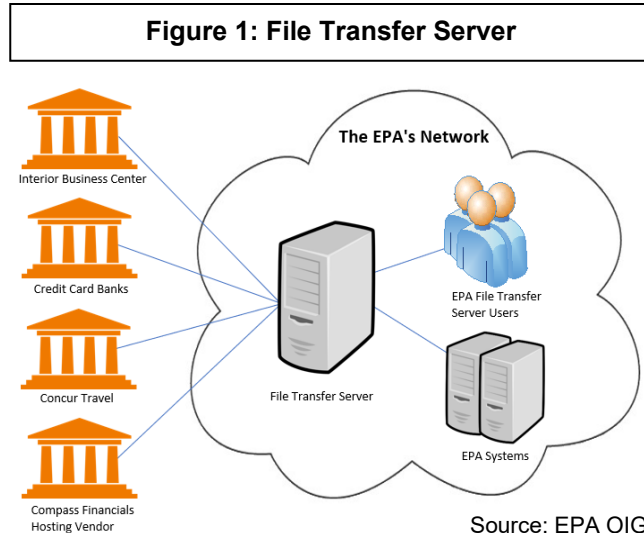
- “Ensure all such SPII has been erased, returned, or destroyed within 90 days, or request approval ... for continued use.”
- “Encrypt documents containing SPII properly ... and document the encryption.”

## EPA File Transfer Server Does Not Protect Sensitive Information

The OCFO uses a file transfer server to exchange financial and other information with its external service providers. This server and the exchanged data are controlled by the EPA (Figure 1). When PII and SPII are exchanged, they should be protected from unauthorized access. However, the OCFO lacked internal controls to verify that employees

(1) implemented information system security controls required by NIST and (2) followed the EPA's *Information Security – Access Control Procedure* and the EPA's *Protecting Sensitive Personally Identifiable Information (SPII)*.

The OCFO did not limit access to PII and SPII or encrypt SPII. Specifically, OCFO employees did not:



- Prevent people with access to the file transfer server from viewing SPII. For example, we learned during an interview with the technician who maintains the server for the OCFO that this person could view SPII on the server. However, the technician does not need access to the SPII for work purposes.
- Follow the EPA's *Information Security – Access Control Procedure*, which requires each user to have only the minimum system access needed to accomplish assigned organizational missions and business functions. The OCFO thought access to SPII was restricted by information technology based on assigned user groups; however, we found that access to view SPII was granted to all users of the server. As such, the OCFO process does not limit access to PII and SPII.
- Erase SPII when it was no longer needed for current operations. Consequently, the server contained bank files from calendar year 2013 and calendar year 2019 that contain the EPA's travel, purchase and fleet credit card information, including names, expiration dates and credit card numbers. The server also stored tax information, including the names and social security numbers of EPA contractors, from calendar years 2012 through 2017.

**User groups** help simplify access to a computer system, whereby users assigned to the same "group" have the same system access and ability to perform the same tasks.

All 139 user accounts of the file transfer server could view the server's SPII because of this lack of control. The OCFO could have protected the SPII by encrypting the data,



restricting which users could access the data and erasing the data from the file transfer server after the data had been transferred to the system of record.

The OCFO indicated that it would work with its service provider, the Office of Mission Support, to either remove or restrict user access by September 20, 2019. However, as of September 24, 2019, the system access rules were not changed to restrict user access to the server. The Office of Mission Support representative who is responsible for maintaining the file transfer server told us that the OCFO had not submitted a request for any rule changes. OMS also added that there are information technology staff in the OCFO who can update access rights. The OCFO also said that it would work with its support team to implement the agency's file retention policy and transfer the files containing PII and SPII to a secure location by December 13, 2019.

## Recommendations

We recommend that the Chief Financial Officer:

13. Implement internal controls to comply with mandatory information system security controls to protect Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII) stored on the file transfer server as specified by the National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, April 2013.
14. Implement internal controls to comply with CIO's Directive No.: 2151-P-10.0, *Protecting Sensitive Personally Identifiable Information (SPII)*, dated December 19, 2016, for the PII and SPII stored on the server used to exchange information with EPA vendors.
15. Take immediate action to verify that the user accounts on the file transfer server, with access to the PII and SPII, need the access to the file transfer server and remove the user accounts of personnel who do not need access to the server.
16. Take immediate action to update the user account access group rules to restrict what PII and SPII users can view on the file transfer server used to exchange information with EPA vendors.
17. Take immediate action to verify that employees are complying with the EPA record retention procedures for the PII and SPII that is currently stored on the file transfer server used to exchange information with EPA vendors.

## Agency Comments and OIG Evaluation

The EPA agreed with our recommendations and provided acceptable corrective actions and milestone dates. Specifically:

- For Recommendation 13, the agency indicated that it will remove the files from the server within 5 days. Further the agency will use a tool to alert staff that the files have been removed.
- For Recommendation 14, the agency indicated that it will develop a process to annually recertify user access to the file transfer server. Further, the agency will generate a report to validate and verify group access to the file transfer server.
- For Recommendation 15, the agency indicated that it has implemented steps to recertify all users. Further, the agency will remove user accounts of personnel who do not need access to the file transfer server.
- For Recommendation 16, the agency indicated that it would review all access from the file transfer server and take the necessary actions to either remove or restrict access.
- For Recommendation 17, the agency indicated that it will not retain files with PII and SPII on the file transfer server. The file transfer server is intended as a mechanism to transfer files between agency systems and external destinations. The agency will transfer files from the file transfer server to a secure location.

We consider Recommendations 13, 14, 15, 16 and 17 resolved with corrective actions pending. The EPA's full response to our draft report is in Appendix II.

## **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 2019, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, continued to encourage senior managers to evaluate the OIG's recommendations thoroughly, develop suitable and attainable corrective actions, and implement the corrective actions in the agreed upon time frame. 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 2019 to ensure that corrective action dates were being met and required certification memorandums were being submitted. The EPA said that OCFO efforts significantly helped with the EPA's responses to the OIG's two *Semiannual Reports to Congress* in FY 2018, which were issued in the spring and fall of 2018.
- The agency provided a session on *Financial Audits and Audit Outcomes* at the FY 2019 OCFO Technical Conference held in the spring. Participants attended from all EPA offices.
- The agency continued to hold quarterly meetings with Agency Audit Follow-Up Coordinators to discuss issues and concerns, as well as to emphasize adherence to corrective action due dates and the need to keep the Management Audit Tracking System current. The EPA asked the OIG to participate in the agency's spring quarterly meeting, and the EPA said that our participation, provided it with 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. However, the following table outlines the status of past significant deficiency findings that have not been resolved to date.

**Table 3: Significant deficiency issues not fully resolved**

### **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 indicated continued agreement with its 1999 legal opinion regarding EPA construction accounting but did not provide examples to guide the agency's determinations of when renovation work should be funded from agency program appropriations or Building and Facilities funds. Corrective actions for other recommendations related to this finding were not due until September 2017; however, the agency revised the expected completion date to February 28, 2018. On July 18, 2018, the Office of General Counsel stated that determining whether renovation work should be funded out of program agency dollars or Buildings and Facilities funds is very fact-specific; therefore, providing global examinations was not feasible.

**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 2019 audit, we found that the agency made significant progress to correct the differences between the amount of personal property recorded in the agency's property management system (Sunflower) and the amount of physical inventory. While the agency has taken steps to correct weaknesses, not all corrective actions implemented are completely effective. For example, the agency was unable to provide supporting documentation for the investigations conducted by the Board of Survey, which is part of the EPA's Facilities Management and Services Division that serves as a fact-finding body to determine the circumstances and conditions of EPA property that is declared lost, damaged or destroyed.

**EPA Materially Overstated Earned Revenue**

During FY 2018, the EPA did not properly eliminate internal Working Capital Fund earned revenue of \$147 million. Based on our findings, we recommended that the Chief Financial Officer update the EPA's standard operating procedures for Working Capital Fund elimination entries to include verification of entries and proper ending balances. During FY 2019, we found that the EPA updated its standard operating procedures to include verification of entries and proper ending balances; however, the EPA's FY 2019 Working Capital Fund elimination entry did not properly eliminate Working Capital Fund earned revenue balances. Therefore, the EPA's corrective action was not totally effective.

**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. While we have noted some improvements in the Cincinnati Finance Center's timely receipt of legal documents, we still identified instances of untimely receipt during FYs 2015 through 2019. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate whether the agency timely receives legal source documents in FY 2020.

**EPA Improperly Increased Accounts Receivable and Related Revenue**

During FY 2018, we found that the EPA improperly increased accounts receivable based on the cash received rather than the amount stipulated in the legal claim. Based on our findings, we recommended the agency adjust accounts receivable only for amounts stipulated in settlement agreements. The EPA considers this recommendation completed; however, we found during the FY 2019 audit that the EPA recorded an accounts receivable based on the cash received rather than the amount stipulated in the legal document. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate the agency's recording of accounts receivable.

**EPA Should Improve Its Efforts to Resolve Long-Standing Cash Differences with Treasury**

During our FY 2018 audit, we found that the EPA had not resolved \$2.2 million in long-standing cash differences between the EPA and Treasury balances. Based on our finding, we recommended 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 agreed with our finding and recommendation. According to the agency, corrective action was completed on September 13, 2019. As of November 2019, we were awaiting additional supporting documentation from the agency, and we had not assessed the effectiveness of the agency's corrective action.

**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 facilitate the proper separation of duties within the financial system application. Based on our findings, we recommended in our FY 2009 report that the OCFO verify 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. In FY 2019, the agency provided us with a separation of duties waiver and a list of individuals requesting access in accordance with EPA procedures, but the agency did not provide us the required list of mitigating controls. We asked the EPA for additional documents to support the completion of the corrective action. The EPA did not provide further information. Therefore, this recommendation is unresolved.

**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 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. The agency agreed with our finding and recommendations. In FY 2019, the OCFO extended the completion date for the first recommendation to December 16, 2019, and the second recommendation to the second quarter of FY 2020.

**EPA Needs Controls to Monitor Direct Access to the Compass Financials Database**

During our FY 2016 audit, we found that the EPA did not establish controls to monitor direct access to data within the Compass Financials database. Based on our findings, we recommended in our FY 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 May 1, 2019, corrective action status report, the agency was 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 Perform a Documented Evaluation on Upgrading Equipment Used to Implement Physical Environmental Controls at the National Computer Center**

During FY 2018, we found that the EPA did not implement controls to enforce the required verification of each person's identity every time anyone enters the agency's computer rooms. Additionally, we found that equipment supporting the physical and environmental controls for the computer room at the National Computer Center has not been maintained or reviewed to see if it still meets the needs of the computer center. Based on our findings, we recommended that the Office of Mission Support:

- Implement controls to enforce the required verification of each person's identity prior to allowing individuals to access the agency's computer rooms.
- Perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the National Computer Center computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation.

The Office of Mission Support provided a corrective action date of March 31, 2020, for the first recommendation. We considered the first recommendation resolved with corrective actions pending. For the second recommendation, the agency provided documentation to support that it evaluated the video surveillance coverage of the National Computer Center computer room and established a process to refill the fuel tanks for the generators. Additionally, the agency provided confirmation that its generators' fuel tanks have a run time that exceeds the requirement for continuous uptime. Therefore, the second recommendation is resolved.

Source: OIG analysis.

## ***Status of Current Recommendations and Potential Monetary Benefits***

### RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	10	Evaluate and improve the EPA's process for preparing financial statements.	R	Chief Financial Officer	7/31/20	
2	10	Provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements.	R	Chief Financial Officer	2/29/20	
3	12	Update the accounting models to properly record collections and not reduce an account receivable account.	R	Chief Financial Officer	9/30/21	
4	12	Establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level.	R	Chief Financial Officer	9/30/21	
5	12	Establish accounting models to properly classify and record interest, fines, penalties and fees.	R	Chief Financial Officer	9/30/21	
6	12	Establish accounting models to properly record receivables, collections and earned revenue from federal versus nonfederal vendors.	R	Chief Financial Officer	9/30/21	
7	16	Adjust the fiscal year 2018 contract accrued liabilities by \$9,853,030.26.	C	Chief Financial Officer	11/8/19	\$9.853
8	16	Perform a proof of the contract accrual methodology using actual expenses to verify the accuracy of the EPA's accruals.	C	Chief Financial Officer	11/7/19	
9	19	Implement a process to timely notify the Compass Financials and Automated Standard Application for Payment user account administrators of individuals who are separated or terminated from the EPA and remove their access to these systems.	R	Chief Financial Officer	1/31/20	
10	19	Remove user access of the separated Compass Financial user identified with an active account.	C	Chief Financial Officer	10/31/19	
11	19	Implement a process to timely notify the Integrated Grants Management System user account administrator of individuals who separate from the EPA and remove their access to this system.	R	Assistant Administrator for Mission Support	6/30/20	
12	19	Remove user access of the separated Integrated Grants Management System users identified with active accounts.	C	Assistant Administrator for Mission Support	11/4/19	
13	23	Implement internal controls to comply with mandatory information system security controls to protect Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII) stored on the file transfer server as specified by the National Institute of Standards and Technology Special Publication 800-53, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i> , Revision 4, April 2013.	R	Chief Financial Officer	1/31/20	

**RECOMMENDATIONS**

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
14	23	Implement internal controls to comply with CIO's Directive No.: 2151-P-10.0, <i>Protecting Sensitive Personally Identifiable Information (SPII)</i> , dated December 19, 2016, for the PII and SPII stored on the server used to exchange information with EPA vendors.	R	Chief Financial Officer	12/30/19	
15	23	Take immediate action to verify that the user accounts on the file transfer server, with access to the PII and SPII, need the access to the file transfer server and remove the user accounts of personnel who do not need access to the server.	R	Chief Financial Officer	11/22/19	
16	23	Take immediate action to update the user account access group rules to restrict what PII and SPII users can view on the file transfer server used to exchange information with EPA vendors.	R	Chief Financial Officer	11/22/19	
17	23	Take immediate action to verify that employees are complying with the EPA record retention procedures for the PII and SPII that is currently stored on the file transfer server used to exchange information with EPA vendors.	R	Chief Financial Officer	12/13/19	

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

***EPA's FYs 2019 and 2018  
Consolidated Financial Statements***



## Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

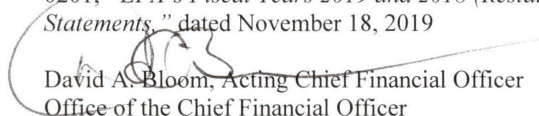
WASHINGTON, D.C. 20460

November 19, 2019

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### MEMORANDUM

**SUBJECT:** Response to Office of Inspector General Draft Audit Report, Project No. OA&E-FY19-0201, "EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements," dated November 18, 2019

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

**TO:** Charles J. Sheehan, Acting Inspector General  
Office of Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. The following is a summary of the 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 all seventeen of the recommendations.

### AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

#### Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
1	Evaluate and improve the EPA's process for preparing financial statements.	The agency makes every effort to continually review and improve its processes for financial statement reporting, including the implementation of new financial statements preparation software in FY 2019.	July 31, 2020

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
		The agency will continue to review its processes for preparing financial statements and identify process improvements to further strengthen the preparation process.	
2	Provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements.	The agency makes every effort to provide supporting documentation for adjustments and corrections; however, we will review with staff the need to include more of the supporting analysis and rationale behind the adjustments made and the accounting basis for them. The OIG has verbally told the agency that supporting documentation has improved over the last year, but we will continue to work with the OIG on any specific instances for which they feel additional documentation is needed.	February 29, 2020
3	Update the accounting models to properly record collections and not reduce an account receivable account.	The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level.	September 30, 2021
4	Establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level.	The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level.	September 30, 2021
5	Establish accounting models to properly classify and record interest, fines, penalties and fees.	The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level.	September 30, 2021
6	Establish accounting models to properly record receivables, collections and earned revenue from federal versus nonfederal vendors.	The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level.	September 30, 2021

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
7	Adjust the fiscal year 2018 contract accrued liabilities by \$9,853,030.26.	The agency has made an additional adjustment to contract accrued liabilities by \$9,853,030.26 in the final FY 2019 financial statement.	Completed November 8, 2019
8	Perform a proof of the contract accrual methodology using actual expenses to verify the accuracy of the EPA's accruals.	The agency performed the proof as requested.	Completed November 7, 2019
9	Implement a process to timely notify the Compass Financials and Automated Standard Application for Payment user account administrators of individuals who are separated or terminated from the EPA and remove their access to these systems.	<p>OCFO/OTS has an internal control process for an automated notification to terminate access, which failed in the spring of 2019. We are currently using a manually executed report and will update the internal controls to ensure system access is revoked when employees are separated. As a compensating control, during the off-boarding of employees, EPA network access is revoked, and a valid network user account ID and password are required for access to Compass.</p> <p>The two ASAP users were an unusual situation, and access removal was completed on April 18, 2019. The Director of the Finance Center that manages ASAP will continue to notify the ASAP account manager of terminations or separations.</p>	January 31, 2020
10	Remove user access of the separated Compass Financial user identified with an active account.	OCFO/OTS has removed Compass access of the identified user.	Completed October 31, 2019
11	Implement a process to timely notify the Integrated Grants Management System user account administrator of individuals who separate from the EPA and remove their access to this system.	OMS/OGD will work directly with OMS/EI, OMS/ARM/OHR and OMS/ORBO to determine specific areas where improvement is necessary in the deprovisioning process of user accounts and licenses. OMS/ARM/OGD, along with its partners, will then identify and implement, where appropriate, a technical	June 30, 2020

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
		solution for these improvements. The target date for developing and fully implementing all improvements is June 30, 2020.	
12	Remove user access of the separated Integrated Grants Management System users identified with active accounts.	As of November 4, 2019, OMS/ARM/OGD has removed IGMS access for the identified users.	Completed November 4, 2019
13	Implement internal controls to comply with mandatory information system security controls to protect Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII) stored on the file transfer server as specified by the National Institute of Standards and Technology (NIST), Special Publication 800-53, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i> , Revision 4, April 2013.	<p>In coordination with OMS/EI, OCFO/OTS disabled the non-secure connection (ftp) port access on Wednesday, September 11, 2019, preventing any future transfer of information. OCFO/OTS will only allow a secure transfer method (SSH File Transfer Protocol, also known as Secure FTP) to transfer the files to and from the file transfer server.</p> <p>In accordance with security controls identified in the National Institute of Standards and Technology, Special Publication 800-53, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i>, Revision 4, April 2013, OTS will monitor the file transfer server on a bi-weekly basis to ensure that the PII and SPII files are transferred to a secure location within 5 days or less. In addition, OTS will work with OMS to create an automatic monitoring script by January 31, 2020, to generate a report that OTS/AMD staff will use to validate and confirm that no files older than 5 days remain on the file transfer server.</p>	January 31, 2020
14	Implement internal controls to comply with CIO's Directive No.: 2151-P-10.0, <i>Protecting Sensitive Personally Identifiable Information (SPII)</i> , dated December 19, 2016, for the PII and SPII stored on the	Access to the file transfer server is controlled by file-level roles and privileges. All EPA users of the referenced server are required to be inside the EPA network, therefore additional encryption on the file transfer server is not required due to the controlled access	December 30, 2019

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
	server used to exchange information with EPA vendors.	<p>previously mentioned. Additionally, external connections are made over a point-to-point connection, and all traffic flows through either an IPsec tunnel or VPN, which terminates within the NCC. OCFO/OTS will continue to verify their compliance to protect the PII and the SPII stored on the server used to exchange information with EPA vendors.</p> <p>OCFO/OTS has also implemented steps to recertify all users. By November 22, 2019, OCFO/OTS will remove user accounts who do not need access to the file transfer server.</p> <p>In compliance with CIO Directive No.: 2151-P-10.0, Protecting Sensitive Personally Identifiable Information (SPII), 12/19/2016, OTS implemented a process to recertify all users on an annual basis. The recertification process involves users submitting a form identifying their roles associated with accessing files on the file transfer server. In addition, OTS will work with OMS to generate a monthly report by December 30, 2019 that OTS/AMD staff will use to validate and verify group access on the file transfer server. OTS expects to complete the initial recertification by November 22, 2019.</p>	
15	Take immediate action to verify that the user accounts on the file transfer server, with access to the PII and SPII, need the access to the file transfer server and remove the user accounts of personnel who do not need access to the server.	OCFO/OTS has implemented steps to recertify all users. OCFO/OTS will remove user accounts of personnel who do not need access to the file transfer server by November 22, 2019.	November 22, 2019

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
16	Take immediate action to update the user account access group rules to restrict what PII and SPII users can view on the file transfer server used to exchange information with EPA vendors.	OCFO/OTS will work with OMS/EI to review all access from the file transfer server and take necessary actions to either remove or restrict access by November 22, 2019 as appropriate.	November 22, 2019
17	Take immediate action to verify that employees are complying with the EPA record retention procedures for the PII and SPII that is currently stored on the file transfer server used to exchange information with EPA vendors.	OCFO/OTS will not retain files with PII and SPII on the file transfer server. The file transfer server is intended as a mechanism for file transfers between OCFO/OTS systems and external destinations. OCFO/OTS will work with OMS/EI to transfer files from the file transfer server to a secure location by December 13, 2019.	December 13, 2019

CONTACT INFORMATION

If you have any questions regarding this response, please contact OCFO's Audit Follow-up Coordinator, Andrew LeBlanc, at 202-564-1761.

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## ***Distribution***

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Deputy Director, Office of Grants and Debarment, Office of Mission Support  
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Audit Follow-Up Coordinator, Office of Grants and Debarment, Office of Mission Support  
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# Section III

## Other Accompanying Information



# MANAGEMENT INTEGRITY AND CHALLENGES

## Overview of EPA's Efforts

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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, the U.S. Government Accountability Office 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 2019 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 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 2019, one new material weakness was identified by the OIG (see the following subsections for a discussion of EPA's progress in addressing material weaknesses).

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.

# 2019 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 2019, the OIG identified six 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 2017	FY 2018	FY 2019	EPA strategic goal
<b>Oversight of States, Territories, and Tribes Authorized to Accomplish Environmental Goals:</b> 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
<b>Enhancing Information Technology Security to Combat Cyber Threats</b> ( <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
<b>Workforce Planning / Workload Analysis:</b> The EPA needs to identify its workload needs so that it can more effectively prioritize and allocate limited resources to accomplish its work.	•	•	•	Cross- Goal
<b>Mandated Reporting Requirements:</b> 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
<b>Data Quality for Program Performance and Decision-Making:</b> Poor data quality negatively impacts the EPA’s effectiveness in overseeing programs that directly impact public health.		•	•	Cross-Goal
<b>The EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect Their Health and the Environment:</b> In 2018, the EPA Administrator identified Risk Communication as a top priority. Our recent reports indicate risk communication challenges across many EPA programs.			•	Cross-Goal



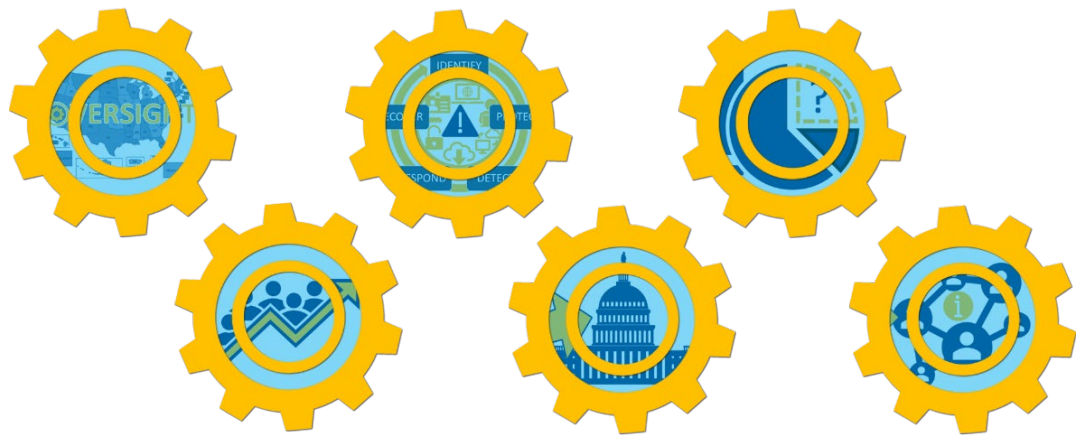
U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



# FY 2019

## EPA Management Challenges



19-N-0235  
July 15, 2019

## Abbreviations

CFR	Code of Federal Regulations
CIO	Chief Information Officer
EPA	U.S. Environmental Protection Agency
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IT	Information Technology
OIG	Office of Inspector General
OMB	Office of Management and Budget
PII	Personally Identifiable Information

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

**EPA Inspector General Hotline**  
1200 Pennsylvania Avenue, NW (2431T)  
Washington, DC 20460  
(888) 546-8740  
(202) 566-2599 (fax)  
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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 to be the U.S. Environmental Protection Agency's (EPA's) major management challenges for fiscal year 2019.

Address inquiries to our public affairs office at (202) 566-2391 or [OIG\\_WEBPOSTINGS@epa.gov](mailto:OIG_WEBPOSTINGS@epa.gov).

List of [OIG reports](#)

## EPA's Fiscal Year 2019 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 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 Security to Combat Cyber Threats:***

- Though the EPA continues to initiate actions to further strengthen or improve its information security program, issues remain.

#### ***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 and Should Fill Identified Data Gaps for Program Performance and Decision-Making:***

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

#### ***The EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect Their Health and the Environment:***

- In 2018, the EPA Administrator identified Risk Communication as a top priority. Our recent reports indicate risk communication challenges across many EPA programs.



July 15, 2019

**MEMORANDUM**

**SUBJECT:** EPA’s Fiscal Year 2019 Management Challenges  
Report No. 19-N-0235

**FROM:** Charles J. Sheehan, Deputy Inspector General

**TO:** Andrew Wheeler, Administrator

We are providing you with a list of the areas that the Office of Inspector General (OIG) considers major management challenges confronting the U.S. Environmental Protection Agency (EPA). The project number for this report was OA&E-FY19-0071. 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 Workload Analysis to Accomplish Its Mission Efficiently and Effectively	8
The EPA Needs to Enhance Information Security to Combat Cyber Threats	11
The EPA Needs to Improve on Fulfilling Mandated Reporting Requirements	17
The EPA Needs Improved Data Quality and Should Fill Identified Data Gaps for Program Performance and Decision-Making	20
The EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect Their Health and the Environment	25

Similar to how the U.S. Government Accountability Office reports 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 actions – 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.

The U.S. Government Accountability Office's 2019 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 the criteria is central to removal from the list.

This year we retained all five management challenges from last year's report due to persistent issues. We added one additional challenge ("The EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect Their Health and the Environment").

We will post this report to our website at [www.epa.gov/oig](http://www.epa.gov/oig). We welcome the opportunity to discuss our list of challenges and any comments 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 (EPA) Office of Inspector General (OIG) and the U.S. Government Accountability Office (GAO) consistently have 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, recent audits indicate oversight remains a significant management challenge.

### BACKGROUND

To accomplish its mission, the EPA develops regulations and establishes programs to implement environmental laws. In many cases, the EPA can delegate to states, territories and tribes or otherwise formally authorize them to implement the laws. Delegation or authorization occurs after the EPA determines that the governmental entity has the legal authority and capacity to operate an environmental protection and enforcement program consistent with federal standards. The EPA relies on states, territories and tribes with delegated and authorized programs to collect environmental data and implement compliance and enforcement programs. The EPA authorizes or delegates many, but not all, portions of environmental laws to states, tribes and territories. According to the Environmental Council of States, states have assumed more than 96 percent of the delegable authorities under federal law. The table below provides examples of environmental programs delegated or authorized by the EPA.

#### Examples of delegated or authorized environmental programs

Federal law and federal programs delegated or authorized by the EPA <sup>a</sup>	States with delegated or authorized programs	Territories with delegated or authorized programs <sup>b</sup>	Tribes with delegated or authorized programs
Clean Air Act: Title V <sup>c</sup>	50	2	2
Clean Water Act: National Pollutant Discharge Elimination System <sup>d</sup>	46	1	0
Resource Conservation and Recovery Act: Hazardous Waste Program <sup>e</sup>	48	1	0
Safe Drinking Water Act: Public Water Supply Supervision Program	49	5	1

Source: OIG analysis.

- The District of Columbia implements Title V, National Pollutant Discharge Elimination System, and Hazardous Waste programs.
- Johnston Atoll and Midway Islands are not included.
- In some states, such as California, local agencies issue Title V permits.
- This includes partially and fully authorized National Pollutant Discharge Elimination System programs.
- This includes partially and fully authorized Hazardous Waste Programs.

The EPA retains the oversight responsibility to provide reasonable assurance that the delegated and authorized programs protect human health and the environment. The EPA must monitor delegated and authorized programs to determine whether they continue to meet federal standards and to verify that federal funds help achieve the intended environmental protection goals. The EPA also retains its own authority to enforce environmental laws. EPA headquarters and regional staff perform a variety of formal and informal oversight activities; however, those activities are not always consistently implemented, leading to disparities in the effectiveness of delegated and authorized 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 authority (or “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 and authorized programs.

### ***Strategic Planning and Agency Emphasis on Oversight***

The agency’s 2018–2022 Strategic Plan, issued in February 2018, emphasizes oversight of delegated and authorized programs as an area of focus. The plan provides examples of ways the EPA is working to improve oversight of state, territorial and tribal environmental programs, including: (1) approving state/tribal implementation plans, vehicle and engine emission certification applications, and compliance actions in cases of noncompliance; (2) reiterating its oversight role as a co-regulator with states, territories and tribes in delegated programs; and (3) working with states, territories and tribes to ensure compliance with environmental laws and establish consistency and certainty for the regulated community.

In addition to the oversight emphasis in the agency’s Strategic Plan, Administrator Andrew Wheeler issued an oversight memorandum, “Principles and Best Practices for Oversight of Federal Environmental Programs Implemented by States and Tribes,” on October 30, 2018. According to the Administrator, the memorandum was published to “provide certainty by setting expectations for state, tribal and federal roles and responsibilities and ensuring decisions are made in a timely fashion.”

### ***Agency Actions to Improve Oversight***

In August 2016, the Deputy Administrator released a document, “Promoting Environmental Program Health and Integrity: Principles and Best Practices for Oversight of State Permitting Programs,” for the EPA and states to use to enhance the efficiency and effectiveness of the oversight system. The EPA developed the document 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 was the result of efforts by the State Program Health and Integrity Workgroup, which includes 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.

Under the Public Water Systems Supervision program, the EPA provides oversight of state delegated programs by conducting drinking water program reviews and in-depth file reviews. According to the agency's Office of Water 2018 Federal Managers' Financial Integrity Act assurance letter, EPA regions began using a new template for Drinking Water Program Reviews to increase consistency among the reviews and the annual report. In addition, the agency has increased the number of in-depth file reviews over the past few years so that approximately eight to 10 in-depth file reviews are conducted annually.

Also, in collaboration with state revolving fund managers, the EPA developed three new financial indicators to support oversight and management of fund growth. The Drinking Water and Clean Water State Revolving Funds are federal-state partnerships that provide financial assistance to communities for drinking water and wastewater infrastructure and related projects. The EPA uses financial information to conduct annual reviews of state performance regarding these funds. The range of financial indicators will better inform stakeholders on the financial sustainability of both the Drinking Water and Clean Water State Revolving Funds. On April 26, 2018, the Office of Wastewater Management and Office of Ground Water and Drinking Water issued a memorandum to the regional state revolving fund branch chiefs regarding the new indicators.

The following reports issued within the last 5 years show the continued prevalence of the issue and the actions the EPA has taken or plans to take.

### **Relevant Reports**

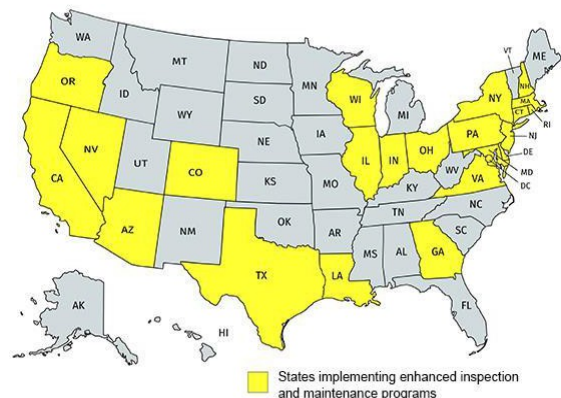
#### *OIG Reports*

- In February 2018 ([18-P-0079](#)), we found that the EPA could not ensure that its Federal Insecticide, Fungicide, and Rodenticide Act cooperative agreement funding achieved agency goals and reduced risks to human health and the environment from pesticide misuse. We made recommendations to improve oversight. Corrective actions are pending.
- In July 2018 ([18-P-0221](#)), we concluded that the circumstances and response to the city of Flint, Michigan's drinking water contamination involved implementation and oversight lapses at the EPA as well as the state and the city levels. Specifically, EPA Region 5 did not implement proper management controls that could have facilitated more informed and proactive decisions regarding the city's and state's implementation of the Safe Drinking Water Act Lead and Copper Rule. Corrective actions are pending.



Lead service lines showing inner surface without any coating from corrosion control treatment (left), with coating (right), and fully corroded (middle). (EPA photo)

- In July 2018 ([18-P-0227](#)), we found that states and the EPA have taken many years to authorize hazardous waste rules—from less than 1 year to more than 31. No state had been authorized by the EPA for all required rules. The EPA lacked internal controls to validate the completeness and accuracy of state authorization information and did not collect sufficient data to identify reasons for delays or lack of authorization of Resource Conservation and Recovery Act rules. Further, the EPA had not defined authorization goals to track program performance. Corrective actions are pending.
- In September 2018 ([18-P-0270](#)), we found that, over a period of years, the EPA had only conducted 13 percent of Asbestos Hazard Emergency Response Act compliance inspections at schools within its responsibility/jurisdiction. Only one EPA region had a strategy for its Toxic Substances Control Act compliance monitoring efforts, as recommended by the Toxic Substances Control Act Compliance Monitoring Strategy. We also found that only five EPA regions had inspected for asbestos in schools when they received asbestos-related tips or complaints. Corrective actions are pending.
- In September 2018 ([18-P-0271](#)), we found that, due to North Carolina’s inaction as the delegated authority to conduct asbestos removal and site remediation for over 7 months, the EPA used its Comprehensive Environmental Response, Compensation, and Liability Act authority to perform the necessary and costly work. Based upon these findings, we recommended that EPA Region 4 implement internal controls to verify the state’s enforcement of work practices at demolition and renovation sites under Asbestos National Emission Standards for Hazardous Air Pollutants and work with the state to clarify authorities. The agency completed all corrective actions.
- In September 2018 ([18-P-0283](#)), we found that the EPA should collect additional program performance data to better assess the effectiveness of states’ enhanced inspection and maintenance programs for reducing vehicle emissions. Also, while the agency strengthened its oversight of required annual reports from states about the performance of their vehicle inspection and maintenance programs, it did not consistently communicate errors in reports back to states. Corrective actions are pending.
- In April 2017 ([17-P-0174](#)), we found that while most states and some tribes had fish advisories in place this information was often confusing and complex, and did 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 September 2017 ([17-P-0402](#)), we found that EPA Region 2 needed to improve its internal processes for reviewing Puerto Rico's assistance agreements. The region may have inefficiently used over \$217,000 in taxpayer funds, may have needed additional support for grant award decisions, and may not have had evidence that taxpayer funds had been properly used under two cooperative agreements. 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. The agency completed all corrective actions to improve noncompliance at drinking water systems and use of enforcement and compliance assistance tools across the regions. The EPA completed all corrective actions.
- In May 2016 ([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. The agency completed all corrective actions to address the report recommendations, including the recovery of unallowable costs and expansion of internal controls with enhanced reviews and data reporting.
- In June 2016 ([16-P-0217](#)), we found that the EPA incurred total obligations and expenditures in excess of the authorized cost ceiling for 51 of 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 respective cost share requirements; 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 recommendations.
- In October 2016 ([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. The agency completed all corrective actions by updating its Final Guidance on Emergency Authority under Section 1431 of the Safe Drinking Water Act, and by training all relevant drinking water and water enforcement program management and staff on Section 1431 and the updated guidance. The EPA completed all corrective actions.

- In February 2015 ([15-P-0099](#)), we found that Region 8 was not conducting inspections at establishments in North Dakota that produced pesticides, or was not conducting inspections of pesticides imported into the state. Further, North Dakota did not have a state inspector with qualifications equivalent to a federal inspector to conduct inspections on the EPA's behalf. 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 had been initiated. The EPA completed all corrective actions.
- In April 2015 ([15-P-0137](#)), we found that the U.S. Virgin Islands (part of EPA Region 2) 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. Some corrective actions are pending.
- In September 2015 ([15-P-0298](#)), we recommended that EPA Region 9 withhold \$8,787,000 for the Hawaii Drinking Water State Revolving Fund capitalization grant until the region was 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 advising the state that it would withhold an FY 2015 Drinking Water State Revolving Fund capitalization grant and possibly further awards. The EPA completed the corrective action.

#### *GAO Reports*

- In September 2018 ([GAO 18-620](#)), the GAO reported that few of the largest water systems had publicized inventories of lead services lines. Approximately 43 states informed the EPA that they intend to fulfill the agency's request to work with water systems to publicize inventories of lead service lines. However, 39 states reported challenges in doing so. The GAO's review found that, as of January 2018, 12 of the 100 largest water systems had publicized information on the inventory of lead service lines. The agency had not followed up with all states since 2016 to share information about how to address these challenges. The EPA told the GAO it was focused on state compliance with drinking water rules, and not following up with information on how states could address challenges. To encourage states to be more transparent to the public and support the agency's oversight of the Lead and Copper Rule and objectives for safe drinking water, the GAO recommended that the EPA share information on successful approaches states and water systems had used to identify and publicize locations of lead service lines with all states.
- In September 2017 ([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 EPA 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 90<sup>th</sup> 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 February 2016 ([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. GAO recommendations included 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 August 2015 ([GAO-15-567](#)), the GAO reported 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.

#### **WHAT REMAINS TO BE DONE**

The EPA strategic plan and the Administrator's memorandum acknowledges state oversight is an issue and provide some guidance. However, EPA leadership needs to demonstrate an organizational commitment to correcting problems with the agency's oversight of key state, territorial and tribal programs by aligning the proper people, resources and processes, and developing 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.

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

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### CHALLENGE FOR THE AGENCY

The EPA has not addressed the workforce planning requirements of 5 CFR Part 250, Subpart B, Strategic Human Capital Management, April 11, 2017. In the rule, workforce analysis is a component of workforce planning. 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. Prior to the rule, the EPA OIG and GAO had reported that the EPA had not incorporated workload analysis into its resource allocations. Specifically, the EPA had not fully implemented controls and a methodology to determine workforce levels based upon analysis of the agency's workload. Due to the broad implications for accomplishing the EPA's mission, we have included this management challenge since 2012.

### BACKGROUND

The purpose of the Strategic Human Capital Management rule is to better align human capital activities with an agency's mission and strategic goals. The rule establishes the Human Capital Framework, which communicates the workforce planning methods agencies are required to follow. The Talent Management portion of the framework<sup>1</sup> defines workforce planning as follows:

To accomplish workforce planning the rule requires that agency leadership identify the human capital required to meet organizational goals, *conducts analyses to identify competency and skill gaps*, develop strategies to address human capital needs and close competency skill gaps, and ensure the organization is structured effectively.

The rule requires the agency to develop a Human Capital Operating Plan. The plan serves as a tool for agency leadership to set a clear path for achieving stated human capital strategies, identify and secure resources, determine time frames and measures to assess progress, and demonstrate how each Human Capital Framework system is being fulfilled. The Office of Personnel Management manages the rule and told us that workforce planning and other elements of the rule are to be updated on an annual basis in the Human Capital Operating Plan.

Over the past 23 years, the EPA OIG and GAO have issued over 15 reports citing the need for the EPA to incorporate workload analysis into its distribution of staff. 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.

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<sup>1</sup>The four systems of the Human Capital Framework are Strategic Planning and Alignment, Performance Culture, Talent Management, and Evaluation. Talent Management incorporates workforce planning, or the process to identify and close skill gaps. Performance Culture engages, develops and inspires a diverse, high-performing workforce.



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 did not require program offices to collect and maintain workload data. Without such data, the EPA is limited in its ability to analyze workloads 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 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 contractor studies. However, for the most part, the EPA has not used the findings and recommendations 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 declined by 2,500 FTEs (including losses due to early-outs and buyouts in 2014 and 2017). These were budget-driven reductions and were not supported by agencywide workforce analyses. 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 delegated many environmental programs to the states.

## **THE AGENCY'S PROGRESS**

In the FY 2018 Agency Financial Report, the EPA reported that it has continued to perform only targeted workforce analyses. However, the agency did not address the requirements of the Strategic Human Capital Management rule that requires agencywide workforce planning to be updated on an annual basis. According to the report, the EPA does not agree that comprehensive agencywide analyses are necessary because the EPA has highly variable, multiyear and non-linear functions and activities that limit the utility of workload analyses to determine staffing levels.

In its FY 2018 Agency Financial Report, the agency provided examples of selected workload analysis work:

- The agency conducted workload analyses on grants management, information technology security officers, funds control officers and fee-related duties.
- The Superfund program will develop a multiyear FTE plan.

Finally, the agency stated in the report that it believed targeted analyses would contribute to the agency's multiyear approach to resource and workforce planning by helping to identify potential investment opportunities and informing workforce decisions.

The following reports show the continued prevalence of workforce analysis and the actions the EPA has taken or plans to take.

## **Relevant Reports**

### *OIG Reports*

- In September 2018 ([18-P-0270](#)), we reported that although the EPA was responsible for asbestos-in-schools inspections for a majority of the states, the EPA only performed 13 percent of the inspections while the states performed 87 percent. This disparity occurred because the number of EPA inspectors was reduced based upon budget concerns, not a comprehensive workforce analysis. Most regions indicated that inspections were necessary and would be performed if resources were available. The EPA concurred with the recommendations and corrective actions are pending.
- In September 2017 ([17-P-0397](#)), we reported 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 a lack of personnel. In a survey of EPA regions, six of 10 said they were not able to start, or had to discontinue, work due to a lack of FTEs, which could impede efforts to protect human health and the environment. The EPA concurred with the recommendations and corrective actions are pending.
- In July 2016 ([16-P-0222](#)), we reported that grants specialists in Regions 4 and 5 indicated workload was the reason administrative baseline monitoring reviews were not completed or were not completed timely. The EPA 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. The EPA concurred with and implemented the recommendation on baseline monitoring.

### *GAO Report*

- In January 2017 ([GAO-17-144](#)), the GAO reported that 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. 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 recruitment and retention efforts for grant specialists.

## **WHAT REMAINS TO BE DONE**

The agency must comply with the Strategic Human Capital Management rule by developing a workforce plan for the entire agency, not just parts of the agency. The targeted approach only ensures that a portion of the EPA's workforce needs are reviewed.

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

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### 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.

Despite progress, recent audits continue to highlight the need to fully implement information security throughout the EPA, which requires continued senior-level emphasis. The EPA relies heavily on contractor personnel to implement and manage configurations and operations of agency networked resources, but the EPA lacks processes for internal control and monitoring of contractor performance. Also, recent audits noted the need for other improvements.

For example, the EPA's current incident tracking system lacks the required security controls to protect the confidentiality of personally identifiable information (PII) and enforce password management requirements. In addition, EPA data is vulnerable to unauthorized access because there are no procedures to ensure that EPA security control requirements are implemented for file servers and share folders. The EPA does not have policies that fully address the role of its Chief Information Officer (CIO) consistent with federal laws and guidance. Furthermore, Office of Management and Budget (OMB) risk management assessment ratings rated EPA as "at risk," meaning that while some essential policies, processes and tools are in place to mitigate overall cybersecurity risk significant gaps remain.

### BACKGROUND

Protecting EPA networks and data is as important today as it was in 2001 when we first reported the 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. Federal agencies need to be vigilant in protecting their networks. In past years, various federal agencies have had numerous attacks on their systems, impacting at least 21.5 million individuals.

To address these complex cybersecurity issues, the EPA has made significant strides in developing a policy framework to enable information technology (IT) systems to adhere to federal information security requirements. These strides include developing extensive policies and procedures and addressing a significant portion of federal information security requirements and making them available to all its headquarters and regional offices. However, the EPA manages the implementation of this policy framework in a decentralized manner. Recent audit work indicates that the lack of oversight and reporting prevents 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 2018 management challenge, the EPA indicated it will do the following:

- Continue to work with the U.S. Department of Homeland Security's Continuous Diagnostics and Mitigation Program Office to fully implement Continuous Diagnostics and Mitigation Phase One, which includes hardware asset management.
- Continue to share information with the United States Computer Emergency Readiness Team through the Einstein Program.
- Attend the federal CIO and Chief Information Security Officer meetings as well as special interest meetings held by the OMB and Department of Homeland Security, to understand trends and share intelligence and solutions to improve the federal cybersecurity posture.
- Identify or develop training for contracting officer's representatives on their responsibilities for monitoring contractors.
- Prioritize the development and implementation of role-based training roles within its information security program.

Over the past year, the agency has taken the following actions:

- Reviewed all statements of work and performance work statements undergoing the agency's Federal Information Technology Acquisition Reform Act review for the inclusion of the role-based training requirements task.
- Implemented a process requiring all Senior Information Officials to provide written certification to the EPA's Chief Information Security Officer stating that contractors with significant information security responsibilities have completed the necessary security training specific to their roles under those contracts by September 30 of each year.

The EPA stated that it continues to do the following.

- Leverage technology to document and maintain the inventory of EPA networked assets. The detailed inventory includes all the necessary data (e.g., Purpose, Capability, Operating System, etc.) required for the data center's disaster recovery plan. The EPA indicated that it updates the inventory on a quarterly basis and documents the results in the center's contingency plan.
- Develop and implement processes by creating the Office of Mission Support/Office of Resources and Business Operations to improve management and oversight of its audits to include streamlining and process improvement, hiring additional staff, and using the most appropriate IT system to maintain and track audit and corrective actions.
- Identify equipment needed to restore operations and network connectivity for financial and mixed-financial applications, to include data storage plans based on the service provider's backup and data retention policies.

- Monitor physical access to its data center using a digital system with cameras installed strategically at various locations inside and outside facilities. The agency (1) maintains a list of authorized members/teams, (2) has an access authorization process for contractors and visitors who enter a facility, and (3) provides daily on-site security year-round.
- Deny personnel access to agency information resources when the personnel do not submit the appropriate waiver request to perform certain duties. Access to specific roles is controlled by account-level roles and privileges. The EPA controls account creation within its core financial application via an online access request form and locks administrative accounts via the agency's help desk ticket process. The EPA receives a monthly report from its service provider that allows for the monitoring of all users' direct access to data within the agency's core financial application. The EPA also noted that the project manager for its core financial application received the Federal Acquisition Certification for Program and Project Managers Senior Level and applied for the IT specialty certification.

The following reports issued within the last 5 years show the continued prevalence of the issue and the actions the EPA has taken or plans to take.

### ***Relevant Reports***

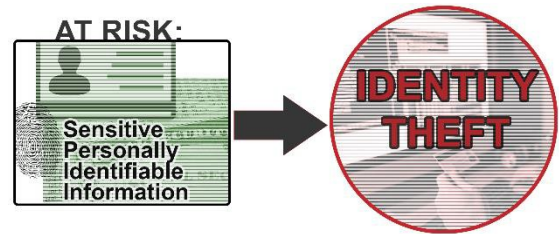
#### *OIG Reports*

- In May 2019 ([19-P-0158](#)), we found that insufficient practices for managing known security weaknesses and system settings weakened the EPA's ability to combat cyber threats. EPA personnel did not manage plans of action and milestones for remediating security weaknesses within the agency's information security weakness tracking system as required by EPA policy. This happened because the office responsible for identifying vulnerabilities relied on other agency offices to enter the plans of action and milestones in the tracking system to manage unremediated vulnerabilities. Additionally, the EPA's information security weakness tracking system lacked controls to prevent unauthorized changes to key data fields and to record these changes in the system's audit logs. This occurred because the EPA neither enabled the feature within the tracking system to prevent unauthorized modifications to key data nor configured the system's logging feature to capture information on the modification of key data fields. The EPA concurred with the recommendations and corrective actions are pending.
- In January 2019 ([19-P-0058](#)), we found 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. We found that the EPA can further improve its processes in the following domains to strengthen its information security posture:

Domain	Action needed
Risk Management	Implement standard data elements for hardware assets connected to the network and software and associated licenses.
Security Training	Implement a process for reporting on contractors' completion of role-based training.
Incident Response	Implement technologies to support the incident response program.
Contingency Planning	Implement a process to ensure that the results of business impact analyses are used to guide contingency planning efforts.

The report assessed EPA compliance with the Federal Information System Modernization Act of 2014 and contained no recommendations.

- In September 2018 ([18-P-0298](#)), we found that the EPA's current incident tracking system lacked the required security controls to (1) protect the confidentiality of PII, including sensitive PII; and (2) enforce password management requirements even though the requirements are specified in federal and agency guidance. The EPA was unaware that PII was included on incident tickets handled by help desk technicians and retained in the current incident tracking system where they can be viewed by all registered users (both EPA employees and contractors). Password management controls documented in the replacement system's draft security plan (dated March 2018) did not meet EPA requirements. Corrective actions are pending.



- In August 2018 ([18-P-0234](#)), we found that EPA data were vulnerable to unauthorized access because Region 4 did not create procedures to ensure that EPA security control requirements were implemented for file servers and share folders. Region 4 share folders contained sensitive data, and the region did not have a process to monitor user activity or content in file servers' share folders. Federal and agency guidance requires agencies to implement security controls for information systems and related components, including file servers and the share folders they host. The lack of procedures, combined with the lack of audit logging or an audit log review process, put the EPA at risk for unauthorized activity being undetected and uninvestigated. The EPA concurred and implemented the recommendation.
- In June 2018 ([18-P-0217](#)), we found that the EPA categorized the sensitivity of the information within its electronic manifest system at such a low level that planned information system security controls would not minimize the risk of environmental harm. This system—designed to track shipment of hazardous waste from a generator's site to another site for disposition—includes such information as material, quantity, waste code, hazard class, and the names and addresses of waste generators and receivers. The low-level categorization occurred, in part, because responsible personnel did not sufficiently consider homeland security implications as they relate to chemicals of interest. As a result, the EPA

plans to place sensitive hazardous waste information in its system without implementing stronger minimum information system security controls commensurate with the harm that could be caused if the information is compromised. The EPA concurred with the recommendations and corrective actions are pending

### *GAO Reports*

- In February 2018 ([GAO-18-211](#)), the GAO reported that EPA officials indicated they do not have the statutory authority to collect information from the Water and Wastewater Systems sector regarding adoption and implementation of the Cybersecurity Framework. Further, the GAO stated that the EPA did not have qualitative or quantitative means for measuring adoption in the sector. EPA officials noted that although the agency agreed with the findings of the report, it was constrained by several factors. The agency said it was unable to participate in a survey to assess Cybersecurity Framework implementation by the water sector without prior approval from the OMB under the Paperwork Reduction Act; water sector facilities are reluctant to divulge sensitive information about specific infrastructure protection activities, including cybersecurity; and there is a lack of a strong mandate for the collection data and a lack of a unified cross-sector approach to metrics and survey methods for assessing Cybersecurity Framework adoption.
- In August 2018 ([GAO-18-93](#)), the GAO reported that the EPA does not have policies that fully address the role of the agency's CIO consistent with federal laws and guidance. In addition, the EPA did not fully address the role of its CIOs for any of the six key areas that the GAO identified: IT leadership and accountability, IT budgeting, information security, IT investment management, IT strategic planning and IT workforce. Federal CIOs acknowledged in their responses to the GAO's survey that they were not always very effective in implementing the six IT management areas. The GAO noted that until agencies (including the EPA) fully address the role of CIOs in their policies, the agencies will be limited in addressing longstanding IT management challenges.
- In December 2018 ([GAO-19-105](#)), the GAO reported that until agencies more effectively implement the government's approach and strategy, federal systems will remain at risk. The GAO noted that the OMB's risk management assessment ratings rated the EPA as at risk, which means that while some essential policies, processes and tools were in place to mitigate overall cybersecurity risk, significant gaps remain.

### **WHAT REMAINS TO BE DONE**

The EPA needs to take the following actions to enhance information security from cyber threats.

1. Develop and implement a process that:
  - a) Strengthens internal controls for monitoring and completing corrective actions on open cyber security recommendations.

- b) Maintains appropriate documentation to support completion of corrective actions on cyber security audits; if delegated to sub-offices, the process should include regular inspections by the Office of Mission Support's Audit Follow-Up Coordinator.
  - c) Specifies when sub-offices must complete corrective actions on cyber security audits.
  - d) Requires verification that corrective actions fixed issues that led to the recommendations in cyber security audits.
  - e) Requires sub-offices to continue to use the improved processes.
  - f) Requires Office of Mission Support managers to update the office's Audit Follow-Up Coordinator on the status of upcoming corrective actions on cyber security audits.
  - g) Allows appropriate approval and monitoring access to share folder content that is consistent with requirements specified by federal and EPA information security procedures.
2. Enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions.
  3. Work with the U.S. Department of Homeland Security to gain an understanding of the risk of a breach of the data within the Electronic Manifest system, and work with the National Institute of Standards and Technology to determine the proper data classification to re-evaluate the categorization of the information within the system that should be regularly re-evaluated.
  4. Implement a strategy to protect the confidentiality of PII in the EPA's current incident tracking system and update standard operating procedures for help desk technicians to follow when handling incident tickets that require collecting PII, including sensitive PII.
  5. Ensure that the agency's IT management policies address the role of the CIO for key responsibilities in the six areas identified by the GAO.
  6. Take steps to consult with respective critical infrastructure sector partners, as appropriate, to develop methods for determining the level and type of cybersecurity framework adoption by entities across their respective sector.
  7. Establish a control to validate that agency personnel create required plans of action and milestones for vulnerability testing results, establish a process to periodically review the agency's tracking system's security settings to validate that each setting meets the agency's standards, and collaborate with the tracking system's vendor to determine whether audit logging can capture all data changes.



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

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### CHALLENGE FOR THE AGENCY

Our work over the last 9 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 challenges programs face during implementation and do not learn about the EPA's progress toward achieving environmental and public health program goals. Our findings across multiple programs emphasize the need for EPA management to take agencywide action to verify that required reports are submitted. The OIG first identified this issue as an agency management challenge in 2018, and we are retaining it as a challenge in 2019 because the agency has not yet established and implemented a comprehensive approach to address the challenge.

### BACKGROUND

The EPA OIG identified instances across five major environmental programs where the EPA failed to meet legal reporting requirements to Congress between 2010 and 2018. As part of the budget process, the agency continues to maintain a list of 25 congressionally required reports it views as outdated and/or duplicative. As part of the budget process, the agency informs congressional committees of the reports it thinks should be eliminated, but Congress has not yet removed any of these required reports from the agency's workload. The OIG previously 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. However, additional work remains to solve this agencywide issue.

### THE AGENCY'S PROGRESS

In response to our work, the EPA has issued required reports that it previously had not provided to Congress and the public on the beach monitoring grant program, the renewable fuel standards program, the national status of environmental education, the residual effects of methamphetamine labs, and the urban air toxics program. Additionally, the Office of Congressional and Intergovernmental Relations issued a March 2018 memorandum to the EPA's Assistant Administrators and Associate Administrators reminding them of the agency's standard practice of tracking reports to Congress in *ADPTracker*. The following issues identified in our work over recent years demonstrate both the breadth of this challenge and the agency's work toward addressing the issue on a program-by-program basis. For the OIG reports where this issue was identified, the EPA ultimately agreed to our recommendations or implemented corrective actions by planning and submitting required program reports.

The following reports issued within the last 5 years show the continued prevalence of the issue and the actions the EPA has taken or plans to take.

### **Relevant OIG Reports**

- In January 2018 ([18-P-0071](#)), we found that the Office of Water did not 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 its 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. At the time of the report, the EPA had 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 OMB on whether the program was still needed led the EPA to cease its reporting to Congress. 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 Office of Congressional and Intergovernmental Relations issued a memorandum, *Reminder of Existing Practices Regarding Statutorily-Mandated Reports to Congress*, noting that all legislatively mandated reports are to be placed in *ADPTracker*. Additionally, the Office of Water submitted a report to Congress, *Implementing the BEACH Act of 2000: 2018 Report to Congress* ([EPA 823-R-18-002](#)), in July 2018, but the 2018 report did not make reference to required reports for the prior quadrennial periods.
- In July 2016 ([16-P-0246](#)), we found that after 2005 the EPA’s Office of Environmental Education did not fund and convene until 2012 the National Environmental Education Advisory Council, as required by the National Environmental Education Act. As a result, the council was not always able to biennially provide congressionally required reports on the extent and quality of environmental education in the United States. The OIG recommended that the EPA ensure that the council is appointed and submits congressionally required reports. The EPA agreed and the council issued the required biennial report, [2015 Report to the U.S. Environmental Protection Agency Administrator](#) (undated), to Congress, the EPA Administrator and the public.
- In August 2016 ([16-P-0275](#)), we found that the Office of Research and Development had 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 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. The agency agreed with this recommendation and issued the required report, *Biofuels and the Environment: The Second Triennial Report to Congress* ([EPA 600-R-18-195](#)), in June 2018.

## **WHAT REMAINS TO BE DONE**

To ensure required reports are issued, the EPA needs to make a comprehensive effort across the agency to identify the causes for programs not issuing required reports, implement targeted plans to address the causes, and complete and issue the reports. For example, while the agency submitted the two required reports to Congress that we mentioned in the 2018 management challenges (i.e., the reports on the BEACH Act and Renewable Fuels programs), we have not yet seen a sustained commitment from agency management on the issue.

Further, the EPA must continue to work with Congress to eliminate duplicative reports. The EPA maintains a list of 25 congressionally mandated reports that it deems duplicative and/or outdated, and the agency has requested that Congress eliminate its requirements for these reports. However, Congress has not yet responded to the EPA's request and, consequently, these reports continue to be required for EPA work.

## **CHALLENGE: The EPA Needs Improved Data Quality and Should Fill Identified Data Gaps for Program Performance and Decision-Making**

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### **CHALLENGE FOR THE AGENCY**

We continue to identify weaknesses in quality controls for EPA program data and have identified multiple data gaps. Data quality and gaps matter because managers use data to manage the EPA’s programs to achieve the agency’s goals. The EPA needs and expects high-quality, accurate, and complete data to support high-quality decisions. Since 1979, EPA policy has required that the EPA use an agencywide quality system supporting environmental programs and requires that non-EPA organizations performing work on behalf of the EPA also use such a system through extramural agreements. Further, the Government Performance and Results Act Modernization Act of 2010 states that agencies must execute an annual performance plan that 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 verify effectiveness and ultimately 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, as such, 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. We removed that challenge for FY 2008 but reintroduced data quality for program data as an FY 2018 management challenge because recent OIG work pointed to a pattern of data quality issues. For FY 2019, we are retaining but modifying the challenge by adding discussion of data gaps that inhibit program performance and decision-making.

OIG reports show that poor data quality and data gaps negatively impact the EPA’s effectiveness in overseeing programs that directly impact public health, such as managing air quality, drinking water, toxic releases to surface waters, Superfund sites and environmental education. Data quality issues and data gaps also subject the EPA to significant financial risks and delayed cleanups while the public endures prolonged exposure to unsafe substances and restrictions on the use of natural resources.

## THE AGENCY'S PROGRESS

In response to EPA OIG reports, the EPA took corrective actions to address data quality issues; however, problems persist. The following reports issued within the last 5 years show the continued prevalence of the issue and the actions the EPA has taken or plans to take.

### *Relevant OIG Reports*

#### *Data quality problems*

- In April 2019 ([19-N-0115](#)), we found discrepancies between (1) the total pounds of chemicals released to the environment as reported in the publicly available Toxic Release Inventory data for reporting years 2013–2017 and (2) the information that the EPA provided to us separately on the total pounds of chemicals released. Our work led to the EPA's discovery that total release calculations provided by the publicly available database do not properly include the Publicly Owned Treatment Works release amounts. This report was a management alert and no recommendations were made.
- In July 2018 ([18-P-0222](#)), we found that the EPA lacked documented internal controls to prevent the use of Presidential Green Chemistry Challenge Awards Program results in agency performance metrics. Without documented controls, there is a risk that unverified program results could be used as part of future agency metrics (for example, if and when new staff become involved with the program). Also, the EPA disagreed with the OIG about the requirements regarding supporting documentation for completed corrective actions from a 2015 report on the same topic. Corrective actions from this 2018 report are pending.
- In June 2017 ([17-P-0249](#)), we found that EPA management controls did not provide reasonable assurance that facility-reported data were of sufficient quality to assess compliance or maintain the integrity of credit-related information for benzene standards. Benzene is one of three key pollutants contributing the most to cancer risks nationwide, and 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 need to research and correct questionable data quality before the EPA can determine whether facilities comply with the benzene standards and purchased credits were proper. The agency completed some corrective actions to address the report recommendations.
- In October 2017 ([18-P-0001](#)), we found 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, 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 could

not 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 December 2017 ([18-P-0059](#)), we found that the EPA lacked a data system with the capability to track multiple environmental liabilities regarding cleanup activities and 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, the EPA and other 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; larger, more complicated cleanups; higher costs; and longer human and environmental exposures to unsafe substances. Corrective actions are pending.
- In May 2016 ([16-P-0164](#)), we found 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 the EPA's 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 website could misinform the public about the status of facilities. The EPA completed corrective actions on the recommendations, which included updating the compliance monitoring system, conducting regular data reviews with state and local agencies, establishing a regular data quality check process, specifying the length of time states and local air districts should retain evaluation records, and providing guidance to California local air districts.

#### *Data gap issues*

- In July 2018 ([18-P-0227](#)), we found that most states were authorized to implement the majority of new required hazardous waste rules promulgated by the EPA. However, states and the EPA have taken many years to authorize rules—from less than 1 year to more than 31. No state has been authorized by the EPA for all required rules. The EPA lacks internal controls to validate the completeness and accuracy of state authorization information and does not collect sufficient data to identify reasons for delays or lack of authorization. Further, the EPA has not defined authorization goals to track program performance. For Hazardous and Solid Waste Amendments of 1984 rules, EPA regions can administer the requirements if a state has not received authorization. However, for non-Hazardous and Solid Waste Amendments rules, the EPA cannot administer a rule when a state has not yet been authorized for the rule, which creates regulatory gaps. Corrective actions are pending.
- In September 2018 ([18-P-0281](#)), we found that the EPA's Office of Pesticide Programs did not have outcome measures to determine how well the emergency exemption process maintains human health and environmental safeguards. The office also did not have

comprehensive internal controls to manage the emergency exemption data it collects or consistently communicate that data with its stakeholders. Although the office collected human health and environmental data through its emergency exemption application process, it did not make that data available in its publicly accessible database or use the data to support outcome-based performance measures that capture the scope of each exemption or measure potential benefits or risks. We also found significant deficiencies in the office's online database management, draft Section 18 emergency exemption standard operating procedure and application checklist, and reports to Congress and the OMB. Corrective actions are pending.

- In September 2018 ([18-P-0283](#)), we found that the EPA should collect additional program performance data to better assess the effectiveness of enhanced inspection and maintenance programs for reducing vehicle emissions. For example, nine states operating enhanced programs did not conduct the required biennial program evaluations to assess the effectiveness of their programs in reducing vehicle emissions. Another four states did not conduct required on-road testing to obtain information on performance of in-use vehicles, and three states did not conduct required reviews and tests due to a lack of clarity in EPA guidance. As a result, the EPA lacked data to determine the effectiveness of state enhanced vehicle inspection and maintenance programs. In addition, states are required to submit annual reports to the EPA about the performance of their vehicle inspection and maintenance programs, and, while the EPA has been improving the oversight of this reporting, improvements are needed. The agency agreed with our recommendations and corrective actions are pending.
- In November 2018 ([19-P-0002](#)), we found that the EPA's controls over the land application of sewage sludge (biosolids) were incomplete or had weaknesses and may not fully protect human health and the environment. The EPA consistently monitored biosolids for nine regulated pollutants. However, it lacked the data or risk assessment tools needed to make a determination on the safety of 352 pollutants found in biosolids, including 61 pollutants designated as acutely hazardous, hazardous or priority pollutants in other EPA programs. Past reviews showed that the EPA needed more information to fully examine the health effects and ecological impacts of land-applied biosolids. Although the EPA is not required to obtain additional data, without such data the agency cannot determine whether biosolids pollutants with incomplete risk assessments are safe. The EPA's website, public documents and biosolids labels do not explain the full spectrum of pollutants in biosolids and the uncertainty regarding their safety, which can impact public health and the environment. The agency partially agreed with our recommendations, and while some corrective actions are pending, work is underway to reach agreement on the unresolved recommendations.

## **WHAT REMAINS TO BE DONE**

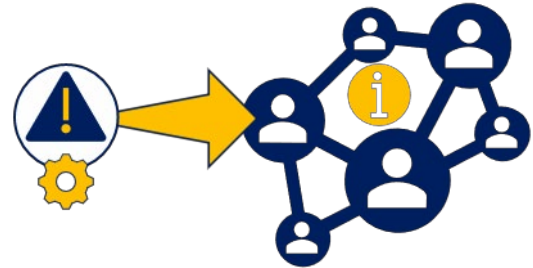
EPA leadership needs to demonstrate commitment to verify the quality of data and adequately fill data gaps. To demonstrate this commitment, the agency should show that it has the people and processes

in place to deploy agency policies and procedures across all program data, and to actively manage data to improve quality and completeness. While a move to electronic reporting should ease the agency's access to data and simplify reporting, the EPA still needs to verify and validate electronically reported data to ensure accuracy, timeliness and proper format.



## **CHALLENGE: The EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect Their Health and the Environment**

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### **CHALLENGE FOR THE AGENCY**

Over the past 7 years, the EPA OIG has identified issues with EPA actions to inform the public of potential environmental dangers. From unsafe drinking water in Flint, Michigan, to farmworkers working near pesticides, citizens count on the EPA for timely and accurate risk communication messages. EPA Administrator Andrew Wheeler identified risk communication as one of his top priorities in his July 2018 speech to EPA employees, stating “Risk communication goes to the heart of EPA’s mission of protecting public health and the environment. ... We must be able to speak with one voice and clearly explain to the American people the relevant environmental and health risks that they face, that their families face and that their children face.” This is the first year the OIG has identified risk communication as a management challenge. The agency has taken important steps to address this important issue, but recent audits indicate more work is needed.

### **BACKGROUND**

The EPA OIG has identified instances across water, air, land and pesticide programs where the EPA needs more effective risk communication strategies to guide, coordinate and evaluate its communication efforts to convey potential hazards. Risk communication tools can be written, verbal or visual statements containing information about risk.

### **THE AGENCY’S PROGRESS**

In his July 2018 speech to EPA employees, Administrator Wheeler promised to assemble a working group to look at risk communication across the EPA. By giving added certainty to the public and regulated community, he said “we can dramatically enhance environmental protections and give the private sector the clarity and transparency it needs.” Following are some examples of how the agency is taking action to improve risk communication.

- The EPA’s FYs 2018–2022 Strategic Plan discusses the importance of risk communication with respect to radiation and states the agency will focus on education—including formal and informal training—in the areas of health physics, radiation science, radiation risk communications and emergency response to fill existing and emerging gaps.
- The EPA hosted a PFAS (Per- and polyfluoroalkyl substances) National Leadership Summit in May 2018 that brought together state, tribal and federal partners; as well as key stakeholders, including industry, utilities, congressional staff and nongovernmental organizations. The

summit provided an opportunity to share information on ongoing efforts, identify specific near-term actions, and address risk communication challenges.

- In an October 2018 memo to EPA employees, Administrator Wheeler stated, “The EPA Office of Children's Health Protection plays an essential leadership role in protecting children through engagement on key children's health issues. OCHP will continue to work with internal and external stakeholders in risk communication and training, as well as scientific and policy analyses.”

The following reports issued within the last 5 years show the continued prevalence of the issue and the actions the EPA has taken or plans to take.

### **Relevant OIG Reports**

- In February 2018 ([18-P-0080](#)), we found that the state-led worker protection standard outreach to stakeholders was incomplete. Pursuant to the EPA’s cooperative agreements with states to implement the Federal Insecticide, Fungicide and Rodenticide Act, states are responsible for educating their stakeholders about worker protection standard compliance. As of June 14, 2017, the Office of Chemical Safety and Pollution Prevention said that, based on its communication with states, only five or six states had completed revised worker protection standard outreach activities with their regulated communities (i.e., the agricultural establishments that employ farmworkers and pesticide handlers). Of the three states in which we interviewed staff, California and Minnesota conducted outreach with their regulated communities to facilitate worker protection standard compliance. North Carolina staff said that they were unable to add the standard to the agenda for their annual meetings with growers in early 2016 because the revised standard was published in late 2015; therefore, they did not begin discussions with growers until early 2017. Corrective actions are pending.

- ❑ In July 2018 ([18-P-0221](#)), we found that communication weaknesses contributed to a delayed federal response to water contamination in Flint, Michigan. For effective oversight, management needs accurate and complete information and clear communication. However, the communication between the EPA and the Michigan Department of Environmental Quality did not convey key information about human health risks from lead contamination in Flint. Communication within the EPA was also problematic. These issues limited the EPA’s knowledge about risks and contributed to the delayed federal response. Corrective actions are pending.



A billboard in the city of Flint. (OIG photo)

- In November 2018 ([19-P-0002](#)), we found that the EPA’s controls over the land application of sewage sludge (biosolids) were incomplete or had weaknesses and may not fully protect human health and the environment. The EPA consistently monitored biosolids for nine regulated pollutants, but lacked the data or risk assessment tools needed to make a determination on the

safety of 352 pollutants found in biosolids. Our analysis determined that the 352 pollutants included 61 designated as acutely hazardous, hazardous or priority pollutants in other programs. The EPA's risk communication regarding the unknown risks from the 352 identified pollutants in biosolids should be transparent. Past reviews showed that the EPA needed more information to fully examine the health effects and ecological impacts of land-applied biosolids. Although the EPA could obtain additional data to complete biosolids risk assessments, it is not required to do so. Without such data, the agency cannot determine whether biosolids pollutants with incomplete risk assessments are safe. The EPA's website, public documents and biosolids labels do not explain the full spectrum of pollutants in biosolids and the uncertainty regarding their safety. Consequently, the biosolids program is at risk of not achieving its goal to protect public health and the environment. Some recommendations are pending, but others—including recommendations related to transparent risk communication—are unresolved.

- In April 2017 ([17-P-0174](#)), we found that some subsistence fishers, tribes, sport fishers and other groups consumed large amounts of contaminated fish without health warnings. Although most states and some tribes had fish advisories in place, this information was often confusing, complex and did not effectively reach the segments of the population that need the advisories. Fish advisories differ from state to state, between states and tribes, and across state and tribal borders, which in some cases leads to multiple advisories with conflicting advice for a single waterbody. In addition, although the EPA's risk communication guidance recommended evaluations of fish advisories, we found that less than half of states, and no tribes, had evaluated the effectiveness of their fish advisories. 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.

## **WHAT REMAINS TO BE DONE**

Despite increased awareness of the importance of risk communication strategies, EPA leadership needs to demonstrate an organizational commitment to correcting problems with such strategies, designed to protect human health and the environment. To demonstrate this commitment, the agency should show that it has the proper resources and processes and has developed adequate risk communication strategies.

## Agency Response to Office of Inspector General–Identified Key Management Challenges

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

**Agency Response:** In 2017, an EPA workgroup tasked with improving the oversight of state-delegated programs determined that EPA lacks a framework for assessing the effectiveness of its oversight activities. This results in inconsistent application of oversight activities across the Regions of environmental programs delegated to states.

In October 2018, the Acting Administrator issued a memo to Agency leadership, emphasizing key principles for EPA's oversight of programs delegated to states and tribes. EPA is working with two programs to pilot a method for ensuring programmatic reviews adhere to the principles of this memo and a core set of standardized work elements designed to effectuate a more consistent approach to oversight activities.

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

- Regions are using a template to organize discussions with states on NPDES real-time reviews, and an SOP for CAA Title V programmatic reviews.
- EPA is working with states to identify the next program areas to target for oversight reviews.
- The Agency is developing a national permitting oversight policy to standardize its review of the quality and timeliness of federal permits issued by states.

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.” This measure tracks the number of program areas where EPA has used the oversight framework for EPA's oversight of state implemented federal programs and/or where EPA has worked with the states to solve a jointly identified issue. EPA will define, develop, pilot, evaluate, and launch a comprehensive system to evaluate state and local implementation of federal environmental programs by 2020. The “comprehensive system” is defined as the overarching principles as laid out in the principles memo, coupled with a template or checklist populated with state-and regional specific details on the review activity in question. The purpose of this effort is twofold: to begin to standardize EPA's oversight work across EPA regions, and to maximize state and federal resources by focusing on the most important work.

**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:** EPA believes it has addressed the Human Capital Management workforce requirements and effectively used workload analyses to help plan workforce levels and examine critical processes. EPA evaluates what skills its workforce needs to complete their tasks and evaluates how much time, expressed in FTE, is needed to complete selected activities.

Pursuant to 5 CFR Part 250, Human Resources Management in Agencies, the Office of Personnel Management requires agencies to conduct workforce analyses that: 1) describe the current state; 2) project human resources needed to achieve organizational goals; and 3) identify potential shortfalls. To continue to satisfy these requirements, EPA is drafting an updated Workforce Plan, reflective of our contemporary strategies/tools, to replace its previous version. The Plan applies to all full-time and part-time

classified, “at will,” and wage employees and presents an overview of current and projected workforce trends along with profiles of core occupations. It also includes proposed gap analyses and strategies to mitigate future gaps in both skills and occupations. Implementation of this Plan, once finalized, will support EPA in acquiring, engaging, developing, and retaining the workforce talent necessary to meet Agency goals and objectives, now and in the future.

In addition, to facilitate workforce planning, EPA established a SharePoint web application to aid in conducting competency assessments. The application is called the Talent Enterprise Diagnostic and provides for the collection of information to track, update, and assess the current skills required for positions throughout EPA along with the corresponding skills of incumbents in those positions. Two TED pilots were completed over the past two years. Updates were made based on feedback. The Agency will implement TED via a phased approach concentrating on its Mission Critical Occupations. The implementation schedule will begin in the 1st Quarter of FY20 with cybersecurity positions, one of the Agency’s priority MCOs.

To further advance workforce planning, EPA implemented a Workforce Diversity Dashboard and a Workforce Demographics Dashboard for use throughout the EPA. Both tools are comprised of a visually dynamic and integrated series of reports presenting snapshots of the Agency’s workforce in their various demographic categories. The data presented in the dashboards are updated monthly and compiled from the EPA’s Federal Personnel and Payroll System and the Office of Management and Budget’s approved Applicant Race and National Origin questionnaire. Data include, but are not limited to, aggregate self-identified information on race, sex, national origin, age, targeted disability status, and education level as well as aggregate information on employees’ retirement eligibility, grade, salary, and program/office location. The dashboards provide managers with essential tools to both view the current state of their workforce and plan for future needs. Both actions are vital to workforce planning and succession management, which are currently two very high-profile processes within the federal government and EPA.

EPA has conducted targeted workload analyses to help plan workforce levels and examine critical processes. As the Agency has deployed the Lean Management System, there has been an increased focus on understanding the factors influencing the Agency’s ability to sustain its workload across offices and programs. This includes standardizing work where possible. Leadership intends to have programs and regional offices undertake a more comprehensive look across the Agency FTE allocations in FY 2020 to build on EPA’s ongoing Lean Management System implementation. The recently implemented multi-year planning initiatives also support workload considerations as the agency streamlines and focuses Agency efforts on priority work. Related Kaizen efforts include state oversight, EPA’s field presence, state and tribal assistance flexibility, community and infrastructure investments, FOIA responses, reporting requirements, and EPA laboratories, environmental permitting, and acquisitions.

EPA’s largest recent workload analysis effort examined Superfund remedial long-term staffing levels. The Superfund program reviewed and assessed the Army Corps of Engineers and Naval Facilities Engineering Command workload management, FTE distribution practices, and methods of evaluating site work to strategically manage geographic FTE allocations. The program used this work to design a national risk-based site prioritization methodology for EPA to inform the distribution of regional remedial vacancies to the areas of greatest need. Also, in the Superfund program, the Agency launched a Lean Kaizen effort to streamline the Superfund billing process and looked at how to facilitate specialists in one region providing expertise to other regions.

Since grants represent the largest type of Agency spending with the most direct effect on EPA state and tribal partners, grants management workload analyses continue to be an Agency priority. In FY 2019, the Agency surveyed all the agency programs’ grants Project Officers to better understand the time required to complete major components of Project Officer work and major challenges faced by POs at different stages of the grants process. The Agency analyzed the results to inform continuing efforts to streamline work and update policies, processes, and procedures. This analysis and previous workload reviews were presented to the Agency’s Grants Management Council.

The Agency believes that the IG's proposal "to determine workforce levels based upon analysis of the agency's workload" doesn't consider the reality that the Agency must operate within the detailed constraints of each year's Congressional appropriations. As the OIG has acknowledged, EPA's highly variable, multi-year, and non-linear functions and activities complicate development of FTE-based workload analyses that are practical tools to determine precise FTE levels.

EPA also believes that the agency chose to discontinue using comprehensive workload models for reasons other than those cited by the IG.

- "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 Agency believes that the choice to discontinue using comprehensive workload analyses was not made to focus on marginal changes, but rather because the comprehensive analyses and negotiations required substantial work and executive-level attention, but the resulting changes were limited in scope and did not provide the insight commensurate to the level of effort needed. EPA would also like to stress that each year's budget formulation processes include extensive programmatic involvement.

In conclusion, the Agency believes it complies with the workforce planning requirements of 5 CFR Part 250, Subpart B, Strategic Human Capital Management through the agency workforce planning efforts outlined above. The Agency also believes it is important to design workload efforts that support priorities but are also cognizant of existing Congressional constraints on flexibility.

**Responsible Agency Official:** Maria Williams, Acting 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. 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 processes for monitoring and managing contractor support actions to address concerns associated with this management challenge. At a high level this includes:

- Working with the Office of General Counsel (OGC) to develop standard security language into the Agency's Environmental Protection Agency Acquisitions Guide (EPAAG) Section 39.1.2.
- Incorporating into the Federal Information Technology Acquisition Reform Act (FITARA) process, a verification for the cybersecurity requirements identified in the EPAAG 39.1.2.
- Developing training for contract officers and contract officer representatives on their responsibilities for identifying contracts that require EPAAG Section 39.1.2 tasks.
- Establishing a tracking and reporting process that ensures all contractors with access to EPA information systems complete information security awareness training, and that contractors with significant security responsibilities also complete role-based training.
- Ensuring adequate cybersecurity is implemented on contractor operated systems by:
  - o Assessing systems for proper implementation and operation of adequate cybersecurity controls.
  - o Monitoring for timely completion of corrective actions for identified cybersecurity weaknesses.
  - o Managing risks at the tactical, mission and enterprise levels.

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

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

**Agency Response:** EPA has taken the corrective actions identified in the 2018 OIG Report regarding the BEACH Act Report to Congress. That Report has since been issued to Congress. The Agency continues to implement the OIG's recommendations. For example, a memorandum was issued in March 2018 to remind EPA's Assistant Administrators and Associate Administrators that the Agency's standard practice is to track Reports to Congress by using the Action Development Process Tracker. The Agency is addressing issues related to the upcoming replacement of the ADP Tracker. Additionally, EPA continues to provide a list of the unnecessary and duplicative reports that we suggest eliminating from our statutes to OMB, in consultation with Congress. The Agency continues to implement the corrective actions identified in the 2018 OIG Report, which will improve the tracking of Reports to Congress so that statutory requirements are not missed in the future.

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

- In March 2018, a memorandum was issued reminding program offices of their tracking requirements for Reports to Congress.
- In September 2018, EPA consulted with Congress about eliminating the reporting requirements for the 14 Reports to Congress that the Agency had identified as duplicative or unnecessary.
- Throughout 2018 and 2019, EPA coordinated management of the Agency's inventory of Reports to Congress. The Agency identified the appropriate tracking system when the ADP Tracker is replaced, and the potential for a having a single means of tracking statutorily-mandated Reports to Congress and those required by appropriations law.
- In August 2019, EPA is preparing to issue a memorandum identifying new Reports to Congress that should be included in ADP Tracker, if not already identified by program offices.
- In August-September 2019, EPA will update the list of unnecessary or duplicative reports as part of the upcoming FY 2021 budget proposal.

**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's Chief Information Officer has delegated authority for information quality including oversight responsibility for EPA's mandatory Quality Program. EPA issues the Quality Policy and Procedure for Environmental Programs that mandate implementation of a Quality Management System for all agency programs involved with environmental data operations and organizations funded by EPA submitting data and information for 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.

EPA 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, defensible data. EPA has begun revising the Agency's Quality Directives to clarify that it is the responsibility of program and regional offices senior management to ensure that these data are of the appropriate quality for those uses. The revised Directives will include a requirement for Assistant Administrators and Regional Administrators to certify annually that their organizations are implementing the Agency's Quality Directives and that the quality of data supporting their programmatic decisions are appropriate for the intended uses.

EPA annually assesses conformance to the Agency's Quality Directives and effectiveness of management controls and Quality Assurance (QA) practices for assuring the quality of data produced and used by the organization. These Quality System Assessments (QSA) identify findings requiring corrective actions; innovative practices for continuous improvement; and, potential vulnerabilities that may impact performance of the Agency-wide Quality Program. EPA develops tools and processes to guide consistent implementation of quality across the Agency. One such tool is the Quality Assurance Project Plan (QAPP)

that defines a documented, systematic approach for planning, collecting and using QA data and information at the project level. The QAPP assists the organization determine “fitness for use” of the project results. Program and regional offices routinely conduct internal assessment to improve effectiveness of their implemented QA programs and report annually to the Office of Mission Support on their accomplishments. Cross-cutting Agency issues including risks, successes, opportunities for improvement and resource needs are reported to the CIO.

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

### **Challenge #6 - EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect their Health and the Environment**

#### **Agency Response:**

EPA has established a cross-agency Risk Communication Workgroup charged with institutionalizing a thoughtful, cohesive approach to how EPA plans for, pays for, and conducts risk communication across the agency. The goal is to identify next steps that will inform and contribute to the development of better risk communications processes, strategies and training. The strategy includes hiring a highly experienced Senior Risk Communication Advisor in the agency.

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

- Issued agency-wide questionnaire to survey all EPA offices and regions to identify ongoing risk communications activities, adherence to existing agency risk communications practices, and consistency of practices across offices.
- Distributed agency-wide communications plan template that includes consideration of risk communication messaging for all actions.
- Presented risk communications charge to Children's Health Protection Advisory Committee. **Key Recommendation:** know your audience, know who the best messenger is for each audience, and measure and track results.
- Presented risk communications charge to Local Government Advisory Committee. **Key Recommendation:** Improve relationships with state, local, tribal officials before there is a risk to public health; having these relationships in place in advance will make it easier to coordinate and provide the public with one consistent message.
- Coordinated with E-Enterprise Leadership Council to form a new team on risk communications to include state and tribal representatives.
- In EPA's 2019 PFAS Action Plan the Agency committed to developing a risk communication toolbox that includes materials and messaging for federal, state, tribal and local officials to use to inform the public.

The following performance information is related to this management challenge:

- August 2019 meeting with National Environmental Justice Advisory Committee to establish feedback mechanisms.
- Identify specific resource needs - both FTE and extramural funding - to develop training and to implement risk communications efforts agency-wide.
- Continue efforts under the Risk Communications Workgroup to identify and conduct case studies that are diverse, address different stages in the risk communication process, and represent different offices and regions (e.g., tire crumb report, ethylene oxide, Superfund sites, PFAS, emergency response, lead and copper rule, fish advisories, harmful algal blooms).
- Based on feedback from the case studies and a review of advice from external groups, generate an agency-wide risk communications best practices document to include checklists, playbooks and measurement tools (anticipated completion Winter 2019/2020).
- Develop risk communications training for EPA staff (Spring 2020) including mandatory on-line training for all EPA employees, targeted classroom training for key program and communications staff, and ongoing practice drills.



**Responsible Agency Officials:** Rosemarie Kelley, Director, Office of Civil Enforcement; and Nancy Grantham, Principal Deputy Associate Administrator, Office of Public Affairs

# PROGRESS IN ADDRESSING FY 2019 WEAKNESSES

In FY 2019, the agency did not identify any new material weaknesses and completed corrective actions for one previously identified material weakness. During the FY 2019 Financial Statement audit, OIG identified one material weakness related to the preparation of the agency's financial statements.

## **Material Weaknesses**

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### **EPA's Accounting for Unearned Revenue**

During the FY 2016 financial statement audit, OIG identified a 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, and in November 2018, updated accounting posting models in the accounting system. EPA also conducted an extensive review and completed the process of converting prior accounting data into the approved process. The process of reviewing the accounts and postings to ensure the correct accounting treatment in the system has been finalized. On May 30, 2019, EPA completed reconciliation of the general ledger to the special accounts database used for special accounts collected for future costs.

The Agency has completed and implemented all corrective actions for this material weakness.

### **EPA's Financial Statement Preparation Process**

During the FY 2019 financial statement audit, OIG identified a material weakness related to the preparation of the agency's financial statements. OIG found instances where the agency had major misstatements of its financial transactions and financial statements.

To address this material weakness, the Agency will continue to review its processes for preparing financial statements and identify process improvements to further strengthen the preparation process. The Agency expects the corrective actions for this weakness to be completed in FY 2020.

## Summary of Financial Statement Audit

<b>Audit Opinion</b>	Unmodified				
<b>Restatement</b>	Yes				
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
Financial Statement Preparation Process	0	1	0	0	1
Unearned Revenue	1	0	1	0	0
<i>Total Material Weaknesses</i>	1	1	1	0	1

## Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
<b>Statement of Assurance</b>	Modified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
<b>Statement of Assurance</b>	Unmodified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

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

Compliance With FFMIA		
	<b>Agency</b>	<b>Auditor</b>
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 2018	Change
Square Footage (SF)	5,364,495	4,963,447	(401,048)

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 2018 was 4,963,447 SF, a reduction of 401,048 SF from the baseline.

Reporting of Operation & Maintenance Costs-Owned and Direct Lease Buildings			
	FY 2015 Reported Cost	FY 2018	Change
Operations & Maintenance Costs	\$1,106,924.21	\$3,525,429.46	\$2,418,505.25

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 (a) both 1.5 percent of program outlays and \$10 million of estimated improper payments or (b) \$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 discounts<sup>1</sup>, 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

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<sup>1</sup> As footnoted in OMB Circular A-123, Appendix C, "*Applicable discounts* are only those discounts where it is both advantageous and within the agency's control to claim them."

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.

In the Office of Inspector General’s annual report of the agency’s IPERA compliance, the EPA’s OIG stated “...the EPA complied with IPERA in that it reported all required information on improper payments but went on to say that EPA can improve the accuracy and completeness of the information”. The OIG made two recommendations to the Office of the Chief Financial Officer.

- EPA revise the Office of the Chief Financial Officer’s grant improper payments review process to include internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments.
- The Office of the Chief Financial Officer comply with the EPA’s sampling and estimation plan annually submitted to the Office of Management and Budget.

The OIG noted in its final report, “The agency agreed with our recommendations and indicated that corrective actions were implemented in April 2019. We consider the recommendation resolved until we confirm completion during next year’s audit”.

The following is a summary of current risk levels in EPA programs. Notably, in FY 2019, the EPA’s Hurricane Sandy funding was granted relief from annual reporting and is no longer considered susceptible to significant improper payments. EPA now has one program, the grants payment stream, that is considered susceptible to significant improper payments. In addition, the Agency has incorporated a new program, 2018 Disaster Relief funding, into its risk assessment cycle. A qualitative risk assessment was conducted in FY 2019 and determined that this program is not 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		
2018 Disaster Relief	X		

## I. Payment Reporting

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Table 2 provides 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 2019 AFR.

<b>Table 2. Improper Payment Reduction Outlook</b>				
<b>(\$ in millions)</b>				
		<b>Grants</b>	<b>Hurricane Sandy</b>	<b>Totals</b>
<b>FY 2018</b>	<b>\$ Outlays</b>	2,659.54	23.15	2,682.69
	<b>\$ Proper</b>	2,659.23	23.15	2,682.38
	<b>\$ Improper</b>	0.31	0.00	0.31
	<b>IP %</b>	0.01%	0.00%	0.01%
	<b>Proper %</b>	99.99%	100%	99.99%
<b>FY 2019</b>	<b>\$ Outlays</b>	1,798.34	n/a	1,798.34
	<b>\$ Proper</b>	1,775.85	n/a	1,775.85
	<b>\$ Improper</b>	22.49	n/a	22.49
	<b>IP %</b>	1.25%	n/a	1.25%
	<b>Proper %</b>	98.75	n/a	98.75
	<b>\$ Overpay</b>	6.40	n/a	6.40
	<b>\$ Underpay</b>	0.00%	n/a	0.00%
	<b>\$ Insufficient Documentation</b>	16.09	n/a	16.09
	<b>% Overpaid</b>	0.36%	n/a	0.36%
	<b>% Underpaid</b>	0.00%	n/a	0.00%
	<b>% Insufficient Documentation</b>	0.89%	n/a	0.89%
	<b>Sampling Timeframe Start</b>	Oct 1, 2017	n/a	Oct 1, 2017
	<b>Sampling Timeframe End</b>	Sept 30, 2018	n/a	Sept 30, 2018
<b>FY 2020</b>	<b>Estimated \$ Outlays</b>	1,653.12	n/a	1,653.12
	<b>Estimated \$ Improper</b>	20.66	n/a	20.66
	<b>Estimated IP % Target</b>	1.25%	n/a	1.25%

(1) EPA is maintaining the FY 2019 improper payment rate as the FY 2020 target rate. Further reductions are not anticipated at this time, given the Agency has become more proficient at identifying improper payments.

(2) In FY 2019, the agency's Hurricane Sandy program was granted relief from the annual requirement to measure and report improper payments, as it is no longer susceptible to significant improper payments.

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.

<b>Table 3: Monetary Loss</b>					
<b>(\$ in millions)</b>					
<b>Program</b>	<b>Estimated Total Monetary Loss to the Government</b>	<b>Monetary Loss within the Agency's Control</b>	<b>Monetary Loss Outside the Agency's Control</b>	<b>Estimated Non-Monetary Loss to the Government</b>	<b>Unknown (Insufficient Documentation to Determine)</b>
Grants	6.40	0.00	6.40	0.00	16.09

Table 4 identifies the root causes of error.

Table 4: Improper Payment Root Cause Category Matrix (Grants) (\$ in millions)					
Reason for Improper Payment		Type of Improper Payment			Totals
		Overpayments	Underpayments	Unknown	
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				
Administrative or Process Error Made by:	Other Eligibility Data				
	Federal Agency				
	State or Local Agency				
	Other Party	6.40			
Medical Necessity					
Insufficient Documentation to Determine				16.09	
Other Reason					
<b>Totals</b>		6.40	0.00	16.09	22.49

## II. 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 following table quantifies the Agency’s efforts to identify and recapture overpayments across all payment streams.

<b>Table 5: Overpayments Recaptured Outside of Payment Recapture Audits (1)</b> <i>(\$ in millions)</i>		
<b>Program</b>	<b>Amount Identified In FY 2019</b>	<b>Amount Recovered in FY 2019</b>
Commodities (2)	0.72	0.65
Contracts (2)	0.20	0.26
CWSRF	0.40	0.40
DWSRF	0.85	0.85
Grants	2.09	1.19
Hurricane Sandy	0.00	0.00
Payroll	1.26	3.32
Purchase Cards	0.00	0.00
Travel	0.019	0.004
2018 Disaster Relief	0.00	0.00
Other (3)	5.41	5.41
<b>Total</b>	<b>10.95</b>	<b>12.08</b>
<b>Recapture Rate – 110%</b>		

- (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.

The information provided below summarizes 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 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 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. For FY 2019 reporting, improper payments stemming from lost discounts totaled \$26 K for commodities and contracts combined.

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**

The SRFs are not 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 unallowable costs 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 closeout 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, and the records of each are reconciled to ensure complete and accurate reporting. EPA also seeks to prevent improper payments. Prior to the issuance of a grant award, OGD's Compliance Team 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. Grants Management Officers (GMOs) concur on all certifications. GMOs are also 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**

Due to several years of sustained low improper payment rates, Hurricane Sandy funding is no longer considered susceptible to significant improper payments. EPA continues to conduct oversight of SRF-related Hurricane Sandy funds through ongoing transaction testing. In FY 2019, 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. In-service debt can arise for a variety of reasons during the period of employment. When in-service debt arises, the employee is notified of the debt, given the right to dispute the debt, provided payment options, and an account receivable is recorded by the agency's shared service payroll provider, the Interior Business Center. Debts are typically recovered through payroll deductions in subsequent pay periods.

Out-of-service debt can arise when an employee leaves the Agency and owes funds back to EPA following separation. EPA establishes the debt and tracks recovery status. A small portion of EPA's out-of-service debt was uncollectible as a result of the separating employee retiring on disability. For both in-service and out-of-service debt, recoveries are actively pursued by following established debt collection procedures.

## **F) Purchase Cards**

The purchase card program is not susceptible to significant improper payments, and no improper payments were identified in FY 2019.

## **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.

### **III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative**

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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.

EPA's payments are 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 2019, 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, 2019, approximately \$1.56 billion of EPA payments were screened, and no improper payments were identified. In addition, 58,781 EPA payments totaling \$4.2 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.

### **IV. Sampling and Estimation**

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#### **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 sampling timeframe from October 1, 2017 to September 30, 2018. 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.

At least once every three years<sup>2</sup>, agencies are required to conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments. The risk assessment can be either a quantitative or qualitative evaluation. For programs that are identified as susceptible to significant improper payments, statistical sampling is required.

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<sup>2</sup> OMB Circular A-123, Appendix C, Part I.C.1.

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. The 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;

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 manager of each payment stream, who assigns a score to each risk factor and provides supporting information. An overall risk rating is then calculated for the payment stream.

In FY 2019, a qualitative risk assessment was performed for EPA's 2018 Disaster Relief funding, which was appropriated by the Bipartisan Budget Act of 2018. The risk assessment confirmed that this payment stream is not susceptible to significant improper payments. Expenditures were well below the \$10 million IPERA threshold, and the Agency is incorporating Disaster Relief funding into its three-year risk assessment cycle.

## **V. Conclusion**

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The EPA maintains a robust payment integrity program, which continues to achieve low improper payment rates.

# FRAUD REDUCTION REPORT

## Fraud Reduction and Data Analytics Act of 2015

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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,”* the 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 2018 to incorporate the consideration of fraud risk when determining the overall effectiveness of internal controls. In the Agency’s *FY 2019 Guidance for Strategic Reviews and Internal Controls*, which integrates strategic review and internal control processes, national program managers and regional offices were 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. EPA management annually certifies annually their system of internal controls, and no indications of potential fraud were reported in these annual certifications,

As part of its payment integrity program, the EPA regularly identifies and assesses a variety of risk factors, including fraud risk, in payment streams such as payroll, grants, contracts, travel and purchase cards. Programs with the potential for elevated fraud risk are evaluated as part of the risk assessment process under the Improper Payment Elimination and Recovery Act. The assessments determined that the level of risk for these payment streams is low and that the controls were operating effectively. Updated risk assessments are required at least once every three years. In addition, as part of its payment integrity program, EPA continues to work with the OIG to identify as improper payments any confirmed fraud cases resulting in criminal restitution.

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, partnering with the Office of the Inspector General to present an overview on fraud awareness for EPA’s Management Integrity advisors. The presentation focused on common fraud schemes, fraud indicators, and best practices for preventing and identifying potential fraud.

# CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, EPA and other federal agencies are required to adjust their maximum and minimum statutory civil penalty amounts by January 15 each year to account for inflation. This year, EPA did not meet that deadline because the Office of Federal Register (OFR) was unable to publish the rule due to the lapse in appropriations from December 22, 2018, to January 25, 2019. After EPA and OFR resumed operations, the Office of Civil Enforcement (OCE) requested that OFR change references to the effective date in the rule from January 15, 2019, to February 6, 2019, to align with the publication date. The “Civil Monetary Penalty Inflation Adjustment Rule” (2019 Rule) was published on February 6, 2019, and was effective the same day.<sup>3</sup> However, OFR did not make all of OCE’s requested edits. To resolve these errors, OFR published a correction on February 25, 2019, which changed the remaining January 15, 2019 references in the 2019 Rule to February 6, 2019.<sup>4</sup> The 2019 Rule and February 25, 2019 correction are codified in Table 2 of 40 CFR § 19.4. EPA will amend 40 CFR § 19.4 in January 2020 to adjust penalty levels to reflect changes in inflation since the last adjustment.

### Current Statutory Maximum/Minimum Civil Penalties under EPA’s 2019 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, where penalties are assessed on or after February 6, 2019
7 U.S.C. 136l.(a)(1)	FEDERAL INSECTICIDE, FUNGICIDE, AND RODENTICIDE ACT (FIFRA)	1972	2019	\$19,936
7 U.S.C. 136l.(a)(2)	FIFRA	1972	2019	\$2,924
7 U.S.C. 136l.(a)(2)	FIFRA	1978	2019	\$2,924/\$1,884
15 U.S.C. 2615(a)(1)	TOXIC SUBSTANCES CONTROL ACT (TSCA)	2016	2019	\$39,873
15 U.S.C. 2647(a)	TSCA	1986	2019	\$11,463
15 U.S.C. 2647(g)	TSCA	1990	2019	\$9,472
31 U.S.C. 3802(a)(1)	PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)	1986	2019	\$11,463
31 U.S.C. 3802(a)(2)	PFCRA	1986	2019	\$11,463
33 U.S.C. 1319(d)	CLEAN WATER ACT (CWA)	1987	2019	\$54,833
33 U.S.C. 1319(g)(2)(A)	CWA	1987	2019	\$21,933/\$54,833
33 U.S.C. 1319(g)(2)(B)	CWA	1987	2019	\$21,933/\$274,159

<sup>1</sup> 84 Fed. Reg. 2056 (February 6, 2019).

<sup>2</sup> 84 Fed. Reg. 5955 (February 25, 2019).

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, where penalties are assessed on or after February 6, 2019
33 U.S.C. 1321(b)(6)(B)(i)	CWA	1990	2019	\$18,943/\$47,357
33 U.S.C. 1321(b)(6)(B)(ii)	CWA	1990	2019	\$18,943/\$236,783
33 U.S.C. 1321(b)(7)(A)	CWA	1990	2019	\$47,357/\$1,895
33 U.S.C. 1321(b)(7)(B)	CWA	1990	2019	\$47,357
33 U.S.C. 1321(b)(7)(C)	CWA	1990	2019	\$47,357
33 U.S.C. 1321(b)(7)(D)	CWA	1990	2019	\$189,427/\$5,683
33 U.S.C. 1414b(d)(1)	MARINE PROTECTION, RESEARCH, AND SANCTUARIES ACT (MPRSA)	1988	2019	\$1,262
33 U.S.C. 1415(a)	MPRSA	1972	2019	\$199,361/\$262,982
33 U.S.C. 1901 note (see 1409(a)(2)(A))	CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO)	2000	2019	\$14,535/\$36,334
33 U.S.C. 1901 note (see 1409(a)(2)(B))	CACSO	2000	2019	\$14,535/\$181,669
33 U.S.C. 1901 note (see 1409(b)(1))	CACSO	2000	2019	\$36,334
33 U.S.C. 1908(b)(1)	ACT TO PREVENT POLLUTION FROM SHIPS (APPS)	1980	2019	\$74,552
33 U.S.C. 1908(b)(2)	APPS	1980	2019	\$14,910
42 U.S.C. 300g-3(b)	SAFE DRINKING WATER ACT (SDWA)	1986	2019	\$57,317
42 U.S.C. 300g-3(g)(3)(A)	SDWA	1986	2019	\$57,317
42 U.S.C. 300g-3(g)(3)(B)	SDWA	1986/1996	2019	\$11,463/\$39,936
42 U.S.C. 300g-3(g)(3)(C)	SDWA	1996	2019	\$39,936
42 U.S.C. 300h-2(b)(1)	SDWA	1986	2019	\$57,317
42 U.S.C. 300h-2(c)(1)	SDWA	1986	2019	\$22,927/\$286,586
42 U.S.C. 300h-2(c)(2)	SDWA	1986	2019	\$11,463/\$286,586



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, where penalties are assessed on or after February 6, 2019
42 U.S.C. 300h-3(c)	SDWA	1974	2019	\$19,936/\$42,530
42 U.S.C. 300i(b)	SDWA	1996	2019	\$23,963
42 U.S.C. 300i-1(c)	SDWA	2002	2019	\$139,483/\$1,394,837
42 U.S.C. 300j(e)(2)	SDWA	1974	2019	\$9,967
42 U.S.C. 300j-4(c)	SDWA	1986	2019	\$57,317
42 U.S.C. 300j-6(b)(2)	SDWA	1996	2019	\$39,936
42 U.S.C. 300j-23(d)	SDWA	1988	2019	\$10,519/\$105,194
42 U.S.C. 4852d(b)(5)	RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992	1992	2019	\$17,834
42 U.S.C. 4910(a)(2)	NOISE CONTROL ACT OF 1972	1978	2019	\$37,687
42 U.S.C. 6928(a)(3)	RESOURCE CONSERVATION AND RECOVERY ACT (RCRA)	1976	2019	\$99,681
42 U.S.C. 6928(c)	RCRA	1984	2019	\$60,039
42 U.S.C. 6928(g)	RCRA	1980	2019	\$74,552
42 U.S.C. 6928(h)(2)	RCRA	1984	2019	\$60,039
42 U.S.C. 6934(e)	RCRA	1980	2019	\$14,910
42 U.S.C. 6973(b)	RCRA	1980	2019	\$14,910
42 U.S.C. 6991e(a)(3)	RCRA	1984	2019	\$60,039
42 U.S.C. 6991e(d)(1)	RCRA	1984	2019	\$24,017
42 U.S.C. 6991e(d)(2)	RCRA	1984	2019	\$24,017
42 U.S.C. 7413(b)	CLEAN AIR ACT (CAA)	1977	2019	\$99,681
42 U.S.C. 7413(d)(1)	CAA	1990	2019	\$47,357/\$378,852
42 U.S.C. 7413(d)(3)	CAA	1990	2019	\$9,472
42 U.S.C. 7524(a)	CAA	1990	2019	\$47,357/\$4,735
42 U.S.C. 7524(c)(1)	CAA	1990	2019	\$378,852
42 U.S.C. 7545(d)(1)	CAA	1990	2019	\$47,357

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, where penalties are assessed on or after February 6, 2019
42 U.S.C. 9604(e)(5)(B)	COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA)	1986	2019	\$57,317
42 U.S.C. 9606(b)(1)	CERCLA	1986	2019	\$57,317
42 U.S.C. 9609(a)(1)	CERCLA	1986	2019	\$57,317
42 U.S.C. 9609(b)	CERCLA	1986	2019	\$57,317/\$171,952
42 U.S.C. 9609(c)	CERCLA	1986	2019	\$57,317/\$171,952
42 U.S.C. 11045(a)	EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA)	1986	2019	\$57,317
42 U.S.C. 11045(b)(1)(A)	EPCRA	1986	2019	\$57,317
42 U.S.C. 11045(b)(2)	EPCRA	1986	2019	\$57,317/\$171,952
42 U.S.C. 11045(b)(3)	EPCRA	1986	2019	\$57,317/\$171,952
42 U.S.C. 11045(c)(1)	EPCRA	1986	2019	\$57,317
42 U.S.C. 11045(c)(2)	EPCRA	1986	2019	\$22,927
42 U.S.C. 11045(d)(1)	EPCRA	1986	2019	\$57,317
42 U.S.C. 14304(a)(1)	MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT)	1996	2019	\$15,976
42 U.S.C. 14304(g)	BATTERY ACT	1996	2019	\$15,976

# BIENNIAL REVIEW OF USER FEES

In accordance with *OMB Circular A-25, User Charges*, and the Chief Financial Officer's Act of 1990, EPA biennially conducts 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 these reviews are 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.

The review may also make recommendations to adjust existing fees to reflect unanticipated changes in cost or market price.

There were no assessments scheduled for FY 2019. The next biennial user fee review will take place in FY 2020 and will include (1) assurance that existing charges are adjusted to reflect unanticipated changes in costs or market values; and (2) a review of all other agency programs to determine whether fees should be assessed for Government services or the user of Government goods or services.

EPA is also continuing to explore options and opportunities for programs where collecting fees may be appropriate. For instance, in the FY 2020 President's Budget, EPA outlined the following legislative proposals to authorize EPA to collect (or adjust existing) fees:

1. The FY 2020 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 2020 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 2020 Budget requests authorization for the EPA Administrator to collect and obligate fees 185 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 2020 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 onsite, 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.

# Section IV

## Appendices



# **APPENDIX A**

## **PUBLIC ACCESS**

EPA invites the public to access its website at [www.epa.gov](http://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](http://www.epa.gov/newsroom)

News releases: [www.epa.gov/newsroom/news-releases](http://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](http://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/](http://www.epa.gov/students/)

Office of Environmental Education: [www.epa.gov/education](http://www.epa.gov/education)

**About EPA:** [www.epa.gov/aboutepa](http://www.epa.gov/aboutepa)

EPA organizational structure: [www.epa.gov/aboutepa/epa-organizational-structure](http://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/](http://www.epa.gov/osbp/)

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

**Budget and performance:** [www.epa.gov/planandbudget](http://www.epa.gov/planandbudget)

**Careers:** [www.epa.gov/careers/](http://www.epa.gov/careers/)

**EPA en Español:** [espanol.epa.gov](http://espanol.epa.gov)

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

**EPA 한국어:** [www.epa.gov/korean](http://www.epa.gov/korean)

# **APPENDIX B**

## **ACRONYMS AND ABBREVIATIONS**

ACE	Affordable Clean Energy	LUST	Leaking Underground Storage Tank
ADA	Anti-deficiency Act	MOU	Memorandum of Understanding
ADP	Action Development Process	MPRSA	Marine, Protection, Research, and Sanctuaries Act
AFR	Agency Financial Report	NPL	National Priorities List
AICPA	American Institute of Certified Public Accountants	NRDA	Natural Resource Damages Assessment
APPS	Act to Prevent Pollution from Ships	OCE	Office of Civil Enforcement
APR	Annual Performance Report	OCFO	Office of the Chief Financial Officer
ASAP	Automated Standard Application for Payments	OFR	Office of the Federal Register
B&F	Building and Facilities	OIG	Office of Inspector General
BFS	Bureau of Fiscal Services	OMB	Office of Management Budget
CAA	Clean Air Act	OPA	Oil Pollution Act
CACSO	Certain Alaskan Cruise Ship Operations	OPM	Office of Personnel Management
CERCLA	Comprehensive Environmental Response Compensation and Liability Act	ORD	Office of Research and Development
CF	Chief Financial Officer	PFCRA	Program Fraud Civil Remedies Act
CO CSRS	Contracting Officer Civil Service Retirement System	PMA	President's Management Agenda
CWA	Clean Water Act	PO	Project Officer



CWSRF	Clean Water State Revolving Fund	PP&E	Plant, Property and Equipment
DATA	Data Accountability and Transparency Act	PRASA	Puerto Rico Aqueduct and Sewer Authority
DCAA	Defense Contract Audit Agency	PRIA	Pesticides Registration Improvement Act
DM&R	Deferred Maintenance and Repairs	PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
DNP	Do Not Pay	PRP	Potential Responsible Party
DWH	Deepwater Horizon	RCRA	Resource Conservation and Recovery Act
DWSRF	Drinking Water State Revolving Fund	R&I	Repair and Improvement
EPA	U.S. Environmental Protection Agency	RTF	Reduce the Footprint
EPCRA	Emergency Planning and Community Right-to-know Act	RTP	Research Triangle Park
EPM	Environmental Programs and Management	SARA	Superfund Amendments and Reauthorization Act
FAS	Fixed Assets Subsystem	SDWA	Safe Drinking Water Act
FASAB	Federal Accounting Standards Advisory Board	SFFAS	Statement of Federal Financial Accounting Standards
FBWT	Fund Balance with Treasury	SOP	Standard Operating Procedures
FECA	Federal Employees Compensation Act	SRF	State Revolving Fund
FERS	Federal Employees Retirement System	SSC	Superfund State Contracts
FFMIA	Federal Financial Management Improvement Act of 1996	S&T	Science & Technology
		STAG	State and Tribal Assistance Grants
		TED	Talent Enterprise Diagnostic
		TSCA	Toxic Substance Control Act
		USSGL	U.S. Standard General Ledger

FIFRA	Federal Insecticide, Fungicide and Rodenticide Act	WCF	Working Capital Fund
FMFIA	Financial Integrity Act of 1982	WIFIA	Water Infrastructure Finance and Innovation Act
FR	Financial Report		
FRPP	Federal Real Property Profile		
FY	Fiscal Year		
GAAP	Generally Accepted Accounting Principles		
GAO	Government Accountability Office		
GMO	Grants Management Office		
G-PP&E	General – Plant, Property and Equipment		
GSA	U.S. General Services Administration		
GTAS	Governmentwide Treasury Accounting Symbol Adjusted Trial Balance System		
HVAC	Heating, Ventilation, and Air Conditioning		
IA	Interagency Agreement		
IBC	Interior Business Center		
IPERA	Improper Payments Elimination Act		
IPIA	Improper Payments Information Act		
IPP	Invoice Processing Platform		

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