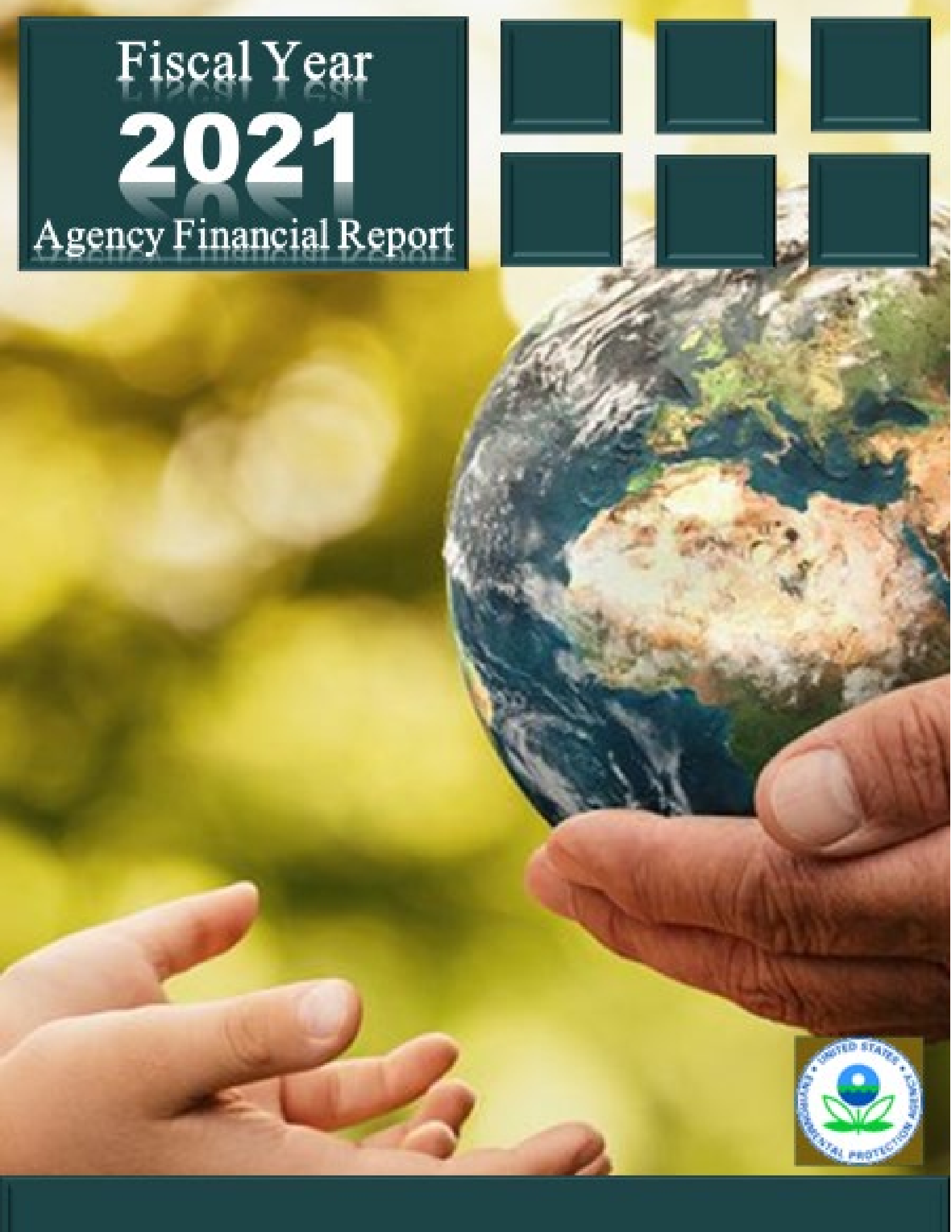


Fiscal Year

2021

Agency Financial Report



ABOUT THIS REPORT

The U.S. Environmental Protection Agency (EPA) is pleased to present the Fiscal Year 2021 Agency Financial Report (AFR). This report provides an overview of the financial and performance results for the fiscal year (FY) spanning October 1, 2020 through September 30, 2021.

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

The FY 2021 AFR encompasses the EPA's FY 2021 Financial Statements Audit Report and the Agency's FY 2021 *Federal Managers' Financial Integrity Act* Report, including the Administrator's statement assuring the soundness of the agency's internal controls.

The AFR reports 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 the EPA's programmatic and financial activities. The financial information within the AFR will be supplemented by the EPA's Annual Performance Report (APR), which will present the agency's FY 2021 performance results as measured against the targets established in its FY 2021 Performance Plan and Budget and the goals established in its FY 2018–2022 Strategic Plan. The EPA's FY 2021 APR will be included with the agency's FY 2023 Congressional Budget Justification submission and will be posted on the agency's website.

Collectively, the AFR and APR present a complete summary of the agency's activities, accomplishments, progress, and financial information for each fiscal year. Both prior year reports are available at: <http://www.epa.gov/planandbudget/results>.

How the Report Is Organized

The EPA's FY 2021 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 the 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, 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 the 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.

Table of Contents

ABOUT THIS REPORT	1
Message from the Administrator	5
SECTION I - Management's Discussion and Analysis	
ABOUT EPA	8
History and Purpose.....	8
Mission.....	8
Organization	9
Regional Map.....	10
Collaborating with Partners and Stakeholders.....	10
FY 2021 PROGRAM PERFORMANCE	11
FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION	12
Sound Financial Management: Good for the Environment, Good for the Nation.....	12
Financial Condition and Results	15
Financial Management for the Future	19
Limitations of the Principal Financial Statements.....	19
IMPROVING MANAGEMENT AND RESULTS	20
Office of Inspector General Audits, Evaluations, and Investigations.....	20
Grants Management.....	20
ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE	21
Federal Managers' Financial Integrity Act (FMFIA).....	21
The Digital Accountability and Transparency Act.....	22
Federal Financial Management Improvement Act (FFMIA)	23
Fiscal Year 2021 Annual Assurance Statement.....	24
SECTION II - Financial Section	
Message from the Chief Financial Officer.....	26
EPA'S FISCAL YEARS 2021 AND 2020 CONSOLIDATED FINANCIAL STATEMENTS (WITH RESTATEMENT)	28
AUDIT OF EPA'S FISCAL YEARS 2021 AND 2020 CONSOLIDATED FINANCIAL STATEMENTS	84
SECTION III - Other Accompanying Information	
MANAGEMENT INTEGRITY AND CHALLENGES	125
Overview of EPA's Efforts.....	125
2021 KEY MANAGEMENT CHALLENGES	126
Office of Inspector General-Identified Key Management Challenges.....	126

FY 2021 EPA KEY MANAGEMENT CHALLENGES (OIG Report)	127
Agency Response to Office of Inspector General–Identified Key Management Challenges	182
PROGRESS IN ADDRESSING FY 2021 WEAKNESSES	183
Material Weakness.....	183
Summary of Financial Statement Audit	184
Summary of Management Assurances	184
PAYMENT INTEGRITY	185
Payment Reporting	185
Risk Assessment.....	187
Improper Payments and Recoveries.....	188
Agency Improvement of Payment Accuracy with the Do Not Pay Initiative	193
CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION	194
BIENNIAL REVIEW OF USER FEES	198
GRANTS PROGRAM	199
SECTION IV - Appendices	
APPENDIX A PUBLIC ACCESS	201
APPENDIX B ACRONYMS AND ABBREVIATIONS	203

Message from the Administrator

November 15, 2021

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



Dear Mr. President:

It is my privilege to present the U.S. Environmental Protection Agency's Fiscal Year 2021 Agency Financial Report. This report outlines how the EPA utilized its financial resources to advance the Administration's environmental priorities, ensure accountability and demonstrate our financial integrity. 2021 marks the 22nd consecutive year 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 EPA's career staff.

The EPA gained new authority with the enactment of the American Innovation and Manufacturing Act of 2020 on December 27, 2020, to address climate change by phasing down production and consumption of hydrofluorocarbons in the United States by 85 percent during the next 15 years. The new authority enables the agency to address hydrofluorocarbons in three ways: phasing down production and consumption; maximizing reclamation and minimizing releases from equipment; and facilitating the transition to next-generation technologies through sector-based restrictions. The EPA issued in September 2021 a final rule establishing a comprehensive program to cap and phase down the production and consumption of hydrofluorocarbons in the United States.

Harmful perfluoroalkyl and polyfluoroalkyl substances are an urgent public health and environmental issue facing communities across the United States. As one of my earliest actions as EPA Administrator, I established the EPA Council on PFAS and charged it with developing an ambitious plan of action. We have accelerated progress since January 2021, demonstrating the EPA's leadership role at the national level to address this emerging environmental concern. I announced in October a comprehensive national strategy to confront PFAS pollution that will increase the EPA's investments in research, further restrict PFAS chemicals from being released into the environment and accelerate the cleanup of PFAS contamination.

With the President's signing the American Rescue Plan Act of 2021 into law March 11, 2021, the EPA received \$100 million to address health outcome disparities from pollution and the COVID-19 pandemic. The agency announced in June 2021 that it will provide \$50 million of this funding for environmental justice initiatives, including programs that improve air quality, drinking water, revitalization of brownfields and diesel emissions from buses in low-income communities and communities of color. A month later, the EPA announced that it will provide \$50 million in ARP funding to improve ambient-air-quality monitoring for communities across the United States and outlined the major components of its plan to enhance monitoring that would build on measures to improve air quality and reduce emissions. The EPA is drawing on its many years of experience working with communities and organizations to ensure these funds will deliver real-world results for those who need it most.

We are helping communities comply with visibility obligations by improving the efficiency and effectiveness of the Clean Air Act's state-implementation-plan process and working to reduce the SIP backlog. The EPA acted in FY 2021 on more than 370 SIPs, 180 of which were backlogged. Not only is this good for the health and well-being of American citizens, but it also supports economic growth. To help highlight the importance of this work, the implementation of SIPs from 1970-2019 contributed to the combined emissions of six key pollutants dropping by 77 percent.

The EPA is committed to partnering with states, tribes and territories to invest in infrastructure projects and protect surface waters in communities across the United States, ensuring that all Americans, especially those living in underserved communities, have access to safe and clean water and opportunities for economic growth. On March 22, 2021 – World Water Day – the agency announced the availability of \$2.7 billion for state revolving funds to assist states, tribes and territories with infrastructure projects that help provide safe drinking water and protect surface waters in communities across the United States. The EPA made available more than \$1.1 billion in new federal grant funding for the Drinking Water SRF to help drinking-water systems remove lead service lines, strengthen cybersecurity, improve system resiliency to climate-driven disasters such as floods, and install treatment for emerging contaminants, like PFAS. In addition, the EPA also provided approximately \$1.6 billion in new federal grant funding for the Clean Water SRF for a wide range of water infrastructure projects, including modernizing aging wastewater infrastructure, implementing water reuse, and recycling and addressing stormwater.

Furthermore, the Water Infrastructure Finance and Innovation Act program has become one of the most effective tools used to upgrade our nation's drinking water and wastewater infrastructure by providing low-interest loans with flexible repayment options for qualified borrowers. With a small expenditure of federal funds, the WIFIA program creates powerful leverage, resulting in significant funding for water-infrastructure projects that protect public health and deliver environmental benefits while supporting local economies and creating jobs. As of September 2021, the WIFIA program has closed 59 loans totaling \$11.5 billion in credit assistance to help finance more than \$24 billion for water infrastructure projects and create 69,000 jobs.

I take pride in providing this report knowing that the EPA's financial and performance data is a reliable, complete and accurate reflection of our efforts to continue improving the agency's financial management, performance, transparency 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, including our management challenges as identified by the Office of Inspector General. We will use the OIG's findings and recommendations as a guide to strive for continuous improvement. More results for FY 2021 will be highlighted in the upcoming FY 2022 Annual Performance Plan and Budget.

It is my honor to work with 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.

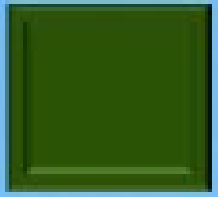
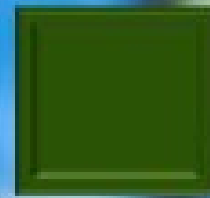
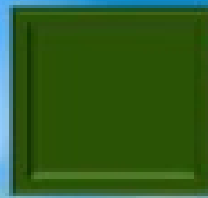
Respectfully,



Michael S. Regan

Section I

Management's Discussion and Analysis



ABOUT EPA

History and Purpose

Since its establishment in 1970, the EPA has worked for over five decades to identify, evaluate, and execute sustainable solutions to existing and emerging environmental and public health concerns. The negative impact and hazards of environmental pollution warrant continued EPA involvement. The American people deserve a clean, healthy, and safe environment where they live, work, and play.

The EPA incorporates environmental research, monitoring, standard-setting, and enforcement functions under the guidance of a single, independent agency. As a result, the agency ensures environmental protection remains an integral part of all U.S. policies, whether related to economic growth, climate change, environmental justice, natural resource use, energy, transportation, agriculture, or human health.

The EPA has made and continues to make great strides in providing a cleaner, safer, and healthier environment for all Americans and future generations. Focused cleanup efforts have helped remedy the practices of the past, and the EPA continuously works to monitor and regulate pollutants, evaluate new chemicals, and inspire better decision-making to safeguard our environmental future.

The 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.

Mission

What EPA Does

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

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

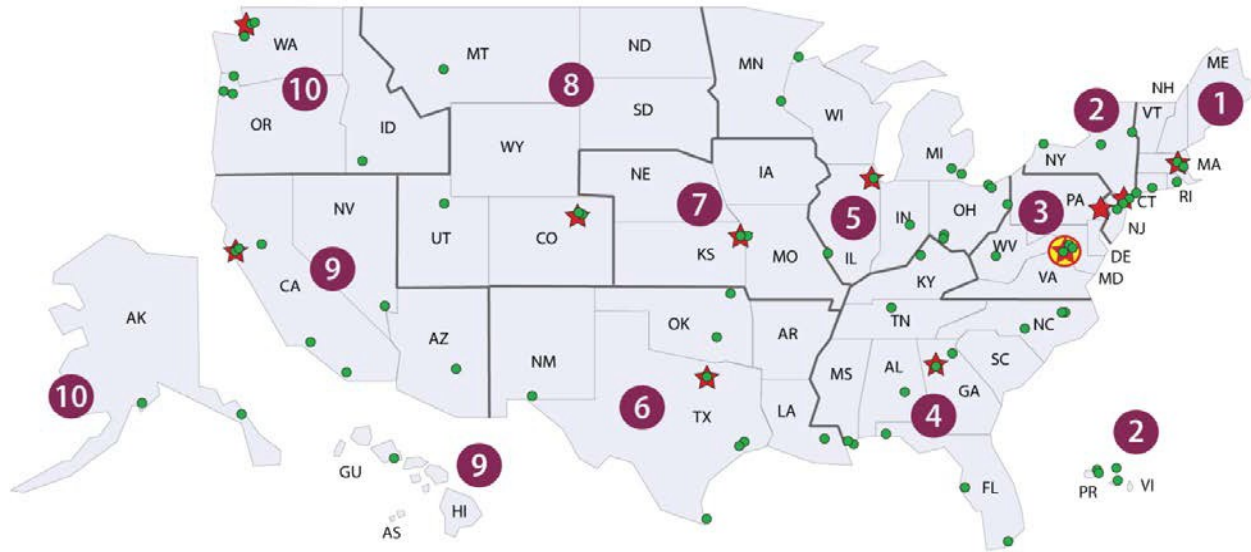
To accomplish this mission, the EPA works to ensure that Americans have clean air, land, and water for present and future generations. This includes the EPA's commitment to take brave steps and align its actions to respond to the climate crisis and continue engaging the global community. Also, the EPA will take critical actions to advance environmental justice and enforce civil rights laws that impact underserved and overburdened communities. The EPA relies on accurate scientific information to identify human health and environmental matters that affect policy decisions and enforcement actions. The EPA works to ensure all communities, individuals, businesses, and state, local and tribal governments have access to accurate sufficient information to effectively participate in delivering a cleaner, safer, and healthier environment. The EPA is committed to effectively and efficiently serving the American people and conducting business with transparency in a manner worthy of the public's trust and confidence.

Organization

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



Regional Map



EPA Offices and Facilities



EPA National Headquarters



EPA Regional Headquarters



EPA Regional and Program Laboratories and Facilities

Collaborating with Partners and Stakeholders

The EPA's partnerships with states, tribes, local governments, and the global community are central to the success of protecting human health and the environment. For five decades, this collaboration has strengthened federal environmental protection laws that are implemented within state, tribal, and local jurisdictions. The EPA recognizes that improvements to protecting human health and the environment can be achieved when the states, tribes, and the EPA, in conjunction with affected communities, work together in a spirit of trust, collaboration, and partnership. This foundation involves active platforms for public participation, including building the capacity for the most vulnerable community stakeholders to provide input and has improved the EPA's ability to fulfill its mission locally and internationally.

FY 2021 PROGRAM PERFORMANCE

Detailed FY 2021 performance results will be presented in the EPA's *FY 2021 Annual Performance Report (APR)*. The EPA will include its *FY 2021 APR* with its *FY 2023 Annual Performance Plan and Budget*. These reports, along with FY 2021 performance results will be posted at <http://www.epa.gov/planandbudget> concurrent with the publication of the *FY 2023 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 the 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 2021:

- **Agency Financial Statements.** For the 22nd consecutive year, EPA's OIG issued a "clean", unmodified, audit opinion for 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.
- **Water Infrastructure Finance and Innovation Act (WIFIA).** In FY 2021, EPA invited borrowers to apply for WIFIA loans totaling approximately \$6.5 billion in water infrastructure funding to help finance over \$13 billion in water infrastructure investments, while creating more than 40,000 jobs. The selected projects will go towards investing in water infrastructure, reducing lead and emergent contaminants in drinking water and supporting water reuse or recycling. To date, EPA's 49 WIFIA loans are providing over \$9.3 billion in credit assistance to help finance nearly \$20 billion for water infrastructure, while creating approximately 49,000 jobs and saving ratepayers over \$4 billion.
- **Superfund Billing.** Another notable effort the Office of the Chief Financial Officer (OCFO) leads is the improvement of the agency's Superfund Cost Recovery Program. In FY 2019, a group of subject matter experts came together to design a new and more efficient billing methodology. Implemented in FY 2020, the success of the new billing process allowed the agency to send additional cost recovery bills totaling over \$20 million dollars to the primary responsible parties. In FY 2021 Superfund Billing project continued to produce efficiencies - to include reducing Superfund Billing lead time from 120 days to 100 days for 94% of agency Superfund Bills leaving the agency within 100 days (previously the requirement was 120 days and this historically, was exceeded). Additionally, the use of Pay.gov for electronic bill collection has increased almost 300% from FY 2020, further simplifying and automating the process. For phase 2 of this project, the Research Triangle Park Finance Center (RTP-FC) transitioned the Superfund Redistribution Program from the RTP-FC to the regions and headquarters. All regions have been trained, and workload responsibilities have fully transitioned. This transition shifted Superfund accountability for cost recovery documentation to responsible program offices.
- **Working Capital Fund Financial Statements.** The EPA's Working Capital Fund (WCF) 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 2021, the WCF began its 25th 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 Certified Public Accounting firm to conduct an annual audit. For the 18th 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.
- **OCFO Technical Training Conference.** In June 2021, the OCFO held its annual Technical Training Conference for EPA employees virtually. This year's conference surpassed previous conferences in attendance, with over 600 employees registered. The OCFO offered a range of 40+ professional development and Continuing Learning Credit courses. These courses offered agency employees the opportunity to learn various financial tools and processes, which expanded their financial skills.

Upon course completion, conference participants were encouraged to complete online course surveys. This feedback will serve as a critical factor in determining future conference course offerings. In addition, each course was recorded, offering substantial training materials for agency reference.

- **Invoicing Processing Platform.** The EPA continues to make great strides in providing a more shared services approach to our financial tools and processes. In October 2019, the agency launched the Invoice Processing Platform (IPP) as an electronic invoicing system for all invoices that are currently processed through the agency's Contract Payment System. The IPP is a web-based system used to efficiently manage government invoicing from contract award through payment notification. The IPAA provides a secure online platform that vendors use to submit invoices, while centralizing all invoice transaction data and documents in one place. During FY 2021, the EPA increased IPP use significantly, paying over 20,000 vendor invoices (approximately \$860M) through IPP. This represents approximately 90% of all agency contract invoices. The EPA continues to work with vendors to ensure their use of the IPP system and is planning to process simplified acquisitions payments in IPP in late FY 2022.
- **EPA's Management Integrity Program.** In FY 2021, the OCFO kicked-off the Management Integrity Program with the issuance of the annual internal control process guidance. The guidance provides instruction for assessing and reporting on internal controls and promotes maintaining effective internal controls as part of good management. It also helps promote an employees' stewardship responsibility for ensuring internal controls are designed, implemented, and operating effectively. As part of the Management Integrity Program, OCFO began conducting accountability reviews in selected program and regional offices and spoke with front-line supervisors about their internal control responsibilities. Online training on EPA's Management Integrity Program was also made available for senior managers and staff.
- **EPA's Resource Management Directive System 2520, *Funds Control Manual*.** The OCFO led an official, agencywide update of our Resource Management Directive System (RMDS) 2520, *Financial Resource Operating Guide*. Per the EPA RMDS 2520, the agency's Senior Resource Officials (SRO), National Program Managers (NPM) and resource community are responsible for ensuring that agency funds are spent in a legal, appropriate, and efficient manner. Therefore, in continuing to support our SROs, NPMs and resource community, the OCFO provided the agency's financial management community and stakeholders with the opportunity to review and provide comments during the update via the agency's Directives Clearance Review process.

In preparation for the review, the OCFO managed to successfully condense the document into a more efficient and streamlined version. The revised version satisfied the OMB's requirement to include items mandated in OMB Circular A-11, Attachment H. In addition, all other explanations and directions were moved to another agency guidance document. Due to these and other changes, the EPA will no longer require OMB clearance on the agency's Operating Guide. In addition to becoming compliant with OMB's Circular A-11 requirements, the agencywide update was successful in including OCFO's implementation of a new process to document risk assessments, as requested by the Office of the Inspector General. The agencywide update was also successful in capturing the agency's updated multiple appropriation policies needed to manage the American Rescue Plan, as well as the new anticipated infrastructure funding. Lastly, the agencywide update included changes to the Data Act sections; introduced the Coronavirus Aid, Relief, and Economic Security Act; and provided updated guidance for the agency's Junior Resource Official positions. The OCFO and our stakeholders are looking forward to using the more efficient and streamlined updated RMDS 2520 in FY 2022.

- **American Rescue Plan.** In FY 2021, the EPA received \$100 million in American Rescue Plan funding, with \$50 million to accelerate environmental justice efforts towards addressing health outcome disparities from pollution and the COVID-19 pandemic, and \$50 million to improve ambient air quality monitoring for communities across the United States. In July of 2021, EPA announced that the major components of the plan to enhance ambient air monitoring in

communities would be a grant competition for community monitoring, direct awards to air agencies for continuous monitoring of PM2.5 Monitoring and Other Common Air Pollutants, enhanced regional capacity for short-term community monitoring needs, and administrative support to administer the funding.

- **CARES Act.** In FY 2021, the agency continued to use funds received under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), to support Environmental Program Management, Science and Technology, Building and Facilities, and Superfund program efforts in response to the COVID-19 pandemic. This includes cleaning and disinfecting EPA equipment and facilities, as well as maintaining the operational continuity of EPA programs and related activities.

Financial Condition and Results

Financial statements are formal financial records that document the 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.

The 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 the 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, 2021, and September 30, 2020. The statement of net cost shows the EPA’s gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of the 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 2019.

Key Terms

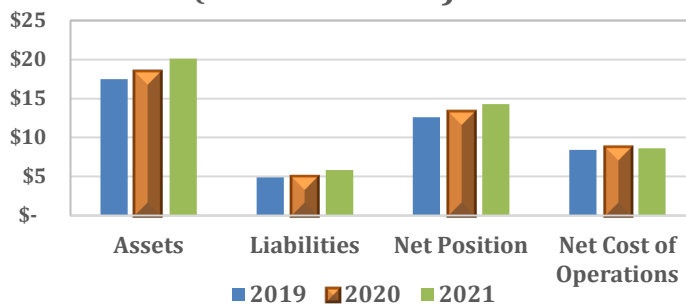
Assets: What EPA owns and manages.

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

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

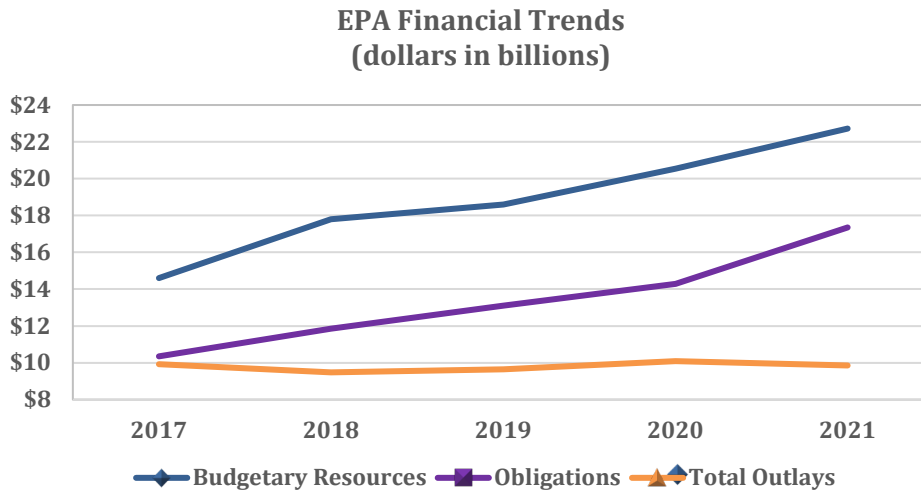
Net cost of operations: The difference between the costs incurred by EPA’s programs and EPA’s revenues.

Balance Sheet Trend
(dollars in billions)



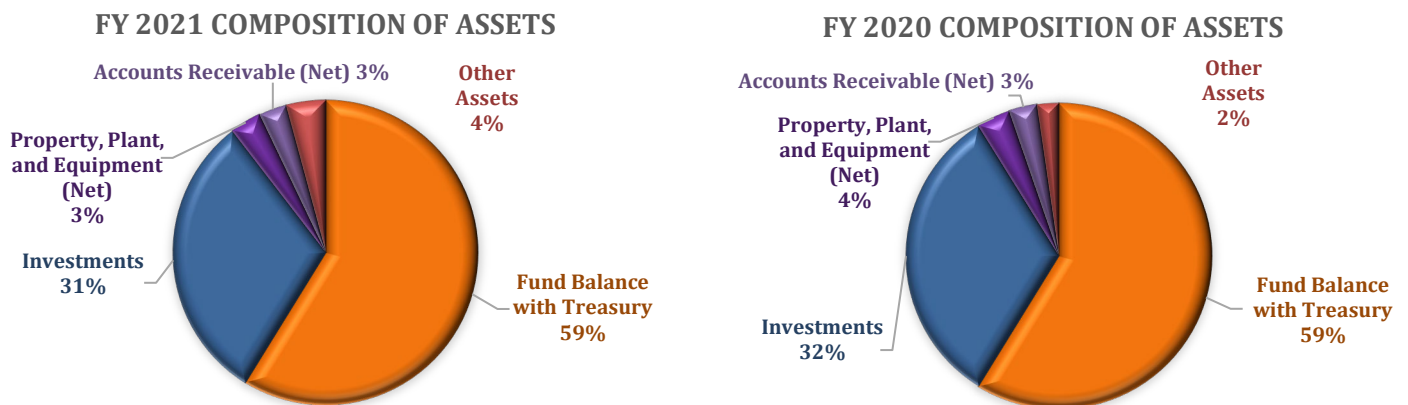
EPA Resources and Spending

The figure below depicts the 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.



Assets—What EPA Owns and Manages

The EPA’s assets totaled \$20.03 billion at the end of FY 2021, an increase of \$1.64 billion from the FY 2020 level. In FY 2021, approximately 90 percent of the EPA’s assets fall into two categories: fund balance with Treasury and investments. All of the EPA’s investments are backed by U.S. government securities. The graph below compares the agency’s FY 2021 and FY 2020 assets by major categories.

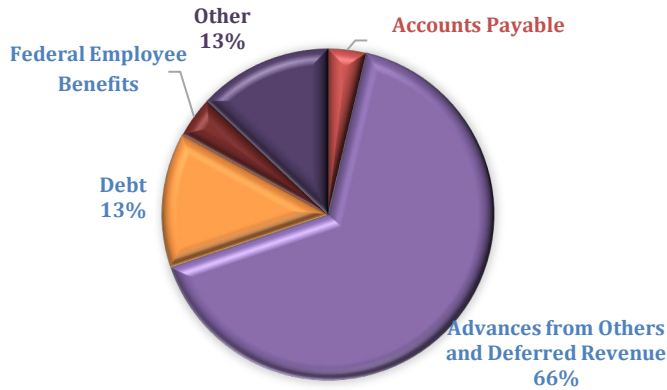


Liabilities—What EPA Owes

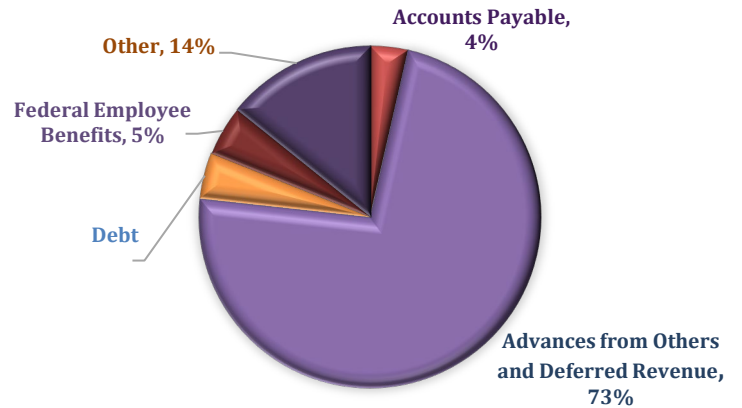
The EPA’s liabilities were \$5.70 billion at the end of FY 2021, an increase of \$0.63 billion from the FY 2020 level. In FY 2021, the EPA’s largest liability (66 percent) was advances from others and deferred revenue. Additional categories include accounts payable, federal employee benefits, and debt. The graphs compare FY 2021 and FY 2020 liabilities by major categories.

Net Cost of Operations—How EPA Used Its Funds

FY 2021 COMPOSITION OF LIABILITIES

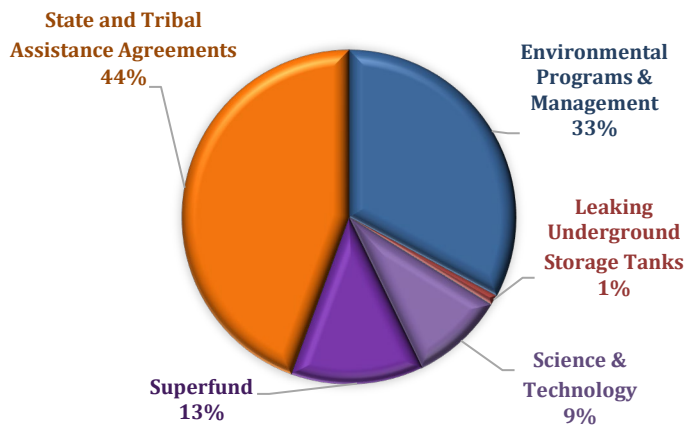


FY 2020 COMPOSITION OF LIABILITIES

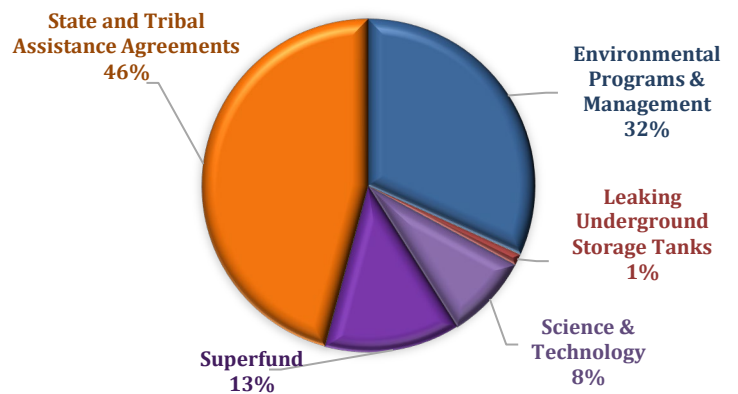


The graph that follows show how the EPA’s funds are expended among five expenditure accounts in FY 2021 and FY 2020.

FY 2021 NET COST BY PROGRAM

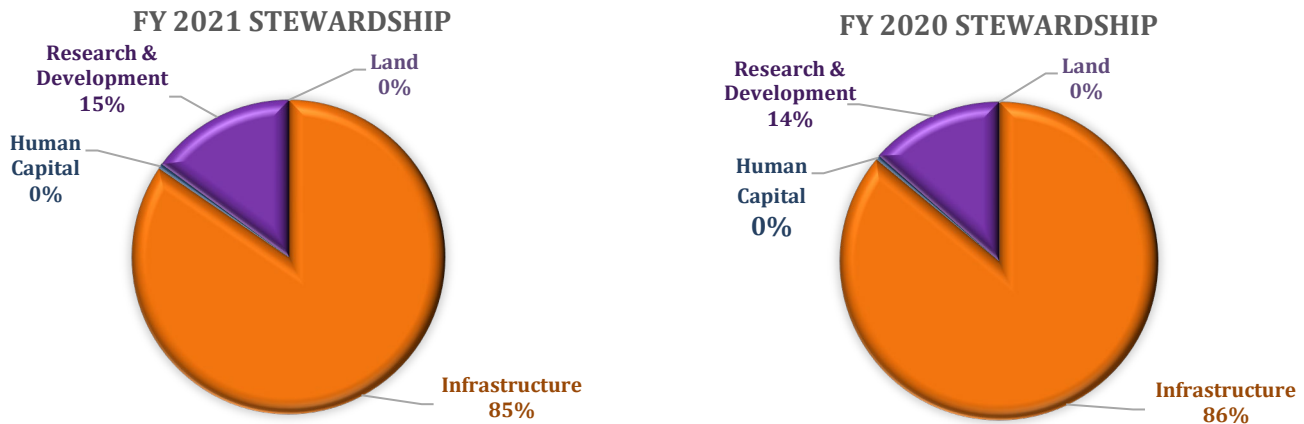


FY 2020 NET COST BY PROGRAM



Stewardship Funds

The 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 2021, The 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. The EPA's budget included nearly \$2.61 billion in FY 2021 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 the EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for the 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 the 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, the 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.

Financial Management for the Future

During times of environmental challenges, sound stewardship of the EPA's financial resources continues to be critical to the agency's ability to protect the environment and human health. 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: The 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.

Systems: The EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources. The EPA's core financial system, Compass, is based on a commercial-off-the-shelf software solution. Compass has improved the 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.

The Office of Management and Budget has outlined several planned solutions to assist agencies with modernizing and maximizing information technology while retiring aging administrative systems. The implementation of OMB's solutions will allow EPA to continue efforts already begun to streamline and enhance the delivery of financial management information and services. Currently, as part of the Compass Consolidated Upgrade (C2U) project, EPA is implementing a version upgrade with the Unique Entity Identifier (UEI) incorporated, along with implementing G-Invoicing (for government interagency agreements) and the Invoice Processing Platform (IPP) (for government contracts). The latter two initiatives will be guided by the Department of the Treasury. This upgrade effort will require significant investment in updating and preparing existing systems for new interfaces, as well as changing business processes and migrating data.

Limitations of the Principal Financial Statements

The EPA prepared the principal financial statements to report the financial position and results of its operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The 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

The OIG contributes to the EPA’s mission to protect human health and the environment by assessing the efficiency and effectiveness of the agency’s program management and results. The OIG ensures that agency resources are used as intended, develops recommendations for improvements and cost savings, and provides oversight and advisory assistance in helping the 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 the 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 2021, the OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 227 recommendations accounting for over \$149,632,858 in potential savings and recoveries.
- 122 actions taken by the agency for improvement from OIG recommendations; and
- 134 criminal, civil, or administrative enforcement actions.

Grants Management

The EPA has two major grants management metrics, one for grant competition, the other for grants closeout. During FY 2021, the agency met the 99 percent target for grants closed out and exceeded the grants competition metric by 4 percent. The agency missed the 90 percent target for grants that expired in FY 2021 by one percentage point (89 percent).

Grants Management Performance Measures for EPA			
Performance Measure	Target	Progress in FY 2021	Progress in FY 2020
Percentage of grants closed out	90%*	89% of grants that expired in 2021	90% of grants that expired in 2020
	99%**	99.3% of grants that expired in 2020 and earlier	99.5% of grants that expired in 2019 and earlier
Percentage of new grants subject to the competition policy that are competed***	90%	94%	95%

* Percentage of open grants that expired in 2021 that were closed in performance year.

** Percentage of open grants that expired in 2020 and earlier that were closed in performance year.

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

ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act (FMFIA)

FMFIA requires agencies to conduct annual evaluations of their internal controls over programs operations and financial activities and report the results to the President and Congress. In addition, agencies are required to assess and report whether financial management systems comply with federal standards.

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 statement of assurance on the overall effectiveness of the EPA's internal controls over operations and financial management systems.

FY 2021, the EPA did not identify any new material weaknesses related to effectiveness and efficiency of operations. However, the Agency continues to address one existing material weakness related to the financial statement preparation process. The Agency has established a plan of action to evaluate and improve its financial statement preparation process and to provide accurate and reliable supporting documentation for adjustments and corrections. The Agency expects to complete all correctives for this weakness in FY 2022. Section III of this report provides details about the EPA's corrective actions underway. The EPA remains committed to eliminating its weaknesses and continues to emphasize the importance of maintaining effective internal controls 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, EPA did not identify any new material weaknesses. Subsequent to the Agency's review, EPA's OIG identified no new material weaknesses during the FY 2021 financial statement audit.

Internal Controls Over Financial Management Systems

The Federal Financial Management Improve Act requires agencies to ensure that financial management systems consistently provide reliable data that comply with government-wide principles, standards, and requirements. Based on the Agency's evaluation of its financial management systems, no material weaknesses were identified. The assessment included a review of the Agency's core financial system, Compass Financials, as well as those considered as financially related or mixed systems that support or interface with the core financial system. EPA has determined that its financial management systems substantially comply with FFMIA requirements.

Based on the results of the Agency's and the OIG's FY 2021 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of EPA's internal controls over financial management systems.

The Digital Accountability and Transparency Act (DATA)

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 (DEAR); 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 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 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 Senior Accountable Official 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 considered the issues in the larger context of the DATA Act submission.

In FY 2021, 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. Moving into FY2022, the agency aims to continue to focus on improving data quality and streamlining the review processes to ensure that it continues to maintain exemplary transparency to the public on spending.

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires that agencies implement and maintain financial management systems that comply with the following:

- federal financial management system requirements,
- applicable federal accounting standards, and
- U.S. Standard General Ledger (USSGL) at the transaction level.

The agency evaluated its financial management systems and has determined they comply with FFMIA requirements. Additionally, FFMIA requires independent auditors to report on agency compliance with the three requirements as part of financial statement audit reports.

Federal Information Security Modernization Act (FISMA)

FISMA directs federal agencies to annually evaluate the effectiveness of their information security programs and practices and submit a report—including an independent evaluation by the OIG—to the Department of Homeland Security (DHS), OMB, and Congress. Agencies also report quarterly and monthly to DHS and OMB on the status of particular aspects of the information security program.

On October 29, 2021 the EPA submitted its annual Federal Information Security Modernization Act (FISMA) in accordance with the Office of Management and Budget's Memorandum M-21-02: *Fiscal Year 2020-2021 Guidance on Federal Information Security and Privacy Management Requirements*. Cybersecurity remains a top priority for the EPA, and our Information Technology Leadership is dedicated to continuously strengthening the security posture of EPA's Cybersecurity and Privacy Program to ensure we are proactive in responding to threats and implement proper safeguards to protect our information and systems.

The EPA made significant progress towards accomplishing its Cybersecurity and Privacy program goals and in achieving or exceeding the Cybersecurity Cross Agency Priority goals, most notably in our ability to manage hardware and software, improvements in our anti-virus coverage and threat protection for mobile devices. In FY 2022, the agency will continue to mature the hardware and software management functions. Additional work is also needed with regards to privileged account management. In FY 2021, EPA's Computer Security Incident Response Capability (CSIRC) reported 112 incidents to the Department of Homeland Security (DHS) US-CERT, none of which were categorized as a major incident.

Fiscal Year 2021 Annual Assurance Statement

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

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

The EPA did not identify any new material weaknesses during FY 2021. The agency continued to make progress in addressing one previously identified weakness related to the financial statement preparation process and expects to implement and validate all corrective actions in Fiscal Year 2022. More information on the previously identified material weakness is provided in Section III, "Other Accompanying Information," of the Agency Financial Report.

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

Based on the results of the agency's assessments and recent program improvements, I can provide reasonable assurance that the agency's internal control over operations are effective and the EPA's financial management systems conform to governmentwide standards as of September 30, 2021. The agency's internal controls over financial reporting are operating effectively as well.



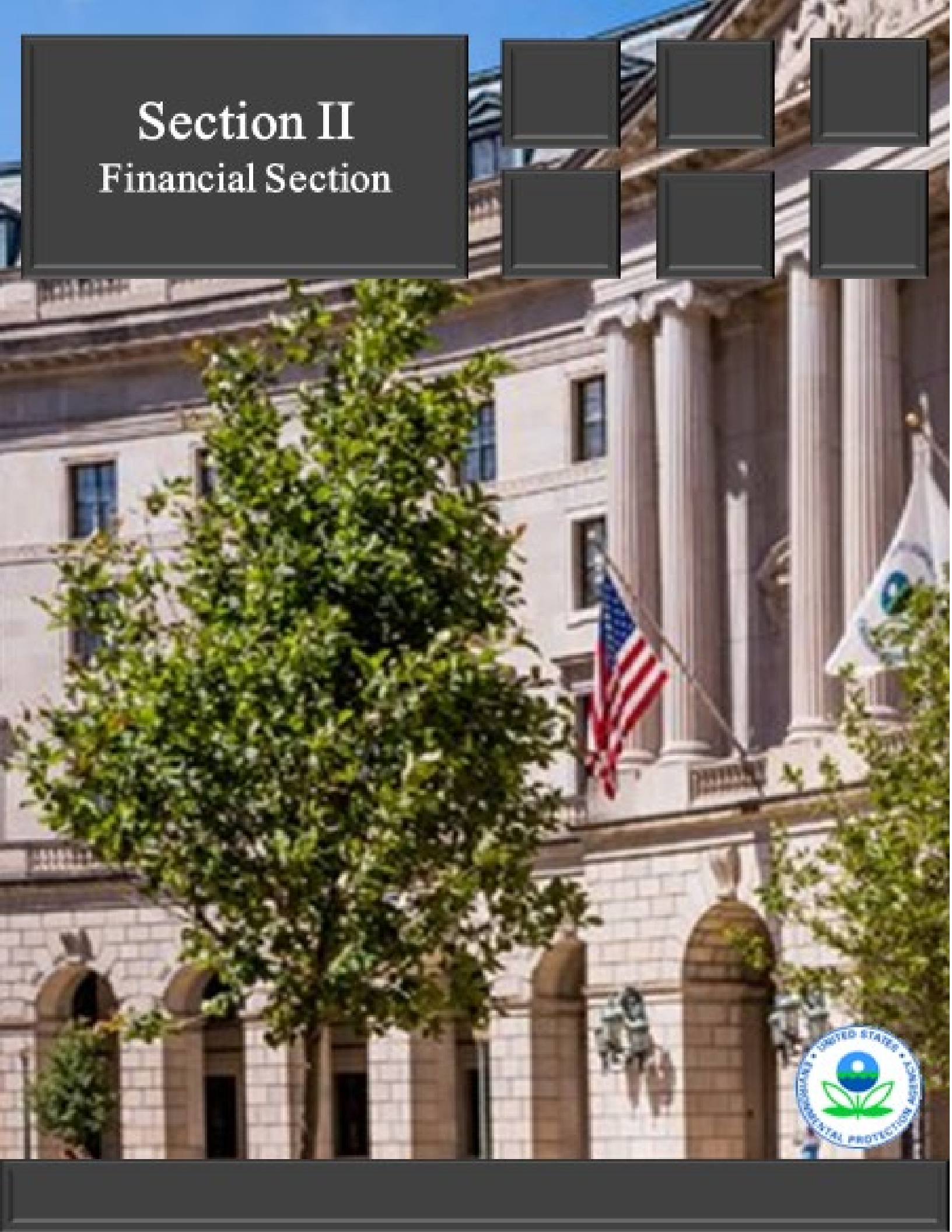
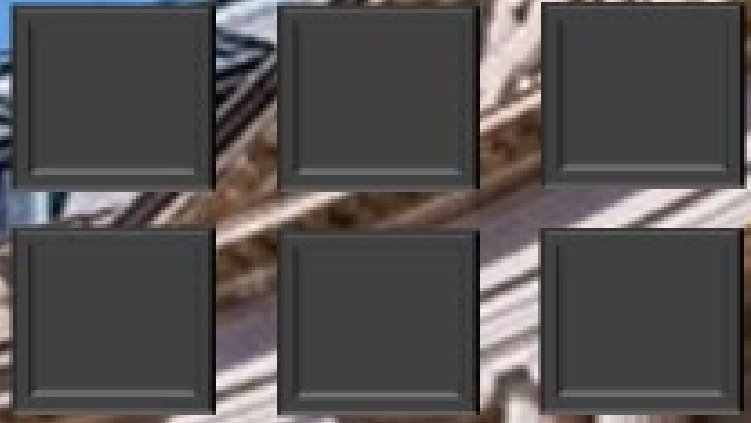
Michael S. Regan
Administrator

November 15, 2021

Date

Section II

Financial Section



Message from the Chief Financial Officer



On behalf of the Office of the Chief Financial Officer, I am pleased to present the U.S. Environmental Protection Agency's Fiscal Year 2021 Agency Financial Report. Like most of FY 2020, this past fiscal year was unique and unprecedented, as the EPA successfully continued operations during the COVID-19 pandemic, adapting and innovating as necessary. This report summarizes the agency's financial results and presents the EPA's Assurance Statement and Financial Statement Audit Report. In addition, this report outlines FY 2021 accomplishments, including innovations and improvements undertaken to ensure the agency has effectively used the resources entrusted to the EPA by the American people to finance and fulfill our mission to protect human health and the environment.

This past fiscal year, the EPA achieved, for the 22nd consecutive year, an unmodified "clean" audit opinion on its FY 2021 financial statements from the Office of Inspector General. We are extremely proud to be one of a small number of federal agencies to have achieved this milestone and attribute the achievement to the agency's dedicated staff's consistent attention to the financial integrity of the EPA year after year. FY 2021 also marked the 25th year of the agency's Working Capital Fund, which provides various administrative services to the EPA and other federal agencies on a fee-for-service basis. Although the WCF is not required to be audited by a third party, the agency uses an external certified public accounting firm to audit the financial management of these funds. For the 18th consecutive year, the EPA's WCF received a "clean" opinion indicating the WCF financial statements were presented fairly, in all material respects, in accordance with United States Generally Accepted Accounting Principles.

The agency received Coronavirus Aid, Relief, and Economic Security Act funding in March 2020 and American Rescue Plan Act funding a year later. The EPA continues to oversee and manage these funds to ensure they address pandemic challenges and critical program achievements important to our country. The OCFO has worked with EPA offices to support awarding supplemental funding to programs like the agency's State Environmental Justice Cooperative Agreement program that awarded its first set of competitive grants that focused to address the unequal COVID-19 pandemic impacts on low-income communities, communities of color, and other vulnerable populations. These projects fund training, citizen-science tools development, pollution monitoring, and educational campaigns to enable EJ community leadership, scientists, and decisionmakers to address pollution impacts and foster environmentally healthy and thriving communities.

The EPA's Brownfields Revolving Loan Fund grants also make it possible for communities to provide loans and sub-grants for cleanup activities at brownfield sites. The RLF has been instrumental in helping revitalize underutilized areas across the country, whether it be by creating job centers, community centers, or housing options, and have improved economic, social, and health well-being in our communities. When loan recipients and grantees repay their loans, the amount is re-lent to other borrowers, providing an ongoing source of capital within communities. To date, the agency's RLF grantees across the country have completed 794 cleanups and generated approximately 48,000 jobs. Since 1995, the EPA's Brownfields Program has provided nearly \$1.6 billion in Brownfield Grants to assess and clean up contaminated properties and return blighted properties to productive reuse, and leveraged more than 176,800 jobs from both public and private sources. In FY 2021, the OCFO's staff conducted a pilot program to review with the Office of Land and Emergency Management's staff for internal control and compliance with the *Federal Managers' Financial Integrity Act*, and the results of the pilot review indicated controls are sufficient and operating as intended to ensure compliance with policies and procedures.

FY 2021 saw efficiency improvements across a variety of agency operations. A key example has been the use of the Invoice Processing Platform, the Department of the Treasury's a web-based system that provides a secure online platform for vendors to submit invoices to the EPA and centralizes all invoice transaction data and documents in one place. During FY 2021, the agency saw a significant increase in the use of the IPP. As of the end of FY 2021, over 20,000 vendor invoices, totaling \$860 million and representing 90 percent of all contract invoices, were processed using the IPP, from a starting point of only 30 percent. The OCFO also oversaw agencywide continuous improvement efforts using Lean methodologies, which improved 409 processes by an average of 65 percent, and implemented 3,864 employee ideas, more than doubling the number reported in FY 2020.

The OCFO remains committed to ensuring progress towards achieving the goals and objectives of the agency's Strategic Plan and led the EPA's effort to prepare the draft FY 2022-2026 Strategic Plan, which was recently issued for public review and comment and tribal consultation and will be issued in February 2022. The updated plan will articulate the desired goals and objectives of President Biden's Administration and includes the EPA's first-ever EJ and climate change goals.

This is an extraordinary time to be a part of the OCFO and its dedicated and highly esteemed team committed to providing quality products, tools, and services to our many internal and external stakeholders. My office continues supporting the EPA's mission of protecting human health and the environment, remaining steadfast in our efforts to strengthen and maintain the highest financial management and operational standards.

Sincerely,

A handwritten signature in black ink, appearing to be 'Faisal Amin', with a stylized flourish at the end.

Faisal Amin
Chief Financial Officer
November 15, 2021

**EPA'S FISCAL YEARS 2021 AND 2020
CONSOLIDATED FINANCIAL STATEMENTS
(WITH RESTATEMENT)**

Table of Contents

Principal Financial Statements	30
Notes to Financial Statements	37
Note 1. Summary of Significant Accounting Policies	37 - 40
Note 2. Fund Balance with Treasury (FBWT)	40 - 41
Note 3. Cash and Other Monetary Assets	45
Note 4. Investments, Net	45
Note 5. Accounts Receivable, Net (Restated)	46
Note 6. Other Assets	46
Note 7. Loans Receivable, Net	46 - 48
Note 8. Accounts Payable (Restated)	49
Note 9. General Property, Plant and Equipment, Net	49 - 51
Note 10. Debt	51
Note 11. Stewardship Property, Plant and Equipment	52
Note 12. Liability to the General Fund for Custodial Assets	52
Note 13. Other Liabilities	53 - 54
Note 14. Leases	54 - 55
Note 15. Other Deferred Revenue	55
Note 16. Commitments and Contingencies	55 - 57
Note 17. Funds from Dedicated Collections (Unaudited) (Restated)	57 - 60
Note 18. Environmental and Disposal Liabilities	61
Note 19. State Credits	61 - 62
Note 20. Preauthorized Mixed Funding Agreements	62
Note 21. Custodial Revenues and Accounts Receivable	62
Note 22. Reconciliation of President's Budget to the Statement of Budgetary Resources	62
Note 23. Recoveries and Resources Not Available, Statement of Budgetary Resources	63
Note 24. Unobligated Balances Available	63
Note 25. Undelivered Orders at the End of the Period	64
Note 26. Offsetting Receipts	64
Note 27. Transfers-In and Out, Statement of Changes in Net Position	64 - 65
Note 28. Imputed Financing (Restated)	65
Note 29. Federal Employee Benefits Payable	66
Note 30. Other Adjustments, Statement of Changes in Net Position	66
Note 31. Non-Exchange Revenue, Statement of Changes in Net Position	67
Note 32. Reconciliation of Net Cost of Operations to Net Outlays (Restated)	68 - 70
Note 33. Amounts Held by Treasury (Unaudited)	71 - 74
Note 34. COVID-19 Activity	74
Note 35. Reclassified Financial Statements for Government-wide Reporting	75 - 79
Note 36. Restatement	79
Required Supplementary Information (Unaudited)	80 - 83
Deferred Maintenance	80
Supplemental Statement of Budgetary Resources	83

Principal Financial Statements

United States Environmental Protection Agency Consolidated Balance Sheet As of September 30, 2021 and 2020 (Restated) (Dollars in Thousands)

	<u>2021</u>	<u>Restated 2020</u>
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 11,778,430	\$ 10,823,112
Investments, Net (Note 4)	6,155,838	5,969,666
Accounts Receivable, Net (Restated) (Note 5 and 36)	7,602	28,001
Advances and Prepayments	<u>245,934</u>	<u>198,268</u>
Total Intragovernmental	<u>18,187,804</u>	<u>17,019,047</u>
With the Public:		
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Restated) (Note 5 and 36)	580,736	503,725
Loans Receivable, Net (Note 7)	586,138	196,470
General Property, Plant and Equipment, Net (Note 9)	670,637	659,668
Other Assets (Note 6)	<u>7,726</u>	<u>8,209</u>
Total With the Public:	<u>1,845,247</u>	<u>1,368,082</u>
Total Assets	<u>\$ 20,033,051</u>	<u>\$ 18,387,129</u>
Stewardship Property Plant and Equipment (Note 11)		
LIABILITIES		
Intragovernmental:		
Accounts Payable (Restated) (Note 8 and 36)	\$ 151,102	\$ 127,139
Debt (Note 10)	746,839	221,652
Advances from Others and Deferred Revenue	154,235	102,699
Other Liabilities		
Liability to the General Fund for Custodial Assets (Note 12)	51,241	72,018
Other (Note 13)	<u>60,827</u>	<u>55,084</u>
Total Intragovernmental	<u>1,164,244</u>	<u>578,592</u>
With the Public:		
Accounts Payable (Note 8)	56,319	52,696
Federal Employee Benefits Payable (Note 29)	232,635	235,230
Environmental and Disposal Liabilities (Note 18)	25,723	38,383
Advances from Others and Deferred Revenue	125,526	141,368
Other Liabilities		
Deferred Revenue (Note 15)	3,476,737	3,472,784
Other (Note 13)	<u>618,667</u>	<u>550,719</u>
Total With the Public:	<u>4,535,607</u>	<u>4,491,180</u>
Total Liabilities	<u>\$ 5,699,851</u>	<u>\$ 5,069,772</u>
Commitments and Contingencies (Note 16)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 17)	\$ 187	\$ (189)
Unexpended Appropriations - Funds from Other than Dedicated Collections	<u>10,400,345</u>	<u>9,600,037</u>
Total Unexpended Appropriations	10,400,532	9,599,848
Cumulative Results of Operations - Funds from Dedicated Collections		
(Note 17)	3,551,640	3,307,079
Cumulative Results of Operations - Funds from Other than Dedicated Collections		
	<u>381,028</u>	<u>410,430</u>
Total Cumulative Results of Operations	<u>3,932,668</u>	<u>3,717,509</u>
Total Net Position	<u>14,333,200</u>	<u>13,317,357</u>
Total Liabilities and Net Position	<u>\$ 20,033,051</u>	<u>\$ 18,387,129</u>

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

United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Years Ending September 30, 2021 and 2020
(Dollars in Thousands)

	2021	(Restated) 2020
COSTS		
Gross Costs (Note 36)	\$ 9,138,699	\$ 9,422,484
Earned Revenue	555,481	514,164
NET COST OF OPERATIONS (Note 32 and 36)	\$ 8,583,218	\$ 8,908,320

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, 2021
(Dollars in Thousands)**

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs	\$ 2,820,994	\$ 86,157	\$ 765,510	\$ 1,364,410	\$ 3,710,627	\$ 698,694	\$ 9,446,392
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(307,693)</u>	<u>(307,693)</u>
Total Costs	<u>2,820,994</u>	<u>86,157</u>	<u>765,510</u>	<u>1,364,410</u>	<u>3,710,627</u>	<u>391,001</u>	<u>9,138,699</u>
Less:							
Earned Revenue	79,315	-	5,001	295,471	-	483,387	863,174
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(307,693)</u>	<u>(307,693)</u>
Total Earned Revenue	<u>79,315</u>	<u>-</u>	<u>5,001</u>	<u>295,471</u>	<u>-</u>	<u>175,694</u>	<u>555,481</u>
NET COST OF OPERATIONS	<u>\$ 2,741,679</u>	<u>\$ 86,157</u>	<u>\$ 760,509</u>	<u>\$ 1,068,939</u>	<u>\$ 3,710,627</u>	<u>\$ 215,307</u>	<u>\$ 8,583,218</u>

**United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2020 (Restated)
(Dollars in Thousands)**

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs (Note 36)	\$ 2,793,833	\$ 97,770	\$ 721,616	\$ 1,520,983	\$ 3,999,283	\$ 563,190	\$ 9,696,675
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,191)</u>	<u>(274,191)</u>
Total Costs	<u>2,793,833</u>	<u>97,770</u>	<u>721,616</u>	<u>1,520,983</u>	<u>3,999,283</u>	<u>288,999</u>	<u>9,422,484</u>
Less:							
Earned Revenue	26,615	-	6,978	362,342	-	392,420	788,355
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,191)</u>	<u>(274,191)</u>
Total Earned Revenue	<u>26,615</u>	<u>-</u>	<u>6,978</u>	<u>362,342</u>	<u>-</u>	<u>118,229</u>	<u>514,164</u>
NET COST OF OPERATIONS	<u>\$ 2,767,218</u>	<u>\$ 97,770</u>	<u>\$ 714,638</u>	<u>\$ 1,158,641</u>	<u>\$ 3,999,283</u>	<u>\$ 170,770</u>	<u>\$ 8,908,320</u>

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, 2021
(Dollars in Thousands)**

	<u>Funds from Dedicated Collections</u>	<u>Funds from Other than Dedicated Collections</u>	<u>Consolidated Total</u>
Cumulative Results of Operations:			
Net Position - Beginning of Period	\$ 3,307,079	\$ 410,430	\$ 3,717,509
Budgetary Financing Sources:			
Appropriations Used	(376)	8,351,063	8,350,687
Nonexchange Revenue - Securities Investment (Note 31)	6,421	-	6,421
Nonexchange Revenue - Other (Note 31)	270,567	-	270,567
Transfers In/Out	(72,312)	70,871	(1,441)
Trust Fund Appropriations	<u>1,153,462</u>	<u>(1,153,462)</u>	<u>-</u>
Total Budgetary Financing Sources	1,357,762	7,268,472	8,626,234
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 28)	26,006	146,137	172,143
Other Financing Sources	<u>769</u>	<u>(769)</u>	<u>-</u>
Total Other Financing Sources	26,775	145,368	172,143
Net Cost of Operations	\$ (1,139,976)	\$ (7,443,242)	\$ (8,583,218)
Net Change	<u>244,561</u>	<u>(29,402)</u>	<u>215,159</u>
Cumulative Results of Operations	<u>\$ 3,551,640</u>	<u>\$ 381,028</u>	<u>\$ 3,932,668</u>
	<u>Funds from Dedicated Collections</u>	<u>Funds from Other than Dedicated Collections</u>	<u>Consolidated Total</u>
Unexpended Appropriations:			
Net Position - Beginning of Period	\$ (189)	\$ 9,600,037	\$ 9,599,848
Budgetary Financing Sources:			
Appropriations Received	-	9,200,494	9,200,494
Other Adjustments (Note 30)	-	(49,123)	(49,123)
Appropriations Used	<u>376</u>	<u>(8,351,063)</u>	<u>(8,350,687)</u>
Total Budgetary Financing Sources	376	800,308	800,684
Total Unexpended Appropriations	<u>187</u>	<u>10,400,345</u>	<u>10,400,532</u>
TOTAL NET POSITION	<u>\$ 3,551,827</u>	<u>\$ 10,781,373</u>	<u>\$ 14,333,200</u>

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

United States Environmental Protection Agency
Consolidated Statement of Changes in Net Position (Restated)
For the Fiscal Year Ending September 30, 2020
(Dollars in Thousands)

	<u>Funds from Dedicated Collections</u>	<u>Funds from Other than Dedicated Collections</u>	<u>Consolidated Total</u>
Cumulative Results of Operations:			
Net Position - Beginning of Period	\$ 3,170,594	\$ 497,399	\$ 3,667,993
Budgetary Financing Sources:			
Other Adjustments	(1,072)	-	(1,072)
Appropriations Used	(3)	8,458,703	8,458,700
Nonexchange Revenue - Securities Investment (Note 31)	90,116	-	90,116
Nonexchange Revenue - Other (Note 31)	239,795	-	239,795
Transfers In/Out	(26,636)	47,609	20,973
Transfers In/Out - Nonmonetary	544	(325)	219
Trust Fund Appropriations	<u>1,076,535</u>	<u>(1,076,535)</u>	<u>-</u>
Total Budgetary Financing Sources	1,379,279	7,429,452	8,808,731
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 28 and 36)	24,250	124,855	149,105
Other Financing Sources	<u>415</u>	<u>(415)</u>	<u>-</u>
Total Other Financing Sources	24,665	124,440	149,105
Net Cost of Operations	\$ (1,267,459)	\$ (7,640,861)	\$ (8,908,320)
Net Change	<u>136,485</u>	<u>(86,969)</u>	<u>49,516</u>
Cumulative Results of Operations	<u>\$ 3,307,079</u>	<u>\$ 410,430</u>	<u>\$ 3,717,509</u>
	<u>Funds from Dedicated Collections</u>	<u>Funds from Other than Dedicated Collections</u>	<u>Consolidated Total</u>
Unexpended Appropriations:			
Net Position - Beginning of Period	\$ (1,264)	\$ 8,929,585	\$ 8,928,321
Budgetary Financing Sources:			
Appropriations Received	-	9,148,119	9,148,119
Other Adjustments (Note 30)	1,072	(18,964)	(17,892)
Appropriations Used	<u>3</u>	<u>(8,458,703)</u>	<u>(8,458,700)</u>
Total Budgetary Financing Sources	1,075	670,452	671,527
Total Unexpended Appropriations	<u>(189)</u>	<u>9,600,037</u>	<u>9,599,848</u>
TOTAL NET POSITION	<u>\$ 3,306,890</u>	<u>\$ 10,010,467</u>	<u>\$ 13,317,357</u>

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

United States Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2021 and 2020
(Dollars in Thousands)

	2021		2020	
	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Account</u>	<u>Budgetary</u>	<u>Non- Budgetary Credit Reform Financing Account</u>
BUDGETARY RESOURCES				
Unobligated Balance From Prior Year Budget				
Authority, Net (discretionary and mandatory) (Note 23)	\$ 5,951,313	\$ 615,240	\$ 5,808,190	\$ 20,914
Appropriations (discretionary and mandatory)	10,832,321	-	10,737,950	-
Borrowing Authority (discretionary and mandatory)	-	4,726,214	-	3,576,684
Spending Authority (discretionary and mandatory)	<u>463,239</u>	<u>141,081</u>	<u>398,507</u>	<u>5,805</u>
Total Budgetary Resources	<u>\$ 17,246,873</u>	<u>\$ 5,482,535</u>	<u>\$ 16,944,647</u>	<u>\$ 3,603,403</u>
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward adjustments (total)	\$ 11,874,288	\$ 5,482,535	\$ 11,304,380	\$ 2,988,163
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,279,575	-	5,446,701	615,240
Unapportioned, Unexpired accounts	1,996	-	4,562	-
Expired Unobligated Balance, End of Year	<u>91,014</u>	<u>-</u>	<u>189,004</u>	<u>-</u>
Unobligated Balance, End of Year (total): (Note 24)	<u>5,372,585</u>	<u>-</u>	<u>5,640,267</u>	<u>615,240</u>
Total Status of Budgetary Resources	<u>\$ 17,246,873</u>	<u>\$ 5,482,535</u>	<u>\$ 16,944,647</u>	<u>\$ 3,603,403</u>
OUTLAYS, NET AND DISBURSEMENTS, NET				
Outlays, Net (total) (discretionary and mandatory)	\$ 9,852,094		\$ 10,092,803	
Distributed Offsetting Receipts (-) (Note 26)	<u>(1,481,411)</u>		<u>(1,369,396)</u>	
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 8,370,683</u>		<u>\$ 8,723,407</u>	
Disbursements, Net (total) (mandatory)		<u>\$ 494,357</u>		<u>\$ 221,381</u>

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

United States Environmental Protection Agency
Statement of Custodial Activity
For the Fiscal Years Ending September 30, 2021 and 2020
(Dollars in Thousands)

	<u>2021</u>	<u>2020</u>
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	\$ 41,035	\$ 171,950
Other	<u>22,085</u>	<u>(16,486)</u>
Total Cash Collections	63,120	155,464
Accrual Adjustment	<u>(20,623)</u>	<u>13,714</u>
Total Custodial Revenue (Note 21)	<u>\$ 42,497</u>	<u>\$ 169,178</u>
Disposition of Collections:		
Transferred to Others (General Fund)	\$ 21,273	\$ 155,055
Increases/Decreases in Amounts to be Transferred	<u>21,224</u>	<u>14,123</u>
Total Disposition of Collections	<u>\$ 42,497</u>	<u>\$ 169,178</u>
Net Custodial Revenue Activity	<u>\$ -</u>	<u>\$ -</u>

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

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(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 2021 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 (e-Manifest) 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 21st Century Act. Under the Act, the Agency is authorized to 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 Toxic Substances Control Act Service Fee Fund (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 loans are disbursed. The Agency received two-year appropriations in fiscal years 2021 and 2020 to finance the administrative 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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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

II. Revolving Funds

Funding of the Reregistration and Expedited Processing Fund (FIFRA) and Hazardous Waste Electronic Manifest System Fund (e-Manifest) 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. The Pesticide Registration Improvement Act Fund (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. The Toxic Substances Control Act Fund (TSCA) collects user fees to defray costs for new chemical reviews and range of implementation activities for existing chemicals.

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 (GTAS).

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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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 a receiving (child) entity. Allocation transfers are legal delegations from 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. The EPA allocates funds, as the parent, to the Center for Disease Control. The EPA receives allocation transfers, as the child, from the Bureau of Land Management.

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

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

I. Superfund

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operations 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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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 operations and capital expenditures. The WIFIA program receives additional funding to support awarding, servicing and collecting loans 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 and can obligate collections up to the amount of anticipated collections within the fiscal year on the approved letter of apportionment. The Hazardous Waste Electronic Manifest System Fund receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System and can obligate collections up to the amount of anticipated collections on the approved letter of apportionment. The Toxic Substances Control Act Fund (TSCA) collects user fees to defray costs for new chemical reviews and arrange of implementation activities for existing chemicals and can obligate collections up to the amount of anticipated collections on the approved letter of apportionment. The WCF receives revenue through fees collected from the Agency program offices for services provided. 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. (See Note 2.)

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 or premiums. Discounts or premiums 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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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

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

Most remaining receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, and refunds receivable for the STAG appropriation. (See Note 5.)

J. Advances and Prepayments

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

K. Loans Receivable

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

L. Appropriated Amounts Held by Treasury

Cash available to the Agency that is not needed immediately for current disbursements of the Superfund and LUST Trust Funds and amounts appropriated from the Superfund Trust Fund to the OIG and Science and Technology appropriations, 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 fifteen 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

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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

Debt 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 periodically based on the collection of loan receivables. (See Note 10)

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

P. Accrued Unfunded Annual Leave

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

Q. Retirement Plan

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

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 British Petroleum (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 Natural Resource Damage Assessments (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. As additional projects are identified, the EPA may continue to receive funding through the 2016 Consent Decree to implement its DWH NRDA Trustee responsibilities in the Agency's Damage Assessment and Restoration Revolving Trust Fund.

T. 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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

U. 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 August 10, 2021. As a result the form and content of the Balance Sheet and Statement of Changes in Net Position has changed to conform with OMB Circular No. A-136.

Note 2. Fund Balance With Treasury (FBWT)

Fund Balance with Treasury as September 30, 2021 and 2020 consists of the following:

	2021			2020		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	\$ 138,254	\$ -	\$ 138,254	\$ 152,246	\$ -	\$ 152,246
LUST	43,540	-	43,540	28,191	-	28,191
Oil Spill & Misc.	27,351	-	27,351	12,643	-	12,643
Revolving Funds:						
FIFRA/Tolerance	38,362	-	38,362	52,574	-	52,574
Working Capital	109,800	-	109,800	87,215	-	87,215
E-Manifest	19,312	-	19,312	10,790	-	10,790
NRDA	2,161	-	2,161	1,916	-	1,916
WIFIA	30,837	-	30,837	6	-	6
Appropriated	10,798,706	-	10,798,706	9,936,774	-	9,936,774
Other Fund Types	566,449	3,658	570,107	535,447	5,310	540,757
Total	\$ 11,774,772	\$ 3,658	\$ 11,778,430	\$ 10,817,802	\$ 5,310	\$ 10,823,112

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:

Unobligated Amounts in Fund Balance:

	2021	2020
Available for Obligation	\$ 5,278,005	\$ 6,094,950
Unavailable for Obligation	97,541	191,669
Net Receivables from Invested Balances	(5,055,979)	(5,033,099)
Balances in Treasury Trust Fund (Note 33)	29,603	19,840
Obligated Balance not yet Disbursed	10,876,050	9,025,670
Non-Budgetary FBWT	553,210	524,082
Total	\$ 11,778,430	\$ 10,823,112

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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 September 30, 2021 and 2020, no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury. See Note 1 paragraph F for additional information.

Note 3. Cash and Other Monetary Assets

As of September 30, 2021 and 2020, the balance in the imprest fund was \$10 thousand.

Note 4. Investments, Net

As of September 30, 2021 and 2020, 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>
Intragovernmental Securities:						
Non-Marketable	FY 2021	\$ 6,084,927	(64,613)	6,298	6,155,838	\$ 6,155,838
Non-Marketable	FY 2020	\$ 5,828,179	(135,189)	6,298	5,969,666	\$ 5,969,666

CERCLA, as amended by SARA, authorizes the EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, the EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities and instead will convert them to cash as soon as practicable. All investments in Treasury securities are funds from dedicated collections (see Note 17).

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. See Note 1 paragraphs G and H for additional information.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 5. Accounts Receivable, Net (Restated)

Accounts Receivable as of September 30, 2021 and 2020, consist of the following:

	2021	Restated 2020
Intragovernmental:		
Accounts & Interest Receivable	\$ 10,775	\$ 30,599
Less: Allowance for Uncollectible Accounts	<u>(3,173)</u>	<u>(2,598)</u>
Total	<u>\$ 7,602</u>	<u>\$ 28,001</u>
	2021	2020
With the Public:		
Unbilled Accounts Receivable	\$ 131,461	\$ 130,449
Accounts & Interest Receivable	2,664,810	2,556,734
Less: Allowance for Uncollectible Accounts	<u>(2,215,535)</u>	<u>(2,183,458)</u>
Total	<u>\$ 580,736</u>	<u>\$ 503,725</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. See Note 1 paragraph I and Note 36 for additional information.

Note 6. Other Assets

Other Assets as September 30, 2021 and 2020, consist of the following:

	2021	2020
With the Public:		
Travel Advances	\$ 73	\$ 77
Other Advances	7,225	7,844
Inventory Purchased for Resale	<u>428</u>	<u>288</u>
Total	<u>\$ 7,726</u>	<u>\$ 8,209</u>

See Note 1 paragraph J for additional information.

Note 7. Loans Receivable, Net

Direct Loans Receivable 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 years 2021 and 2020, the Agency received borrowing authority of \$6.0 billion and \$3.6 billion respectively for the non-subsidy portion of loan proceeds disbursed. The cumulative loan limit for the WIFIA Loan Program through fiscal year 2021 is \$41.1 billion. For the fiscal year ended September 30, 2021 and 2020, the Agency closed \$5.7 billion and \$3.2 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, 2021 and 2020, the WIFIA program has incurred \$38.2 and \$9.7 million in administrative expenses, respectively.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Obligated after FY 1991

Direct Loan Program	2021 Loans Receivable, Gross	Interest and Fees Receivable	Foreclosed Property/ Allowance for Loan Losses	Allowance for Subsidy Cost	Value of Assets Related to Direct Loans, Net
WIFIA	\$ 734,357	566	-	(148,785)	\$ 586,138

Direct Loan Program	2020 Loans Receivable, Gross	Interest Receivable	Foreclosed Property/ Allowance for Loan Losses	Allowance for Subsidy Cost	Value of Assets Related to Direct Loans, Net
WIFIA	\$ 220,970	-	-	(24,500)	\$ 196,470

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Program	2021	2020
WIFIA	\$ 545,668	\$ 220,970

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

Direct Loan Program	2021 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	\$ -	-	-	(2,577)	\$ (2,577)

Direct Loan Program	2020 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	\$ -	-	-	(1,043)	\$ (1,043)

Modifications and Reestimates

Direct Loan Program	2021 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
WIFIA	\$ -	7,226	114,482	\$ 121,708

Direct Loan Program	2020 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
WIFIA	\$ -	-	(23,459)	\$ (23,459)

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Total Direct Loans Subsidy Expense

Direct Loan Program	2021	2020
WIFIA	\$ 26,448	\$ 1,043

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

Direct Loan Program	2021 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	-.03%	0.83%	0%	0%	0.80%

Direct Loan Program	2020 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	0%	0.75%	0%	0%	0.75%

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

Schedule for Reconciling Subsidy Cost Allowance Balances
Beginning Balance, Changes and Ending Balance

	2021	2020
Beginning Balance of the Subsidy Allowance	\$ (24,500)	\$ 2
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	\$ (2,577)	\$ (1,043)
Total of the Above Subsidy Expense Components	(2,577)	(1,043)
Adjustments		
Loan Modifications	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	-	-
Other	-	-
Ending Balance of the Subsidy Cost Allowance Before Reestimates	-	-
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(7,226)	-
Technical/Default Reestimate	\$ (114,482)	\$ (23,459)
Total of the Above Reestimate Components	(121,708)	(23,459)
Ending Balance of the Subsidy Cost Allowance	\$ (148,785)	\$ (24,500)

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 2021 loan disbursements were higher than the interest rate assumptions used during the budget formulation process at loan origination. See Note 1 paragraph K for additional information.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 8. Accounts Payable (Restated)

The Accounts Payable are current liabilities and consist of the following amounts as of September 30, 2021 and 2020:

	2021	Restated 2020
Intragovernmental:		
Accounts Payable	\$ 3,367	\$ 3,216
Accrued Liabilities	144,640	121,142
Capital Lease Liabilities	2,325	2,369
Direct Loans Subsidy Liabilities	<u>770</u>	<u>412</u>
Total	<u>\$ 151,102</u>	<u>\$ 127,139</u>
	2021	2020
With the Public:		
Accounts Payable	\$ 56,306	\$ 52,693
Advances Payable	(2)	(2)
Interest Payable	<u>15</u>	<u>5</u>
Total	<u>\$ 56,319</u>	<u>\$ 52,696</u>

See Note 36 for additional information.

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. See Note 1 paragraph M for additional information.

As of September 30, 2021, General PP&E Cost consisted of the following:

	2021						
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	\$ 321,002	\$ 439,787	\$ 45,865	\$ 33,895	\$ 802,321	\$ 24,485	\$ 1,667,355
Additions	23,898	1,109	11,959	12,010	30,623	-	79,599
Dispositions	(14,389)	-	(2,262)	(14,287)	(4,228)	-	(35,166)
Revaluations	<u>68</u>	<u>-</u>	<u>(25)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43</u>
Balance, September 30, 2021	<u>\$ 330,579</u>	<u>\$ 440,896</u>	<u>\$ 55,537</u>	<u>\$ 31,618</u>	<u>\$ 828,716</u>	<u>\$ 24,485</u>	<u>\$ 1,711,831</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

As of September 30, 2021, General PP&E Accumulated Depreciation consisted of the following:

	2021						Total
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	
Balance, Beginning of Year	\$ 217,928	\$ 420,502	\$ -	\$ 26,484	\$ 321,799	\$ 20,948	\$ 1,007,661
Additions	(14,481)	(63)	-	-	-	-	(14,544)
Dispositions	1,518	63	-	(3,742)	-	-	(2,161)
Revaluations	68	-	-	-	-	-	68
Depreciation Expense	<u>20,949</u>	<u>13,320</u>	<u>-</u>	<u>(2,891)</u>	<u>17,976</u>	<u>816</u>	<u>50,170</u>
Balance, September 30, 2021	<u>\$ 225,982</u>	<u>\$ 433,822</u>	<u>\$ -</u>	<u>\$ 19,851</u>	<u>\$ 339,775</u>	<u>\$ 21,764</u>	<u>\$ 1,041,194</u>

As of September 30, 2021, General PP&E, Net consisted of the following:

	2021						Total
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	
Balance, September 30, 2021	<u>\$ 104,597</u>	<u>\$ 7,074</u>	<u>\$ 55,537</u>	<u>\$ 11,767</u>	<u>\$ 488,941</u>	<u>\$ 2,721</u>	<u>\$ 670,637</u>

As of September 30, 2020, General PP&E Cost consisted of the following:

	2020						Total
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	
Balance, Beginning of Year	\$ 304,453	\$ 439,787	\$ 27,046	\$ 44,707	\$ 794,192	\$ 24,485	\$ 1,634,670
Additions	36,393	-	18,794	1,581	18,184	-	74,952
Dispositions	(19,777)	-	-	(5,633)	(10,056)	-	(35,466)
Revaluations	-	-	-	(6,760)	-	-	(6,760)
Balance, End of Year	<u>\$ 321,069</u>	<u>\$ 439,787</u>	<u>\$ 45,840</u>	<u>\$ 33,895</u>	<u>\$ 802,320</u>	<u>\$ 24,485</u>	<u>\$ 1,667,396</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

As of September 30, 2020, General PP&E Accumulated Depreciation consisted of the following:

	2020						Total
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	
Balance, Beginning of Year	\$ 212,886	\$ 398,613	\$ -	\$ 28,593	\$ 303,239	\$ 20,132	\$ 963,463
Dispositions	(18,780)	-	-	-	-	-	(18,780)
Revaluations	-	-	-	(2,825)	-	-	(2,825)
Depreciation Expense	23,889	21,889	-	716	18,560	816	65,870
Balance, End of Year	\$ 217,995	\$ 420,502	\$ -	\$ 26,484	\$ 321,799	\$ 20,948	\$ 1,007,728

As of September 30, 2020, General PP&E, Net consisted of the following:

	2020						Total
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	
Balance, End of Year, Net	\$ 103,074	\$ 19,285	\$ 45,840	\$ 7,411	\$ 480,521	\$ 3,537	\$ 659,668

Note 10. Debt

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, 2021 and 2020, the EPA had debt due to Treasury consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program:

	2020			2021	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
Debt to the Treasury	\$ 266	\$ 221,386	\$ 221,652	\$ 525,187	\$ 746,839

See Note 1 paragraph O for additional information.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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 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, 2021 and 2020, the Agency possessed the following land and land rights:

	2021	2020
Superfund Sites with Easements:		
Beginning Balance	43	40
Additions	2	3
Ending Balance	45	43
Superfund Sites with Land Acquired:		
Beginning Balance	32	\$ 31
Additions	1	1
Withdrawals	(1)	-
Ending Balance	32	32

Note 12. Liability to the General Fund for Custodial Assets

Liability to the General Fund for Custodial Assets 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, 2021 and 2020, custodial liability is approximately \$51,241 and \$72,018 thousand, respectively.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2021:

	Covered by Budgetary Resources	Not Covered by Resources	Total
Current			
Employer Contributions & Payroll Taxes	\$ 29,503	\$ -	\$ 29,503
Liability for Deposit Funds	(2)	-	(2)
Non-Current			
Unfunded FECA Liability	-	9,018	9,018
Unfunded Unemployment Liability	-	308	308
Payable to Treasury Judgement Fund	-	22,000	22,000
Total Intragovernmental	<u>\$ 29,501</u>	<u>\$ 31,326</u>	<u>\$ 60,827</u>
Other Liabilities - With the Public:			
Current			
Liability for Deposit Funds, With the Public	\$ 5,626	\$ -	\$ 5,626
Grant Liabilities	369,003	-	369,003
Other Accrued Liabilities	147,393	-	147,393
Accrued Funded Payroll and Benefits	94,136	-	94,136
Employer Contributions Payable - Thrift Savings Plan	2,509	-	2,509
Total With the Public	<u>\$ 618,667</u>	<u>\$ -</u>	<u>\$ 618,667</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Other Liabilities consist of the following as of September 30, 2020:

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Resources</u>	<u>Total</u>
Current			
Employer Contributions & Payroll Taxes	\$ 23,764	\$ -	\$ 23,764
Non-Current			
Unfunded FECA Liability	-	9,223	9,223
Unfunded Unemployment Liability	-	97	97
Payable to Treasury Judgement Fund	-	<u>22,000</u>	<u>22,000</u>
Total Intragovernmental	<u>\$ 23,764</u>	<u>\$ 31,320</u>	<u>\$ 55,084</u>
Other Liabilities - With the Public			
Current			
Liability for Deposit Funds, With the Public	\$ 5,945	\$ -	\$ 5,945
Grant Liabilities	159,004	-	159,004
Other Accrued Liabilities	317,258	-	317,258
Accrued Funded Payroll and Benefits	36,385	-	36,385
Withholdings Payable	30,297	-	30,297
Employer Contributions Payable - Thrift Savings Plan	1,792	-	1,792
Commitment and Contingencies	-	<u>38</u>	<u>38</u>
Total With the Public:	<u>\$ 550,681</u>	<u>\$ 38</u>	<u>\$ 550,719</u>

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Other Accrued Liabilities are mostly comprised of contractor accruals.

See Note 1 paragraph N for additional information.

Note 14. Leases

The value of assets held under Capital Leases as of September 30, 2021 and 2020, are as follows:

Capital Leases:

	<u>2021</u>	<u>2020</u>
Summary of Assets Under Capital Lease:		
Real Property	\$ 24,485	\$ 24,485
Total	<u>24,485</u>	<u>24,485</u>
Accumulated Amortization	<u>\$ 21,764</u>	<u>\$ 20,948</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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

Future Payments Due

<u>Fiscal Year</u>	<u>Capital Leases</u>
2022	\$ 786
2023	786
2024	786
2025	<u>262</u>
Total Future Minimum Lease Payments	2,620
Less: Imputed Interest	<u>(295)</u>
Net Capital Lease Liability	<u>2,325</u>
Liabilities not Covered by Budgetary Resources	\$ <u>2,325</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 \$786 thousand from 2015 until 2024. Fiscal year 2025 is a partial year.

Note 15. Deferred Revenue

Other liabilities deferred revenue is fully comprised of cashout advances. 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, 2021 and 2020, cash-out advances total \$3,476,737 thousand and \$3,472,784 thousand, respectively.

Note 16. 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, 2021, there was no accrued liabilities for commitments and potential loss contingencies. As of September 30, 2020, there were \$38 thousand of 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

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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, 2021, 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 \$314 million but they are only reasonably possible and the final outcomes are not probable.

B. Flint, Michigan

The EPA has received claims from over 9,400 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 amount 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 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 for two cases totaling \$20.4 million. For these cases, they are only reasonably possible and the final outcomes are not probable. These two cases are: Land O' Lakes (Hudson Oil refinery Superfund Site) for \$17.7 million (petition for reimbursement for not being liable under CERCLA); and *August Mack Environmental, Inc. v. EPA* for \$2.7 million. August Mack Environmental (AME) was a contractor for Vertellus, one of three PRPs at the Big John Salvage Site in Fairmont, WV. The site was being cleaned up pursuant to a consent decree which named Vertellus the performing defendant. There is a special account at the site funded by the PRPs. Vertellus filed for bankruptcy and AME did not recover in bankruptcy the moneys it claimed it was owed by Vertellus. AME made a claim against the Superfund and/or the Special Account. R3 denied the claim and AME appealed to the ALJ who also denied it. AME then filed suit in district court. The court ruled in favor of EPA on a Motion to Dismiss and AME appealed to the 4th Circuit. The 4th Circuit ruled in AME's favor and case was remanded.

D. Environmental Liabilities

As of September 30, 2021, there are two cases pending against the EPA that are reported under Environmental Liabilities. The first case is Bob's Home Service Landfill for \$900 thousand but it is only reasonably possible and the final outcome is not probable. The second case is for ThermalKem a.k.a. Phillip Services CERCLA Site. This is a claim against several EPA regions for generator liability under CERCLA based on waste sent to site from other sites being cleaned-up by EPA and/or under EPA oversight, which is also reasonably possible and the final outcome is not probable. It also includes a claim for generator liability for waste sent to site from EPA's labs and research facilities. For this second case, the estimate amount or range of potential loss is unknown.

E. Other Pending Cases

As of September 30, 2021, legal claims exist for which the potential loss could not be determined. These include cases: *United Affiliates Corp., et al. v. United States* (involving alleged taking of property for which plaintiff is seeking just compensation under the 5th Amendment); *State of New York v. Regan* (State and environmental plaintiffs allege that EPA has unreasonably delayed issuance of regulations for sources in the oil and gas sector under Clean Air

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Act section 111(d)); *Resort Center Associates, LLC v. Wheeler* (Plaintiff alleges that EPA violated CERCLA and failed to perform non-discretionary duties under CERCLA in connection with designating a portion of its development property as part of the Richardson Flat Tailings Superfund site. The matter also includes 5th Amendment taking and Federal Tort Claims Act allegations); and *Hennis v. United States* (EPA built and operates an interim water treatment plant to treat ongoing discharge of mine impacted water from the Gold King Mine on plaintiff's property. Plaintiff alleges that the Government's ongoing access to, occupation, and use of his property constitutes a physical taking without just compensation).

In addition, as of September 30, 2021, legal claims exist for cases related to TSCA liability, for which the potential loss could not be determined and the total amount claimed is not material to the financial statements.

F. 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 where 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 an \$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, 2021, there is no other case pending in the court.

G. Other Commitments

EPA has a commitment to fund the U.S. Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Government 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 \$2.6 million to the CEC in the period ending September 30, 2021 and \$2.5 million in the period ending September 30, 2020.

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 30, 2021 and \$8.3 million in the period ending September 30, 2020.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 17. Funds from Dedicated Collections (Unaudited) (Restated)

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet for Fiscal Year Ended 2021					
Assets					
Fund Balance with Treasury	\$ 546,001	\$ 43,540	\$ 138,254	\$ 135,505	\$ 863,300
Investments	-	1,037,121	5,118,717	-	6,155,838
Accounts Receivable, Net	-	85,921	406,184	129,593	621,698
Other Assets	-	228	42,321	589,987	632,536
Total Assets	<u>\$ 546,001</u>	<u>\$ 1,166,810</u>	<u>\$ 5,705,476</u>	<u>\$ 855,085</u>	<u>\$ 8,273,372</u>
Other Liabilities					
Total Liabilities	<u>-</u>	<u>93,864</u>	<u>3,806,220</u>	<u>821,461</u>	<u>4,721,545</u>
Unexpended Appropriations	-	-	(104)	291	187
Cumulative Results of Operations	546,001	1,072,946	1,899,360	33,333	3,551,640
Total Liabilities and Net Position	<u>\$ 546,001</u>	<u>\$ 1,166,810</u>	<u>\$ 5,705,476</u>	<u>\$ 855,085</u>	<u>\$ 8,273,372</u>
Statement of Net Cost for Fiscal Year Ended 2021					
Gross Program Costs	-	86,157	1,364,410	137,107	1,587,674
Less: Earned Revenues	13	-	295,471	152,214	447,698
Net Costs of Operations	<u>\$ (13)</u>	<u>\$ 86,157</u>	<u>\$ 1,068,939</u>	<u>\$ (15,107)</u>	<u>\$ 1,139,976</u>
Statement of Changes in Net Position for Fiscal Year Ended 2021					
Net Position, Beginning of Period	\$ 518,165	\$ 916,564	\$ 1,849,646	\$ 22,511	\$ 3,306,886
Nonexchange Revenue - Securities Investments	-	476	5,927	18	6,421
Nonexchange Revenue	27,823	241,786	(2,759)	3,717	270,567
Other Budgetary Finance Sources	-	-	1,089,924	(8,774)	1,081,150
Other Financing Sources	-	277	25,457	1,046	26,780
Net Cost of Operations	13	(86,157)	(1,068,939)	15,107	(1,139,976)
Change in Net Position	27,836	156,382	49,610	11,114	244,942
Net Position	<u>\$ 546,001</u>	<u>\$ 1,072,946</u>	<u>\$ 1,899,256</u>	<u>\$ 33,625</u>	<u>\$ 3,551,828</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet for Fiscal Year 2020					
Assets					
Fund Balance with Treasury	\$ 518,165	\$ 28,191	\$ 152,246	\$ 95,212	\$ 793,814
Investments	-	895,016	5,074,650	-	5,969,666
Accounts Receivable, Net	-	82,281	346,291	27,135	455,707
Other Assets	-	424	44,685	201,757	246,866
Total Assets	<u>\$ 518,165</u>	<u>\$ 1,005,912</u>	<u>\$ 5,617,872</u>	<u>\$ 324,104</u>	<u>\$ 7,466,053</u>
Other Liabilities					
Total Liabilities	<u>-</u>	<u>89,348</u>	<u>3,768,226</u>	<u>301,589</u>	<u>4,159,163</u>
Unexpended Appropriations	-	-	(2)	(187)	(189)
Cumulative Results of Operations	518,165	916,564	1,849,646	22,702	3,307,077
Total Liabilities and Net Position	<u>\$ 518,165</u>	<u>\$ 1,005,912</u>	<u>\$ 5,617,870</u>	<u>\$ 324,104</u>	<u>\$ 7,466,051</u>
Statement of Net Cost for Fiscal Year Ended 2020 (Restated)					
Gross Program Costs (Note 36)	-	97,770	1,520,983	116,583	1,735,336
Less: Earned Revenues	-	-	362,428	105,449	467,877
Net Costs of Operations (Note 36)	<u>\$ -</u>	<u>\$ 97,770</u>	<u>\$ 1,158,555</u>	<u>\$ 11,134</u>	<u>\$ 1,267,459</u>
Statement of Changes in Net Position for the Fiscal Year Ended 2020 (Restated)					
Net Position, Beginning of Period	\$ 491,972	\$ 788,492	\$ 1,863,347	\$ 25,519	\$ 3,169,330
Nonexchange Revenue - Securities Investments	-	6,282	83,301	533	90,116
Nonexchange Revenue	26,193	219,210	3,225	(8,833)	239,795
Other Budgetary Finance Sources	-	-	1,033,974	15,697	1,049,671
Other Financing Sources (Note 36)	-	350	24,356	729	25,435
Net Cost of Operations (Note 36)	-	(97,770)	(1,158,555)	(11,134)	(1,267,459)
Change in Net Position	<u>26,193</u>	<u>128,072</u>	<u>(13,699)</u>	<u>(3,008)</u>	<u>137,558</u>
Net Position	<u>\$ 518,165</u>	<u>\$ 916,564</u>	<u>\$ 1,849,648</u>	<u>\$ 22,511</u>	<u>\$ 3,306,888</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 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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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 was authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," and reauthorized until September 30, 2023, for the expedited processing of certain registration petitions and the 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 the reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

iv. Tolerance Revolving Fund:

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

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.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 18. Environmental and Disposal Liabilities

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.

As of September 30, 2021, 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. Secondly, in January 2020, the CDPHE found several violations of Colorado hazardous waste laws after inspecting an EPA lab where Region 8 and OECA's NEIC are co-located. \$38 thousand of the penalty amount has been accrued, which is categorized under probable.

The EPA has 30 sites for which it is required to fund the environmental cleanup. As of September 30, 2021, the estimated costs for site clean-up were \$25.7 million unfunded, and \$971 thousand funded, respectively. In 2020 the estimated costs for site clean-up were \$38.4 million unfunded, and \$1,836 thousand funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2021, the estimate for unfunded clean-up cost decreased by \$12.7 million from the FY 2020 estimate. This is primarily due decreased estimates of future lab cleanup actions.

Note 19. 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 with the public funds for remedial action.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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, 2021 and 2020, the total remaining state credits have been estimated at \$17.9 million, and \$20.2 million, respectively.

Note 20. 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, 2021, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling \$10.2 million. As of September 30, 2020, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling \$11.5 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 21. 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. As of September 30, 2021 and 2020 Custodial Revenues and Accounts Receivable are:

	2021	2020
Fines, Penalties and Other Miscellaneous Receipts	<u>\$ 42,497</u>	<u>\$ 169,178</u>
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	\$ 174,590	\$ 191,307
Less: Allowance for Uncollectible Accounts	<u>(144,142)</u>	<u>(141,118)</u>
Total	<u>\$ 30,448</u>	<u>\$ 50,189</u>

Note 22. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2021 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2021 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2021 has not yet been published. We expect it will be published by early 2022, 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, 2020 are listed immediately below (dollars in millions):

	FY 2020	Budgetary	Offsetting	Net Outlays
		Resources	Obligations	Receipts
Statement of Budgetary Resources	\$	<u>20,548</u>	<u>14,293</u>	<u>1,369</u>
Reported in the Budget of the U.S. Government	\$	<u>22,447</u>	<u>16,314</u>	<u>10,316</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 23. 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 as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unobligated Balance Brought Forward, Oct 1.	\$ <u>5,640,267</u>	\$ <u>5,460,757</u>
Adjustments to Budgetary Resources Made During the Current Year		
Downward Adjustments of Prior Year Undelivered Orders	335,603	339,024
Downward Adjustments of Prior Year Delivered Orders	19,061	26,546
Permanent Reduction Prior Year Balances	(27,991)	-
Other Adjustments	<u>(15,627)</u>	<u>(18,137)</u>
Total	311,046	347,433
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	\$ <u>5,951,313</u>	\$ <u>5,808,190</u>
Temporarily Not Available - Rescinded Authority	\$ <u>(6,428)</u>	\$ <u>(2,000)</u>
Permanently Not Available:		
Rescinded Authority	\$ 6,428	\$ -
Cancelled Authority	<u>27,991</u>	<u>19,140</u>
Total Permanently Not Available	\$ <u>34,419</u>	\$ <u>19,140</u>

Note 24. 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unexpired Unobligated Balance	\$ 5,281,571	\$ 6,066,503
Expired Unobligated Balance	<u>91,014</u>	<u>189,004</u>
Total	\$ <u>5,372,585</u>	\$ <u>6,255,507</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 25. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Intragovernmental:		
Unpaid Undelivered Orders	\$ 617,433	\$ 448,888
Paid Undelivered Orders	300,357	335,082
With the public:		
Unpaid Undelivered Orders	20,650,862	14,213,791
Paid Undelivered Orders	<u>297,852</u>	<u>820,475</u>
Total	<u>\$ 21,866,504</u>	<u>\$ 15,818,236</u>

Note 26. Offsetting Receipts

Distributed offsetting receipts are amounts that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts). As of September 30, 2021 and 2020, the following receipts were generated from these activities:

	<u>2021</u>	<u>2020</u>
Trust Fund Recoveries	\$ 249,937	\$ 237,778
Special Fund Services	76,466	51,502
Trust Fund Appropriation	1,153,462	1,076,535
Miscellaneous Receipt and Clearing Accounts	<u>1,546</u>	<u>3,581</u>
Total	<u>\$ 1,481,411</u>	<u>\$ 1,369,396</u>

Note 27. Transfers-In and Out, Statement of Changes in Net Position

A. Appropriations Transfers, In/Out:

As of September 30, 2021 and 2020, 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Net Transfers from Invested Funds	\$ 1,525,315	\$ 1,396,692
Transfer to the Department of Transportation	-	101,700
Transfers to Another Agency	<u>29,854</u>	<u>809</u>
Total of Net Transfers on the Statement of Budgetary Resources	<u>\$ 1,555,169</u>	<u>\$ 1,499,201</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2021 and 2020, 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, 2021 and 2020:

Type of Transfer/Funds:	2021		2020	
	<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	\$ -	\$ 28,624	\$ (42,748)	\$ 42,081
Transfers-in (out) nonexpenditure, Oil Spill	20,098	-	19,581	-
Transfers-in (out) nonexpenditure, e-Manifest	-	-	23	-
Transfers-in (out), TSCA	(28,624)	-	(5,528)	-
PRIA	(708)	-	389	-
National Resource Damage Assessment	1,229	-	1,647	-
Total Transfer in (out) without Reimbursement, Budgetary	\$ (8,005)	\$ 28,624	\$ (26,636)	\$ 42,081

Note 28. Imputed Financing (Restated)

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 2021 were \$128.5 million. For FY 2020, the estimates were \$115.2 million (Restated).

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 2021 total imputed costs were \$32.6 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 2021, entries for Judgment Fund payments totaled \$11 million. For FY 2020, entries for Judgment Fund payments totaled \$4.1 million.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 29. Federal Employee Benefits Payable

Payroll and benefits payable to the EPA employees for the fiscal years ending September 30, 2021 and 2020, consist of the following:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2021 Payroll and Benefits Payable			
Actuarial FECA Liability	\$ -	\$ 51,143	\$ 51,143
Accrued Unfunded Annual Leave	-	<u>181,492</u>	<u>181,492</u>
Total - Current	<u>\$ -</u>	<u>\$ 232,635</u>	<u>\$ 232,635</u>

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2020 Payroll and Benefits Payable			
Actuarial FECA Liability	\$ -	\$ 50,451	\$ 50,451
Accrued Unfunded Annual Leave	-	<u>184,779</u>	<u>184,779</u>
Total - Current	<u>\$ -</u>	<u>\$ 235,230</u>	<u>\$ 235,230</u>

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, the EPA is allocated the portion of the long-term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor. The FY 2021 present value of these estimated outflows is calculated using a discount rate of 2.414 percent in the first year, and 2.414 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

See Note 1 paragraph P for additional information.

Note 30. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 7 years earlier. These amounts affect Unexpended Appropriations. Other Adjustments, Statement of Changes in Net Position for the years ended September 30, 2021 and 2020, consist of the following:

	Other Funds 2021	Other Funds 2020
Cancelled General Authority	\$ 49,123	\$ 18,964
Total Other Adjustments	<u>\$ 49,123</u>	<u>\$ 18,964</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 31. Non-Exchange Revenue, Statement of Changes in Net Position

Non-Exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for the fiscal years ended September 30, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
	Funds from Dedicated Collections	All Other Funds	Funds from Dedicated Collections	All Other Funds
Interest on Trust Fund	\$ 6,421	\$ -	\$ 90,116	\$ -
Tax Revenue, Net of Refunds	241,786	-	219,210	-
Fines and Penalties Revenue	(2,740)	-	3,239	-
Special Receipt Fund Revenue	<u>31,521</u>	<u>-</u>	<u>17,265</u>	<u>81</u>
Total Nonexchange Revenue	<u>\$ 276,988</u>	<u>\$ -</u>	<u>\$ 329,830</u>	<u>\$ 81</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 32. Reconciliation of Net Cost of Operations to Net Outlays (Restated)

For the Fiscal Year Ended September 30, 2021:

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2021</u>
NET COST	\$ 1,500,235	\$ 7,082,983	\$ 8,583,218
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation		57,687	57,687
Property, Plant and Equipment Disposal & Revaluation		4,186	4,186
Applied Overhead/Cost Capitalization Offset		(72,607)	(72,607)
Increase/(Decrease) in Assets:			
Accounts Receivable	(20,495)	77,112	56,617
Loans Receivable	50	513,387	513,437
Investments	(70,576)	-	(70,576)
Other Assets	47,670	(624)	47,046
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	29,710	3,623	33,333
Debt Due to Treasury	525,187	-	525,187
Environmental Cleanup Costs	-	(12,660)	(12,660)
Payroll and Benefits Payable	-	(2,595)	(2,595)
Other Liabilities	56,867	56,111	112,978
Other Financing Sources:			
Other Imputed Financing	(172,143)	-	(172,143)
Total Components of Net Cost That Are Not Part of Net Outlays	<u>1,896,505</u>	<u>7,706,603</u>	<u>9,603,108</u>
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Inventory	-	375	375
Acquisition of Other Assets	-	-	-
Other Financing Sources:			
Transfer Out (In) Without Reimbursement	(25,286)	-	(25,286)
Total Components of Budget Outlays That Are Not Part of Net Operating Cost	<u>(25,286)</u>	<u>375</u>	<u>(24,911)</u>
Miscellaneous Items			
Custodial/Non-Exchange Revenue	23	22,106	22,129
Appropriated Receipts for Trust Fund/Special Funds	-	20,028	20,028
Other Temporary Timing Differences	-	231,740	231,740
NET OUTLAYS	<u>\$ 1,871,242</u>	<u>\$ 7,980,852</u>	<u>\$ 9,852,094</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

For the Fiscal Year 2020: (Restated)

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2020</u>
	\$ 1,418,263	\$ 7,490,057	\$ 8,908,320
NET COST			
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	68,599	68,599
Property, Plant and Equipment Disposal & Revaluation	-	(1,373)	(1,373)
Year-end Credit Reform Subsidy Re-estimates	(23,459)	-	(23,459)
Other	-	57,917	57,917
Increase/(Decrease) in Assets:			
Accounts Receivable (Restated)	(6,802)	2,840	(3,962)
Loans Receivable	-	196,206	196,206
Investments	(27,990)	-	(27,990)
Other Assets	(12,323)	495	(11,828)
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities (Restated)	8,684	15,062	23,746
Debt Due to Treasury	(221,385)	-	(221,385)
Pensions and Other Actuarial Liabilities	-	(8,408)	(8,408)
Environmental Cleanup Costs	-	(5,573)	(5,573)
Cashout Advances, Superfund (Note 36)	-	100,456	100,456
Commitments and Contingencies	-	(38)	(38)
Payroll and Benefits Payable	-	(49,269)	(49,269)
Other Liabilities	19,100	(9,132)	9,968
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(115,246)	-	(115,246)
Transfer Out (In) Without Reimbursement	15,509	-	15,509
Other Imputed Financing	(33,859)	-	(33,859)
Total Components of Net Cost That Are Not Part of Net Outlays	1,020,492	7,857,839	8,878,331
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	567	567
Acquisition of Other Assets	-	15,915	15,915
Other	-	474,408	474,408
Total Components of Net Outlays That Are Not Part of Net Cost	-	490,890	490,890
Other Temporary Timing Differences	-	(645,814)	(645,814)
NET OUTLAYS	\$ 1,020,492	\$ 7,702,915	\$ 8,723,407

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The reconciliation explains the relationship between the net cost of operations and net outlays by presenting components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities), components of net outlays that are not part of net cost (e.g., acquisition of capital assets), other temporary timing difference (e.g., prior period adjustments due to correction of errors). The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 33. 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, 2021 and 2020. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2021	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 3,917	\$ 3,917
Total Undistributed Balance	-	3,917	3,917
Interest Receivable	-	6,298	6,298
Investments, Net	<u>4,970,058</u>	<u>142,361</u>	<u>5,112,419</u>
Total - Assets	<u>\$ 4,970,058</u>	<u>\$ 152,576</u>	<u>\$ 5,122,634</u>
 Liabilities and Equity			
Equity	<u>\$ 4,970,058</u>	<u>\$ 152,576</u>	<u>\$ 5,122,634</u>
Total Liabilities and Equity	<u>\$ 4,970,058</u>	<u>\$ 152,576</u>	<u>\$ 5,122,634</u>
 Receipts			
Cost Recoveries	\$ -	\$ 249,937	\$ 249,937
Fines and Penalties	-	<u>1,656</u>	<u>1,656</u>
Total Revenue	-	251,593	251,593
Appropriations Received	-	1,153,462	1,153,462
Interest Income	-	<u>5,927</u>	<u>5,927</u>
Total Receipts	<u>\$ -</u>	<u>\$ 1,410,982</u>	<u>\$ 1,410,982</u>
 Outlays			
Transfers to/from EPA, Net	<u>\$ 1,475,171</u>	<u>\$ (1,475,171)</u>	<u>\$ -</u>
Total Outlays	<u>\$ 1,475,171</u>	<u>\$ (1,475,171)</u>	<u>\$ -</u>
Net Income	<u>\$ 1,475,171</u>	<u>\$ (64,189)</u>	<u>\$ 1,410,982</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

In FY 2021, the EPA received an appropriation of \$1.2 billion for Superfund. Treasury's Bureau of the 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, 2021 and 2020, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of \$5.1 billion and \$5.2 billion, respectively.

SUPERFUND FY 2020	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 5,759	\$ 5,759
Total Undistributed Balance	-	5,759	5,759
Interest Receivable	-	6,298	6,298
Investments, Net	<u>4,863,644</u>	<u>204,708</u>	<u>5,068,352</u>
Total - Assets	<u>\$ 4,863,644</u>	<u>\$ 216,765</u>	<u>\$ 5,080,409</u>
Liabilities and Equity			
Equity	<u>\$ 4,863,644</u>	<u>\$ 216,765</u>	<u>\$ 5,080,409</u>
Total Liabilities and Equity	<u>\$ 4,863,644</u>	<u>\$ 216,765</u>	<u>\$ 5,080,409</u>
Receipts			
Cost Recoveries	\$ -	\$ 237,778	\$ 237,778
Fines and Penalties	<u>-</u>	<u>4,278</u>	<u>4,278</u>
Total Revenue	-	242,056	242,056
Appropriations Received	-	1,076,535	1,076,535
Interest Income	<u>-</u>	<u>83,302</u>	<u>83,302</u>
Total Receipts	<u>\$ -</u>	<u>\$ 1,401,893</u>	<u>\$ 1,401,893</u>
Outlays			
Transfers to/from EPA, Net	<u>\$ 1,548,747</u>	<u>\$ (1,548,747)</u>	<u>\$ -</u>
Total Outlays	<u>\$ 1,548,747</u>	<u>\$ (1,548,747)</u>	<u>\$ -</u>
Net Income	<u>\$ 1,548,747</u>	<u>\$ (146,854)</u>	<u>\$ 1,401,893</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2021 and 2020, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2021	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 25,686	\$ 25,686
Total Undistributed Balance	-	25,686	25,686
Investments, Net	<u>85,921</u>	<u>951,201</u>	<u>1,037,122</u>
Total - Assets	<u>\$ 85,921</u>	<u>\$ 976,887</u>	<u>\$ 1,062,808</u>
Liabilities and Equity			
Equity	<u>\$ 85,921</u>	<u>\$ 976,887</u>	<u>\$ 1,062,808</u>
Total Liabilities and Equity	<u>\$ 85,921</u>	<u>\$ 976,887</u>	<u>\$ 1,062,808</u>
Receipts			
Highway TF Tax	-	214,252	214,252
Airport TF Tax	-	28,268	28,268
Inland TF Tax	-	(734)	(734)
Total Revenue	-	241,786	241,786
Interest Income	-	476	476
Total Receipts	<u>\$ -</u>	<u>\$ 242,262</u>	<u>\$ 242,262</u>
Outlays			
Transfers to/from EPA, Net	<u>\$ 92,203</u>	<u>\$ (92,203)</u>	<u>\$ -</u>
Total Outlays	<u>\$ 92,203</u>	<u>\$ (92,203)</u>	<u>\$ -</u>
Net Income	<u>\$ 92,203</u>	<u>\$ 150,059</u>	<u>\$ 242,262</u>

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

LUST FY 2020	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 14,081	\$ 14,081
Total Undistributed Balance	-	14,081	14,081
Investments, Net	<u>82,270</u>	<u>812,746</u>	<u>895,016</u>
Total - Assets	<u><u>\$ 82,270</u></u>	<u><u>\$ 826,827</u></u>	<u><u>\$ 909,097</u></u>
Liabilities and Equity			
Equity	<u>\$ 82,270</u>	<u>\$ 826,827</u>	<u>\$ 909,097</u>
Total Liabilities and Equity	<u><u>\$ 82,270</u></u>	<u><u>\$ 826,827</u></u>	<u><u>\$ 909,097</u></u>
Receipts			
Highway TF Tax	\$ -	\$ 207,604	\$ 207,604
Airport TF Tax	-	11,575	11,575
Inland TF Tax	<u>-</u>	<u>31</u>	<u>31</u>
Total Revenue	-	219,210	219,210
Interest Income	<u>-</u>	<u>6,282</u>	<u>6,282</u>
Total Receipts	<u><u>\$ -</u></u>	<u><u>\$ 225,492</u></u>	<u><u>\$ 225,492</u></u>
Outlays			
Transfers to/from EPA, Net	<u>\$ 101,700</u>	<u>\$ (101,700)</u>	<u>\$ -</u>
Total Outlays	<u><u>\$ 101,700</u></u>	<u><u>\$ (101,700)</u></u>	<u><u>\$ -</u></u>
Net Income	<u><u>\$ 101,700</u></u>	<u><u>\$ 123,792</u></u>	<u><u>\$ 225,492</u></u>

Note 34. COVID-19 Activity

On March 27, 2020, President Donald Trump signed into law The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the economic fallout of the COVID-19 pandemic in the United States. The EPA received a supplemental appropriation of \$7.2 million to support Environmental Program Management, Science and Technology, Building and Facilities, and Superfund program efforts related to the virus. As of September 30, 2021 \$110.2 thousand remains available for obligation.

On March 11, 2021 President Joe Biden signed into law the American Rescue Plan Act (American Rescue Plan) also called the COVID-19 Stimulus Package, to speed up the United States' recovery from the economic and health effects of the COVID-19 pandemic and the ongoing recession. The EPA received a supplemental appropriation of \$100 million to support Environmental Program Management and State and Tribal Assistance Grants program efforts related to recovery from the virus. As of September 30, 2021, \$86.1 million remains available for obligation.

Additional COVID-19 activities are discussed in Section I, Management's Discussion and Analysis, *Financial Analysis and Stewardship Information*.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 35. 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 2020 FR can be found here: <https://www.fiscal.treasury.gov/reports-statements/> and a copy of the 2021 FR will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

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

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Reclassification of Balance Sheet to Line Items used for the Government-wide Balance Sheet as of September 30, 2021							
FY 2021 EPA Balance Sheet		Line Items Used to Prepare the FY 2021 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and Other	Total	Reclassified Financial Statement Line
ASSETS							ASSETS
Intra-Governmental Assets							Intra-Governmental Assets
FBWT	11,778,430	1,114,893	(251,593)	10,915,170	-	11,778,470	FBWT
Federal Investment	6,149,540	6,149,540	-	-	-	6,149,540	Federal Investments
Investments, Net	6,298	6,298	-	-	-	6,298	Interest Receivable - Investments
<i>Total Investments, Net</i>	6,155,838	6,155,838	-	-	-	6,155,838	<i>Total Reclassified Investments, Net</i>
Accounts Receivable, Capital Transfers	-	5,055,979	(5,055,979)	-	-	-	Accounts Receivable, Capital Transfers
Accounts Receivable, Net	7,602	124,014	-	(117,190)	-	6,824	Accounts Receivable, Net
<i>Total Accounts Receivable</i>	7,602	5,179,993	(5,055,979)	(117,190)	-	6,824	<i>Total Reclassified - A/R</i>
Interest Receivable - Loans and Not Otherwise Classified	516	515	-	(515)	-	-	Interest Receivable - Loans and Not Otherwise Classified
Advances to Others and Prepayments	245,934	17,695	-	228,245	-	245,940	Advances to Others and Prepayments
<i>Total Other</i>	246,450	18,210	-	227,730	-	245,940	<i>Total Reclassified Other</i>
Total Intra-Governmental Assets	18,188,320	12,468,934	(5,307,572)	11,025,710	-	18,187,072	Total Intra-Governmental Assets
Cash and Other Monetary Assets	10	-	-	10	-	10	Cash and Other Monetary Assets
Accounts Receivable, Net	580,736	497,683	-	82,492	-	580,175	Accounts Receivable, Net
Loans Receivable, Net	585,622	585,571	-	567	-	586,138	Loans Receivable, Net
Inventory and Related Property, Net	428	-	-	428	-	428	Inventory and Related Property, Net
General PP&E	670,637	27,996	-	657,376	-	685,372	General PP&E, Net
Other	7,298	777	-	6,521	-	7,298	Other
Total Assets	20,033,051	13,580,961	(5,307,572)	11,773,104	-	20,046,493	Total Assets
LIABILITIES							LIABILITIES
Intra-Governmental Liabilities							Intra-Governmental Liabilities
Accounts Payable	151,102	59,390	-	110,610	-	170,000	Accounts Payable
Accounts Payable, Capital Transfers	-	5,085,447	(5,055,979)	(29,468)	-	-	Accounts Payable, Capital Transfers
Debt	746,839	746,839	-	-	-	746,839	Debt
Other - Custodial Liability	51,241	22,362	-	28,109	-	50,471	Other - Custodial Liability
Other - Miscellaneous Liabilities	-	-	-	32,600	-	32,600	Benefit Program Contributions Payable
Advances from Others & Deferred Credits	154,235	139,829	-	13,296	-	153,125	Advances from Others & Deferred Credits
Interest Payable	-	-	-	-	-	-	Interest Payable
Other Liabilities	60,827	202	-	8,538	-	8,740	Other Liabilities
<i>Total Other - Miscellaneous Liabilities</i>	215,062	140,031	-	54,434	-	194,465	<i>Total Reclassified Other - Miscellaneous Liabilities</i>
Total Intra-Governmental Liabilities	1,164,244	6,054,069	(5,055,979)	163,685	-	1,161,775	Total Intra-Governmental Liabilities
Accounts Payable	56,319	32,989	-	23,196	-	56,185	Accounts Payable
Federal Employee Benefits Payable	232,635	17,348	-	215,289	-	232,637	Federal Employee and Veteran Benefits
Environmental and Disposal Liabilities	25,723	-	-	25,723	-	25,723	Environmental and Disposal Liabilities
Advances and Deferred Revenue	3,602,263	3,568,981	-	11,978	-	3,580,959	Advances and Deferred Revenue
Miscellaneous Liabilities	618,667	104,154	-	537,521	-	641,675	Other Liabilities
<i>Total Miscellaneous Liabilities</i>	618,667	3,723,472	-	537,521	-	4,260,993	<i>Total Reclassified Miscellaneous Liabilities</i> 48

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Total Liabilities	5,699,851	9,777,541	(5,055,979)	977,392	-	5,698,954	Total Liabilities
NET POSITION							NET POSITION
Unexpended Appropriations - Funds from Dedicated Collections	187	187	-	-	-	187	Net Position - Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	10,400,345	-	-	10,395,591	-	10,395,591	Net Position - Funds Other Than Those From Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections	3,551,640	3,803,233	(251,593)	-	-	3,551,640	
Cumulative Results of Operations - All Other	381,028	-	-	400,121	-	400,121	
Total Net Position	14,333,200	3,803,420	(251,593)	10,795,712	-	14,347,539	
Total Liabilities & Net Position	20,033,051	13,580,961	(5,307,572)	11,773,104	-	20,046,493	Total Liabilities & Net Position

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for For the Year Ended September 30, 2021							
FY 2021 EPA SNC		Line Items Used to Prepare the FY 2021 Government-wide SNC					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and Other	Total	Reclassified Statement Line
Gross Costs	9,138,699						<i>Non-Federal Costs</i>
	-	1,165,442	-	6,397,382	-	7,562,824	Non-Federal Gross Costs
	-	1,165,442	-	6,397,382	-	7,562,824	Total Non-Federal Costs
							<i>Intragovernmental Costs</i>
	-	90,956	-	346,188	-	437,144	Benefits Program Costs
	-	26,006	-	113,575	-	139,581	Imputed Costs
	-	282,533	-	664,256	-	946,789	Buy/Sell Costs
	-	-	-	110	-	110	Purchase of Assets
	-	22,737	-	-	-	22,737	Borrowing and Other Interest Expense
	-	-	-	(3,286)	-	(3,286)	Other Expenses (w/o Reciprocals)
	-	422,232	-	1,120,843	-	1,543,075	Total Intragovernmental Costs
Total Gross Costs	9,138,699	1,587,674	-	7,518,225	-	9,105,899	Total Reclassified Gross Costs
Earned Revenue	555,481	671,109	(249,937)	2,492	-	423,664	Non-Federal Earned Revenue
							<i>Intragovernmental Revenue</i>
	-	26,525	-	86,686	-	113,211	Buy/Sell Revenue
	-	-	-	110	-	110	Purchase of Assets Offset
	-	26,525	-	86,796	-	113,321	Total Intragovernmental Earned Revenue
Total Earned Revenue	555,481	697,634	(249,937)	89,288	-	536,985	Total Reclassified Earned Revenue
NET COST	8,583,218	890,040	249,937	7,428,937	-	8,568,914	NET COST

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

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, 2021							
FY 2021 EPA SCNP		Line Items Used to Prepare the FY 2021 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and Other	Total	Reclassified Statement Line
UNEXPENDED APPROPRIATIONS							UNEXPENDED APPROPRIATIONS
Unexpended appropriations, Beginning Balance	9,599,848	(188)	-	9,593,529	-	9,593,341	Unexpended appropriations, Beginning Balance
Appropriations Received	9,200,494	-	-	9,152,443	-	9,152,443	Appropriations Received
Other Adjustments	(49,123)	(70)	-	70	-	-	Other Adjustments
Appropriations Transferred In/Out	-	-	-	-	-	-	Appropriations Transferred In/Out
Appropriations Used	(8,350,687)	(376)	-	(8,350,451)	-	(8,350,827)	Appropriations Used
Total Unexpended Appropriations	10,400,532						
CUMUL. RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	3,717,509	3,285,516	-	435,966	-	3,721,482	Cumulative Results, Beginning Balance
Other Adjustments	-	-	-	-	-	-	Other Budgetary Financing Sources
Appropriations Used	8,350,687	376	-	8,350,451	-	8,350,827	Appropriations Used
							Non-Federal Non-Exchange Revenues
Nonexchange Revenue - Securities Investment	6,421	6,421	-	-	-	6,421	Nonexchange Revenue - Securities Investment
Nonexchange	-	-	-	61,939	-	61,939	
Borrowings and other interest revenue	-	769	-	9,933	-	10,702	Borrowings and other interest revenue
Nonexchange Revenue - Other	270,567	272,223	(1,656)	(28,781)	-	241,786	Other Taxes and Receipts
	-	-	-	1,002,766	-	1,002,766	Collections Transferred to a TAS other than the General Fund
	276,988	279,413	(1,656)	1,045,857	-	1,323,614	Total Non-Federal Non-Exchange Revenues
	-	-	-	-	-	-	Borrowings and Other Interest Revenue
	-	-	-	-	-	-	Other Taxes and Receipts
Transfers In/Out w/o Reimbursement-Budgetary	(1,441)	1,102,649	-	(1,081,322)	-	21,327	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
	-	-	-	(2,004)	-	(2,004)	Revenue and Other Financing Sources - Cancellations
<i>Total Transfers In/Out w/o Reimbursement-Budgetary</i>	<i>-</i>	<i>134</i>	<i>-</i>	<i>(2,004)</i>	<i>-</i>	<i>(1,870)</i>	<i>Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary</i>
Imputed Financing Sources	172,143	26,006	-	113,576	-	139,582	Imputed Financing Sources (Federal)
Trust Fund Appropriations	-	-	-	(1,064,079)	-	(1,064,079)	Non-entity collections transferred to the General Fund of the U.S. Government
	-	-	-	21,182	-	21,182	Accrual of collections yet to be trans. to the Gen. Fund
	-	-	-	9,431	-	9,431	Other non-budgetary financing sources
Total Financing Sources	172,143	26,140	-	(921,894)	-	(895,754)	
Net Cost of Operations	(8,583,218)	(890,040)	(249,937)	(7,428,937)	-	(8,568,914)	Net Cost of Operations

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Ending Balance - Cumulative Results of Operations	3,932,668	3,804,054	(251,593)	400,121	-	3,952,582	
Total Net Position	14,333,200	3,803,420	(251,593)	10,795,712	-	14,347,539	Total Net Position

Note 36. Restatements

During FY 2021 EPA determined that OPM imputed costs related to Pension, Health and Life insurance were materially understated for FY 2020. Only 4th quarter's costs of \$28.1 million were recorded; the cost for the entire year should have been \$115 million, leaving Imputed Financing Sources on the Statement of Changes in Net Position and Gross Costs on the Statement of Net Cost understated by approximately \$87 million each.

The change impacts the FY2020 Gross Costs and Net Cost on the Statement of Net Costs and Other Financing Sources (Non-Exchange) Imputed Financing Sources on the Statement of Changes in Net Position.

For the Year Ended September 30, 2020	Previously Reported	Restatement	Restated Amount
Gross Cost - Statement of Net Cost	\$ 9,335,328	87,156	\$ 9,422,484
Net Cost of Operations - Statement of Net Cost	\$ 8,821,164	87,156	\$ 8,908,320
Imputed Financing Sources - Statement of Changes in Net Position	\$ 61,949	87,156	\$ 149,105

During FY21 EPA did not eliminate the upward reestimate for the WIFIA loan program leaving Intragovernmental: Accounts Receivable and Intragovernmental: Accounts Payable overstated by \$23.9 million.

For the Year Ended September 30, 2020	Previously Reported	Restatement	Restated Amount
Accounts Receivable	\$ 31,474	(23,872)	\$ 7,602
Accounts Payable	\$ 126,460	23,872	\$ 150,332

See Note 1 paragraph R for additional information.

Required Supplementary Information (Unaudited)

United States Environmental Protection Agency
September 30, 2021 and 2020
(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:

Asset Category	<u>2021</u>	<u>2020</u>
Buildings	\$ <u>119,869</u>	\$ <u>128,924</u>
Total Deferred Maintenance	\$ <u>119,869</u>	\$ <u>128,924</u>

In Fiscal Year 2021, in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, the EPA presents Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

Buildings:

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

EPA Held Equipment:

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

Vehicles:

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

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

This statement establishes accounting and financial reporting standards for impairment of general property, plant, and equipment remaining in use, except for internal use software. G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction work in progress. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.

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

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

Supplemental Combined Statement of Budgetary Resources (Unaudited)

United States Environmental Protection Agency For the Fiscal Year Ended September 30, 2021 (Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State Tribal Assistance Agreements	Other	Totals
BUDGETARY RESOURCES							
Unobligated Balance From Prior Year Budget Authority, Net	\$ 539,838	\$ 8,766	\$ 162,251	\$ 3,756,194	\$ 1,104,803	\$ 994,703	\$ 6,566,555
Appropriations (discretionary and mandatory)	2,835,674	92,203	729,329	1,471,761	4,368,401	1,334,951	10,832,319
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	4,726,214	4,726,214
Spending Authority From Offsetting Collection	(29,616)	-	40,360	23,171	-	570,405	604,320
Total Budgetary Resources	\$ 3,345,896	\$ 100,969	\$ 931,940	\$ 5,251,126	\$ 5,473,204	\$ 7,626,273	\$ 22,729,408
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	\$ 2,921,422	\$ 92,830	\$ 797,138	\$ 1,696,484	\$ 4,557,270	\$ 7,291,679	\$ 17,356,823
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	353,252	8,139	118,440	3,554,042	915,934	329,768	5,279,575
Unapportioned, Unexpired Accounts	-	-	-	600	-	1,396	1,996
Expired Unobligated Balance, End of Year	71,222	-	16,362	-	-	3,430	91,014
Unobligated Balance, End of Year (total):	424,474	8,139	134,802	3,554,642	915,934	334,594	5,372,585
Total Status of Budgetary Resources	\$ 3,345,896	\$ 100,969	\$ 931,940	\$ 5,251,126	\$ 5,473,204	\$ 7,626,273	\$ 22,729,408
OUTLAYS, NET							
Outlays, Net (total) (discretionary and mandatory)	\$ 2,616,620	\$ 84,808	\$ 737,246	\$ 1,382,313	\$ 3,714,197	\$ 1,316,911	\$ 9,852,095
Distributed Offsetting Receipts (-) (Note 26)	-	-	-	(1,403,399)	-	(78,012)	(1,481,411)
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 2,616,620</u>	<u>\$ 84,808</u>	<u>\$ 737,246</u>	<u>\$ (21,086)</u>	<u>\$ 3,714,197</u>	<u>\$ 1,238,899</u>	<u>\$ 8,370,684</u>
Disbursements, Net (total) (mandatory)						<u>\$ 494,357</u>	<u>\$ 494,357</u>

**AUDIT OF EPA'S FISCAL YEARS 2021
AND 2020 CONSOLIDATED FINANCIAL
STATEMENTS**



OFFICE OF INSPECTOR GENERAL U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

Operating efficiently and effectively

EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

Report No. 22-F-0007

November 15, 2021

Abbreviations:

CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
U.S.C.	United States Code
WIFIA	Water Infrastructure Finance and Innovation Act of 2014

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

EPA Inspector General Hotline

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Office of Inspector General U.S. Environmental Protection Agency **At a Glance**

22-F-0007
November 15, 2021

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 Office of Inspector General to audit the financial statements prepared by the Agency each year. Our primary objectives were to determine whether:

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

This 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 audit supports an EPA mission-related effort:

- *Operating efficiently and effectively.*

This audit addresses a top EPA management challenge:

- *Fulfilling mandated reporting requirements.*

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

[List of OIG reports.](#)

EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

EPA Receives an Unmodified Opinion for Fiscal Years 2021 and 2020 (Restated)

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2021 and 2020 (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.

Significant Deficiencies Noted

We noted the following significant deficiencies:

- The EPA did not reconcile cash differences with the U.S. Department of the Treasury.
- The EPA did not recognize revenue for the Water Infrastructure Finance and Innovation Act of 2014 fee fund expenses.
- Accounts receivable source documentation was not provided in a timely manner by EPA regions.
- The Office of the Chief Financial Officer needs to conduct periodic reviews of users' accounts within the EPA's Contract Payment System.

Noncompliance with Laws, Regulations, Contracts, and Grant Agreements Noted

We noted the following instance of noncompliance with laws and regulations: the EPA did not comply with Office of Management and Budget Circular A-136 form and content requirements for the balance sheet.

Recommendations and Planned Agency Corrective Actions

The EPA generally agreed with our findings and recommendations but disagreed with some findings. The EPA has already completed corrective actions on several of our findings, and some corrective actions are ongoing.




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

OFFICE OF
INSPECTOR GENERAL

November 15, 2021

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements
Report No. 22-F-0007

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

TO: Faisal Amin, Chief Financial Officer

Lawrence Starfield, Acting Assistant Administrator
Office of Enforcement and Compliance Assurance

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was [OA-FY21-0170](#). This report contains findings that describe the problems the OIG has identified and the corrective actions the OIG recommends. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer and the Office of Enforcement and Compliance Assurance have primary responsibility for the issues discussed in the report.

In accordance with EPA Manual 2750, your offices provided acceptable planned corrective actions and estimated milestone dates in response to the OIG's recommendations. All recommendations are resolved, and no final response to this report is required. If you submit a response, however, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

Attachments:

1. Significant Deficiencies.
2. Compliance with Laws and Regulations.
3. Status of Prior Audit Report Recommendations.
4. Status of Recommendations.

Table of Contents

Inspector General's Report on EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

Report on the Financial Statements.....	1
Required Supplementary Information	2
Report on Internal Control over Financial Reporting	3
Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements	5
Other Governmental Reporting Requirements.....	6
Prior Audit Coverage.....	6

Attachments

1. Significant Deficiencies	7
EPA Did Not Reconcile Cash Differences with Treasury.....	8
EPA Did Not Recognize Revenue for Water Infrastructure Finance and Innovation Act of 2014 Fee Fund Expenses.....	10
Accounts Receivable Source Documentation Not Provided Timely by Regions	11
Office of the Chief Financial Officer Needs to Conduct Periodic Reviews of Users' Accounts Within EPA's Contract Payment System	14
2. Compliance with Laws and Regulations	16
EPA Did Not Comply with OMB Circular A-136	17
3. Status of Prior Audit Report Recommendations	20
4. Status of Recommendations.....	23

Appendixes

I. EPA's FYs 2021 and 2020 (Restated) Consolidated Financial Statements.....	24
II. Agency Response to Draft Report.....	25
III. Distribution	34

Inspector General's Report on EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Environmental Protection Agency, which comprise the consolidated balance sheets, as of September 30, 2021, and September 30, 2020 (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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the comptroller general of the United States of America; and Office of Management and Budget Bulletin 21-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since Treasury, and not the EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for 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, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Restatement of Fiscal Year 2020

As described in Note 36 to the financial statements, the fiscal year 2020 financial statements have been restated to correct misstatements related to imputed costs for Pension, Health, and Life insurance and to eliminate intragovernmental receivables and payables. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis sections be presented to supplement the EPA's financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the OMB and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of the financial reporting that places the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the 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 of the consolidated financial statements as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the EPA's internal control over financial reporting as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements and to comply with the OMB's audit guidance, but not to express an opinion on the effectiveness of the EPA's internal control. Accordingly, we do not express an opinion on the effectiveness of the EPA's internal control over financial reporting.

Material Weakness and Significant Deficiencies. Our consideration of the internal control was for the limited purpose of expressing an opinion on the EPA's financial statements and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, such deficiencies in internal control may exist that were not identified during the course of our audit. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

Significant Deficiencies

EPA Did Not Reconcile Cash Differences with Treasury

We found that the EPA did not reconcile \$2,109,083.84 in cash differences between the EPA's and Treasury's cash balances. These differences remained unreconciled for nine months—from December 2020 through August 2021. Treasury requires agencies to perform timely reconciliations of their Fund Balance with Treasury's accounts. The EPA adjusted these recurring cash differences to comply with Treasury's monthly reporting requirements and agree with Treasury's balances. The EPA reversed the adjustments the following month, restoring the unreconciled cash differences in the EPA's balances. Not adequately reconciling all cash differences increases the risk of unrecorded transactions; fraud, waste, and mismanagement of funds; and misstatement of EPA financial statements.

EPA Did Not Recognize Revenue for Water Infrastructure Finance and Innovation Act of 2014 Fee Fund Expenses

We found that the EPA did not recognize \$4,513,689 and \$2,057,300 in revenue for the WIFIA fee fund for fiscal years 2021 and 2020, respectively. Federal accounting standards require agencies to recognize revenue as expenses are incurred. This error occurred because the EPA did not establish the correct

accounting model for WIFIA fee fund expenses to reduce unearned revenue and recognize earned revenue. When the EPA does not properly recognize revenue, the financial statements could be materially misstated.

Accounts Receivable Source Documentation Not Provided Timely by Regions

EPA regions did not timely submit supporting source documents to the Cincinnati Finance Center for over \$50.7 million in accounts receivable, which then delayed recording and processing those receivables. In one case, Region 2 submitted receivable documentation over six months after the consent decree for that case was effective. In another case, Region 9 did not timely submit documentation for three receivables totaling approximately \$8.1 million. As a result, the CFC did not record these four receivables in the proper fiscal year. EPA policies state that responsible offices must forward to the CFC source documents supporting an accounts receivable for settlements or orders demonstrating a debt owed to the Agency within five business days as specified in the applicable EPA Resource Management directives. The regional program office, the office of regional counsel, and the regional legal enforcement office staff are responsible for providing these documents to the CFC. When the CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and the EPA may not collect all that it is owed. Furthermore, the EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

Office of the Chief Financial Officer Needs to Conduct Periodic Reviews of Users' Accounts Within EPA's Contract Payment System

The OCFO has not conducted periodic reviews of user accounts within the EPA's Contract Payment System. The system reports and tracks contract payments and uploads the accounting data associated with the payments into the EPA's core financial system. EPA users, such as contract officers, project officers, and alternate project officers, have access rights in the Contract Payment System to enter, approve, and disapprove contract invoices.

Attachment 3 contains the status of issues reported in prior years' reports on the EPA's consolidated financial statements. The issues included in Attachment 3 should be considered among the EPA's significant deficiencies for fiscal year 2021. 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 Federal Managers' Financial Integrity Act Report with Our Evaluation of Internal Control

OMB Bulletin 21-04 requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit that were not reported in the Agency's Federal Managers' Financial Integrity Act report.

For financial statement audit and financial reporting purposes, OMB Bulletin 21-04 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.

Report on 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 the Agency's compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the 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 21-04 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, or 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.

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

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 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 identified one significant matter involving compliance with laws and regulations that came to our attention during the course of the audit. We found that the EPA did not comply with OMB Circular A-136. Attachment 2 provides additional details, as well as our recommendations on actions that should be taken on this matter. We will not issue a separate management letter.

EPA Did Not Comply with Office of Management and Budget Circular A-136

We found that the EPA did not comply with the required form and content on its fiscal year 2021 balance sheet. The OMB requires agencies to use line titles and the format detailed in its Circular A-136, *Financial Reporting Requirements*, dated August 10, 2021. The EPA did not revise the line titles and

format of its balance sheet to meet the requirements. As a result, the EPA did not comply with federal financial reporting requirements.

Other Governmental Reporting Requirements

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 statement audits, we reported weaknesses, as detailed in Attachment 3, that impacted our audit objectives. Those weaknesses include that:

- The EPA did not capitalize lab renovation costs.
- 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 Treasury.
- The EPA improperly recorded e-Manifest receivables and earned revenue.
- The EPA needs to improve its financial statement preparation process.

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
Office of Inspector General
U.S. Environmental Protection Agency
November 9, 2021

Significant Deficiencies

Table of Contents

1	EPA Did Not Reconcile Cash Differences with Treasury.....	8
2	EPA Did Not Recognize Revenue for Water Infrastructure Finance and Innovation Act of 2014 Fee Fund Expenses.....	10
3	Accounts Receivable Source Documentation Not Provided Timely by Regions	11
4	Office of the Chief Financial Officer Needs to Conduct Periodic Reviews of Users' Accounts Within EPA's Contract Payment System	14

1 – EPA Did Not Reconcile Cash Differences with Treasury

We found that the EPA did not reconcile \$2,109,083.84 in cash differences between the EPA's and Treasury's cash balances. These differences remained unreconciled for nine months—from December 2020 through August 2021. Treasury requires agencies to perform timely reconciliations of their Fund Balance with Treasury's accounts. The EPA adjusted these recurring cash differences to comply with Treasury's monthly reporting requirements and agree with Treasury's balances. The EPA reversed the adjustments the following month, restoring the unreconciled cash difference in the EPA's balances. Not adequately reconciling all cash differences increases the risk of unrecorded transactions, fraud, waste, mismanagement of funds, and misstatement of EPA financial statements.

The *Treasury Financial Manual*, Volume 1, Part 2, Chapter 5100, "Fund Balance with Treasury," Section 5125, states that:

Agency reconciliation of [Fund Balance with Treasury] accounts is a key internal control process and it ensures the accuracy of the government's receipt and disbursement data. Therefore, agencies must perform timely reconciliations of their agency's United States Standard General Ledger (USSGL) account 101000 to Fiscal Service [Central Accounting Reporting System Account] Statement and implement effective and efficient reconciliation processes.

Section 5130.10 states that:

Agencies must post account transactions to the [United States Standard General Ledger] and must prepare an adjusted trial balance at least monthly to verify that debit and credit postings are equal and to validate the data. They also must ensure that the balance in the [United States Standard General Ledger] account 101000 for each fund symbol agrees with their internal supporting documents.

Additionally, Section 5130.20 states that federal agencies must compare their Fund Balance with Treasury transactions in their general ledgers with the Fiscal Service reports and must reconcile any differences. According to Section 5145, by not having a timely and effective reconciliation process, agencies could increase the risk of fraud, waste, and mismanagement of funds, as well as affect their ability to accurately measure the full cost of the government's programs.

The EPA's Resource Management Directive 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the Accounting and Cost Analysis Division to monthly review the EPA's Fund Balance with Treasury in its financial system and report issues to the respective EPA finance center. Every month, the finance centers and the Fees and Collection Branch are required to reclassify the Budget Fiscal Service Fund Balance with Treasury to the EPA's Fund Balance with Treasury in the accounting system of record for their respective agency location codes. Finance centers are also required to provide comments, as needed, to the Accounting and Cost Analysis Division in the monthly cash differences report.

We found that as of August 31, 2021, the EPA had not resolved \$2,109,083.84 in cash differences between the EPA’s and Treasury’s cash balances. These differences were unreconciled for nine months. The differences are detailed in Table 1-1.

Table 1-1: Unreconciled cash differences

Treasury symbol	Dollar amount (absolute value)
6818/190108	\$885,708.88
6819/200108	356,297.29
6820/210108	867,077.67
Total	\$2,109,083.84

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

The EPA records a monthly adjustment to clear cash differences with Treasury and reverses the adjustment the following month. The monthly adjustments allow the EPA to agree with Treasury’s balances at the time of reporting; however, the *Treasury Financial Manual* requires the EPA to reconcile the differences. Recurring cash differences in the monthly adjustments suggest that the EPA has not properly reconciled its balances.

Upon our inquiries, the EPA stated that there are various reasons for the cash differences detailed in Table 1-1, such as timecard corrections or adjustments, and that the differences are being reviewed and efforts are underway to resolve the ongoing differences.

By not adequately reconciling all cash differences, the EPA increases the risk of unrecorded transactions, fraud, waste, and mismanagement of funds. Unrecorded transactions could misstate the Agency’s Fund Balance with Treasury and EPA financial statements.

We have reported findings regarding the need for the EPA to improve its efforts to resolve cash differences with Treasury in previous audits. While the EPA has made some progress in resolving its cash differences, we continue to find unreconciled recurring differences during our audits.

Recommendation

We recommend that the chief financial officer:

1. Timely reconcile EPA cash differences with the U.S. Department of the Treasury.

Agency Response and OIG Assessment

The EPA concurred with our recommendation and provided acceptable planned corrective actions. The EPA’s estimated completion date for corrective actions is September 30, 2022. The Agency’s response can be found in Appendix II.

2 – EPA Did Not Recognize Revenue for Water Infrastructure Finance and Innovation Act of 2014 Fee Fund Expenses

We found that the EPA did not recognize \$4,513,689 and \$2,057,300 in revenue for the WIFIA fee fund for fiscal years 2021 and 2020, respectively. Federal accounting standards require agencies to recognize revenue as expenses are incurred. This error occurred because the EPA did not establish the correct accounting model for WIFIA fee fund expenses to reduce unearned revenue and recognize earned revenue. When the EPA does not properly recognize revenue, the financial statements could be materially misstated.

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

When advance fees or payments are received, ... revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as “unearned revenue,” should be recorded when the cash is received.

WIFIA at 33 U.S.C. § 3909 authorizes the EPA to collect and spend fees to cover all or a portion of the costs of servicing WIFIA loans.

The EPA recorded WIFIA fees collected as unearned revenue. When the EPA incurred \$4,513,689 and \$2,057,300 in expenses related to the unearned revenue in fiscal years 2021 and 2020, respectively, it did not properly recognize earned revenue. The EPA must recognize revenue from fees collected when WIFIA fee fund expenses are incurred. These errors occurred because the EPA did not establish the correct accounting model to properly decrease unearned revenue and increase earned revenue when expenses are made. When the EPA does not use the proper accounting model, such as for recognizing revenue when funds are expensed, the financial statements could be materially misstated.

Recommendations

We recommend that the chief financial officer:

2. Update the Water Infrastructure Finance and Innovation Act accounting model to properly recognize earned revenue and unearned revenue as fee fund expenses are incurred.
3. Reclassify unearned revenue to earned revenue for Water Infrastructure Finance and Innovation Act fee fund expenses incurred during fiscal years 2021 and 2020.

Agency Response and OIG Assessment

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

3 – Accounts Receivable Source Documentation Not Provided Timely by Regions

EPA regions did not timely submit supporting source documents to the CFC for over \$50.7 million in accounts receivable, which then delayed recording and processing those receivables. In one case, Region 2 submitted receivable documentation over six months after the consent decree for that case was effective. In another case, Region 9 did not timely submit documentation for three receivables totaling approximately \$8.1 million. As a result, the CFC did not record these four receivables in the proper fiscal year. EPA policies state that responsible offices must forward to the CFC source documents supporting an accounts receivable for settlements or orders demonstrating a debt owed to the Agency within five business days as specified in the applicable EPA Resource Management directives. The regional program office, the office of regional counsel, and the regional legal enforcement office staff are responsible for providing these documents to the CFC. When the CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and the EPA may not collect all that it is owed. Furthermore, the EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, transactions should be "promptly recorded to maintain their relevance and value to management in controlling operations and making decisions." Statement of Federal Financial Accounting Standards 1, *Accounting for Selected Assets and Liabilities*, requires that a receivable "be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided." Statement of Federal Financial Accounting Standards 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires that accounts receivable be recognized "when a collecting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets through its established assessment processes to the extent the amount is measurable."

The EPA's Resource Management Directive System 2550D-14-P1, *Financial Management of the Superfund Program, Superfund Accounts Receivable and Billings*, requires the office of regional counsel, the legal enforcement office, or the regional program office, as applicable, to forward copies of all signed administrative settlement agreements and EPA documents that formally assess stipulated penalties within five business days of the effective date of the document. The office of regional counsel or the legal enforcement office must forward copies of entered civil judgements, including consent decrees, to the CFC within five business days of receipt of notice. The office of regional counsel or the legal enforcement office must ensure that other source documents, such as Superfund State Contracts or other official notices requiring payment, are forwarded to the CFC within five business days of final signature.

Resource Management Directive System 2540-9-P3, *Financial and Accounting Management, Administrative and Civil Judicial Penalties*, specifically addresses "the process for recognizing civil penalties owed to the Agency resulting from administrative and civil judicial enforcement actions." The directive requires that the originating office ensure documentation of administrative penalties and bankruptcy proceedings are provided to the CFC within five business days of receipt of the order or documentation. For regionally initiated administrative enforcement actions, the office of regional

counsel or regional equivalent are to ensure that penalties are entered in the EPA Case Tracking System, which automatically sends a request to the CFC to establish a billing document.

We found that EPA regional enforcement staff did not timely submit legal source documentation, such as consent decrees and administrative orders, to the CFC for over \$50.7 million in accounts receivable, which then delayed recording and processing those receivables. The CFC received associated source documents between one day and over six months after the due date. Table 3-1 provides a summary of the relevant exceptions found throughout our audit.

Table 3-1: Summary of receivables support not recorded timely

OIG analysis description	Number of receivables	Number of exceptions	Number of business days late	Amount
U.S. Department of Justice report reconciliation	46	8	1 to 32 days	\$28,287,715.00
Integrated Compliance Information System report reconciliation	71	1	69 days	\$116,445.00
Superfund control	29	3	2 to 8 days	\$11,785,762.16
Cut-off testing	4	4	4 to 138 days	\$10,519,000.00
Total	150	16		\$50,708,922.16

Source: OIG analysis of receivables tested. (EPA OIG table)

In one case, Region 2 submitted documentation for a \$2.4 million receivable over six months after the consent decree was effective. The regional enforcement staff sent the consent decree in October 2021, outside of the proper accounting period. That required the CFC to process a journal voucher, which is a manual adjustment created by the OCFO to adjust for financial statement purposes, to correct the understated accounts receivable in the fiscal year 2021 financial statements. In another case, Region 9 did not timely submit documentation for three receivables totaling approximately \$8.1 million. As a result, the CFC did not record these four receivables in the proper fiscal year.

The regional enforcement staff are required to effectively communicate with the finance center regarding the status of settlement agreements to prevent untimely recording of accounts receivable. When the CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and the EPA may not collect all that it is owed. Furthermore, the EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements. The EPA has policies and procedures in place to direct the regions to provide documents timely. The frequency of the delays indicates that the regions are not adhering to those policies and procedures. Therefore, we believe that regional offices should work with the CFC to resolve this control issue.

Recommendations

We recommend that the assistant administrator for Enforcement and Compliance Assurance:

4. Enforce the existing policies and procedures, which includes forwarding accounts receivable source documents to the Cincinnati Finance Center, in accordance with the time frame provided in the applicable resource management directives.

5. Implement a system that tracks the dates when accounts receivable source documents need to be submitted and are submitted by the Office of Enforcement and Compliance Assurance to the Cincinnati Finance Center.

We recommend that the chief financial officer:

6. Record the three receivables totaling approximately \$8.1 million in the fiscal year 2021 financial statements.

Agency Response and OIG Assessment

The Agency agreed with our recommendations and has proposed ongoing corrective actions.

4 – Office of the Chief Financial Officer Needs to Conduct Periodic Reviews of Users’ Accounts Within EPA’s Contract Payment System

The OCFO has not conducted periodic reviews of user accounts within the EPA’s Contract Payment System. The system reports and tracks contract payments and uploads the accounting data associated with the payments into the EPA’s core financial system. EPA users, such as contract officers, project officers, and alternate project officers, have access rights in the Contract Payment System to enter, approve, and disapprove contract invoices.

The EPA’s information security procedure—CIO 2150-P-01.2, *Information Security – Access Control Procedure*—requires system owners of EPA-operated systems to conduct periodic reviews of user accounts and disable, remove, or terminate the accounts, as appropriate. However, the OCFO lacks a strategy to conduct these required reviews to verify users’ access and prevent unauthorized access to sensitive financial data.

In addition, CIO 2150-P-04.2, *Information Security – Security Assessment and Authorization Procedures*, requires system owners of EPA-operated systems to ensure that service providers:

- Document and manage discovered weaknesses and planned remedial actions by entering a Plan of Action and Milestones into the Agency Information Security Repository within:
 - 30 days of when the risk is determined to be “high,” and the weakness cannot be or is not remediated or mitigated within 30 days of discovery.
 - 60 days of when the risk is determined to be “medium,” and the weakness cannot be or is not corrected within 60 days of discovery.
 - 90 days of when the risk is determined to be “low,” and the weakness cannot be or is not corrected within 90 days of discovery.
- Document a senior information official or risk executive’s decision to accept a weakness in a Plan of Action and Milestones.

The OCFO commented that it has not conducted periodic reviews of user accounts within the Contract Payment System because of other priorities and limited resources.

Not conducting these required reviews exposes the EPA to operational risks that could jeopardize the confidentiality, integrity, and availability of financial data and access to the system. Unauthorized personnel could expose the Contract Payment System to unidentified threats and vulnerabilities that could put the system and the information it processes, stores, or transmits at risk of being disclosed, modified, or destroyed.

We issued a discussion document on September 8, 2021, with proposed recommendations to develop a strategy to conduct user account reviews and create a Plan of Action and Milestones to document the

decision to either mitigate or accept the risk of not conducting periodic reviews of user accounts. In the OCFO's response dated September 29, 2021, it provided the OIG with its *User Access Control Management Plan*, which outlines activities to complete the required user account reviews within the Contract Payment System by December 31, 2021.

Recommendation

We recommend that the chief financial officer:

7. Complete the review of user accounts within the Contract Payment System as outlined in the Office of the Chief Financial Officer *User Access Control Management Plan* by the planned milestone. If all the activities are not completed by that date, the Office of the Chief Financial Officer should create a Plan of Action and Milestones within the Agency Information Security Repository in accordance with the requirements described in CIO 2150-P-04.2, *Information Security – Security Assessment and Authorization Procedures*.

Agency Response and OIG Assessment

The Agency concurred with the recommendation and provided documentation that all corrective actions were completed on November 9, 2021. The OIG concurs with the actions taken and considers Recommendation 7 complete.

Compliance with Laws and Regulations

Table of Contents

5 EPA Did Not Comply with OMB Circular A-136	17
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5 – EPA Did Not Comply with OMB Circular A-136

We found that the EPA did not comply with the required form and content on its fiscal year 2021 balance sheet. The OMB requires agencies to use line titles and the format detailed in its Circular A-136, *Financial Reporting Requirements*, dated August 10, 2021. The EPA did not revise the line titles and format of its balance sheet to meet the requirements. As a result, the EPA did not comply with federal financial reporting requirements.

Circular A-136, which is updated annually, sets forth financial reporting requirements for federal agencies that must submit annual audited financial statements. Section II.3.2.2, “Balance Sheet Template,” states that entities must use the asset and liability line titles on the numbered lines shown in the balance sheet template provided in that section. It also states that the “commitments and contingencies” line should not contain balance amounts and should only be included as a heading to direct readers to the applicable financial statement footnote. Section II.3.2.3 states that under federal accounting standards, stewardship land information is classified as basic information, requiring the balance sheet to include a reference to a note disclosure.

Based on our preliminary examination of the balance sheet, we found that the EPA did not use the required titles for certain asset and liability lines. The differences are detailed in Table 5-1.

Table 5-1: Differences between EPA’s balance sheet and Circular A-136 balance sheet template

Circular A-136 balance sheet line title	EPA’s balance sheet line title
Assets – Intragovernmental:	
6. Other Assets	Other
10. Loans receivable, net	Direct Loans Receivable, Net
Assets-With the Public:	
17. Other Assets	Other
Liabilities-Intragovernmental:	
22. Accounts payable	Accounts Payable and Accrued Liabilities
24. Debt	Debt Associated With Loans
<i>Not in Circular A-136</i>	Custodial Liability
26. Other Liabilities	Other
Liabilities-With the Public:	
28. Accounts payable	Accounts payable and Accrued Liabilities
30. Federal employee [and veteran] benefits payable	Pensions and Other Actuarial Liabilities
31. Environmental and disposal liabilities	Environmental Cleanup Costs
<i>Not in Circular A-136</i>	Cashout Advances, Superfund
32. Benefits due and payable	Payroll and Benefits Payable
37. Other Liabilities	Other

Source: OIG analysis of EPA data and OMB Circular A-136, section II.3.2.2, “Balance Sheet Template.” (EPA OIG table)

We also found that the EPA erroneously included the commitments and contingencies line under the liabilities section. The line should have been included as a heading below the “Total liabilities” line. In addition, the EPA did not include in its balance sheet the “Stewardship PP&E” heading to direct the reader to the applicable financial statement footnote. The EPA did not follow the prescribed template

for the net position section of the balance sheet. Figures 5-1 and 5-2 demonstrate the differences between the EPA's and Circular A-136's net position section.

Figure 5-1: Line titles for the net position section of the balance sheet according to Circular A-136's template

Net Position:
41.1 Unexpended Appropriations-Funds from Dedicated Collections (Note 20)
41.2 Unexpended Appropriations-Funds from Other than Dedicated Collections
41. Total Unexpended Appropriations (Combined or Consolidated)
42.1 Cumulative Results of Operations-Funds from Dedicated Collections (Note 20)
42.2 Cumulative Results of Operations-Funds from other than Dedicated Collections
42. Total Cumulative Results of Operations (Combined or Consolidated)
43. Total net position

Source: OMB Circular A-136, section II.3.2.2, "Balance Sheet Template." (OMB image)

Figure 5-2: Line titles on the net position section of EPA's balance sheet

NET POSITION
Unexpended Appropriations - Funds from Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections
Total Net Position - Funds from Dedicated Collections (Note 18)
Unexpended Appropriations - All Other Funds
Cumulative Results of Operations - All Other Funds
Total Net Position - Other Funds
Total Net Position

Source: EPA's fiscal year 2021 balance sheet. (EPA image)

The EPA was aware that the circular included a new format required for the balance sheet. The circular was updated on August 27, 2020, to streamline reporting requirements and reflect current federal generally accepted accounting principles. This update introduced new form and content for the balance sheet for which early adoption was allowed. All entities are required to follow the new format in preparing their fiscal year 2021 financial statements. The EPA followed its prior-year balance sheet form and content without making the appropriate revisions to comply with Circular A-136's new format requirements. By not complying with reporting requirements, the EPA undermines the trust and reliability of its financial statements.

Recommendation

We recommend that the chief financial officer:

8. Update the fiscal year 2021 financial statements to comply with Office of Management and Budget's Circular A-136, specifically, the balance sheet line items.

Agency Response and OIG Assessment

The EPA concurred with our recommendation and completed most of the Circular A-136 form and content issues. However, we noted several uncorrected line items in the balance sheet, which consists mostly of account groupings. The amounts are not material to the overall financial statements. The Agency's response can be found in Appendix II.

Status of Prior Audit Report Recommendations

The EPA continues to strengthen its audit management practices and procedures to address audit findings in a timely manner and to complete corrective actions expeditiously and effectively. In fiscal year 2021, the EPA's chief financial officer, as the agency follow-up official, continued to encourage 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 OCFO accomplished the following actions to strengthen its audit management procedures:

- Worked closely with the agency audit follow-up coordinators during fiscal year 2021 to ensure that corrective action dates were being met and the required certification memorandums were being submitted.
- Provided monthly reporting for the agencywide metric on the number of late audit corrective actions. The metric measures the completion of Agency-identified corrective actions that were not completed in a timely manner. The intended purpose of the monthly reporting is to facilitate the implementation of Agency corrective actions to OIG audit recommendations and decrease the number of late audit corrective actions.
- Launched a new audit tracking tool—called the Enterprise Audit Management System—for tracking OIG and Government Accountability Office audits and evaluations. The Enterprise Audit Management System facilitates the tracking and reporting of the Agency's corrective actions.
- Prepared a monthly OIG and Government Accountability Office tracker intended to provide Agency senior leadership with visibility on OIG and Government Accountability Office audits and evaluations. The tracker includes the most recent audit and evaluation updates and is distributed monthly to Agency senior leaders.
- Maintained the audit community intranet site, which serves as a one-stop-shop resource for the audit follow-up coordinators and liaisons. This collaborative site includes resources and reference materials, such as standard operating procedures, response templates, frequently asked questions, reporting links, deadlines, and other useful information.
- Provided training during the OCFO technical training series on the Agency's audit and evaluation processes. The training provided an overview of the audit follow-up coordinator's roles and responsibilities and emphasized the importance of preparing effective corrective actions and completing them in a timely manner.
- Held periodic meetings with audit follow-up coordinators and audit liaisons to discuss issues and concerns and to emphasize adherence to corrective action due dates and the need to keep the Enterprise Audit Management System current.

These and other efforts are a testament to the OCFO's continued commitment to improving the Agency's audit and evaluation management practices. In addition, the EPA maintained its commitment to engage early with the OIG on audit and evaluation findings and to develop effective corrective actions that address OIG recommendations.

As noted in the table below, however, there are still recommendations from previous financial statement audits that remain either unresolved or unimplemented.

Table 3-1: Significant deficiency issues not fully implemented

<p>EPA Did Not Capitalize Lab Renovation Costs</p> <p>During our fiscal year 2014 audit, we found that 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. We recommended that the chief financial officer capitalize and book the Research Triangle Park lab renovation costs and calculate depreciation; improve and maintain support for how EPA lab renovation projects are funded; review funding sources of all current and future lab renovations to ensure correct funding is utilized; develop policies and procedures for capital improvements/betterments to real property, and request the Office of General Counsel to determine whether the legal opinion represents a legally acceptable position regarding the definition of "construction" and to provide adequate examples to guide determinations of when renovation work should be funded out of Agency programs.</p> <p>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.</p> <p>Corrective actions for other recommendations related to this finding were initially due in September 2017; however, the Agency revised the estimated milestone 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 examples was not feasible. The Office of General Counsel has no further information to provide and believes its review is complete. The OIG will continue to report the issue as not fully resolved.</p>
<p>Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center</p> <p>During our fiscal year 2014, we found that the EPA and the U.S. Department of Justice did not forward accounts receivable source documents to the CFC in a timely manner. We recommended that the assistant administrator for Enforcement and Compliance Assurance require enforcement officers to include the CFC on the stipulated penalty letters mailing list; remind personnel to timely forward legal documents, and work with the Department of Justice to ensure timely document submission.</p> <p>We also recommended that the chief financial officer work with the Office of Enforcement and Compliance Assurance to update EPA Superfund guidance to ensure timely submission of Superfund accounts receivable control forms to the finance center. Finally, we recommended that the deputy assistant administrator for Administration and Resources Management, under the Office of Mission Support, require the Office of Grants and Debarment to instruct personnel to forward source documents for grant disallowed costs timely to the finance center.</p> <p>During fiscal year 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 CFC's timely receipt of legal documents, we still identified instances of untimely receipt during fiscal years 2015 through 2021. 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 fiscal year 2022.</p>

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

During our fiscal year 2018 audit, we found that the EPA had not resolved \$2.2 million in long-standing cash differences between the EPA's and Treasury's 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. We continued to find recurring differences in fiscal years 2020 and 2021. Therefore, we do not consider the corrective actions complete.

EPA Improperly Recorded e-Manifest Receivables and Earned Revenue

During our fiscal year 2019 audit, the EPA did not properly record \$15,682,808 of e-Manifest receivables. 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.

We recommended that the chief financial officer update the accounting models to properly record collections and not reduce an account receivable account; establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level; establish accounting models to properly classify and record interest, fines, penalties, and fees; and establish accounting models to properly record receivables, collections, and earned revenue from federal versus nonfederal vendors. The corrective actions have not been completed as of our fiscal year 2021 audit. The EPA's estimated completion date for corrective actions was originally September 30, 2021; subsequently, the EPA revised the estimated completion date to March 31, 2022.

EPA Needs to Improve Its Financial Statement Preparation Process

During our fiscal year 2019 audit, we found multiple instances whereby the Agency had major misstatements of its financial transactions and financial statements. We recommended that the chief financial officer evaluate and improve the EPA's process for preparing financial statements and provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. The EPA agreed with our findings and recommendations. The Agency's estimated completion date for corrective actions was originally July 31, 2020, for Recommendation 1; subsequently, the EPA revised its estimated completion date to September 30, 2021. The EPA's estimated completion date for Recommendation 2 was February 29, 2020. During fiscal year 2020, we continued to find misstatements and adjustment errors in the EPA's financial statement preparation process. We recommended that the chief financial officer develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner. The EPA's estimated planned completion date for our fiscal year 2020 recommendation is December 31, 2021.

Source: OIG analysis of prior year recommendations and the Agency's corrective actions. (EPA OIG table)

Status of Recommendations

RECOMMENDATIONS							Potential Monetary Benefits (in \$000s)
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date		
1	9	Timely reconcile EPA cash differences with the U.S. Department of the Treasury.	R	Chief Financial Officer	9/30/22		
2	10	Update the Water Infrastructure Finance and Innovation Act accounting model to properly recognize earned revenue and unearned revenue as fee fund expenses are incurred.	C	Chief Financial Officer	10/27/21		
3	10	Reclassify unearned revenue to earned revenue for Water Infrastructure Finance and Innovation Act fee fund expenses incurred during fiscal years 2021 and 2020.	C	Chief Financial Officer	10/15/21		
4	12	Enforce the existing policies and procedures, which includes forwarding accounts receivable source documents to the Cincinnati Finance Center, in accordance with the time frame provided in the applicable resource management directives.	U	Assistant Administrator for Enforcement and Compliance Assurance			
5	13	Implement a system that tracks the dates when accounts receivable source documents need to be submitted and are submitted by the Office of Enforcement and Compliance Assurance to the Cincinnati Finance Center.	U	Assistant Administrator for Enforcement and Compliance Assurance			
6	13	Record the three receivables totaling approximately \$8.1 million in the fiscal year 2021 financial statements.	C	Chief Financial Officer	11/4/21	\$8,100	
7	15	Complete the review of user accounts within the Contract Payment System as outlined in the Office of the Chief Financial Officer <i>User Access Control Management Plan</i> by the planned milestone. If all the activities are not completed by that date, the Office of the Chief Financial Officer should create a Plan of Action and Milestones within the Agency Information Security Repository in accordance with the requirements described in CIO 2150-P-04.2, <i>Information Security – Security Assessment and Authorization Procedures</i> .	C	Chief Financial Officer	11/9/21		
8	18	Update the fiscal year 2021 financial statements to comply with Office of Management and Budget's Circular A-136, specifically, the balance sheet line items.	C	Chief Financial Officer	11/4/21		

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

***EPA's FYs 2021 and 2020 (Restated) Consolidated
Financial Statements***

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

November 10, 2021

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY21-0170, *“EPA’s Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements,”* dated November 9, 2021

FROM: Faisal Amin, Chief Financial Officer
Office of the Chief Financial Officer

Digitally signed by
Amin, Faisal
Date: 2021.11.10
19:48:50 -05'00'

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

Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency’s overall position, along with its position on the report’s recommendations.

AGENCY’S OVERALL POSITION

The draft report contains six recommendations for the Office of the Chief Financial Officer and two recommendations for the Office of Enforcement and Compliance Assurance. The OCFO and the OECA agree with the Office of Inspector General’s recommendations; however, the OCFO has provided clarification below on some of the OIG’s positions. Additionally, the OECA has identified areas within the report where information may have been misrepresented or misstated (see Attachment A – *“OECA’s Review and Comment of the OIG’s Position Paper No. 1 Accounts Receivable Source Documentation Not Provided Timely by Regions”*).

OCFO RESPONSE

OIG Statement: We found that the EPA did not reconcile \$2,109,083.84 in cash differences between the EPA’s and the Treasury’s cash balances.

Response:

The agency concurs with the OIG’s recommendation but notes that although the absolute value of the differences is \$2,109,083.84, the net value of the differences is \$337,666.08.

Unreconciled cash differences	
Treasury symbol	Dollar amount
6818/190108	\$885,708.88
6819/200108	(356,297.29)
6820/210108	(867,077.67)
Total	\$337,666.08

OIG Statement: We found that the EPA did not recognize \$4,513,689 and \$2,057,300 in revenue for the WIFIA fee fund for fiscal years 2021 and 2020, respectively. Federal accounting standards require agencies to recognize revenue as expenses are incurred. This error occurred because the EPA did not establish the correct accounting model for WIFIA fee fund expenses to reduce unearned revenue and recognize earned revenue. When the EPA does not properly recognize revenue, the financial statements could be materially misstated.

Response:

Although the agency concurs with the OIG’s recommendations, the accounting models lacked only the transaction to recognize earned revenue and reduce unearned revenue; all the incurred expenses for the Water Infrastructure Finance and Innovation Act Fee Fund were properly recorded as expenses in Compass.

OIG Statement: We found that the EPA did not comply with the required form and content on its fiscal year 2021 balance sheet. The Office of Management and Budget requires agencies to use line titles and the format detailed in its Circular A-136, *Financial Reporting Requirements*, dated August 10, 2021. The EPA did not revise the line titles and format of its balance sheet to meet the requirements. As a result, the EPA did not comply with federal financial reporting requirements. By not complying with reporting requirements, the EPA undermines the trust and reliability of its financial statements.

Response:

The EPA agrees it did not update the titles for certain asset and liability lines in the balance sheet as noted in Table 5-1 of the report. The EPA realizes federal guidelines are a critical component to maintain trust and reliability in the EPA’s financial statements. However, although some line titles need to be updated, the financial statements are accurate and reflect reliable data.

The differences stated in Table 5-1, Differences between EPA’s balance sheet and Circular A-136 balance sheet template, labeled as “*Not in Circular A-136*” for the EPA’s balance sheet line title “Custodial Liability” and “Cashout Advances, Superfund” are not instances of noncompliance. These two EPA balance sheet line titles are in agreement with the A-136 as

per Section II.3.2.2, “Balance Sheet Template,” where it states “An entity may disaggregate a required line title into two or more entity-specific line titles. The detail must sum to the total that would otherwise be required for the numbered line item.” These two-line titles are unique to the EPA and they do properly sum to the total that would otherwise be required for the numbered line item.

The agency agrees that Circular A-136 Section II.3.2.2, “Balance Sheet Template,” states that entities must use the asset and liability line titles on the numbered lines shown in the balance sheet template provided in that section. However, the OMB’s Circular A-136 does not state that agencies “must” use the line titles in the net position section.

The agency agrees that the balance sheet presentation needs to be updated, yet these needed revisions do not “undermine the trust and reliability of its financial statements.” The asset and liability line titles not being verbatim with the OMB’s Circular A-136 on the balance sheet has no negative impact on the accuracy and reliability of the financial statements.

For full compliance with the new OMB Circular A-136 balance sheet format, the agency has:

- Updated the balance sheet presentation to be verbatim for the line titles.
- Added the Stewardship PP&E line item to the balance sheet.
- Added the Commitments and Contingencies line item to the balance sheet.
- Updated the Net Position section for line titles.

As stated above, these revisions are simply changes in form and not changes in substance to the displayed balance sheet, which accurately presents the agency’s financial position as of September 30, 2021.

OECA RESPONSE:

The OECA agrees with the OIG that it is important for the EPA’s enforcement offices to submit timely supporting enforcement documentation to the Cincinnati Finance Center. However, the timeliness figures in the OIG’s draft report are unclear and do not accurately reflect the EPA’s timeliness performance in FY 2021. We request that the OIG correct several factual errors noted below. Further, we request that the OIG disaggregate its review of this measure to show where the EPA needs improvement and where the EPA has met or exceeded the timeliness goal, according to the EPA’s policy.

The OIG’s accounts receivable timeliness table states that the EPA and the Department of Justice had 150 receivables, 16 of which were late in FY 2021. According to this table, the OIG obtained this data from a DOJ report, an Integrated Compliance Information System (ICIS) report, “Superfund Control,” and “Cut-Off testing.” While we appreciate the emails the OIG provided to the OECA on November 1, 2021, we do not fully understand what “Superfund Control” and “Cut-Off testing” mean, where the associated numbers come from, how they align with the applicable Resource Management Directives, or why the OIG reviewed samples of accounts receivable and not the entire universe of accounts receivable data. We suggest the best place to obtain accounts receivable timeliness information is from EPA’s Compass system, which houses the EPA’s financial data and is the system the agency uses to track its obligations under the applicable directives. The data in the quarterly reports that the OECA sends to regional managers

on the EPA's timeliness performance are taken from Compass. Please see the data in Appendices A and B of the attached OECA's Review and Comment of the OIG's Position Paper No. 1 Accounts Receivable Source Documentation Not Provided Timely by Regions (October 28, 2021). Only when the OECA and the OIG are reviewing the same data can we meaningfully understand and discuss the EPA's timeliness performance. We would like to meet with you to discuss the appropriate data sources for review of enforcement documentation.

The OIG's draft report highlights two examples of specific late accounts receivable related to consent decrees—one from Region 2 and another from Region 9. The CFC sends quarterly reports to the DOJ and manages the timeliness measure for civil judicial consent decrees on behalf of the EPA. The Region 2 document was sent late to the CFC, but the \$2.4 million receivable amount is misleading. Because only 25 percent of the debt could be collected, the true value of this debt was approximately \$600,000, not \$2.4 million. For the \$8 million in receivables from Region 9, representing three related consent decrees, the DOJ was late sending the consent decree to Region 9. There was little the EPA could have done to achieve timeliness in this instance. In addition, the OIG's draft report states that these receivables were not recorded in the proper fiscal year as a result of the documentation not being timely provided. However, the court entered the consent decrees on September 28, 2021, and the receivables would have likely been recorded after the fiscal year ended even if the documentation had been provided within the allowed five days. This is a relatively common occurrence when settlements are completed at the end of the fiscal year. We request that the OIG correct the information with regard to the Region 2 and Region 9 examples.

The OECA is responsible for managing the timeliness of sending the CFC administrative penalty orders and final EPA stipulated penalty demand letters. For administrative penalty orders, the EPA has been meeting the five-business day submittal standard set forth in the Resource Management Directive System 2540-9-P3 at least 95 percent of the time for the past four years, including FY 2021. In FY 2018, the EPA was timely 95 percent of the time (1,014 of 1,070 instances); in FY 2019, the EPA was timely 96 percent of the time (881 of 920 instances); in FY 2020, the EPA was timely 95 percent of the time (874 of 920 instances); and in FY 2021, the EPA was timely 98 percent of the time (897 of 918 instances). Please see Appendix A of the attached OECA letter for more detailed information. The EPA has been meeting or exceeding the 95 percent goal for several years, and the OECA will continue our focus on this measure. Accordingly, we do not believe that this task warrants continued OIG annual review, and we request that the scope of the OIG's review of accounts receivable for FY 2021 and in the future exclude administrative penalty orders.

The second type of enforcement document timeliness measure that the OECA manages is final EPA stipulated penalty demand letters. When a party enters into a settlement with the EPA, the settlement may require the party to perform certain actions. If the party fails to perform those actions, the party is subject to stipulated penalties. The EPA may issue a stipulated penalty demand letter to the party stating the party violated a provision of the settlement and request the party pay a stipulated penalty. After the EPA issues the final stipulated penalty demand letter, the EPA must send the letter to the CFC within five business days. While the EPA had a timeliness rate of 19 percent in FY 2017 (timely in 7 out of 37 instances), since then the OECA has taken

aggressive measures to increase that percentage to 90 percent in FY 2021 (timely in 18 out of 20 instances). See Appendix B in the attached OECA letter for more detailed information.

Stipulated penalty demand letters may also come from other sources besides the EPA, such as the DOJ or a co-plaintiff (e.g., state). Additionally, a defendant may self-report the violation and submit a stipulated penalty payment to the EPA without a government entity issuing a demand letter. The EPA has been working with and implementing protocols with the DOJ, co-plaintiffs, and defendants to send demand letters and self-reporting letters to the CFC within five business days of the debt being triggered (as a result of an action that triggers the penalty obligation); however, these instances are outside of what the OCFO’s RMDS policies require of the EPA, outside the control of the EPA, and thus outside the scope of this measure. As such, we respectfully request the OIG’s review of accounts receivable focus on final EPA-issued stipulated demand letters and not stipulated penalty demand letters from other sources and self-reporting stipulated penalties by defendants for which the EPA has no control.

The analysis in the OIG’s draft report is also misleading because it fails to recognize significant results achieved as a result of changes the OECA has implemented to improve the timeliness of the EPA’s submissions to the CFC of final EPA stipulated penalty demand letters. As noted above, we request that the OIG’s report show where the EPA needs improvement and where the EPA has met or exceeded the timeliness goal, according to the EPA’s policy. We look forward to discussing with you the corrective actions taken in FY 2021 and planned for FY 2022 to continue to improve the EPA’s timeliness.

AGENCY RESPONSE TO DRAFT REPORT RECOMMENDATIONS

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
1	Timely reconcile EPA cash differences with the U.S. Department of the Treasury.	OCFO/ OC	Concur. The OCFO has established a workgroup that will resolve the cash differences and enhance the standard operating procedures to ensure timely cash reconciliation.	September 30, 2022
2	Update the Water Infrastructure Finance and Innovation Act accounting model to properly recognize earned revenue and unearned revenue as fee fund expenses are incurred.	OCFO/ OC	Concur. The posting models have been updated.	Completed October 27, 2021
3	Reclassify unearned revenue to earned revenue for Water Infrastructure Finance and Innovation Act fee fund expenses incurred during fiscal years 2021 and 2020.	OCFO/ OC	Concur. The unearned revenue for those expenses has been reclassified to earned revenue.	Completed October 15, 2021

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
4	Enforce the existing policies and procedures, which includes forwarding accounts receivable source documents to the Cincinnati Finance Center, in accordance with the time frame provided in the applicable resource management directives.	OECA	Concur. The OECA agrees that existing EPA policies, particularly the OCFO's Resource Management Directives, should be followed. The OECA has been sending quarterly reports on the EPA's timeliness performance to regional managers for years, including in FY 2021, and follows up with regional managers to identify systemic problems causing untimely submissions. The OECA will continue this practice in FY 2022 and beyond.	Completed and Ongoing

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
5	Implement a system that tracks the dates when accounts receivable source documents need to be submitted and are submitted by the Office of Enforcement and Compliance Assurance to the Cincinnati Finance Center.	OECA	Concur. The OECA concurs with the substance/intent of the recommendation. The OECA believes there are benefits to having such a system and is working with several EPA offices to develop an electronic case management system that has these capabilities (i.e., regions will automatically transmit accounts receivable documentation to the Cincinnati Finance Center). Currently, there is an agency effort to develop and implement this new system, and while the OECA serves as a partner, it is being led by another agency office. Accordingly, we will continue to support the agency on the development of this new system; however, due to our limited role in the development of this system, we cannot commit to when implementation will be completed.	Ongoing
6	Record the three receivables totaling approximately \$8.1 million in the fiscal year 2021 financial statements.	OCFO/ OC	Concur. The three receivables have been recorded in the FY 2021 financial statements.	Completed November 4, 2021

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
7	Complete the review of user accounts within the Contract Payment System as outlined in the Office of the Chief Financial Officer’s User Access Control Management Plan by the planned milestone. If all the activities are not completed by that date, the Office of the Chief Financial Officer should create a Plan of Action and Milestones within the Agency Information Security Repository in accordance with the requirements described in CIO 2150-P-04.2, Information Security – Security Assessment and Authorization Procedures.	OCFO/ OTS	Concur. The OCFO’s Office of Technology Solutions completed the annual review of CPS user accounts before the planned milestone. PTS POA&M #19 was created in the Agency Information Security Repository, XACTA. Supporting artifacts were attached to the POA&M and the status updated to “Complete.” Only OISP can change the status to “Closed.” Artifacts uploaded include the CPS User Access Plan (with scheduled milestones) and spreadsheet containing recertification information for CPS Users.	Completed November 9, 2021
8	Update the fiscal year 2021 financial statements to comply with Office of Management and Budget’s Circular A-136, specifically, the balance sheet line items.	OCFO/ OC	Concur. The FY 2021 financial statements have been updated to comply with the OMB’s Circular A-136.	Completed November 4, 2021

CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO’s Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761.

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Section III

Other Accompanying Information



MANAGEMENT INTEGRITY AND CHALLENGES

Overview of EPA's Efforts

Management challenges and internal control 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 the Office of Management and Budget, the Government Accountability Office and EPA's Office of Inspector General. This section of the AFR discusses in detail two components: 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 2021 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.) Additionally, Agencies 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 2021, EPA did not identify any new material weaknesses. As well, no new material weaknesses were identified by OIG. (See following subsection for a discussion of EPA's progress in addressing its material weakness.)

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

2021 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 2021, the OIG identified seven challenges. The table below includes issues the OIG identified as key management challenges facing the EPA and the years in which the OIG identified the challenge.

OIG-identified key management challenges for the EPA	FY 2020-2021	FY 2021-2022
Mitigating the Causes and Adapting to the Impacts of Climate Change. The EPA must take a leadership role in limiting climate change and mitigating its effect on human health and the environment.		•
Integrating and Leading Environmental Justice Across the Agency and Government. * As part of its effort to integrate environmental justice across its programs, the EPA must address the environmental hazards and cumulative risk facing at-risk communities and effectively communicate that risk to those communities.	•	•
Ensuring the Safe Use of Chemicals. The EPA must develop timely and accurate chemical risk assessments to identify acceptable exposure levels for humans and the environment.		•
Safeguarding Scientific Integrity Principles. Science-based decisions at the EPA must be based on principles of scientific integrity to ensure human health and the environment are protected by using the best available science.		•
Ensuring Information Technology and Systems Are Protected Against Cyberthreats. * Information technology is a fundamental and essential resource for the EPA to carry out its mission.	•	•
Managing Infrastructure Funding and Business Operations. The EPA must effectively oversee the funding and operation of America's water, wastewater, and other environmental infrastructure.		•
Enforcing Environmental Laws and Regulations. Through enforcement, the EPA ensures that regulated entities are following environmental law and will continue to do so, as enforcement actions effectively deter future noncompliance.		•

* This management challenge was retained from the *EPA’s FYs 2020–2021 Top Management Challenges*, Report No. 20-N-0231, issued July 21, 2020.



OFFICE OF INSPECTOR GENERAL U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

Fiscal Year 2022 Top Management Challenges



Abbreviations

C.F.R.	Code of Federal Regulations
EDSP	Endocrine Disrupter Screening Program
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GHG	Greenhouse Gases
IRIS	Integrated Risk Information System
IT	Information Technology
OECA	Office of Enforcement and Compliance Assurance
OIG	Office of Inspector General
OPPT	Office of Pollution Prevention and Toxics
PFAS	Per- and polyfluoroalkyl substances
TSCA	Toxic Substances Control Act
U.S.C.	United States Code
WoE	Weight of Evidence

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

EPA Inspector General Hotline

1200 Pennsylvania Avenue, NW (2431T)

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OIG_Hotline@epa.gov

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At a Glance

What Are Management Challenges?

The Reports Consolidation Act of 2000 requires each inspector general to prepare an annual statement summarizing what the inspector general considers to be “the most serious management and performance challenges facing the agency” and to briefly assess the agency’s progress in addressing those challenges.

To identify these top challenges for fiscal year 2022, the U.S. Environmental Protection Agency’s Office of Inspector General considered the body of our work, as well as our objective and professional observations; work conducted by the U.S. Government Accountability Office; and Agency documentation and statements.

Our top management challenges report covering fiscal years 2020–2021 (Report No. [20-N-0231](#)) identified eight such challenges facing the Agency. We’ve retained three of these challenges—*enhancing information technology security, communicating risks, and integrating and leading environmental justice*—for this fiscal year 2022 report but reshaped and refocused them into two.

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 FY 2022 Top Management Challenges

What We Found

After robust research and analysis, the EPA OIG identified seven top management challenges that we believe represent the EPA’s greatest vulnerabilities to waste, fraud, abuse, and mismanagement and the EPA’s most significant barriers to accomplishing its mission during fiscal year 2022. In addition to three challenges retained from our previous top management challenges report, which we reshaped and refocused into two, we identified five new top challenges that focus on emerging or increased environmental and operational threats. These seven top challenges reflect overarching issues that affect multiple EPA programs and responsibilities and that may prevent the Agency from efficiently and effectively protecting human health and the environment:

- 1. Mitigating the Causes and Adapting to the Impacts of Climate Change.** The EPA must take a leadership role in limiting climate change and mitigating its effect on human health and the environment.
- 2. Integrating and Leading Environmental Justice Across the Agency and Government.** As part of its effort to integrate environmental justice across its programs, the EPA must address the environmental hazards and cumulative risk facing at-risk communities and effectively communicate that risk to those communities.
- 3. Ensuring the Safe Use of Chemicals.** The EPA must develop timely and accurate chemical risk assessments to identify acceptable exposure levels for humans and the environment.
- 4. Safeguarding Scientific Integrity Principles.** Science-based decisions at the EPA must be based on principles of scientific integrity to ensure that human health and the environment are protected by using the best-available science.
- 5. Ensuring Information Technology and Systems Are Protected Against Cyberthreats.** Information technology is a fundamental and essential resource for the EPA to carry out its mission.
- 6. Managing Infrastructure Funding and Business Operations.** The EPA must effectively oversee the funding and operation of America’s water, wastewater, and other environmental infrastructure.
- 7. Enforcing Environmental Laws and Regulations.** Through enforcement, the EPA ensures that regulated entities are following environmental laws and will continue to do so, as enforcement actions effectively deter future noncompliance.



November 12, 2021

MEMORANDUM

SUBJECT: EPA's Fiscal Year 2022 Top Management Challenges
Report No. 22-N-0004

FROM: Sean W. O'Donnell 

TO: Michael S. Regan, Administrator

The Report Consolidation Act of 2000 requires that I prepare an annual statement summarizing what the U.S. Environmental Protection Agency's Office of Inspector General considers to be the "most serious management and performance challenges facing the agency." This statement is also to briefly assess the EPA's progress in addressing these challenges. Furthermore, the Inspector General Act of 1978, as amended, directs that I provide oversight to the EPA by conducting audits, evaluations, investigations, and other such analyses of Agency programs and operations for the dual purposes of promoting economy, efficiency, and effectiveness and detecting and preventing fraud, waste, and abuse. By virtue of our statutory responsibilities, the EPA OIG has an independent and objective perspective regarding the challenges that the EPA faces that could hinder its mission of protecting human health and the environment, as well as the directive to share our perspective with the EPA. I am, therefore, pleased to present this top management challenges report, which details the most serious management and performance challenges we observe facing the EPA's programs and operations over the coming year.

To identify the Agency's top management challenges for fiscal year 2022, we mined the OIG's prolific body of work, surveyed all EPA headquarters offices, solicited senior EPA leadership input, and held outreach meetings with Agency offices to discuss their perceptions of the challenges affecting EPA programs and operations. We also considered the work of the U.S. Government Accountability Office and public statements by EPA leaders to the press and Congress. The resulting report represents our independent and objective assessment of the areas in which the Agency will, over the next year, need to focus its resources. This report does not simply summarize these challenges, though; it also assesses the Agency's efforts to address them. As such, it represents a foundational effort that charts a forward path for the OIG to plan audits, evaluations, and investigations that will assist the EPA in mitigating these challenges and achieving its mission in the most economical, efficient, and effective manner possible.

Last year's report identified eight top management challenges facing the EPA. This report retains three of those, albeit slightly reshaped and refocused into two, and identifies five new areas of concern, for a total of seven top management challenges. While none of these seven challenges are more significant than the others, some do directly address the administration's priorities of climate change and the environment. It is also important to note that the five management challenges not retained from last fiscal year have not been completely addressed; rather, they have only been superseded as "top" challenges.

We hope that you find this report both helpful and insightful. Thank you for your continued efforts to address these challenges, and we look forward to working with you, on behalf of the American public, to safeguard the air we breathe, the water we drink, and the land we sow.

Table of Contents

Introduction and Management Challenges

INTRODUCTION.....	1
CHALLENGE 1: Mitigating the Causes and Adapting to the Impacts of Climate Change	5
CHALLENGE 2: Integrating and Leading Environmental Justice Across the Agency and Government.....	14
CHALLENGE 3: Ensuring the Safe Use of Chemicals.....	24
CHALLENGE 4: Safeguarding Scientific Integrity Principles.....	32
CHALLENGE 5: Ensuring Information Technology and Systems Are Protected Against Cyberthreats.....	36
CHALLENGE 6: Managing Infrastructure Funding and Business Operations.....	40
CHALLENGE 7: Enforcing Environmental Laws and Regulations	44

INTRODUCTION

The Reports Consolidation Act of 2000 requires each inspector general to prepare an annual statement summarizing what the inspector general considers to be “the most serious management and performance challenges facing the agency” and to “briefly assess[] the agency’s progress in addressing those challenges.” To this end, the U.S. Environmental Protection Agency’s Office of Inspector General annually assesses the top management and performance challenges affecting the programs and operations of the EPA. As part of this assessment, the OIG solicits input from senior EPA leadership, reviews congressional hearings and public statements, analyzes oversight work conducted by the U.S. Government Accountability Office, and considers issues raised by media coverage and the civil sector. We also considered how the EPA’s programs addressed top management challenges identified in previous fiscal years, as well as our oversight work over fiscal year 2021. This top management challenges report provides Congress and the Agency an independent and objective assessment of the management and performance challenges facing the Agency over FY 2022.

The FY 2022 top EPA management challenges are:

1. Mitigating the causes and adapting to the impacts of climate change.
2. Integrating and leading environmental justice across the Agency and government.
3. Ensuring the safe use of chemicals.
4. Safeguarding scientific integrity principles.
5. Ensuring information technology and systems are protected against cyberthreats.
6. Managing infrastructure funding and business operations.
7. Enforcing environmental laws and regulations.

These challenges are not listed in order of priority, importance, or magnitude. Each challenge is critical to ensuring that the EPA meets its mission of protecting human health and the environment. For this reason, the top management challenges are forward-looking so that they may assist the Agency in effectively achieving its mission and the OIG in planning oversight for the next fiscal year.

Overview of FY 2021 Management Challenges

With respect to the *Fiscal Year 2021 Oversight Plan*, the OIG issued 32 project notifications and 33 reports, containing 124 recommendations.

Table 1: OIG metrics for FY 2021 management challenges

FY 2021 Management Challenges	Notification memorandums	Issued recommendations*
1. Maintaining operations during pandemic and natural disaster responses.	6	4
2. Complying with key internal control requirements.	10	55
3. Overseeing states, territories, and tribes responsible for implementing EPA programs.	2	28
4. Improving workforce/workload analyses to accomplish EPA’s mission efficiently and effectively.	0	11
5. Enhancing information technology security to combat cyberthreats.	3	5
6. Communicating risks to allow the public to make informed decisions about its health and the environment.	2	9
7. Fulfilling mandated reporting requirements.	8	9
8. Integrating and leading environmental justice across the Agency and government.	1	3
TOTAL	32	124

Source: OIG summary of metrics. (OIG table)

*Some reports issued recommendations addressing multiple management challenges which were not the primary challenge addressed by the report.

Summary of FY 2022 Management Challenges

The first challenge, *Mitigating the Causes and Adapting to the Impacts of Climate Change*, focuses on the EPA’s role in providing leadership in addressing climate change. The EPA reported that “the Earth’s climate is warming and changing faster than at any point in history of modern civilization, primarily because of emissions of heat-trapping greenhouse gases from fossil fuel combustion, deforestation, and land-use change.” To address climate change and to mitigate any consequences, Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad*, requires a governmentwide approach. The EPA, with its mission of protecting human health and the environment, is uniquely positioned to provide leadership in addressing climate change nationally and working internationally to mitigate the causes and promote measures to adapt to the impacts of climate change. Leadership on this issue will require coordination with local, state, federal, and international government partners to develop effective strategies and plans to mitigate and curtail climate change. To best leverage its resources and ensure a cohesive approach, the EPA needs to implement its strategic plan to effectively address climate change, using science as a foundation for decision-making and considering the impacts to communities with disproportionate impacts.

The second challenge, *Integrating and Leading Environmental Justice Across the Agency and Government*, highlights the EPA’s continuing challenge of integrating environmental justice considerations throughout the government. Environmental justice is the fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income, with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies. These underserved communities are, however, among the hardest hit by pollution and environmental hazards. President Joe Biden has made this challenge a top priority for his administration through executive order and in proposing increased funding to directly support environmental justice efforts. The EPA, with its mission to protect human health and the environment, will be called upon to provide leadership in these efforts. To start, the EPA will need to assess the environmental hazards and

cumulative risks facing at-risk communities and effectively communicate these risks to these communities.

The third challenge, ***Ensuring the Safe Use of Chemicals***, focuses on the EPA's mission to protect human health and the environment from harmful chemicals and pesticides. The EPA assesses chemicals and their risks to find ways to prevent or reduce pollution before it gets into the environment. The EPA also regulates the manufacture and use of all pesticides to safeguard the nation's food supply. To effectively protect public health and the environment, the EPA must be able to depend on its ability to conduct credible and timely assessments of the risks posed by pesticides, toxic chemicals, and other environmental chemical risks. The 2016 expansion of the EPA's regulatory authority under the Toxic Substances Control Act has increased the need for conducting rapid and accurate risk assessments. Further, the EPA must continue to conduct registration and reregistration of hundreds of pesticides per year, as well as assure that it is setting appropriate exposure levels for contaminants in drinking water. Without appropriate resource and implementation plans in place to demonstrate the EPA can accomplish this work, and without the ability to accurately conduct scientifically sound risk assessments, the public's trust and confidence in the EPA's ability to accomplish its mission of protecting human health and the environment will be at risk.

The fourth challenge, ***Safeguarding Scientific Integrity Principles***, addresses the importance of scientific integrity in the EPA's decision-making. As the EPA recognizes in its Scientific Integrity Policy, "[t]he Agency's ability to pursue its mission to protect human health and the environment depends on the integrity of the science on which it relies. Scientific integrity, therefore, results from adherence to professional values and practices when conducting and applying the results of science and scholarship." It ensures objectivity, clarity, reproducibility, and utility, while insulating science from falsification, plagiarism, outside interference, censorship, and inadequate procedural and information security systems. Yet, there have been recent instances where scientific integrity has been lost, or appeared to be lost, because of allegations of misconduct and abuse of authority. The EPA must develop new processes and update its regulations, policies, and guidance to protect scientific integrity. Taking these actions will help make EPA decisions more legally defensible and maintain public trust in the decision-making.

The fifth challenge, ***Ensuring Information Technology and Systems are Protected against Cyberthreats***, is a challenge that has come into renewed focus because of the actions of malicious actors. Information systems are necessary for organizations to conduct the day-to-day transactions necessary to meet mission objectives. And critical infrastructure systems, such as drinking water facilities, are being maintained on computers. For this reason, criminals and other malicious actors view our critical infrastructure systems as ready targets. Indeed, in a hearing on vulnerabilities of our nation's drinking water supplies, Senator Tom Carper, Chairman, Committee on Environment and Public Works, warned of the "mounting cybersecurity challenges facing our nation's drinking water and wastewater systems." Given the EPA's oversight role regarding the water and wastewater systems, the EPA needs to be on the forefront of proactively identifying and thwarting cyberattacks on these critical infrastructures. The EPA will also need to ensure that its own systems are protected from these same malicious actors because, without secure and reliable information systems, the EPA is at risk of being unable to perform its important mission.

The sixth challenge, ***Managing Infrastructure Funding and Business Operations***, highlights the challenge to EPA leadership in financing, developing, and rebuilding water infrastructure projects. The EPA has long recognized that clean and safe drinking water is the cornerstone of public health. Every year, the EPA provides billions of dollars to drinking water and wastewater infrastructure projects, of which a vast majority is distributed to states, tribes, and nongovernmental organizations in the form of grants, loans, and contracts. These investments require the EPA to provide effective oversight and ensure proper internal controls over these funds. It is expected that, over the next five years, the EPA will help lead the nation in one of the largest infrastructure investment programs in our history. Some new projects will be influenced by the effects of climate change. And some completed projects may be in need of upgrades due to the possible effects of climate change. Effectively overseeing these projects will require dedicated EPA leadership and resources.

The seventh challenge is ***Enforcing Environmental Laws and Regulations***. A robust enforcement program is vital to deterring regulated entities from violating environmental laws and regulations and to protecting human health and the environment. National level, regional level, and statute-specific EPA compliance monitoring activities, enforcement actions, and most enforcement results, including output and some outcome measures, generally declined from FYs 2007 through 2020. Considering its limited resources, and despite potential funding increases in FY 2022, the EPA is challenged to assess its resource requirements for the enforcement program and identify innovative and cost-effective means of detecting and deterring noncompliance in the future.

Enduring and Cross-Cutting Issues

Finally, over FY 2021, the OIG recognized that some of the challenges facing the EPA were enduring and cut across numerous media and other challenges. Building the appropriate workforce is an issue that surfaced in many OIG audits and evaluations to include the safety of chemicals and enforcement. We expect this to continue as the EPA is expecting additional resources that could add up to 1,000 new hires. Also, the EPA will need to ensure effective oversight of tribes, states, and local governments through infrastructure spending, enforcement and compliance assurance, and environmental justice. Furthermore, the EPA counts on these partners to implement and manage a large portion of EPA regulations. Finally, over the last two years, the OIG developed a significant body of oversight work regarding the regulatory process. As the EPA prioritizes climate change, environmental justice, chemical safety, and enforcement, it will need to ensure that the regulatory process, and the laws and policies related to that process, is adhered to.

CHALLENGE 1: Mitigating the Causes and Adapting to the Impacts of Climate Change

Outlook and Overview

The EPA, in its *Climate Adaption Action Plan*, observed that:

[T]he Earth’s climate is warming and changing faster than at any point in the history of modern civilization, primarily because of emissions of heat-trapping greenhouse gases, or GHG, from fossil fuel combustion, deforestation, and land-use change.¹



The impacts of climate change on the environment, which may continue to occur over several decades or longer, include changes in temperature, precipitation, and wind patterns.² These effects have consequential impacts on human health through increased extreme weather events, such as prolonged heat waves and intensified storms, and diminished access to essential resources in the impacted area because of droughts and rising sea levels.

GHG are gases that trap heat in the Earth’s atmosphere. The EPA estimates that carbon dioxide accounted for 80 percent of U.S. GHG emissions in 2019, while methane accounted for 10 percent. The remaining GHG emissions were from nitrous oxide and fluorinated gases.

Atmospheric GHG levels have been increasing since the Industrial Revolution in the latter part of the 19th century; human-produced GHG levels increased by 45 percent from 1990 to 2019.³ GHG can exist in the atmosphere for a few to thousands of years.⁴ These gases act as a catalyst for climate change because they trap and prevent heat from escaping the Earth, accelerating climate change impacts as

GHG levels increase. The resulting net temperature increase causes changes to weather patterns, such as increased rainfall, temperatures, and severity and frequency of severe weather events. Climate change will affect areas in the United States differently depending on geographic location. Figure 1.1 shows the variation in average annual temperature change across the United States.

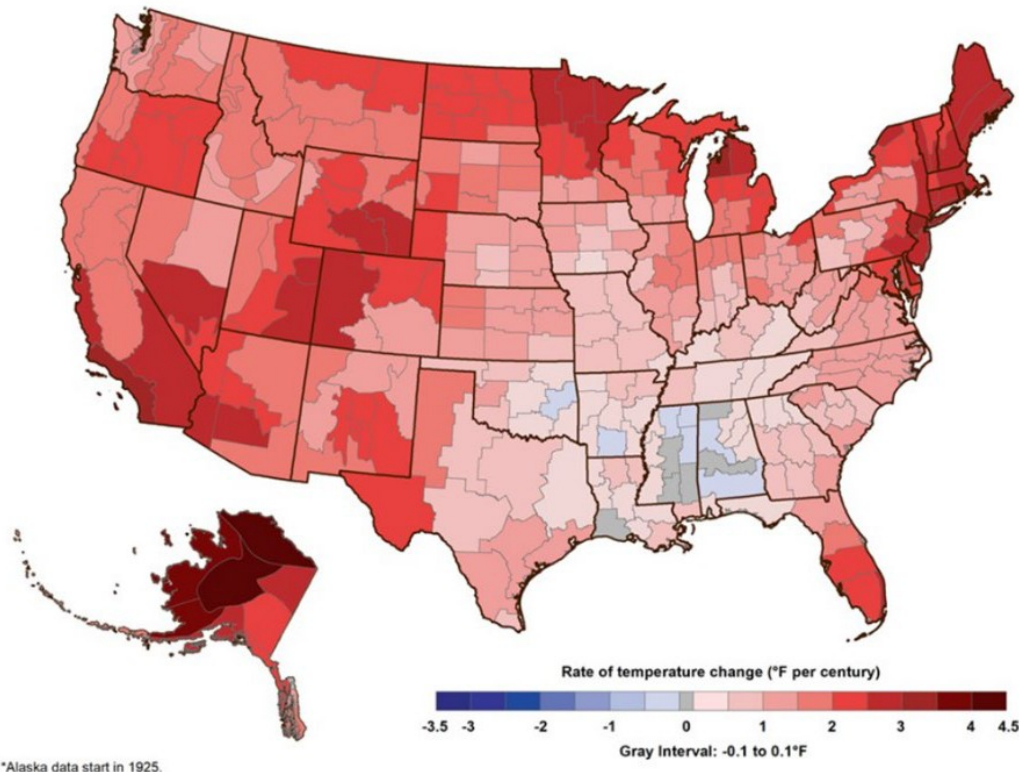
¹ EPA, *Climate Change Indicators: Greenhouse Gases*, last modified on July 14, 2021.

² EPA, *Climate Change: Frequently Asked Questions*, last assessed on November 1, 2021.

³ EPA, *Climate Change Indicators: Greenhouse Gases*, last modified on July 14, 2021.

⁴ EPA, *Overview of Greenhouse Gases*, last modified on October 12, 2021.

Figure 1.1: Annual average temperature change from 1901 to 2020 in different geographic areas of the United States



Source: EPA Climate Change Indicators [website](#). (EPA image)

Addressing climate change requires mitigation, adaptation, and resilience.

Mitigation refers to actions limiting the magnitude and rate of future climate change by reducing net GHG emissions.

Adaptation refers to the adjustment or preparation of natural or human systems to a new or changing environment which moderates harm or exploits beneficial opportunities.

Resilience refers to the capability to anticipate, prepare for, respond to, and recover from significant multi-hazard threats with minimum damage to social well-being, the economy, and the environment.

According to climate scientists, climate change has significant impacts on human health.⁵ Increasing temperature, more frequent heavy rains and runoff, and the effects of storms increases the risk of illness.⁶ Specific health impacts include heat-related deaths, asthma attacks, and other respiratory and cardiovascular health effects from worsening air quality, as well as water-related illnesses from contaminated water supplies.⁷

The importance of addressing climate change within the EPA has varied over the years. For example, the *FY 2014–2018 EPA Strategic Plan* included addressing climate change as one of the Agency’s main

⁵ Crimmins, Allison, *The Impacts of Climate Change on Human Health on the United States: A Scientific Assessment*, June 29, 2016.

⁶ National Institute of Environmental Health Sciences, *Climate Change and Human Health*, last modified on October 12, 2021.

⁷ EPA, *Climate Impacts on Human Health*, last modified on January 13, 2017.

goals,⁸ but the EPA’s FY 2018–2022 strategic plan did not include climate change as an Agency priority.⁹ In 2021, the EPA has placed a renewed focus on and reaffirmed its commitment to address climate change. For example, on October 1, 2021, the EPA released a draft strategic plan that put fighting climate change at the center of the Agency’s agenda. In addition, President Biden announced a goal of achieving net-zero greenhouse gas emissions by no later than 2050 and of limiting global warming to 1.5 degrees Celsius, following the recommendations of scientists. Further, the president requested \$1.8 billion in FY 2022 for an EPA priority budget area titled “Tackling the Climate Crisis Through Science.”

Between executive orders issued in 2021 and proposed budget increases, the EPA is being called upon to devote significant resources and leadership to strategically address climate change. The EPA is uniquely positioned to provide this leadership because climate change is a cross-cutting issue that implicates major EPA programs across air, water, and land. For example, climate change can worsen air quality through increased ground-level ozone, making it difficult for states to meet the health-based National Ambient Air Quality Standards and potentially cause increased morbidity and mortality from poor air quality.¹⁰ In addition, natural disasters resulting from climate change, such as flooding and storm surges, could threaten remedies taken at Superfund cleanup sites and lead to the release of contaminants. Increased flooding resulting from climate change could harm local drinking water supplies, leaving communities without safe drinking water.

Climate change threatens the EPA’s ability to meet its core mission to protect human health and the environment across multiple programs. If the EPA does not address climate change, more Americans could live in areas that fail to meet the National Ambient Air Quality Standards, be exposed to poor water quality or contaminant releases after natural disasters, or face illness or other health effects from weather events. Addressing climate change will take a whole-of-Agency approach that ensures that EPA programs, policies, rulemaking processes, enforcement and compliance assurance activities consider the current and future impacts of climate change.

EPA’s Role in Addressing Climate Change

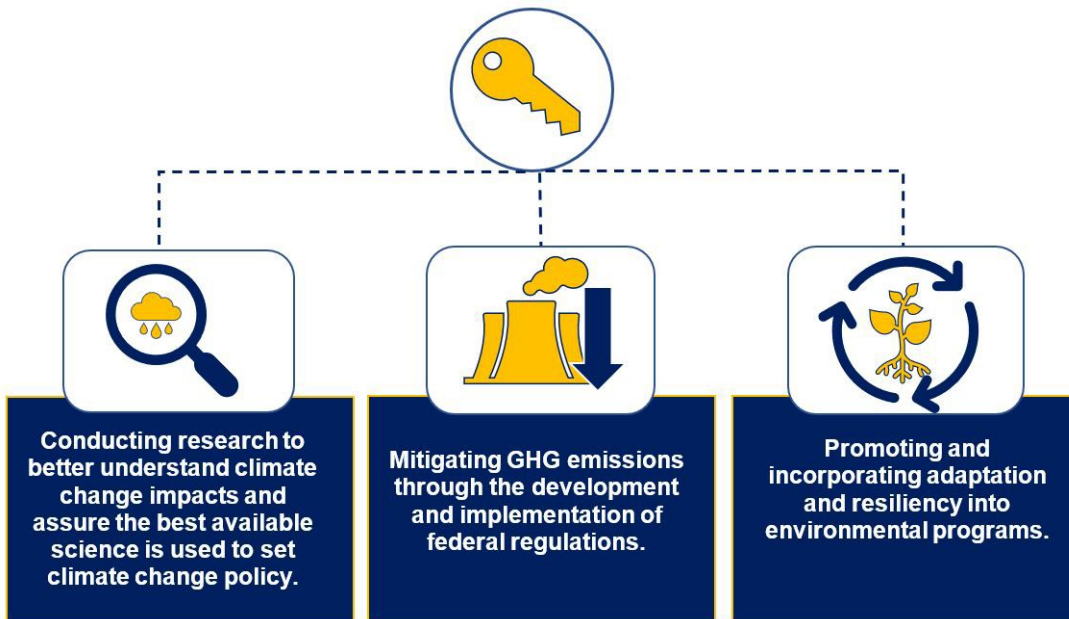
The EPA plays an important role within the federal government for addressing climate change as shown in Figure 1.2

⁸ EPA, *FY 2014-2018 EPA Strategic Plan*, April 2014.

⁹ EPA, *Working Together: FY 2018–2022 U.S. EPA Strategic Plan*, February 2018, last updated in September 2019.

¹⁰ EPA, *Air Quality and Climate Change Research*, last modified on July 29, 2021.

Figure 1.2: EPA’s key roles in the federal government for addressing climate change



Source: OIG analysis of EPA information. (EPA OIG image)

Conducting Research

The EPA conducts multiple research initiatives and programs related to climate change. According to the EPA’s climate change research website,¹¹ research is being conducted in air quality, ecosystems, energy production, human health, and wildland fires (Figure 1.3). In addition, the EPA is a member of larger cross-agency programs and initiatives, such as the U.S. Global Change Research Program, which is a federal program mandated by Congress to coordinate federal research and investments in understanding the forces shaping the global environment, and the Intergovernmental Panel on Climate Change, which is the United Nations body for assessing the science related to climate change.

In the *FY 2022 Budget in Brief*,¹² President Biden requested an additional \$60 million to fund climate change research in support of decision-

Figure 1.3: EPA is conducting climate change research in five areas



Source: EPA’s climate change research website. (EPA OIG image)

¹¹ EPA, *Climate Change Research*, last modified on July 2, 2021.

¹² EPA, *FY 2022 Budget in Brief*, May 2021.

making. This will give the EPA the resources to assess the impact of climate change in future regulatory decisions. The *FY 2022 Budget in Brief* states that the “EPA will ensure that policy is guided by the best science and is protected by processes that encourage integrity in the agency’s decision-making.”¹³ Consistent with this, the EPA’s FYs 2022–2026 draft strategic plan states that:

EPA will advance a rigorous exploratory and applied climate adaptation science program by conducting climate-related research in its labs and centers, supporting research through its grants program, conducting policy-relevant assessments, communicating research and assessment results, and delivering innovative and sustainable solutions.¹⁴

It is important that internal EPA research efforts are closely coordinated to avoid duplication and assure that priority research needs are met. It is also important that the EPA effectively communicate results.

Mitigating GHG Emissions

Legal challenges to EPA regulations and changes in administrations have affected the Agency’s ability to establish consistent rules related to GHG emissions. In April 2007, the U.S. Supreme Court ruled in *Massachusetts v. EPA* that the EPA has the authority to regulate GHG emissions from mobile sources under the Clean Air Act.¹⁵ The EPA’s efforts to implement such regulations—and, by extension, regulations for other GHG sources under the Clean Air Act—have been impacted. In 2015, the EPA’s *Clean Power Plan* contained regulations to limit carbon dioxide emissions from existing electricity-producing power plants.¹⁶ These power plants represent the largest industrial sector contributing to overall GHG emissions in the United States, accounting for nearly 25 percent of such emissions in 2019.¹⁷ The EPA replaced the *Clean Power Plan* with the Affordable Clean Energy rule on July 8, 2019.¹⁸ The U.S. Court of Appeals for the District of Columbia Circuit vacated the Affordable Clean Energy rule on January 19, 2021, and remanded it to the Agency for further proceedings consistent with the court’s opinion.¹⁹ As such, the EPA needs to develop and implement new regulations for existing power plants.

The regulatory vicissitudes contributed to the concomitant legal hurdles facing the Agency. During the same time period as the implementation of the Affordable Clean Energy rule, the EPA rolled back regulations to limit methane emissions from the oil and natural gas industry. In September 2020, the EPA issued a rule that removed limitations on methane emissions that were originally included in

¹³ Executive Order [13990](#), *Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis*, 86 Fed. Reg. 7037, January 20, 2021.

¹⁴ EPA, *FY 2018-2022 U.S. EPA Strategic Plan*, [EPA-190-R-18-003](#), February 2018, last updated in September 2019.

¹⁵ *Massachusetts v. EPA*, 549 U.S. 497 (2007).

¹⁶ *Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units; Final Rule*, 80 Fed. Reg. 64,662, October 23, 2015 (final rule).

¹⁷ EPA, *Sources of Greenhouse Gas Emissions*, last updated on July 27, 2021.

¹⁸ *Repeal of the Clean Power Plan; Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units; Revisions to Emission Guidelines Implementing Regulations*, 84 Fed. Reg. 32, 520, July 8, 2019 (final rule).

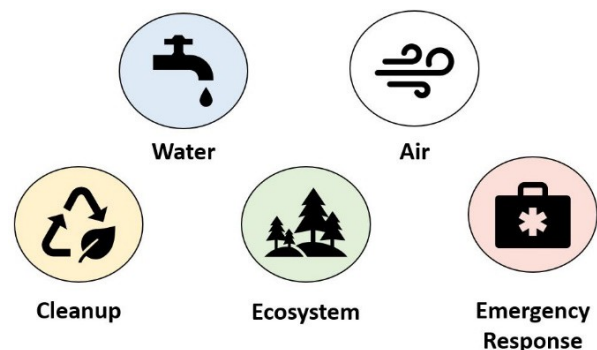
¹⁹ *American Lung Association v. EPA*, 985 F.3d 914 (D.C. Cir. 2021).

regulations issued in 2016.²⁰ In January 2021, President Biden issued Executive Order 13990, *Protecting Public Health and the Environment and Restoring Science To Tackle the Climate Crisis*, instructing federal agencies to “immediately review and, as appropriate and consistent with applicable law, take action to address the promulgation of Federal regulations and other actions during the last 4 years that conflict with” objectives laid out in the order, including reducing GHG emissions and bolstering resilience to the impacts of climate change.²¹ Executive Order 13990 specifically cited the September 2020 rule as one that the EPA should review by September 2021.²² The EPA will again need to undertake the laborious process of developing regulations to limit GHG emissions that will withstand legal and political challenges.

Promoting and Incorporating Adaptation and Resiliency into Environmental Programs

For the EPA to fully achieve its mission, the Agency needs to incorporate adaptation and resiliency across its programs and policies. In 2014, the EPA issued the *Climate Change Adaptation Plan*, whose purpose was to ensure that the Agency fulfilled its statutory, regulatory, and programmatic requirements while adapting to climate change.²³ This plan identified vulnerabilities to EPA air, water, ecosystem, cleanup, and emergency response programs (Figure 1.4), and presented priority actions for the Agency to take to integrate climate adaptation planning into its programs, policies, rules, and operations to help assure that they are effective in a changing climate. The plan, however,

Figure 1.4: Programs identified by EPA as being vulnerable to climate change



Source: EPA analysis of the 2014 Climate Change Adaptation Plan. (EPA OIG Image)

noted that metrics did not exist and need to be developed. The EPA has been tasked with updating this adaptation plan in accordance with Executive Order 14008, titled *Tackling the Climate Crisis at Home and Abroad*, issued on January 27, 2021.²⁴

The EPA offers funding opportunities, programs, and partnerships with stakeholders to make progress on climate adaptation. The Adaptation Resource Center website, launched in 2016, lists available EPA resources for state, local, and tribal authorities.²⁵ The website’s purpose is to empower all 40,000 U.S. communities to anticipate and react to climate change through accessible tools and training. For example, communities can find tools to assess water infrastructure vulnerability to climate change, learn how to enhance their community with “green” infrastructure, or take a training on how climate change will impact environmental and public health services.

²⁰ *Oil and Natural Gas Sector: Emission Standards for New, Reconstructed, and Modified Sources Review*, 85 Fed. Reg. 57,018, September 14, 2020 (final rule).

²¹ Executive Order 13990, 86 Fed. Reg. 7037, January 20, 2021.

²² The methane rule roll back was disapproved by Congress under the Congressional Review Act on June 30, 2021.

²³ EPA, *Climate Change Adaptation Plan*, June 2014.

²⁴ Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad*, 86 Fed. Reg. 7619, January 27, 2021.

²⁵ EPA, *Climate Change Adaptation Resource Center (ARC-X)*, last modified on August 26, 2021.

Many of these programs rely on the voluntary participation of communities. To have the most measurable outcomes, the EPA needs to run these programs effectively and efficiently. GAO reports issued in October 2019 and January 2020 recommended that the EPA increase technical assistance to water utilities to improve climate change resiliency and provide direction on how to integrate information on the potential impacts of climate change effects on risk assessments and risk-response decisions at Superfund sites.²⁶

In December 2020, the OIG reported that Hurricanes Irma and Maria in Puerto Rico and the U.S. Virgin Islands compromised the water quality and operations of water utilities due to lack of public outreach by the EPA, lack of rural water system infrastructure, and lack of local staff involvement in the planning stages of the water infrastructure projects.²⁷ The OIG recommended that the EPA improve the resilience of small water utilities and improve local response planning that incorporates local staff. GAO and OIG reports highlight the need for improved communication with external stakeholders. Since the EPA depends on these partnerships, improving communication will help ensure the success of these programs and achieve climate change goals.



Aboveground drinking water distribution pipe in rural Puerto Rico broken as a result of a hurricane. (EPA OIG Photo)

Impacts of Increasing Natural Disasters Due to Climate Change on EPA Programs and Operations

EPA programs, and state programs authorized by the EPA, regulate facilities and contaminated sites that contain hazardous substances that could be harmful to the public and the environment. The increased incidence of disasters due to climate change creates potential vulnerabilities at these facilities and sites that must be identified and addressed. For example, EPA-regulated facilities, such as chemical manufacturers, hazardous waste handlers, underground storage tanks, and contaminated sites, pose a risk of uncontrolled releases of harmful chemicals and contaminants due to increases in natural disaster incidents caused by climate change.

As shown in Figure 1.5, large-scale natural disaster events have increased in the United States since 1980. The National Oceanic and Atmospheric Administration published a report in July 2021 that documented the increased frequency of high-tide flooding, which is when water levels exceed about 1.75 feet above high tide.²⁸ High-tide flooding damages infrastructure and creates other economic impacts within coastal communities. In 2020, coastlines in the United States experienced high-tide

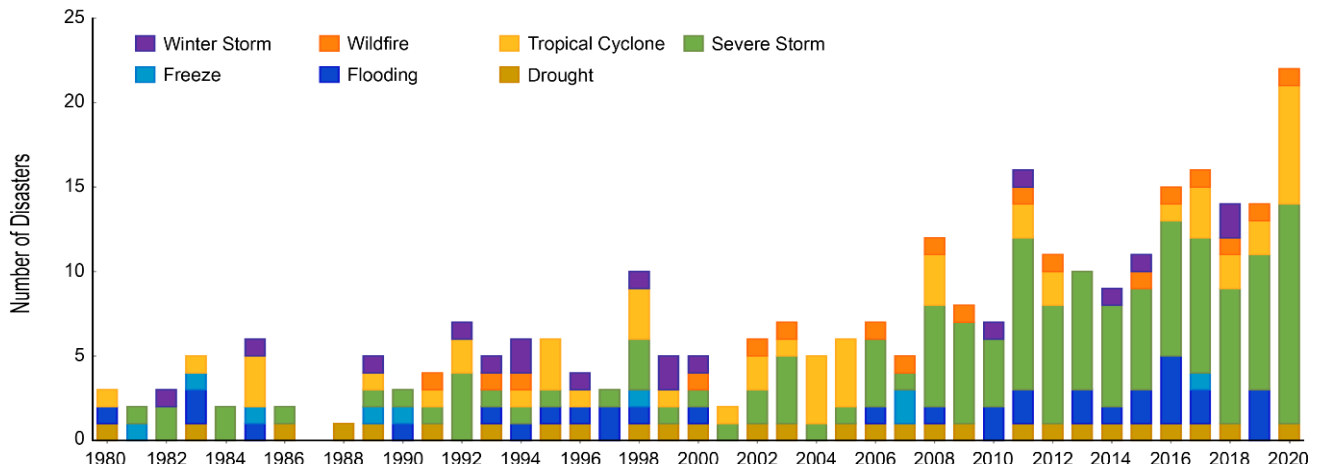
²⁶ GAO, *Water Infrastructure: Technical Assistance and Climate Resilience Planning Could Help Utilities Prepare for Potential Climate Change Impacts*, [GAO-20-24](#), January 2020; GAO, *Superfund: EPA Should Take Additional Actions to Manage Risks from Climate Change Effects*, [GAO-20-73](#), October 2019.

²⁷ OIG, *Region 2's Hurricanes Irma and Maria Response Efforts in Puerto Rico and U.S. Virgin Islands Show the Need for Improved Planning, Communications, and Assistance for Small Drinking Water Systems*, Report No. [21-P-0032](#), December 2020.

²⁸ National Oceanic and Atmospheric Administration, *2021 State of High Tide Flooding and Annual Outlook*, July 2021.

flooding at a rate double what it was in 2000, and high-tide flooding is likely to increase between five and 15 times without further adaptation measures. High-tide flooding and other natural disasters caused by climate change can pose risks of uncontrolled chemical releases at the thousands of facilities regulated by the EPA that store and process hazardous chemicals and waste.

Figure 1.5: U.S. billion-dollar disaster event type by year



Source: EPA Climate Change Indicators [website](#). (EPA image)

To address climate change impacts, remedial designs may need to be revisited at cleanup sites in vulnerable areas. For example, a 2019 GAO report examined the potential effects of flooding, storm surges, wildfires, and rising sea levels caused by climate change and found that about 60 percent of all nonfederal contaminated sites on the Superfund National Priorities List are located in areas impacted by climate change.²⁹ The EPA responded by issuing a memorandum on June 30, 2021, that describes approaches for EPA regions to consider when evaluating the vulnerability of the cleanup remedies at nonfederal sites listed in the Superfund National Priorities List and to evaluate adaptation measures that increase the system’s resilience to a changing climate.

Failure to identify potential climate change vulnerabilities at EPA-regulated facilities and to evaluate adaptation measures that increase facility resilience compromises the ability of the EPA and authorized state programs to effectively regulate major facilities to prevent uncontrolled releases of contaminants. If climate change impacts on vulnerable facilities are not addressed, the EPA’s ability to meet its core mission to protect human health and the environment will be threatened, impacting vulnerable and overburdened populations who reside near those facilities. Planning for increases in natural disasters and providing guidance for authorized state programs would help limit the risk of uncontrolled releases of contaminants.

²⁹ GAO, *Superfund: EPA Should Take Additional Actions to Manage Risks from Climate Change*, [GAO-20-73](#), October 2019.

Considerations for Disproportionally Impacted Communities

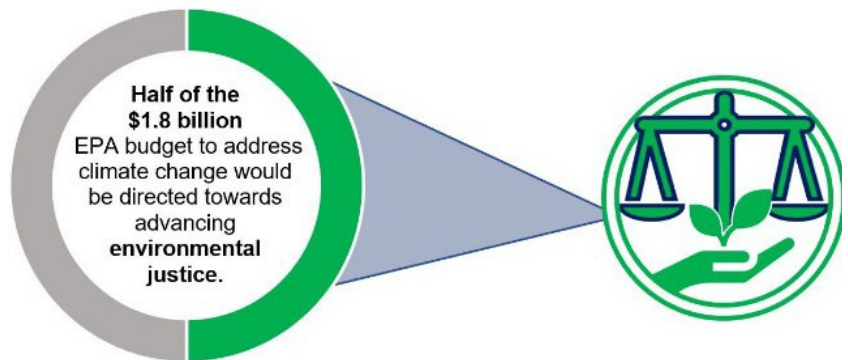
The *FY 2022 EPA Budget in Brief* describes climate change as a “public health and environmental justice crisis that is already impacting air and water quality, as well as posing increasing risks for the future.”³⁰ The EPA has stated that while all people are vulnerable to the impacts of climate change,³¹ some communities or groups are disproportionately affected by climate change and are less able than others to adapt to or recover from climate change impacts.³² These groups include people of color, low-income communities, immigrants, and people who are not fluent in English. The EPA identified multiple factors that can affect a person’s or community’s ability to prepare for, respond to, and cope with the impacts of climate change on health, including:

- Living in areas particularly vulnerable to climate change, like coastal communities.
- Coping with higher levels of existing health risks when compared to other groups.
- Living in low-income communities with limited access to health care services.
- Having high rates of uninsured individuals who have difficulty accessing quality health care.
- Having limited availability of information and resources in a person’s native language.
- Having difficulties to relocate or rebuild after a disaster.³³

In its *FY 2022 EPA Budget in Brief*, the EPA stated that half of the \$1.8 billion it was requesting to address climate change would be directed towards advancing environmental justice (Figure 1.6).³⁴ The EPA stated that:

[T]his investment recognizes that policies to tackle climate change must also clean up the legacy pollution that low-income communities and communities of color have suffered with for far too long.

Figure 1.6: EPA budget and climate change



Source: *FY 2022 EPA Budget in Brief*. (EPA OIG image)

Thus, the EPA needs to assure its efforts to address climate change consider the needs of disproportionately impacted communities.

³⁰ EPA, *FY 2022 EPA Budget in Brief*, EPA-190-R-21-003, May 2021.

³¹ EPA, *Climate Change, Public Health and Environmental Justice: Caring for Our Most Vulnerable Communities*, January 5, 2017.

³² EPA, *Climate Change, Health and Environmental Justice*, EPA 430-F-16-054, May 2016.

³³ EPA, *Climate Change, Health and Environmental Justice*, EPA 430-F-16-054, May 2016.

³⁴ EPA *FY 2022 EPA Budget in Brief*.

CHALLENGE 2: Integrating and Leading Environmental Justice Across the Agency and Government



Outlook and Overview

With the issuance of Executive Order 12898, *Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations*, by President Bill Clinton in 1994, the federal government recognized that minority and low-income populations are more likely to be adversely affected by pollution and more likely to reside near contaminated sites. To address the disproportionate burden placed on these populations, Executive Order 12898 commits federal agencies to make achieving environmental justice as part of their mission. The EPA is a leader among federal agencies in identifying and addressing disproportionately high and adverse human health or environmental effects of programs and policies on these populations. Despite the complexity and difficulty of the environmental hazards that face these communities today, the EPA’s environmental programs remain in media-specific (air/land/water/chemicals) silos, making it difficult to implement a consistent and effective environmental justice program across the Agency. The EPA needs to take a comprehensive approach to fully achieve its environmental justice goals across the Agency and reduce the disproportionate burdens on environmental justice communities across the United States.

Executive Order 12898 requires the EPA to integrate environmental justice principles into all its programs and across all regions to achieve environmental equity across all communities. Furthermore, in Executive Order 13985, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*, President Biden directed all federal agencies to embed equity into their programs and services to ensure the consistent and systematic fair, just, and impartial treatment of all individuals. However, until the EPA’s FYs 2022–2026 draft strategic plan, the EPA did not have adequate plans to address environmental justice challenges. For example, there was no mention of, or metrics on, achieving environmental justice in the *United States Environmental Protection Agency Fiscal Year 2020 Annual Performance Report*, Report No. [EPA-190-R-21-001](#). Furthermore, as illustrated in Table 2.1, the EPA had limited funds available to prioritize environmental justice.

Table 2.1: EPA’s proposed and enacted environmental justice budgets (in millions)

Fiscal Year	President's Budget	Enacted budget
2016	\$13.97	\$6.74
2017	\$0	\$6.72
2018	\$0	\$6.69
2019	\$2	\$6.74
2020	\$2.74	\$9.55*
2021	\$2.73	\$11.84
2022	\$293**	N/A

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

*Reflects estimated enacted budget.

**Significantly increased from prior years to create new environmental justice programs. Existing programs will also receive increased budgets to incorporate environmental justice into program work.

EPA Administrator Michael S. Regan, in an April 7, 2021 message to all Agency staff, said that:

Too many communities whose residents are predominantly of color, Indigenous, or low-income continue to suffer from disproportionately high pollution levels and the resulting adverse health and environmental impacts.

As a result, the EPA indicated that it would prioritize considerations of environmental justice into all EPA plans and actions. As part of this initiative, the president’s FY 2022 budget proposal includes an increase of \$282 million and an additional 172 full-time equivalents for the Agency’s environmental justice program. If enacted, this would be the most significant budgetary increase for the environmental justice program since 2016.

The FY 2022 budget proposal includes the following commitment to developing measures for environmental justice:

Specifically, the EPA is currently evaluating its suite of measures and indicators related to environmental justice, including available data and programs where improved data sets are needed, in order to identify and/or develop useful performance measures for environmental justice programs.

The increased budget request for FY 2022, however, does not clearly seek to achieve the Justice40 Initiative’s goals, which is a federal government initiative that includes delivering 40 percent of the overall benefits of relevant federal investments to disadvantaged communities. The budget proposal does include more than \$930 million in funding across Agency programs, including \$50 million in new grant funding and \$5.9 million to further EJSCREEN, the EPA’s environmental justice screening and mapping tool.



40 percent of Americans live with unhealthy levels of ozone or particle pollution. People of color are more likely to be breathing the most polluted air.

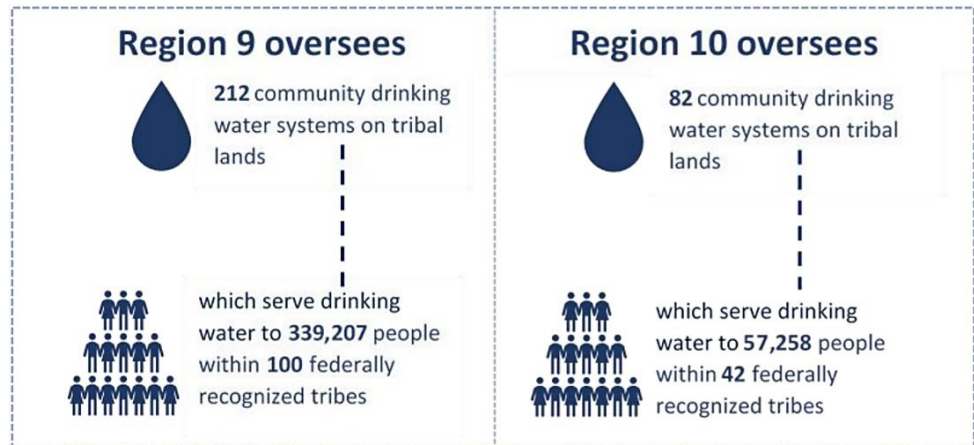
(EPA OIG image)

Congress allocated \$100 million to the EPA to address health outcome disparities from pollution and the coronavirus pandemic—that is, the SARS-CoV-2 virus and resultant COVID-19 disease, as part of the American Rescue Plan Act of 2021,

signed into law in March 2021. The EPA’s largest allocation of the American Rescue Plan Act — \$16.6 million—went toward environmental justice grants to help cities, states, tribes, and territories to fund education regarding the impact of pollution on the environment and public health, as well as training for jobs in the environmental sector. In announcing these grants, Administrator Regan highlighted that the COVID-19 pandemic magnified the daily injustices facing communities of color and low-income communities, the same communities that will likely suffer disproportionately from climate change. For example, in

Report No. [21-E-0254](#), *Pandemic Highlights Need for Additional Tribal Drinking Water Assistance and Oversight in EPA Regions 9 and 10*, issued September 27, 2021, we found that the coronavirus pandemic negatively impacted the oversight and assistance that Regions 9 and 10 provide to the tribal drinking water systems under their purview, as

Figure 2.1: Tribal drinking water systems in Regions 9 and 10.



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

well as the capacity of these systems to provide safe drinking water (Figure 2.1).

The pandemic also underscored the limitations of EPA resources, as well as of tribal drinking water system capacity and resiliency. According to the Harvard T.H. School of Public Health, people living in places with high amounts of pollution are more likely to die from COVID-19 than those living with less pollution.³⁵ These findings align with known connections between particulate matter 2.5 (micrometers or smaller) exposure and higher risk of death from cardiovascular and respiratory ailments.³⁶ Particulate matter is a regulated form of air pollution.

Given this expanded set of responsibilities and possible increase in funding, the Agency’s challenges include identifying the communities at risk, addressing the environmental hazards and cumulative risks

³⁵ EPA Administrator Michael Regan, *Remarks For Michigan EJ Conference, As Prepared for Delivery*, last updated on May 18, 2021.

³⁶ Administrator Regan’s remarks at Michigan’s environmental justice conference.

communities face, communicating effectively with these communities, and focusing disparate media programs on integrating environmental justice across the Agency. Environmental justice and civil rights activists have stressed that efforts to evaluate and regulate complex environmental hazards are hindered by the stovepiping of environmental statutes and EPA programs the statutes authorize into media-specific silos. Activists argue that these silos impair the Agency's ability to address broader enforcement and permitting issues. It is essential for the Agency to consider and endeavor to achieve a consistent and collaborative integration of environmental justice across the EPA.

In FY 2021, we identified environmental justice as a challenge to the Agency. Specifically, we found, that to effectively integrate environmental justice across EPA programs, the Agency should strengthen its federal leadership role; continue to build and employ an environmental justice strategic plan, measures, and grant outreach programs; ensure the development and implementation of a comprehensive, nationwide plan; and consider the impact of all activities on environmental justice communities in actions revoked and taken by the Agency.

Integrating environmental justice into Agency programs remains a challenge. However, based on our work in FY 2021, it is clear that the Agency should also focus its attention on (1) risk communication and (2) cumulative risk assessment, which is a process by which pollutants from across various exposure pathways and multiple pollution sources are assessed together to show the entirety of the exposure to at-risk communities.

Agency Initiatives

The EPA's work on achieving environmental justice has garnered significant attention from political, regulatory, and civil entities. This is because environmental justice is inherently tied to multiple other management challenges such as climate change, disaster response, infrastructure, and enforcement. In his April 2021 message to Agency staff, Administrator Andrew Wheeler focused on strengthening enforcement environmental statute violations and civil rights laws in communities overburdened by pollution.

In FYs 2020 and 2021, the OIG issued several reports on the challenges of administering and enforcing environmental statutes to protect overburdened populations. For example, in Report No. [21-P-0132](#), *Resource Constraints, Leadership Decisions, and Workforce Culture Led to a Decline in Federal Enforcement*, issued May 13, 2021, we found that EPA-led compliance monitoring activities, enforcement actions, monetary enforcement results, and environmental benefits generally declined from FYs 2007 through 2018 nationwide. The environmental and health hazards posed by regulated entities not in compliance with environmental statutes and regulations can disproportionately impact low-income, minority, tribal, and indigenous communities, who are collectively more likely to be burdened with high levels of environmental pollution and other adverse societal and economic conditions. Detecting and deterring environmental noncompliance is important to maintaining and advancing environmental justice.

In Report No. [21-P-0122](#), *Improved Review Processes Could Advance EPA Regions 3 and 5 Oversight of State-Issued National Pollutant Discharge Elimination System Permits*, issued April 21, 2021, we found that Region 5 repeatedly declined to make a formal determination under Clean Water Act § 401(a)(2) regarding whether discharges from the PolyMet NorthMet project may impact the quality of waters within the jurisdiction of the Fond du Lac Band of Lake Superior Chippewa, whose tribal lands are 125 miles downstream from the site of the



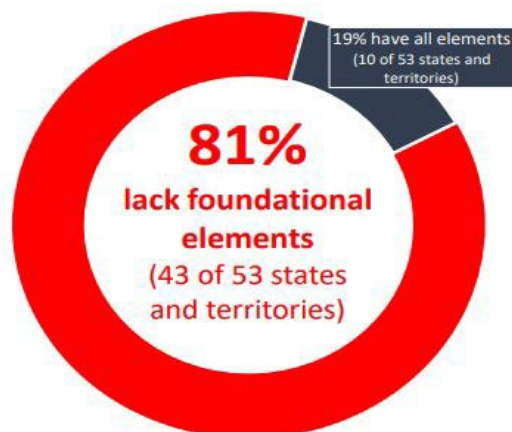
Wild rice lake in the Fond du Lac Band of the Lake Superior Chippewa Reservation. The Fond du Lac Band tribal lands are located along the St. Louis River in northeastern Minnesota, 125 miles downstream from a proposed mine and processing site. (EPA OIG photo)

PolyMet NorthMet project. The tribe was therefore unable to avail itself of the National Pollutant Discharge Elimination System permit objection process set forth in Clean Water Act § 401(a)(2).

In addition, the EPA did not meet the intent of its tribal and environmental justice policies, including its *Policy on Consultation and Coordination with Indian Tribes* and *Policy on Environmental Justice for Working with Federally Recognized Tribes and Indigenous Peoples*, which aim to ensure consultation, fair treatment, and meaningful involvement of tribes in EPA decisions affecting their health or environment.

The EPA has also faced challenges in administering and enforcing bedrock civil rights laws. In Report No. [20-E-0333](#), *Improved EPA Oversight of Funding Recipients' Title VI Programs Could Prevent Discrimination*, issued September 28, 2020, we found issues with how the EPA ensures compliance with Title VI of the Civil Rights Act of 1964 (Figure 2.2). Title VI requires federal agencies to ensure that any program or activity receiving federal financial assistance does not discriminate based on race, color, or national origin. The EPA allows the public to use the Title VI complaint process to report alleged discrimination by EPA funding recipients. Under this process, the EPA External Civil Rights Compliance Office has the authority to withdraw financial assistance to compel a recipient to comply with Title VI. We found that the EPA has not fully implemented an oversight system to provide reasonable assurance that organizations receiving EPA funding are properly implementing Title VI.

Figure 2.2: Review of state environmental agencies' websites



Source: OIG analysis of state agencies' websites. (EPA OIG image)

We recommended that the External Civil Rights Compliance Office develop and implement a plan to address permitting and cumulative impacts as they relate to Title VI, complete systematic compliance reviews to determine full compliance with Title VI, verify that funding recipients are addressing Title VI noncompliance before issuance of funding, use data to identify and target funding recipients for reviews, and train EPA staff on their respective Title VI roles and responsibilities.

The EPA has proposed to create a new national environmental justice program office, led by a Senate-confirmed assistant administrator, to coordinate and maximize the benefits of the Agency's programs. The current Office of Environmental Justice, a 26-person policy-focused office, is working with White House components, such as the Council on Environmental Quality and Domestic Policy Council, on implementing President Biden's environmental justice goals. The Office of Environmental Justice is working on a "more consistent base of information, tools, and resources" for all EPA programs, which have been tasked by Administrator Regan to include environmental justice in their daily work. The EPA has about 80 employees working on some aspect of environmental justice.



Approximately 10 million U.S. homes have lead service lines.

(EPA OIG image)

Environmental justice is driving action in every program office in the Agency.³⁷ Drinking water concerns are on the forefront of the EPA's environmental justice program. The Biden administration's infrastructure plan, released on March 31, 2021,

calls for replacing all lead drinking water pipes throughout the United States to avoid lead contamination in drinking water. According to EPA, as many as 10 million homes in the United States have lead service lines.³⁸

The EPA also plans to address air quality issues in environmental justice communities. The Agency's Office of Air Quality Planning and Standards is developing a new air toxics strategy that will incorporate a new structure for the air toxics program with a renewed focus on environmental justice. While there have been reductions in air toxics emissions nationally, many air toxics issues are localized and may disproportionately affect communities of color, low-income communities, and indigenous communities.

In addressing Superfund cleanups, a July 1, 2021 memorandum from the acting assistant administrator of Enforcement and Compliance Assurance directed EPA regions to address opportunities for preventative or interim relief in overburdened communities to address acute threats and negotiate more comprehensive cleanup settlements.³⁹ The memorandum authorized the EPA to proactively address potential releases of contaminants, prioritize early enforcement efforts on units and facilities

³⁷ EPA, "EPA Administrator Announces Agency Actions to Advance Environmental Justice," [News Release](#), April 7, 2021.

³⁸ EPA, [Lead Service Line Replacement](#), last modified on September 24, 2020.

³⁹ Acting Assistant Administrator Larry Starfield, [Memorandum Regarding Strengthening Environmental Justice Through Cleanup Enforcement Actions](#), July 1, 2021.

that most impact environmental justice communities, and promote the issuance of orders for interim relief in conjunction with more comprehensive cleanup.

Changes are also occurring in the Office of Enforcement and Compliance Assurance, or OECA, and the Office of General Counsel. OECA issued a memorandum on June 21, 2021, that elevates environmental justice in the criminal enforcement of environmental laws. It states that:

The criminal enforcement program can further environmental justice by strengthening tools for the detection of environmental crimes in overburdened communities, improving outreach to the victims of such crimes, and ensuring that our investigations are structured to provide maximum assistance to the Department of Justice (DOJ) in its exercise of prosecutorial discretion and pursuit of remedies that will guarantee adequate protection for those communities.

OECA aims to boost inspections and enforcement in “equity areas,” as well as increase engagement with environmental justice communities. The EPA is also shifting toward a proactive system of civil rights compliance by states and other recipients of federal funds, including (1) equipping staff with resources and training and (2) establishing metrics on improved environmental and public health outcomes within environmental justice communities, including identifying and reducing disparities. This proactive system requires substantive collaboration between the Office of General Counsel and environmental justice programs in addressing priorities and concerns in overburdened and vulnerable communities that arise through civil rights investigations or environmental justice program engagement. This collaboration should result in impactful resolutions and provide increased transparency to the EPA’s civil rights work.

Risk Communication

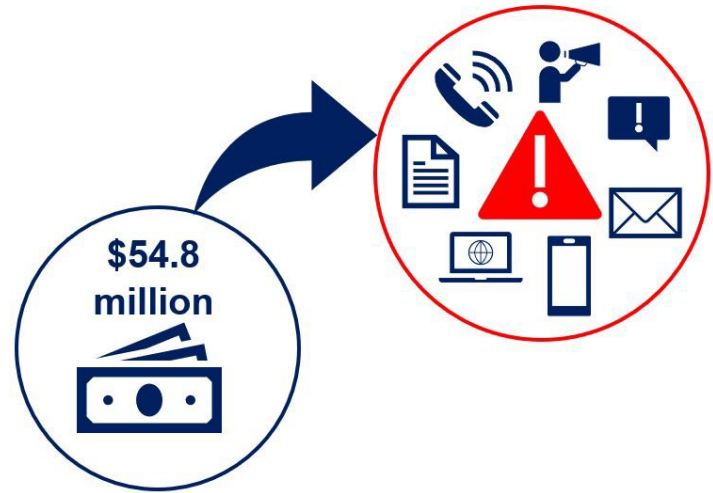
Communicating risk to communities; individuals; businesses; the media; and state, local, and tribal partners is an important aspect of the EPA’s mission. This is because communicating risk allows individuals and communities to make informed decisions about risks to their health, safety, and environment. Risks are not always perceived the same by affected populations as they are by risk experts; risk communication seeks to bridge those information gaps.⁴⁰ Risk communication can be difficult to implement effectively when information exchange between laypersons and experts does not consider differing risk perceptions among individuals. Risk perception, which describes how people identify and measure risk based on information they have about that risk, does not always match calculated risk or *real* risk. For example, an individual living in a major evacuation zone may not evacuate during a hurricane, despite officials warning them to do so, if they have experience with hurricanes and do not feel they are in danger. The disconnect between risk perceptions and *real* risk can also occur due to knowledge about a risk; cultural, social, and ethnic contexts; biases from media and other information sources; and previous experience. The key influencing factor for both risk

⁴⁰ Sansom, Garrett T., Aarvig, Kathleen, Sansom, Lindsay, Thompson, Courtney, Fawkes, Leanne, Katara, Anjali, “Understanding Risk Communication and Willingness to Follow Emergency Recommendations Following Anthropogenic Disasters,” *Environmental Justice*, April 2021, Vol. 14 No. 2, p. 159-167.

perception and risk communication is information. When, how, and from whom people obtain information all critically influence how people perceive risks and empower them to make decisions.

We have reported on many instances of inconsistent, ineffective, or untimely risk communication across EPA programs, including in some environmental justice communities. For example, in FYs 2020-2021, we issued several reports related to ethylene oxide. In Report No. [21-P-0129](#), *EPA Should Conduct New Residual Risk and Technology Reviews for Chloroprene- and Ethylene Oxide-Emitting Source Categories to Protect Human Health*, issued May 6, 2021, we found that minority and low-income populations are disproportionately impacted by the hazardous air pollutants chloroprene and ethylene oxide. To better communicate risk to these communities, we recommended that the EPA conduct regulatory reviews using newly developed risk values to achieve environmental justice in communities near facilities that emit these pollutants.

Figure 2.3: EPA requested \$54.8 million to strengthen its risk communication



Source: FY 2022 EPA budget request. (EPA OIG graphic)

In Report No. [20-N-0128](#), *Management Alert: Prompt Action Needed to Inform Residents Living Near Ethylene Oxide-Emitting Facilities About Health Concerns and Actions to Address Those Concerns*, issued on March 31, 2020, we recommended that the EPA provide communities living near 25 high-priority ethylene oxide-emitting facilities identified by the Agency with a forum for an interactive exchange of information. In Report No. [21-P-0123](#), *EPA Delayed Risk Communication and Issued Instructions Hindering Region 5's Ability to Address Ethylene Oxide Emissions*, issued on April 15, 2021, we recommended that the EPA develop a standard operating procedure for communicating preliminary air toxics risk information to the public. Both recommendations remain unresolved.

In cases like those reported in our chloroprene and ethylene oxide reports, communities may not know of their prolonged exposure to harmful contaminants. In FY 2022, the Agency requested \$54.8 million to strengthen the EPA's ability to carry out effective and consistent risk communication and position the Agency to meet future risk communication challenges. Risk communication will also focus on the current administration's priorities of environmental justice and climate change. Addressing these issues and meeting the challenges of the future will require the EPA to, among many other activities, establish strategic goals or objectives directly addressing risk communication and define and implement timely, current, accurate, and accessible risk communication information to successfully achieve its mission, especially for communities facing disproportionate health effects from the exposures to harmful contaminants.

Cumulative Risk

According to the EPA's *Framework for Cumulative Risk Assessment*:

Several reports have highlighted the importance of understanding the accumulation of risks from multiple environmental stressors. Among these reports are the National Research Council's 1994 *Science and Judgment in Risk Assessment* and the 1997 report by the Presidential/Congressional Commission on Risk Assessment and Risk Management, *Risk Assessment and Risk Management in Regulatory Decision-Making*.

The framework aims at being the first step in a long-term effort to develop cumulative risk assessment guidelines. Although there is no specific budget for cumulative risks specifically, it is a component of many EPA programs. For example, the proposed FY 2022 budget includes \$342.9 million for grants to support state, local, and tribal air quality management programs, which support low-income and marginalized communities that are and have been overburdened with disproportionate environmental or public health risks resulting from exposure to pollution.

The proposed FY 2022 budget also provides additional resources to build Agency capacity in managing chemical safety and toxic substances. This work is particularly important to protect vulnerable populations, including low-income, minority, and indigenous populations, as well as children who may be disproportionately affected by, and particularly at risk from, chemical exposure. The proposed FY 2022 budget provides approximately \$1.53 billion to the Hazardous Substance Superfund; virtually all of the programs funded by the Superfund, including the research, enforcement, emergency response, and cleanup programs, stipulate some work for environmental justice and equity to address overburdened communities (Figure 2.4).

Figure 2.4: EPA's proposed FY 2022 budget



Source: EPA's proposed FY 2022 budget. (EPA OIG image)

At a July 2021 meeting of the Environmental Council of the States, Administrator Regan said he is working to bolster the EPA's authority to address the cumulative impacts of pollution releases, including determining whether and how the Agency can interpret regulations "in a different way" and having "conversations with the House and Senate about potential legislative changes we need to see to give us clear authority to evaluate cumulative impacts."

Addressing cumulative impacts from multiple pollution sources can be complicated—legally and scientifically. It is, however, key to protecting environmental justice communities, which can be exposed to a host of chemicals and pollutants from a range of different sources, such as commercial, industrial, or agricultural facilities; road traffic; and transportation hubs. Those sources often overlap with the adverse effects of poverty and other social and economic factors—such as limited health care access, poor-quality schools, violence, and substandard housing—leading to a complex challenge for regulators tasked with protecting residents of those communities from environmental and other harms.

Environmental justice communities want to see the EPA realign its permitting and enforcement in a way that provides guidance and tools for taking cumulative impacts and risks into account, even if they cannot be precisely measured. There is no precise threshold to determine when a community is overburdened. This means that it is often easier for a community that has seven facilities to get an eighth facility approved than for a community that has no existing facilities to get one approved. In 2004, the EPA’s National Environmental Justice Advisory Committee noted that:

The issue of cumulative risks ... is a unifying one, because it is a vehicle through which the impressive array of tools now available to ensure pollution prevention and risk reduction can be brought together and applied in new, innovative, and more effective ways.⁴¹

⁴¹ National Environmental Justice Advisory Council, *Ensuring Risk Reduction in Communities with Multiple Stressors: Environmental Justice and Cumulative Risks/Impacts*, December 2004.

CHALLENGE 3: Ensuring the Safe Use of Chemicals



Outlook and Overview

The EPA’s ability to effectively implement its mission of protecting human health and the environment depends on credible and timely assessments of the risks posed by pesticides, toxic chemicals, and other environmental chemical risks. The 2016 expansion of the EPA’s responsibilities under the TSCA has significantly increased the need for rapid and accurate risk assessments. The EPA’s ongoing work to register and reregister pesticides and the requirement to set appropriate exposure levels for contaminants in drinking water continue to rely on the Agency’s ability to accurately assess chemical exposure risk. Without the ability to accurately conduct scientifically sound risk assessments, the Agency’s actions, or inaction, in this area may erode public trust and confidence in the EPA’s ability to protect human health—including our food supply—and the environment from current and emerging chemical risks.

Although identified in this report as a top Agency management challenge for the first time, ensuring the safe use of chemicals is a not a new area of concern for the EPA. The GAO’s High-Risk Series identifies government operations that are vulnerable to fraud, waste, abuse, and mismanagement or that need transformation to address economical, efficiency, or effectiveness challenges. One of the GAO’s 36 high-risk programs is *Transforming the Environmental Protection Agency’s (EPA) Process for Assessing and Controlling Toxic Chemicals*. Since 2009, the GAO has continuously stated that the EPA’s process of assessing and controlling toxic chemicals needs improvement. Furthermore, since 2008, the GAO has issued seven reports on the topic.

The GAO has noted that the EPA’s performance in assessing and controlling toxic chemicals has regressed since 2019. It states that:

EPA’s ability to effectively implement its mission of protecting public health and the environment depends on credible and timely assessments of the risks posed by toxic chemicals.

On June 29, 2021, the GAO identified seven priority recommendations that would enhance the EPA’s ability to ensure chemical safety under the TSCA and improve toxic chemical assessments for the Integrated Risk Information System, also known as the IRIS Program, which is under the Office of Research and Development.

The scope of this management challenge applies to all risk assessments used by all EPA programs, except for the EPA’s regulation of air toxics or activities assessing the risk from the EPA’s criteria air pollutants. The EPA uses chemical risk assessments to characterize the nature and magnitude of health risks to humans and ecological receptors from chemical contaminants and other stressors that may be present in the environment. The quality and quantity of human health and ecological risk assessments

generated by the Agency are used in key EPA decisions, such as issuing health advisories for drinking water, determining cleanup levels for hazardous waste sites, and assessing risks from new pesticides. The OIG has an extensive body of work addressing EPA programs that are in place to ensure the safe use of chemicals. In FY 2021, we completed projects related to chemical safety that identified deviations from required processes, undue influence, and poor documentation.

Out-of-Date Chemical Risk Assessments

The OIG has identified that many EPA chemical toxicity assessments or drinking water health advisories need to be updated or verified with current toxicity data and through the use of current scientific risk assessment procedures. The OIG specifically focused on two EPA programs: the IRIS Program and the Health Advisories Program.

IRIS Program

The EPA created the IRIS Program in 1985 to help develop consensus opinions within the Agency about the human health effects from chronic exposure to chemicals. The IRIS Program prepares toxicity assessments that contain the EPA's scientific position on a chemical's potential effects on human health. The IRIS Program is the primary basis that the EPA uses to conduct risk assessments of chemicals, and the timeliness and credibility of those assessments are key to the EPA meeting its statutory mandates. The IRIS Program is the only federal program that provides qualitative and quantitative assessments of both the cancer risks and the noncancer effects of chemicals. The IRIS is used by EPA programs and regional offices to set national standards and clean up hazardous sites.

The EPA established the IRIS Update Project on October 21, 2009,⁴² to revisit existing IRIS assessment toxicity values and their supporting information that were more than ten years old with new and relevant scientific information on health effects. As of June 11, 2021, the IRIS database contained 562 completed toxicity assessments. The IRIS database contained 571 toxicity assessment entries, but only 562 toxicity assessments have toxicity values. The other nine IRIS toxicity assessment entries are either suspended, discontinued, or pending completion.

The OIG found that 542, or 96.4 percent, of the IRIS toxicity assessments are greater than ten years old. We also found that 477, or 85 percent, of the IRIS toxicity assessments were greater than 20 years old. This highlights the extent to which IRIS toxicity assessments need to be updated to verify that the published toxicity values remain scientifically appropriate and adequately supported.

In 2011, a National Academy of Sciences committee reviewed the EPA's draft IRIS toxicity assessment for formaldehyde and was highly critical of the clarity and transparency of the EPA's scientific methodology.⁴³ The committee identified that the same recurring "methodologic problems" had been

⁴² *Integrated Risk Information System (IRIS) Update Project; Announcement of 2009/2010 Agenda*, 74 Fed. Reg. 54,040, October 21, 2009.

⁴³ National Research Council of the National Academies, *Review of EPA's Draft IRIS Assessment of Formaldehyde* (Washington, D.C.: National Academies Press, 2011).

occurring with the EPA's IRIS toxicity assessments prior to 2011. Congress directed the EPA to implement the recommendations in the National Academy of Sciences' 2011 report.⁴⁴ In a subsequent review of IRIS in 2014,⁴⁵ the National Academy of Sciences found that the EPA had implemented substantial improvements in the IRIS risk assessments based on the 2011 recommendations. Furthermore, the National Academy of Sciences committee expected that the EPA's implementation of the recommendations would result in transforming the IRIS Program. Since 2011, the IRIS program has been working to improve its toxicity assessment procedures.

These pre-2011 IRIS risk assessments need to be reviewed and scientifically verified using current toxicity study data and risk assessment procedures to assess whether they remain protective of human health.

Drinking Water Health Advisories

The EPA's Health Advisory Program, which is under the Office of Water, publishes the acceptable exposure levels for contaminants in drinking water. Without accurate and timely risk assessments and exposure determinations, the EPA will be unable to address both the current and emerging human health risks to drinking water. The EPA's drinking water health advisories, which are developed under the Health Advisory Program, provide informal technical guidance concerning unregulated drinking water contaminants to help federal, state, and local officials and managers of public or community water systems protect human health. The OIG reviewed the EPA's drinking water health advisories and found that at least 160 of the EPA's 212 health advisories were issued prior to 2000 and at least 107 were issued prior to 1990.⁴⁶ The age of these health advisories adds uncertainty as to whether they are still protective of human health.

Timely Chemical Risk Assessments

The EPA's performance in generating timely chemical risk assessments needs improvement.⁴⁷ The OIG identified the EPA's poor production in assessing the risk from toxic chemicals in three EPA programs: the IRIS Program; the Endocrine Disruptor Screening Program or EDSP; and the Health Advisory Program.

IRIS Program

The EPA's production of IRIS toxicity assessments has fallen dramatically since 2011. Only 20 of the 562 completed toxicity assessments were issued from 2011 through 2020. During this time, the EPA issued, on average, two IRIS toxicity assessments per year. In the first 35 years of the IRIS Program—from 1985

⁴⁴ The House Report (112-151) that accompanied the Consolidated Appropriations Act, 2012, Pub. L. 112-74, December 23, 2011.

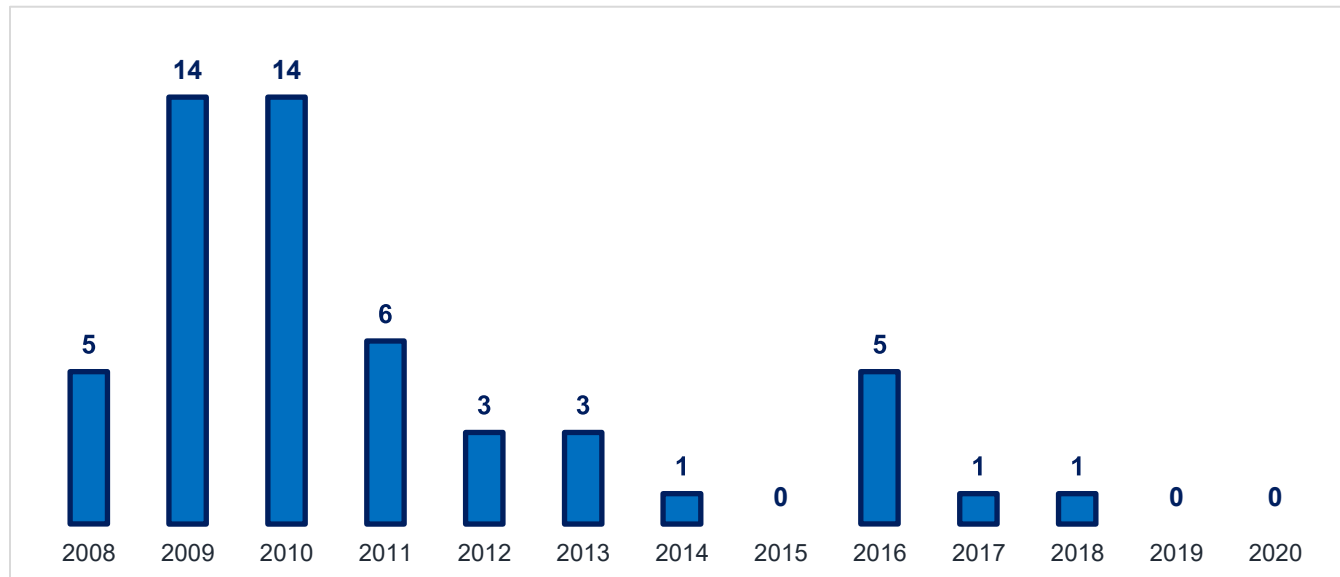
⁴⁵ National Research Council, *Review of EPA's Integrated Risk Information System (IRIS) Process (2014)*, (Washington, D.C.: The National Academies, 2014).

⁴⁶ EPA, *2018 Edition of the Drinking Water Standards and Health Advisories Tables*, [EPA 822-F-18-001](#), March 2018.

⁴⁷ The term "chemical risk assessments" is used in this document to include health advisories, risk evaluations, and toxicity assessments.

through 2020—the EPA issued 542 IRIS toxicity assessments for an average of over 20 IRIS toxicity assessments per year. Figure 3.1 shows the number of IRIS toxicity assessments issued by the EPA each year from 2008 through 2020.

Figure 3.1: Number of IRIS toxicity assessments issued by EPA from 2008 through 2020



Source: OIG analysis of EPA information. (EPA OIG image)

The EPA’s completion of several IRIS risk assessments has been delayed. The IRIS Program began updating the IRIS toxicity values for formaldehyde and inorganic arsenic in 1997 and 2003. The IRIS Program began the initial toxicity assessment of ethyl tertiary-butyl ether in 2004. Table 3.1 summarizes the EPA’s performance in conducting the IRIS risk assessments for these chemicals.

Table 3.1: Examples of IRIS risk assessments pending for decades

Chemical	IRIS risk assessment type	Year started	Year completed	Years the IRIS risk assessment has been in progress
Formaldehyde	Update	1997	Still in development	24
Inorganic arsenic	Update	2003	Still in development	18
Ethyl tertiary-butyl ether	Initial	2004	2021	17

Source: OIG analysis of EPA and GAO information. (EPA OIG table)

EDSP

With the passage of the Food Quality Protection Act in 1996, Congress tasked the EPA to test all pesticide chemicals for endocrine-disruption activity. Endocrine disruptors are chemicals that mimic, block, or otherwise disrupt the normal function of hormone systems, such as estrogen, testosterone, or thyroid hormones.

The EPA created the EDSP in 1998 to:

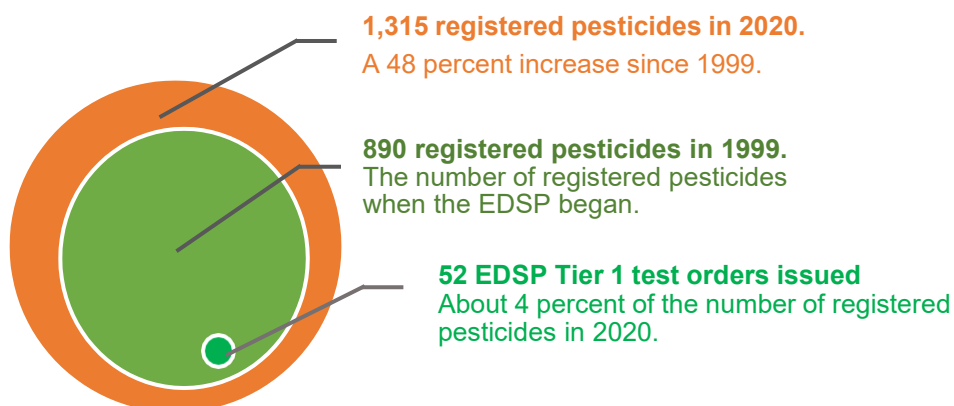
- Evaluate both human and ecological effects of endocrine disruptors.
- Test for disruption of the estrogen, androgen, and thyroid hormone systems.
- Evaluate both pesticide and nonpesticide chemicals.
- Implement a two-tiered testing strategy.

In 2021, we evaluated the EPA's progress in implementing Section 408(p)(3)(A) of the Federal Food, Drug, and Cosmetic Act, which requires the EPA to test all pesticide chemicals for human endocrine-disruption activity. Our findings and recommendations are in [OIG Report No. 21-E-0186](#), *EPA's Endocrine Disruptor Screening Program Has Made Limited Progress in Assessing Pesticides*, issued July 28, 2021.

We found that the EPA has not made meaningful progress in complying with the statutory requirement to test all pesticides for endocrine-disrupter activity. Since the EDSP was established in 1998, it only tested 52 of the estimated 10,000 chemicals that need to be screened for endocrine-disruptor activity. The EDSP has determined that 34 of these estimated 10,000 chemicals are not endocrine disruptors. The EDSP started the process of chemical testing with the issuance of the draft List 1 chemicals on June 18, 2007. The EDSP is scheduled to complete testing of all EDSP List 1 chemicals by September 30, 2024. Without timely and effective EDSP testing, the EPA cannot adequately characterize or assess whether pesticides chemicals or other substances pose an endocrine-disruptor risk to estrogen, androgen, and thyroid hormone systems.

The OIG found that the Office of Chemical Safety and Pollution Prevention's pace of testing pesticides for endocrine-disruption activity is insufficient to keep up with the growth in pesticide registrations. Since the EDSP was established, the number of active pesticide registrations has increased at a much faster pace than the number of pesticide tests conducted by the EPA. Figure 3.2 depicts the increase in the number of pesticide registrations from 1999 through 2020 and the number of EDSP Tier 1 test orders issued by the EPA in that time frame.

Figure 3.2: Approximate number of registered pesticides in 1999 and 2020 versus EDSP Tier 1 test orders



Source: OIG analysis of EPA information. (EPA OIG image)

As a result, the EPA has been and will continue to issue registrations for new pesticides without obtaining specific information on the pesticides' potential endocrine-disruptor activity.

Drinking Water Health Advisories

The EPA issued 13 health advisories on chemicals from 1998 through 2018—eight regarding organic chemicals and five regarding inorganic chemicals.⁴⁸ The March 2018 Drinking Water Standards and Health Advisories tables provide risk information on 212 chemicals,⁴⁹ of which 175 are organic contaminants and the 37 are inorganic contaminants.

Health advisories are important to assess the health risk posed by specific per- and polyfluoroalkyl substances, or PFAS, found to be contaminating the environment. Although the EPA issued health advisories for both perfluorooctanesulfonic acid and perfluorooctanoic acid in May 2016, these two discontinued PFASs account for only a small fraction of the PFASs present in the environment. Chemical manufacturers have made over 4,000 PFASs and hundreds of these fluorinated chemicals have been detected in environmental samples. The EPA issued drinking water analytical Methods 533 and 537.1, which are PFAS evaluation methods, in December 2019 and November 2018, respectively. Together, they measure 29 unique PFAS in drinking water.⁵⁰ However, the EPA has issued health advisories for only perfluorooctanesulfonic acid and perfluorooctanoic acid and not for any of the other 27 PFASs found in drinking water. Although there is a critical need to have health advisories for these 27 PFASs, the EPA has not issued any health advisories since 2016.

⁴⁸ The eight organic chemicals are Bentazon, 2,4-Dinitrotoluene, 2,6-Dinitrotoluene, DCPA, perfluorooctanoic acid, perfluorooctanesulfonic acid, Oxamyl, and 1,1,2,2-Tetrachloroethane. The five inorganic chemicals are Bromate, Chlorine Dioxide, Chlorite, Manganese, and Perchlorate.

⁴⁹ EPA, *2018 Edition of the Drinking Water Standards and Health Advisories Tables*, EPA [822-F-18-001](#), March 2018.

⁵⁰ EPA, *EPA Analytical Methods for PFAS in Drinking Water*, EPA [815-B-19-021](#), December 2019.

Capacity to Conduct Chemical Risk Evaluations

The success of the Agency's implementation of the 2016 TSCA amendments depends upon its capacity to conduct and complete timely risk assessments. On June 22, 2016, the Frank R. Lautenberg Chemical Safety for the 21st Century Act was signed into law, amending the TSCA. Under TSCA section 6(b)(2)(A), Congress required the EPA to conduct the first set of ten chemical risk evaluations on existing chemicals within 180 days of enactment, or by December 19, 2016. Under TSCA section 6(b)(2)(B), Congress tasked the EPA to conduct at least 20 self-initiated risk evaluations on "high-priority" substances by December 2019. Under TSCA section 6(b)(4)(E)(i), the EPA must also conduct manufacturer-requested risk evaluations for between 25 to 50 percent of EPA-initiated risk evaluations, if the EPA receives a sufficient number of manufacturer requests. Therefore, to comply with the law, by December 2019, the EPA must have had the capacity to perform at least 25 TSCA risk evaluations simultaneously—20 self-initiated risk evaluations and five manufacturer-requested risk evaluations. Pursuant to TSCA section 6(b)(4)(G), once the EPA initiates a risk evaluation, it must be completed within three years. The administrator may extend this deadline by no more than six months, which was done for the initial ten existing chemical risk evaluations.

From May 2019 through June 2020, we evaluated whether the EPA met applicable deadlines imposed under 2016 TSCA amendments, and whether the Office of Pollution Prevention and Toxics, or OPPT, which is under the Office of Chemical Safety and Pollution Prevention, had staff, resources, and management controls in place to meet future statutory deadlines. The EPA is required to meet the workforce planning requirements of 5 C.F.R. Part 250, Subpart B, *Strategic Human Capital Management*. On August 17, 2020, we issued our findings and recommendations in Report No. [20-P-0247](#), *Lack of Planning Risks EPA's Ability to Meet Toxic Substances Control Act Deadlines*.

We found that the OPPT's Risk Assessment Division did not have enough internal capacity to timely conduct the first set of ten TSCA risk evaluations. The OPPT pulled up to 19 full-time equivalents outside its Risk Assessment Division to help it conduct the TSCA risk evaluations. Specifically, two full-time equivalents were pulled from the Pollution Prevention program and three were pulled from the Safer Choice program. Furthermore, the EPA reassigned 28 ORD IRIS staff to support the OPPT's risk evaluations between 25 percent to 50 percent of their time. Even with the additional personnel, the OPPT did not meet the 3.5-year deadline to complete the first set of ten chemical risk evaluations. Therefore, the EPA did not have sufficient capacity to complete the first set of ten TSCA risk evaluations within the three-year statutory time frame.

The EPA's TSCA risk evaluation capacity needs to dramatically increase to meet the statutory risk evaluation requirements of the 2016 TSCA amendments. In December 2019, the EPA started conducting the next set of 20 self-initiated TSCA risk evaluations on existing chemicals and continued working on four manufacturer-requested TSCA risk evaluations. As a result, the EPA is concurrently working on at least 24 TSCA risk evaluations. Therefore, in order for the EPA to have enough capacity to conduct 24 concurrent risk evaluations, it would have had to increase its TSCA risk evaluation capacity by at least 140 percent at the end of 2019. In FY 2022, the Agency requested an additional \$15 million and 87.6 full-time equivalents, a 35 percent increase from the FY 2021 enacted full-time equivalent level, to meet the increased responsibilities imposed by the 2016 amendments to TSCA.

Importance of Data-Driven Decisions

We identified occurrences where the EPA could not demonstrate compliance with its regulations or did not follow guidance in conducting its risk assessments. For example:

- **Compliance with Pesticide Registration Data Requirements in Ecological Risk Assessments.** In Report No. [21-P-0070](#), *EPA Mostly Adheres to Regulations When Assessing Risks of New Pesticides but Should Improve Internal Controls*, issued February 8, 2021, we evaluated whether the EPA complied with the pesticide registration regulation under 40 C.F.R. § 152.112, which establishes the eight criteria for the issuance of an unconditional pesticide registration.

We found that the Office of Pesticide Programs' ecological risk assessments do not certify or verify whether all the ecological data requirements under 40 C.F.R. § 158.630 have been satisfied prior to the issuance of the pesticide's registration. The EPA's ecological data requirements under 40 C.F.R. § 158.630 establish the necessary ecological studies required by the EPA to assess the risk that the pesticide's intended use poses to the environment. If the EPA cannot assure that it is in full compliance with the ecological data requirements, there is an increased risk that the Agency will issue a pesticide registration that does not comply with applicable regulations.

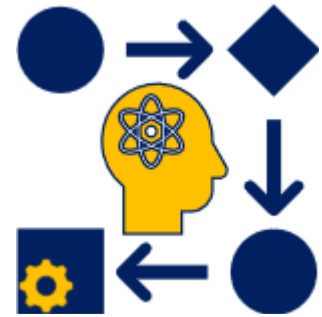
- **Implementation of Endocrine Disrupter Screening Program Weight-of-Evidence Guidance.** In our July 2021 EDSP report, we found that Office of Pesticide Programs did not follow the EDSPWoE guidance when it reevaluated the need to conduct Tier 2 testing on 17 pesticides to support the pesticide's ecological risk assessment.

From the initial EDSP design on December 28, 1998, the EPA committed to evaluating the EDSP Tier 1 data using a WoE approach to determine whether a chemical should undergo Tier 2 testing. The EPA issued the final EDSP WoE guidance in 2011.⁵¹ The EPA implemented this EDSP WoE guidance in 2015 in its review of the EDSP List 1-Tier 1 data.⁵² In 2015, the EPA recommended that 23 EDSP Tier 2 studies need to be conducted across 18 List 1 pesticides. After 2015, the Office of Pesticide Programs' Health Effects Division continued to use the WoE approach to reevaluate whether these pesticides continued to need additional Tier 2 human health effects studies. By contrast, the office's Environmental Fate and Effects Division decided to forgo EPA's established WoE approach for evaluating EDSP Tier 1 data and, instead, in 2019 reevaluated the List 1-Tier 1 data using a different approach to justify that no additional EDSP Tier 2 testing was needed to support the Office of Pesticide Programs' ecological risk assessments for these pesticides. The OIG found that by not implementing the 2015 WoE recommendations for additional Tier 2 testing, the EPA risks losing credibility with the public that its risk decisions are impartial.

⁵¹ EPA, [ENDOCRINE DISRUPTOR SCREENING PROGRAM: Weight-of-Evidence: Evaluating Results of EDSP Tier 1 Screening to Identify the Need for Tier 2 Testing](#), last accessed on October 13, 2021.

⁵² EPA, [EPA's 2015 review of the EDSP List 1- Tier 1 data, and EPA's Tier 2 recommendations](#), last accessed on October 13, 2021.

CHALLENGE 4: *Safeguarding Scientific Integrity Principles*



Outlook and Overview

The EPA's ability to pursue its mission to protect human health and the environment depends upon scientific integrity. Science not only informs all aspects of the EPA's decision-making, but it impacts the decision-making of other domestic and international organizations that rely on the EPA's science. In February 2012, the Agency issued its *Scientific Integrity Policy*, which seeks to:

[E]nsure scientific integrity throughout the EPA and promote scientific and ethical standards, including quality standards; communications with the public; the use of peer review and advisory committees; and professional development."⁵³

The need to protect scientific integrity has become a paramount issue for the entire federal government. In his January 27, 2021 presidential memorandum to all executives, departments, and agencies titled *Memorandum on Restoring Trust in Government Through Scientific Integrity and Evidence-Based Policymaking*, President Biden stated that "[i]t is the policy of my Administration to make evidence-based decisions guided by the best available science and data." The president noted that "[s]cientific findings should never be distorted or influenced by political considerations." A robust culture of scientific integrity is necessary to meet several top management challenges, including climate change, chemical safety, and environmental justice.

The EPA's *Scientific Integrity Policy* emphasizes that the Agency's ability to pursue its mission depends upon the integrity of the science on which the EPA relies. As the policy directs, the environmental policies, decisions, guidance, and regulations that impact the lives of Americans must be grounded, at a most fundamental level, in sound, high-quality science. The EPA makes scientific integrity the responsibility of every employee, contractor, grantee, student volunteer, and collaborator who conducts, utilizes, supervises, manages, communicates, or influences scientific activities. The EPA expects employees to represent Agency scientific activities clearly, accurately, honestly, objectively, and thoroughly, without political or other interference, and in a timely manner.

The EPA's Scientific Integrity Program consists of the scientific integrity official, deputy scientific integrity officials from each EPA program and regional office, and program staff that support the implementation of the *Scientific Integrity Policy*. The EPA's scientific integrity official is also the co-chair of the White House Office of Science and Technology Policy's Scientific Integrity Task Force, which is charged with implementing the directives in the January 27, 2021 presidential memorandum.

⁵³ EPA, *Scientific Integrity Policy*, Section I.

Science affects all aspects of the EPA's decision-making. The EPA must devote the necessary resources to conduct, utilize, and communicate science. It must ensure proper implementation of existing processes to protect the integrity and objectivity of this science, clearly communicate where there is scientific disagreement and identify where science intersects with making policy. Relatedly, the EPA must be agile in order to update its regulations, policies, and guidance as the science evolves and not allow administrative inertia to prolong its reliance on outdated science and technology that is less effective at protecting human health and the environment. Taking these actions will help make EPA decisions more legally defensible and maintain public trust in the EPA's decision-making.

Scientific Integrity

Through the OIG Hotline and other sources, we receive complaints of mismanagement, misconduct, abuse of authority, and censorship related to scientific integrity and research misconduct. Per our statutory mandate, we have evaluated or investigated these complaints. For example, in Report No. [21-E-0146](#), *EPA Deviated from Typical Procedures in Its 2018 Dicamba Pesticide Registration Decision*, issued May 24, 2021, we found that the EPA's 2018 decision to extend registrations for three dicamba pesticide products did not include required internal peer reviews of scientific documents to ensure sound decisions regarding pesticides. We recommended that the Agency (1) implement a procedure requiring senior managers or policy makers to document changes to scientific opinions or analyses and their basis for such changes, (2) require an assistant-administrator-level verification statement that *Scientific Integrity Policy*



In 2018, EPA extended the conditional registrations for three dicamba pesticide products used on genetically modified dicamba-tolerant soybean plants. (EPA photo)

requirements were adhered to during pesticide registration decisions that involve the EPA immediate office, and (3) provide annual training to affirm commitment to the *Scientific Integrity Policy* and to promote a culture of scientific integrity.

In March 2021, the then-acting assistant administrator for Chemical Safety and Pollution Prevention, Michal Freedhoff, sent a notification to all Office of Chemical Safety and Pollution Prevention employees with three examples of political interference that compromised the integrity of the EPA's science:

- The 2018 dicamba registration decision in which scientific information on negative impacts was discounted. The Ninth Circuit Court of Appeals vacated the pesticide registrations, impacting growers' ability to use this product.
- The alteration of the draft trichloroethylene risk evaluation, leading to a reduction in the magnitude of the risk from exposures to trichloroethylene.

- Perfluorobutane sulfonic acid toxicity assessment posted on the EPA’s website (now removed) that included conclusions that were not based on science.

Then-acting Assistant Administrator Freedhoff also highlighted the role of science in risk assessments, integrity of scientific products, and the benefit of an environment free from political interference in the science. She affirmed their commitment to communication, trust, and transparency, as well as the importance of science in the Office of Chemical Safety and Pollution Prevention’s regulatory decision-making process. Additionally, she encouraged employees to attend a scientific integrity training series, which include sessions on ways to express and resolve differing scientific opinions and whistleblower protections.

In FY 2021, we initiated a significant body of work related to scientific integrity concerns and the Agency’s process for utilizing science that include:

- Examining the EPA’s process for updating federal radiation policies and guidance (Project Notification [OSRE-FY21-0208](#), *Process for Updating Federal Radiation Policies and Guidance*, issued June 8, 2021).
- Examining the EPA’s actions on the perfluorobutane sulfonic acid toxicity assessment published on January 19, 2021 (Project Notification No. [OSRE-FY21-0207](#), *EPA’s January 2021 PFBS Toxicity Assessment*, issued June 15, 2021).
- Evaluating the extent to which the EPA followed policies and procedures in developing the cancer assessment for the 1,3-Dichloropropene pesticide registration review decision to prevent unreasonable adverse effects on human health (Project Notification No. [OSRE-FY21-0214](#), *Cancer Assessment Review for the Pesticide 1,3-Dichloropropene*, issued June 21, 2021).

We review allegations brought to us through the EPA’s scientific integrity official and confidential whistleblowers. To review these allegations, we conduct interviews; gather data; and analyze issues such as adherence to policies and procedures for chemical risk assessments, oversight by EPA management of chemical risk assessments, and resulting information and reports regarding the assessments of such chemicals.⁵⁴

Actions on Scientific Integrity

On March 23, 2021, in an email to all employees, Administrator Regan outlined several actions the EPA would take in response to the January 27, 2021 presidential memorandum. Actions included reviewing the Agency’s scientific federal advisory committees to safeguard against conflicts of interest, updating Agency policies that impede the development of critical scientific assessments, and fostering a culture

⁵⁴ OIG Notification Memorandum, *Inquiry into EPA’s Chemical Risk Assessments Conducted under the Toxic Substances Control Act*, Project No. [OSRE-FY21-G-0229](#), July 14, 2021.

of continuous learning. Also included in the administrator's email were commitments to undertake efforts in support of policy implementation, culture, and release of public information. These statements by the administrator reflected central findings in OIG Report No. [20-P-0173](#), *Further Efforts Needed to Uphold Scientific Integrity Policy at EPA*, issued May 20, 2020. Administrator Regan's actions also address other topics discussed in the report including employee concerns regarding the EPA's culture of scientific integrity, the EPA's management of federal advisory committees, the ability of EPA staff to express scientific opinions, and retaliation after reporting a potential scientific integrity violation. The OIG's report made 12 recommendations: seven have been implemented and five recommendations remain unimplemented, three of which are past the Agency's planned completion date.

In a June 2021 [hearing](#) before the Subcommittee on Interior, Environment, and Related Agencies of the U.S. Senate Committee on Appropriations, Administrator Regan stated that "[t]he [FY2022] Budget request invests critical resources to restore scientific integrity at the Agency and ensuring the foundation of our decision-making process is grounded in science." He highlighted additional Agency efforts to ensure science is the foundation for decision-making, including reestablishing membership of the Science Advisory Board and Clean Air Scientific Advisory Committee, rebooting the Agency's climate change website, and committing to strengthen the science used in chemical risk evaluations. A common theme throughout Administrator Regan's agencywide email and congressional testimony is that the best available scientific information is critical to achieving the EPA's mission.

Reflecting the administrator's commitment and focus, topics such as ensuring scientific integrity and ensuring science-based decision-making are discussed in the draft FYs 2022–2026 EPA strategic plan. This plan is expected to be a guiding principle for all EPA goals and objectives. Plan implementation will be key and OIG audits, evaluations, and investigations will be necessary to assess progress. Specifically, this strategy will provide critical support for the EPA's efforts in climate change, environmental justice, enforcement, clean air and water, revitalizing communities, and the safety of chemicals.

CHALLENGE 5: Ensuring Information Technology and Systems Are Protected Against Cyberthreats



Outlook and Overview

There is a prevalence of cyberattacks on government and private sector information technology, or IT, including the compromise of a U.S. water treatment facility and other actions targeting critical infrastructure. IT and cybersecurity are fundamental to a successfully functioning modern government. Like all agencies, the EPA is vulnerable to a wide and ever-changing range of cyberthreats to its internal operations as well as external systems and programs—such as those administered by states—that the EPA oversees. Without maintaining tight, rigorous cybersecurity protections, the EPA’s core mission stands under constant peril.

IT is fundamental and essential for the EPA to carry out its mission. The EPA depends on IT systems and electronic data to perform operations and to process, maintain, and report essential information. Information systems must be cost-effective and produce reliable data when needed. The EPA, like other agencies, makes a substantial investment in IT, which includes computers, networks, software, and personnel. In FY 2021, the EPA spent \$385 million on IT.⁵⁵

The transition to a remote workforce during the coronavirus pandemic, as well as cybersecurity attacks, caused IT security risks to increase. Compounding this risk, the EPA’s systems and networks are interconnected with other internal and external systems and networks, including the internet. This greater connectivity expands opportunities for threats and cyberattacks. Multiple cyberincidents, such as the ones on SolarWinds, Microsoft Exchange, and the Colonial Pipeline, have impacted thousands of organizations, including multiple federal departments and agencies and critical infrastructure entities. The U.S. Department of Homeland Security’s Cybersecurity and Infrastructure Security Agency has reported on the prevalence of cyberattacks and has distributed alerts regarding the compromise of a U.S. water treatment facility and the ongoing actions of advanced persistent threat actors targeting governmental, private, and critical infrastructure entities using sophisticated attack methods.

The EPA faces an urgent and ongoing requirement for effective information security and needs to be vigilant in developing, establishing, and monitoring ways to mitigate long-range emerging threats. Successful cyberattacks could compromise classified material, employee data, and other critical information related to the EPA’s business processes and could severely impact and disrupt the EPA’s mission and operations.

Our work highlights the continuing challenge that the EPA faces in implementing an effective cybersecurity program. For example we found several cybersecurity issues in Report No. [21-E-0124](#),

⁵⁵ Office of Management and Budget, *Environmental Protection Agency Information Technology Agency Summary*, last accessed on October 13, 2021.

EPA Needs to Improve Processes for Updating Guidance, Monitoring Corrective Actions, and Managing Remote Access for External Users, issued April 16, 2021.

The GAO reported that as of April 2021, two of its cybersecurity-related priority recommendations to the EPA were still open. One encourages the EPA administrator to establish a process for conducting an agencywide cybersecurity risk assessment, which would provide senior officials with the necessary information for making decisions, utilizing resources, and allowing them to consider the totality of risk within information systems. The other encourages the EPA administrator to consult with respective critical infrastructure sector partners to develop methods for determining the level and type of National Institute of Standards and Technology Cybersecurity Framework adoption by entities across their respective sectors, which would allow the EPA to evaluate and improve its efforts to protect water infrastructure.

We found that the EPA had a lack of consistency in developing, implementing, and monitoring information security programs and complying with cybersecurity regulations. For example, in September 2020, we reported on the deficiencies in the EPA’s vulnerability testing of the Region 8 local area network (Figure 5.1).⁵⁶ The deficiencies included insufficient vulnerability testing, outdated Region 8 system security plans, and unidentified wireless access points within the region’s laboratory. Also, during the evaluation, we investigated the Office of the Chief Financial Officer’s Superfund Cost Recovery Package Imaging and Online System and found that it was outdated. We also found that it was difficult to identify records containing personally identifiable information and accessing such information on the system’s regional databases. We estimated that a breach to the system and compromise of personally identifiable information could cost the EPA \$11,477,250.

Figure 5.1: Vulnerability testing at Region 8



The Office of Mission Support conducts vulnerability tests of local area networks at Region 8’s headquarters, laboratory, and Montana office. (EPA OIG graphic)

In April 2021, we found that the Agency consistently implemented its information security policies and procedures, but quantitative and qualitative effectiveness measures were lacking.⁵⁷ Specifically, the EPA needed to (1) update key IT procedures to align with the latest federal directives; (2) establish a process to accurately report the implementation of cybersecurity corrective actions; (3) designate a governance structure to support the Agency’s identity, credentials, and access management program as required by the Office of Management and Budget; and (4) implement proper monitoring and regulation of external and privileged systems. Without user authorization enforcement, users have

⁵⁶ EPA OIG, *EPA Needs to Improve Processes for Securing Region 8’s Local Area Network*, Report No. [20-E-0309](#), September 10, 2020.

⁵⁷ EPA OIG, *EPA Needs to Improve Processes for Updating Guidance, Monitoring Corrective Actions, and Managing Remote Access for External Users*, Report No. [21-E-0124](#), April 16, 2021.

access to systems that they do not need, such as the grants and Superfund management systems. Privileged users can bypass security controls and potential data breaches would be difficult to track and respond to. Additionally, not reviewing and updating IT security control procedures documentation would mean that the EPA cannot ensure compliance of its information security program with the latest federal requirements.

The EPA has begun and completed significant actions to improve its cybersecurity and address many OIG recommendations. These include:

- **Improvements in cybersecurity oversight processes**, such as establishing processes within the Office of Mission Support to improve the management of audits and corrective actions, documenting the chief information officer's information security role, developing training for contracting officer's representatives on mandatory role-based training, and establishing a tracking and reporting process to ensure that contractors with access to EPA information systems complete information security awareness training and that contractors with significant information security responsibilities complete mandatory role-based training.
- **Actions to better utilize information systems and improve their effectiveness**, such as working with the Department of Homeland Security regarding the risk of the Electronic Manifest System and agreeing to review the system's categorization annually and when significant changes to the system occur, replacing the EPA's incident tracking system and implementing controls to protect the confidentiality and sensitivity of personally identifiable information, and establishing a process to periodically review security settings for the Agency's information security weakness tracking system to validate whether the settings meet Agency standards and implement audit logging capabilities.

In addition to addressing many of the OIG's recommendations, the EPA plans to make other cybersecurity improvements. The EPA requested to double its information security budget for FY 2022 to support a variety of activities that will improve the Agency's oversight and technical capabilities in cybersecurity. These activities will have many benefits for the Agency, including:

- Covering cybersecurity and privacy components in ongoing senior leadership program reviews.
- Strengthening cloud security.
- Identifying, responding, alerting, and reporting suspicious activity.
- Supporting continuous monitoring functions.
- Mitigating and managing supply chain risks.

The EPA must continue to address risks for its own information systems. In addition, the EPA should take steps to address risks in the Water and Wastewater Systems critical infrastructure sector, of which the EPA is the designated Sector Risk Management Agency.

Water Sector Cybersecurity

As the Sector-Specific Agency and Sector Risk Management Agency for the water and wastewater systems sector under Presidential Policy Directive 21, the EPA must assist public water systems in improving their cybersecurity. Cyberattacks on critical infrastructure, including water systems and utilities, have become more prevalent. The OIG Office of Investigations has become increasingly aware of and responsive to cybercrime incidents occurring at water utilities throughout the nation. Incidents range from ransomware attacks, which restrict access to critical data, to manipulation of water chemical concentrations. While attacks on water utilities range in scope and damage, prevention and response measures varied depending on the size and funding of these utilities. Consistent communication between the EPA, public water systems, and relevant federal entities for developing strong cybersecurity practices and best determining the allocation of limited resources is vital.

Presidential Policy Directive 21 designates certain executive agencies with institutional knowledge and specialized expertise about particular sectors as “Sector-Specific Agencies” for those sectors and assigns them federal governmentwide roles related to those sectors.

EPA plans to create a new cybersecurity intelligence analyst position to conduct research, analysis, and engagement with the water and wastewater sectors and partnering agencies to promote the adoption of cybersecurity best practices. Additionally, the EPA plans to continue to interact with the water sector through training efforts and assist community water systems in developing risk and resilience assessments and emergency response plans.

Additionally, the EPA should strive to be proactive and involve its information security officers, senior officials, and other related organizational officials while reviewing, monitoring, and overseeing the Agency’s information security programs, systems, and practices.

CHALLENGE 6: *Managing Infrastructure Funding and Business Operations*



Outlook and Overview

Water infrastructure is a fundamental part of the EPA’s largest programs. Across the country, there are aging drinking water and wastewater facilities and systems that need repairs and upgrades. Working with state partners to improve the nation’s water infrastructure is crucial to ensure that Americans have access to safe drinking water and that wastewater is properly treated and disposed. With the proposed FY 2022 budget for infrastructure-based programs and the proposed Infrastructure Investment and Jobs Act, it is crucial that the EPA exercise effective oversight of this potential massive investment.

The FY 2022 President’s Budget stated that Americans will rebuild America’s transportation infrastructure, water infrastructure, and broadband connectivity infrastructure. Funding such infrastructure, through loans, grants, and contracts, will take up a major portion of the EPA budget. Much of the nation’s environmental protection depends on the Agency instituting effective internal controls to safeguard taxpayer dollars. Without scrupulous Agency management of these investments, key environmental benefits to communities will be lost or diminished.

The FY 2022 Presidential Budget calls for investment into infrastructure through grant and loan programs. It proposes:

- \$111 billion to, among other things, replace 100 percent of lead lines and invest in PFAS remediation.
- A \$589 million increase to programs, including allocating \$1.871 billion for Clean Water State Revolving Fund, a \$232 million increase from the FY 2021 budget; \$1.358 billion for Drinking Water State Revolving Fund, a \$232 million increase from FY 2021; and expanding the WaterInfrastructure Finance and Innovation Act subsidy by \$12.6 million, which would enable \$8 billion in direct assistance and spur \$16 billion in total infrastructure investments.

While promoting sound infrastructure is central to the EPA’s mission, the American Society of Civil Engineers rated America’s infrastructure at a C- and rated America’s water-related infrastructure at a D+. There has been increased funding for programs aimed at improving America’s infrastructure, such as the American Rescue Plan Act of 2021 and the ongoing Water Infrastructure Finance and Innovation Act, Brownfields, and Superfund programs. This increases the EPA’s ability to carry out its essential functions, expand the impact of the Agency’s work, and positively affect the health and environment of millions of Americans.

As we found in the American Recovery and Reinvestment Act of 2009 audits, such as several OIG Reports, with more funding comes heightened risk of waste, fraud, and abuse, especially in programs

already plagued by resource challenges.⁵⁸ The EPA must proactively address these risk areas and ensure that the money goes to the right places and has the intended impact. We found that, as of September 2019, the EPA had \$8.3 million in undisbursed balances for grant awards that have been expired for one year or more.⁵⁹ These funds could have been used toward EPA environmental goals related to infrastructure investments. We began an audit in September 2020 to determine whether loans made under the Water Infrastructure Finance and Innovation Act comply with the appropriate statute, regulations, and EPA policy.⁶⁰

A vast majority of the EPA’s funding geared for infrastructure improvements is distributed to states, tribes, and nongovernmental organizations through grants, loans, and contracts. The EPA awards about half of its annual budget through grants, loans, and contracts to environmental infrastructure programs. As of 2020, the EPA had almost \$11 billion in open grants and loans. This amount also includes grants and loans that were awarded in previous fiscal years. The programs awarding grants and loans cover the EPA’s ten regions and some of their goals include funding:

- Water quality improvements.
- Pollution control.
- Beaches protection.
- Wetlands.
- Water infrastructure.
- Technical assistance.

The largest portions of this funding go through the EPA’s Clean and Drinking Water State revolving funds and state and tribal assistance grants. The funding for these programs has steadily increased since FY 2016 (Figure 6.1).

Figure 6.1: Snapshot of EPA unliquidated obligations on September 6, 2019



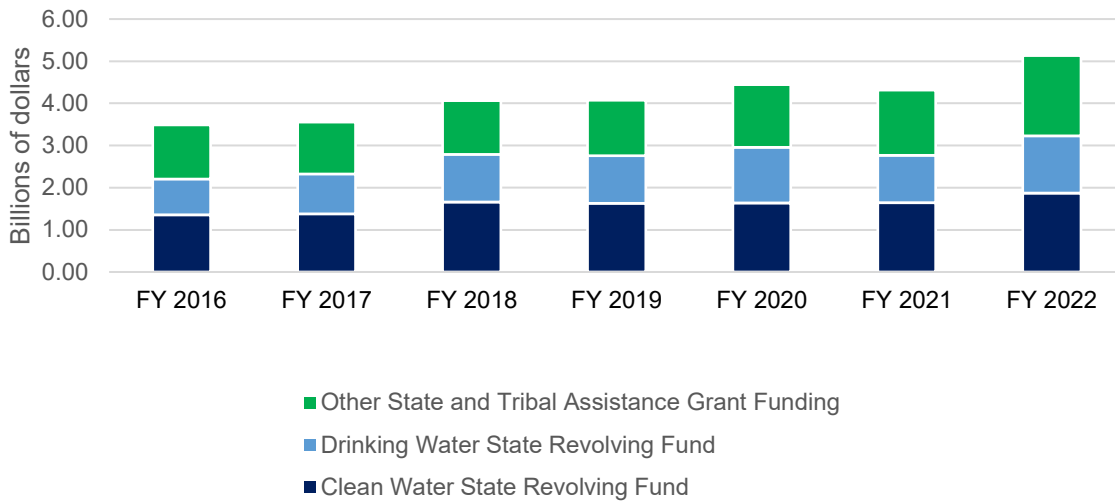
As of September 6, 2019, EPA had approximately \$8.3 million in unliquidated obligations, such as undisbursed balances, for grant awards that expired more than one year prior to September 1, 2019. (EPA OIG image)

⁵⁸ EPA OIG, *EPA Should Improve Its Contractor Performance Evaluation Process for Contractors Receiving Recovery Act Funds*, Report No. [10-R-0113](#), April 26, 2010; EPA OIG, *EPA’s Terms and Conditions as Well as Process to Award Recovery Act Interagency Agreements Need Improvement*, Report No. [11-R-0016](#), November 16, 2010; EPA OIG, *EPA and States Should Strengthen Oversight of Clean Water State Revolving Fund Recovery Act Projects*, Report No. [11-R-0519](#), August 24, 2011; EPA OIG, *American Recovery and Reinvestment Act Site Visit of Sanitary Sewer System Improvements, Ingenio Community, Toa Baja, Puerto Rico*, Report No. [11-R-0233](#), May 24, 2011.

⁵⁹ EPA OIG, *EPA Did Not Accurately Report Under the Grants Oversight and New Efficiency Act and Needs to Improve Timeliness of Expired Grant Closeouts*, Report No. [21-P-0126](#), March 31, 2020.

⁶⁰ OIG Notification Memorandum, *EPA’s Process for Awarding, Overseeing, and Monitoring Loans Made Under the Water Infrastructure Finance and Innovation Act*, Project No. [OA-FY21-0004](#), September 21, 2020.

Figure 6.2: EPA funding for CWSRF, DWRF, and STAG programs



Source: OIG analysis of the President’s *Budget in Brief* from FYs 2016 through 2022. (EPA OIG image)

Note: FYs 2016 through 2020 funds are actual amounts. FY 2021 funding is the enacted amount. FY 2022 funding is the amount requested in the President’s Budget.

The FY 2020 EPA [Annual Performance Report](#) noted a significant challenge due to the Agency not yet having an electronic system to track grant commitments under its 109 grant programs.

In the [FY 2018-2022 U.S. EPA Strategic Plan](#), the EPA pledges to improve water quality by investing over \$200 million in infrastructure projects through various environmental programs. The EPA will work with state and tribal partners to provide clean and safe water by updating aging infrastructure for drinking water and wastewater systems as well as wastewater and stormwater infrastructure. While over 90 percent of the nation has access to safe drinking water due to the Agency and its regulatory partners, many houses and communities, particularly in disadvantaged areas, lack access to clean and safe water. The Agency aims to continue:

[T]o leverage the State Revolving Funds (SRFs) and Water Infrastructure Finance and Innovation Act (WIFIA) to assist states, tribes, municipalities and private entities to finance high-priority infrastructure investments that protect human health and the environment.

The American Rescue Plan Act provided \$100 million for the EPA to address health outcome disparities from pollution and the COVID-19 pandemic. These focus areas directly relate to water, air, and land infrastructure. The American Rescue Plan Act provided \$50 million for the EPA to identify and address disproportionate environmental or public health harms and risks in minority populations or low-income populations under the Clean Air Act; Safe Drinking Water Act; Comprehensive Environmental Response, Compensation, and Liability Act of 1980; and the Energy Policy Act of 2005. It provided another \$50 million for additional Clean Air Act grants and activities.

As with the American Recovery and Reinvestment Act and the Coronavirus Aid, Relief, and Economic Security Act, the EPA is at risk of managing the influx of funds inadequately, especially in programs already facing asset management challenges. Following the Office of Management and Budget supplemental guidance to the American Rescue Plan Act, [M-21-20](#) *Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources*, the EPA should work with the oversight community—states, tribes, and localities—to strengthen payment integrity to minimize the risk of waste, fraud, and abuse, and improve the overall award and administration of financial assistance programs with an increased focus on programs and services designed to achieve more equitable results. These funds and the projects associated with them create an opportunity for the EPA, but also a challenge in protecting the funds from fraud, waste, and abuse.

CHALLENGE 7: *Enforcing Environmental Laws and Regulations*



Outlook and Overview

Enforcing environmental laws and regulations is a backbone of EPA operations. According to the FYs 2018–FY 2022 EPA strategic plan, “[a] robust enforcement program is critically important for addressing violations and promoting deterrence, and supports the Agency’s mission of protecting human health and the environment.”⁶¹ We found that the EPA’s enforcement activities, such as inspections and enforcement actions, generally declined since 2011 largely due to funding reductions for the enforcement program. Declining enforcement activities may expose the public and the environment to undetected harmful pollutants, particularly in low-income, minority, tribal, and indigenous communities. Considering its limited resources, the EPA needs to assess its resource requirements for the enforcement program and identify innovative and cost-effective means of detecting and deterring noncompliance.

The EPA’s Office of Enforcement and Compliance Assurance is responsible for the Agency’s enforcement program. A robust enforcement program is vital to deterring regulated entities from violating environmental laws and regulations and to protecting human health and the environment. The EPA implements enforcement programs for 12 federal environmental statutes and has authorized most states and some territories and tribes to implement many environmental programs and directly enforce many environmental laws.⁶² If a state does not have enforcement authority from the EPA, the Agency directly implements the enforcement program in that state.

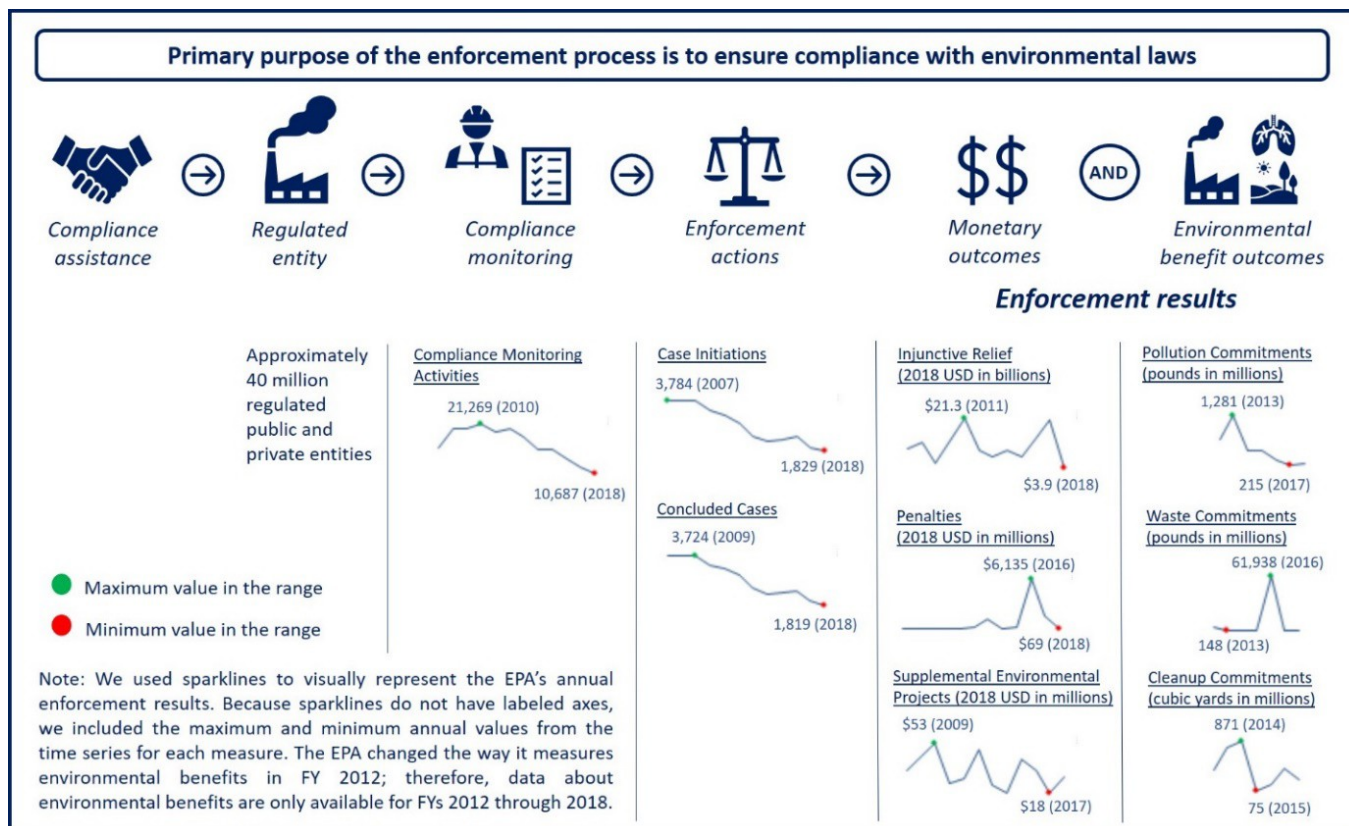
From FYs 2007 through 2018, key national enforcement results declined, including the numbers of compliance monitoring activities and concluded enforcement cases, the monetary value of supplemental environmental projects, and the pounds of pollution reduction committed to (Figure 7.1).⁶³ For example, the EPA concluded 58 percent fewer enforcement actions with injunctive relief, 53 percent fewer enforcement actions with penalties, and 48 percent fewer enforcement actions with supplemental environmental projects in FY 2018 than in FY 2007. We also found that most enforcement measures declined in FYs 2019 and 2020, although the coronavirus pandemic likely impacted the downward trend in FY 2020. The trends in enforcement results by region and by environmental statute generally followed declining national trends for compliance monitoring activities, enforcement actions concluded, and enforcement results. Each year, the conclusion of a few cases with large monetary or environmental outcomes dominated the trends in specific measures, such as cases with large amounts of injunctive relief, penalties, and waste and cleanup commitments.

⁶¹ EPA, *Working Together: FY 2018–2022 U.S. EPA Strategic Plan*, February 2018 (last updated in September 2019).

⁶² We use “state” or “states” to collectively refer to states, territories, and tribes.

⁶³ EPA OIG, *Resource Constraints, Leadership Decisions, and Workforce Culture Led to a Decline in Federal Enforcement*, Report No. [21-P-0132](#), May 13, 2021; EPA OIG, *EPA’s Compliance Monitoring Activities, Enforcement Actions, and Enforcement Results Generally Declined from Fiscal Years 2006 Through 2018*, Report No. [20-P-0131](#), March 31, 2020.

Figure 7.1: EPA national enforcement measures from FYs 2007 through 2018



Source: EPA OIG Report No. 21-P-0132. (EPA OIG image)

Improving State’s Oversight Capacity and Greater Collaboration with EPA to Achieve Greater Enforcement

The delegation of authorities under federal environmental laws makes the EPA and states coregulators. This regulatory design requires state programs to be at least as stringent as federal requirements compel and the EPA to serve an oversight role and to fill gaps left by the states. During our evaluation of EPA enforcement trends, many current and former EPA enforcement personnel expressed skepticism that states have the technical and operational capacity, along with the political will, to enforce environmental laws consistently and equitably across the country. Furthermore, EPA enforcement staff commonly described a poorly functioning relationship between the EPA and states in terms of the Agency’s oversight of, support of, or collaboration with states. For example, despite the noted capacity limitations at the state level, the EPA enforcement staff reported that states do not consistently contact the appropriate regional EPA office when they need technical expertise to conduct complex inspections.

In January 2020, the Government Accountability Office reported that the EPA collects a range of information about compliance and enforcement efforts.⁶⁴ The GAO found that, while the EPA collected

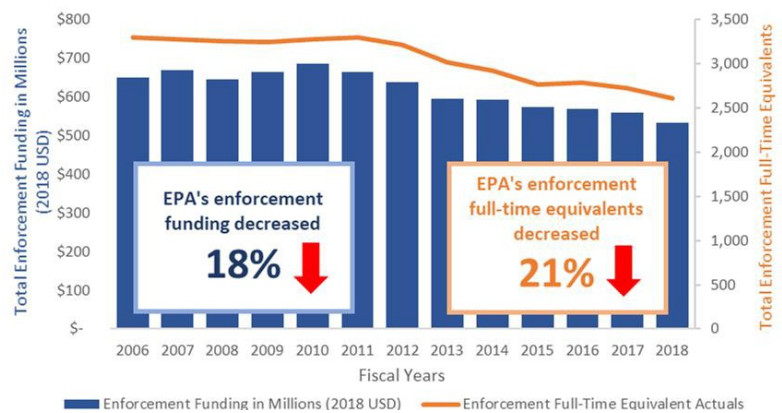
⁶⁴ GAO, *Environmental Protection: Additional Action Needed to Improve EPA Data on Informal Enforcement and Compliance Assistance Activities*, [GAO-20-95](#), January 31, 2020.

data on formal enforcement activities, it did not consistently collect data about compliance assistance and informal enforcement activities for its national databases. In addition, the GAO found that several of the EPA’s FY 2018 enforcement-related reports did not disclose known limitations about the Agency’s enforcement data. Without this information, the public was at risk of drawing inaccurate conclusions about the data. The GAO recommended that the EPA clarify for regions how the definition of informal enforcement actions should be used to collect data about these activities, to share the known limitations of data in its annual reports, and to provide information on the intended use of the EPA’s data.

Investment in Enforcement Activities to Increase Enforcement Results

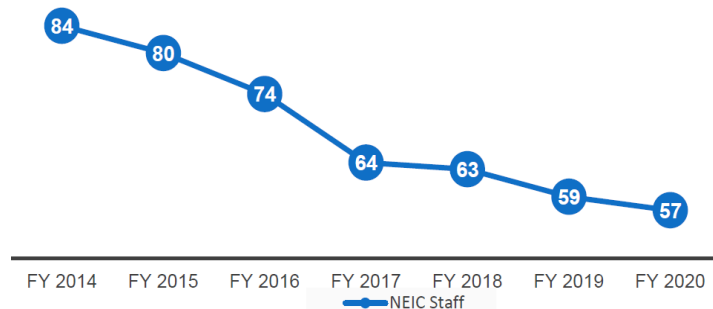
Funding for the EPA’s enforcement program decreased 18 percent and the number of enforcement full-time equivalents decreased 21 percent from FYs 2006 through 2018 (Figure 7.2). Within OECA, the National Enforcement Investigations Center has been challenged by high attrition rates among staff, losing 32 percent of its full-time equivalents from 2014 levels, and has been unable to backfill vacant positions since 2016 (Figure 7.3).⁶⁵ Enforcement funding varied between 5.8 and 7.4 percent of total EPA funding since 2016.

Figure 7.2: Total EPA enforcement resources FYs



Source: EPA OIG Report No. 21-P-0132. (EPA OIG image)

Figure 7.3: NIEC’s reduction in staff numbers, FYs 2014–2020



Source: EPA OIG Report No. 21-P-0131. (EPA OIG image)

While the Agency’s enforcement resources diminished, a growing domestic economy increased the size and level of activity of key sectors that the EPA regulated. Congress also established additional regulatory responsibilities for the EPA through laws such as the Frank R. Lautenberg Chemical Safety for the 21st Century Act and the Energy Policy Act of 2005. According to EPA enforcement staff and managers, enforcement capacity declined to a point at which the EPA could not adequately cover the major inspection obligations. Since 2006, both oil and gas

production and the number of oil and gas wells increased significantly, more than doubling petroleum production in the United States. Output from farms, such as from livestock, grains, and vegetables, and

⁶⁵ EPA OIG, *Staffing Constraints, Safety and Health Concerns at EPA’s National Enforcement Investigations Center May Compromise Ability to Achieve Mission*, Report No. 21-P-0131, May 12, 2021.

manufacturing also increased over that time. The increase of such high-impact economic activities exacerbated the risks of reduced compliance monitoring and enforcement activities. At a time when the need for EPA oversight and enforcement increased, the data indicate that the EPA's capacity to meet that need decreased.

In its *FY 2022 Congressional Budget Justification*, the Agency requested \$599 million for OECA, which would be a 13 percent increase over the FY 2021 enacted budget of \$529 million.⁶⁶ The EPA also requested approximately 4 percent more full-time equivalents for OECA, which would bring the office from about 2,424 full-time equivalents in FY 2021 to about 2,511 in FY 2022. The Agency requested an additional \$31.9 million to integrate environmental justice throughout the compliance monitoring program, \$29.9 million to improve its enforcement data system, and \$8 million to expand its criminal enforcement program. These additional resources may mitigate the observed declining trends in EPA enforcement results, but it is too early to forecast future trends with any certainty at this time.

Leadership Decisions Impacting Enforcement Trends

Given limited resources and a shrinking number of enforcement personnel after FY 2011, decisions about strategic shifts to the enforcement program, changes in national enforcement priorities, broader enforcement policy changes, and specific changes to the enforcement process also contribute to enforcement trends (Table 7.1). Additionally, leadership support influences the overall enforcement culture, which indirectly affects enforcement trends. Although culture is an intangible organizational trait based on enforcement staff and manager perceptions, it can have a meaningful impact on the activities of EPA staff in the enforcement program.⁶⁷ For example, staff cannot be proactive if the leadership is not. The OIG found that the workforce culture impacted the enforcement program. For example, because of diminished staff morale, some staff did not think their inspections or case development work would produce enforcement cases.

⁶⁶ EPA, *FY 2022 Justification of Appropriation Estimates for Committee on Appropriations*, [EPA-190-R-21-002](#), May 2021.

⁶⁷ EPA OIG, *Resource Constraints, Leadership Decisions, and Workforce Culture Led to a Decline in Federal Enforcement*, Report No. [21-P-0132](#), May 13, 2021; EPA OIG, *Staffing Constraints, Safety and Health Concerns at EPA's National Enforcement Investigations Center May Compromise Ability to Achieve Mission*, Report No. [21-P-0131](#), May 12, 2021.

Table 7.1: Impact of leadership decisions on enforcement trends

Category	Examples	Potential impact on enforcement trends
Strategic shifts to the enforcement program	<ul style="list-style-type: none"> • Focus enforcement resources on bigger cases against the most serious violators that significantly impact human health and the environment. • Emphasis on returning violators back to compliance rather than initiating and concluding enforcement actions with monetary penalties. • Increased deference to state programs and emphasis on cooperative federalism. 	<ul style="list-style-type: none"> • The EPA concludes fewer enforcement cases. • Depending on strategic shift, some federal enforcement results could increase, such as when the Agency focuses on bigger high-impact cases, or decrease, such as when the Agency focuses on compliance assistance over formal enforcement.
Broader enforcement policy changes	<ul style="list-style-type: none"> • Narrowing the scope of New Source Review violations under the Clean Air Act for which the Agency would pursue enforcement actions. • Temporarily requiring case teams to alert regional and OECA administrators before referring cases to the Department of Justice. • Temporarily requiring OECA management review of information requests under the Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act. 	<ul style="list-style-type: none"> • The EPA concludes fewer number of enforcement cases under specific environmental statutes. • May see a temporary lag in when enforcement cases are concluded. • Changes may result in inspectors' self-censorship of case referrals or information requests because of the perception these tools and mechanisms are not favored by regional or OECA senior leadership.
Changes in national enforcement priorities	<ul style="list-style-type: none"> • National enforcement priorities, such as reducing noncompliance in drinking water facilities, focus-limited Agency resources, and expertise on serious environmental problems in program areas with high noncompliance. • The Agency assesses its list of national enforcement priorities every three to four years. 	<ul style="list-style-type: none"> • EPA concludes more enforcement cases within environmental statutes or regions involved in the priority area. • No changes in overall national trends in number of enforcement cases concluded. • Cases concluded under a national priority would influence trends in injunctive relief, penalties, and supplemental environmental projects.
Specific changes to the enforcement process	<ul style="list-style-type: none"> • Policy changes that required inspectors to complete inspection reports within 60 days of the inspection. • Implementation of a novel Department of Justice interpretation about the use of supplemental environmental projects in most civil enforcement actions being inappropriate. 	<ul style="list-style-type: none"> • Changes to individual measures, such as the number of compliance monitoring activities or number and value of supplemental environmental projects.

Source: Summary of EPA OIG information. from OIG Report Nos. [21-P-0131](#) and [21-P-0132](#). (EPA OIG table)

In December 2020, the GAO reported that the EPA had shifted the focus of its national priorities from enforcing environmental laws to promoting compliance with environmental laws.⁶⁸ The report noted that, as of September 2020, the EPA had not finalized its guidance to the regions and states for implementing the new national priorities, which went into effect in October 2019. Furthermore, the GAO found that the EPA does not document the outcomes of its assessments of regional performance. Based on that finding, the GAO concluded that the EPA could not demonstrate that its regional activities support its strategic objectives. The GAO recommended that the EPA (1) communicate final guidance to all states for future national priorities before the effective date; (2) incorporate lessons learned from its initial efforts to engage with states when outlining future procedures for drafting national priorities; and (3) document the outcomes of EPA’s performance assessments at the regional level, including progress toward performance goals that support the EPA’s strategic objectives.

In May 2021, we reported that while OECA’s National Enforcement Investigations Center had addressed internal and external findings and implemented corrective actions related to safety and health, concerns persisted regarding uncompleted internal safety and health audits and management reviews, hazardous waste mismanagement, noncompliance with safety procedures, and staff concerns about safety and health.⁶⁹ The EPA needs to develop a process for the Office of Criminal Enforcement, Forensics, and Training to follow up on inspection findings and confirm whether corrective actions effectively address findings, as well as develop metrics on safety, health, and work environment to incorporate into National Enforcement Investigations Center management performance evaluations.

Also in May 2021, we expanded our reporting on national enforcement trends from March 2020 to include findings about regional and statute-by-statute enforcement trends from FYs 2007 through 2018 and the key factors that contributed to those trends.⁷⁰ We found that the decline in enforcement resources was a primary driver behind the observed declining enforcement trends and that EPA leadership made strategic decisions that affected enforcement trends. The EPA should complete a workforce analysis to assess the Agency’s capacity to maintain a strong enforcement field presence that protects human health and the environment and to integrate the results of this analysis into OECA’s strategic and annual planning processes.

Incorporating Environmental Justice into EPA’s Enforcement Program

Across the country, many low-income and minority communities are overburdened with high levels of environmental pollution and other adverse societal and economic conditions. Administrator Regan has emphasized that with regards to protecting human health and the environment, the Agency must:

⁶⁸ GAO, *Environmental Protection: Action Needed to Ensure EPA’s Enforcement and Compliance Activities Support Its Strategic Goals*, [GAO-21-82](#), December 9, 2020.

⁶⁹ EPA OIG, *Staffing Constraints, Safety and Health Concerns at EPA’s National Enforcement Investigations Center May Compromise Ability to Achieve Mission*, Report No. [21-P-0131](#), May 12, 2021.

⁷⁰ EPA OIG, *Resource Constraints, Leadership Decisions, and Workforce Culture Led to a Decline in Federal Enforcement*, Report No. [21-P-0132](#), May 13, 2021.

[C]onsciously and affirmatively pursue justice as [the Agency] jointly confront environmental and climate challenges with our federal, state, Tribal, and local partners. This is our collective task and every office, and every EPA region, shares this responsibility.

In EPA's *FY 2022 Congressional Budget Justification*, the Agency committed to developing and implementing a comprehensive plan of action for including environmental justice and climate change considerations in its civil and criminal enforcement programs, as well as in its compliance assurance work.⁷¹ Additionally, the acting assistant administrator for Enforcement and Compliance Assurance committed to increasing the number of facility inspections in overburdened communities and increasing engagement with communities regarding locally relevant enforcement cases to advance the Agency's environmental justice goals.⁷²

⁷¹ EPA, *FY 2022 Justification of Appropriation Estimates for Committee on Appropriations*, [EPA-190-R-21-002](#), May 2021.

⁷² Acting Assistant Administrator Larry Starfield, *Memorandum Regarding Strengthening Environmental Justice Through Criminal Enforcement*, April 30, 2021.

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

The Office of Inspector General transmitted the draft OIG-identified “*EPA’s FY 2022 Top Management Challenges*” statement to the Agency on October 15, 2021, which EPA reviewed. The revised final statement was transmitted for inclusion in today’s report on Friday, November 12, 2021. The Agency plans to review the revised final statement and prepare a response, which will be separately transmitted no later than 30 days from the issuance of this report.

PROGRESS IN ADDRESSING FY 2021 WEAKNESSES

In FY 2021, no new material weaknesses were identified. EPA continues to make progress in addressing its one previously identified material weakness for which corrective actions are still underway. The agency expects to implement and validate all corrective for this material weakness in FY 2022.

Material Weakness

EPA Needs to Improve Its Financial Statement Preparation Process

During the FY 2019 financial statement audit, the OIG stated that failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement. The OIG believes these issues highlight the need for the agency to strengthen its processes so that data are accurate, complies with federal accounting standards, and are readily available on a timely basis to prepare the financial statements.

To address this weakness, the EPA established a corrective plan of action to evaluate and improve its financial statement preparation process and to provide accurate and reliable supporting documentation for adjustments and corrections. Specifically, the agency has informed staff of the need to include more supporting analysis and the rationale for the adjustments made and the accounting basis for determining the adjustments. To increase efficiency, the agency implemented the CaseWare software that provides format controls and footnote cross checks. The agency developed standing operating procedures and a reviewer's checklists for the preparation of its financial statement audit. The SOPs and the checklist will be reviewed annually to validate effectiveness. The agency expects to implement and validate all corrective actions in FY 2022.

Summary of Financial Statement Audit

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

Summary of Management Assurances

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

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

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

Compliance With FMIA		
	Agency	Auditor
1. System Requirement	No Lack of compliance noted.	No Lack of compliance noted.
2. Accounting Standards	No Lack of compliance noted.	No Lack of compliance noted.
3. USSGL at Transaction Level	No Lack of compliance noted.	No Lack of compliance noted.

* This material weakness was downgraded to a significant deficiency in FY 2020. Therefore, the agency had a beginning balance of zero material weaknesses in FY 2021. The EPA expects to complete all corrective actions in FY 2022.

PAYMENT INTEGRITY

Payment Reporting

The Payment Integrity Information Act of 2019 (PIIA) 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. The PIIA further requires each agency's Office of Inspector General to determine if their agencies programs or activities are compliant with the statute.

EPA is dedicated to reducing fraud, waste, and abuse and presents the following improper payment information in accordance with PIIA; OMB guidance found in Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*; and the reporting requirements contained in OMB Circular A-136, *Financial Reporting Requirements*. The OMB implementing guidance directs federal agencies to take the following steps:

1. Review all programs and activities at least once every 3 years 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 the annual amount of each program's overpayments and recoveries.

An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; and any payment that does not account for credit for applicable discounts. Further, the term "payment for an ineligible good or service" includes a payment for any good or service that is rejected under any provision of any contract, grant, lease, cooperative agreement, or other funding mechanism.

The term "payment" means any transfer or commitment for future transfer of Federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies to any non-Federal person or entity or a 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.

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 2021 EPA conducted improper payment risk assessments using a systematic approach to determine whether each program or payment stream is susceptible to significant improper payments. The risk assessments required an evaluation of risk factors that could contribute to potential for significant improper payments. In completing the risk assessments, each office addressed risks known at the time of completion. The agency will conduct qualitative risk assessments for all the low-risk programs again in FY 2024 unless there are significant changes to the risk factors in the interim.

Office of Inspector General’s Compliance Determination for FY 2020

In May of 2021, the EPA’s Office of Inspector General’s released its annual report of the agency’s PIIA compliance. In the report, the EPA’s OIG stated that The EPA’s improper payment reporting complied with all the applicable requirements of PIIA. This marks the 10th straight year the OIG has found the agency to be compliant. Still, the agency has some areas for improvement. In particular, the OIG raised the concern that Grants payments review did not cover the allowability of costs including that costs be necessary, reasonable, and adequately documented in its statistical sample of payments. Agency reviewers have historically focused on the payment accuracy aspects during the reviews – mainly verifying payments went to the right person, for correct amount, at the right time, and for intended purposes which are the most common problems found in improper payments made by the federal government.

The OIG’s report went on to recommend that the agency’s Chief Financial Officer revise the current *Standard Operating Procedure Grants Improper Payment Review* to include the cost-allowance principles as set forth in 2 C.F.R. Part 200, Subpart E, in its improper payments estimates for the grants payment stream program and provide training to staff on the updated procedure. After reviewing the draft of the report, the EPA agreed with the recommendation. On publication of the final report the OIG considered the recommendation resolved with the corrective action pending. The agency completed the corrective action during the fourth quarter of FY 2021.

Summary of Current Risk Levels in EPA Programs

The Office of Management and Budget has three level to classify federal agency improper payments risk: High Priority, Susceptible to Significant Improper Payments, and Not Susceptible to Improper Payments. None of the agency’s programs were identified as high priority defined under the PIIA as exceeding \$2 billion of annual estimated improper payments. At the end of this fiscal year, all agency programs are now considered not susceptible to improper payments. Notably, in FY 2021, the agency determined that the Grants program is no longer considered susceptible to significant improper payments. Therefore, the program will discontinue annual statistical testing of program grants and undertake qualitative risk assessments on a three-year cycle. 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 Funds	X		

Risk Assessment

Federal agencies are required to conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments. The PIIA requires risk assessments to be conducted at least once every three years for programs that are not susceptible to significant improper payments. For programs that are susceptible to significant improper payments, which until this year consisted of the agency's Grants payment stream the quantitative method used for statistical sampling fulfills the risk assessment requirement.

A quantitative risk assessment can consist of a true statistical sample, 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, or a review of 100 percent of payments sometimes referred to as a census review. A qualitative risk assessment is an evaluation of risk factors that could contribute to the occurrence of significant improper payments EPA utilizes both qualitative and quantitative methods to assess the risk of improper payments in its payment streams.

The following risk factors are addressed in the agency's qualitative risk assessments:

1. whether the program reviewed is new to the agency;
2. complexity of the program reviewed;
3. volume of payments made through the program reviewed;
4. whether payments or payment eligibility decisions are made outside of the agency, such as by a State or local government;
5. recent major changes in program funding, authorities, practices, or procedures;
6. level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
7. significant deficiencies in the audit report or other relevant management findings of the agency that might hinder accurate payment certification;
8. similarities (a combination of outlays, mission, payment process, etc.) to other programs that have reported improper payment and unknown payment estimates or been deemed susceptible to significant improper payments;
9. accuracy and reliability of improper payment and unknown payment estimates previously reported for the program, or other indicator of potential susceptibility to improper payments and unknown payments identified by the OIG of the executive agency, the Government Accountability Office, other audits performed by or on behalf of the Federal, State, or local government, disclosures by the executive agency, or any other means;
10. whether the program lacks information or data systems to confirm eligibility or provide for other payment integrity needs;
11. risk of fraud as assessed by the agency under the Standards for Internal Control in the Federal Government published by the GAO (commonly known as the 'Green Book');
12. results of prior year PIIA compliance report; and
13. whether the agency has adequately addressed the risk factors identified in the Government Charge Card Abuse Prevention Act of 2012.

The qualitative risk assessments consist of a questionnaire designed to evaluate each risk factor in consideration of existing internal controls. Directions for completion are provided to the program managers of each payment stream. They respond to a series of questions and include a brief narrative, as necessary, to develop individual risk factor scores. Upon completion, the scores are tabulated by OCFO providing an overall risk rating for each payment stream ranging from 1 to 5.

If the overall rating is 2.5 or below, the payment stream is considered not susceptible to significant improper payments; if the rating is above 2.6, the payment stream is could be susceptible to significant

improper payments; and if the rating is 4 or above, the payment stream is considered to be at high risk of significant improper payments.

In FY 2021, improper payment risk assessments were performed in commodities, contracts, CWSRF, DWSRF, Hurricane Sandy payroll, purchase cards, and travel, all of which were identified as not susceptible to significant per payments.

Improper Payments and Recoveries

Programs Susceptible to Improper Payments

Table 2 provides information about any EPA’s formerly reportable program (Grants). The information below was required to be gathered and finalized before the final determination that the Grants program was no longer susceptible to significant improper payments. The following results reinforce the Grants program not susceptible determination. The website <https://paymentaccuracy.gov/> contains more detailed information on improper payments as well as all of the information reported in prior year AFRs.

Table 2. Improper Payment Reduction Outlook * (\$ in millions)		
		Grants
FY 2020	\$ Outlays	1,653.12
	\$ Proper	1,636.04
	\$ Improper	17.08
	IP %	1.03%
	Proper %	98.97%
FY 2021	\$ Outlays	1,634.58
	\$ Proper	1,626.39
	\$ Improper	8.18
	IP %	0.50%
	Proper %	99.50%
	\$ Overpay	0.03
	\$ Underpay	0.00
	\$ Insufficient Documentation	8.15
	% Sample Overpaid	6.67%
	% Sample Underpaid	0.00%
	% Sample Insufficient Documentation	93.33%
	Sampling Timeframe Start	Oct 1, 2019
	Sampling Timeframe End	Sept 30, 2020
*With the transition to not susceptible to improper payments, the agency is not required to estimate an improper payments rate for the upcoming fiscal year.		

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

Table 3: Monetary Loss (\$ in millions)					
Program	Estimated Total Monetary Loss to the Government	Monetary Loss within the Agency's Control	Monetary Loss Outside the Agency's Control	Estimated Non-Monetary Loss to the Government	Unknown (Insufficient Documentation to Determine)
Grants	0.03	\$0.00	0.03	0.00	8.15

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			
	Overpayments	Underpayments	Unknown	Totals
Statutory Requirements of Program were not met	0.03	-	-	0.03
Unable to determine whether Proper or Improper	-	-	8.15	8.15
Data/Information Needed Does Not Exist	-	-	-	-
Inability to Access Data/Information	-	-	-	-
Failure to Access Data/Information	-	-	-	-
Totals	0.03	-	8.15	8.18

Recoveries of Improper Payments

PIIA 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 tables quantifies the results of the agency's efforts to identify and recapture overpayments across all payment streams.

Table 5: Overpayments Recaptured Outside of Payment Recapture Audits ⁽¹⁾
(\$ in millions)

Program	Amount Identified in FY 2021	Amount Recovered in FY 2021
Commodities ⁽²⁾	0.133	0.128
Contracts ⁽²⁾	0.323	0.707
CWSRF	0.178	0.117
DWSRF	0.339	0.004
Grants	1.070	0.882
Hurricane Sandy	0.00	0.00
Payroll ⁽³⁾	1.120	0.895
Purchase Cards	0.00	0.00
Travel	< 0.001	<0.001
2018 Disaster Relief	0.00	0.00
Other ⁽⁴⁾	0.473	<0.025
Total	3.637	2.759

Recapture Rate – 76%

- (1) The mounts displayed in this table were identified and recovered using a variety of means available to the Agency.
- (2) The amounts for contracts and commodities do not include lost discounts, which are uncollectible.
- (3) Payroll consists of salary, benefits, and awards. The amount of improper payments can be overstated if this figure also includes adjustments to pay because of e.g., changes to employee grade/step and health plans may lag behind bi-weekly payroll payments.
- (4) "Other" consists of improper payments identified by 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 2021 reporting, improper payments stemming from lost discounts totaled \$10K 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. 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 FYs 2018 - 2021, no improper payments were identified. The EPA currently anticipates the remaining Hurricane Sandy funds will be expended in FY 2022.

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 2021.

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.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The PIIA requires federal agencies to implement the Do Not Pay (DNP) initiative, 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 2021, Treasury screened EPA payments through the following DNP data sources on a post-payment basis: Social Security Administration's Death Master File and the General Services Administration's System for Award Management Exclusion List. Through September 30, 2021, approximately \$2.18 billion of EPA payments were screened, and no improper payments were identified. In addition, 54,646 EPA payments totaling \$4 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.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, the 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. In accordance with this requirement, the EPA promulgated the Civil Monetary Penalty Inflation Adjustment Rule (Rule) on December 23, 2020, which became effective the same day. For details on this Rule, see 85 Fed. Reg. 83818-83821, codified in Table 1 of 40 CFR § 19.4. EPA will amend 40 CFR § 19.4. The EPA will amend 40 CFR § 19.4 by January 15, 2022 to adjust penalty levels for 2022, to reflect changes in inflation since the last adjustment.

Current Statutory Maximum/Minimum Civil Penalties under EPA's 2021 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 December 23, 2020
7 U.S.C. 136l.(a)(1)	FEDERAL INSECTICIDE, FUNGICIDE, AND RODENTICIDE ACT (FIFRA)	1972	2021	\$20,528
7 U.S.C. 136l.(a)(2)	FIFRA	1972	2021	\$3,011
7 U.S.C. 136l.(a)(2)	FIFRA	1978	2021	\$3,011/\$1,940
15 U.S.C. 2615(a)(1)	TOXIC SUBSTANCES CONTROL ACT (TSCA)	2016	2021	\$41,056
15 U.S.C. 2647(a)	TSCA	1986	2021	\$11,803
15 U.S.C. 2647(g)	TSCA	1990	2021	\$9,753
31 U.S.C. 3802(a)(1)	PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)	1986	2021	\$11,803
31 U.S.C. 3802(a)(2)	PFCRA	1986	2021	\$11,803
33 U.S.C. 1319(d)	CLEAN WATER ACT (CWA)	1987	2021	\$56,460
33 U.S.C. 1319(g)(2)(A)	CWA	1987	2021	\$22,584/\$56,460
33 U.S.C. 1319(g)(2)(B)	CWA	1987	2021	\$22,584/\$282,293
33 U.S.C. 1321(b)(6)(B)(i)	CWA	1990	2021	\$19,505/\$48,762
33 U.S.C. 1321(b)(6)(B)(ii)	CWA	1990	2021	\$19,505/\$243,808
33 U.S.C. 1321(b)(7)(A)	CWA	1990	2021	\$48,762/\$1,951
33 U.S.C. 1321(b)(7)(B)	CWA	1990	2021	\$48,762

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 December 23, 2020
33 U.S.C. 1321(b)(7)(C)	CWA	1990	2021	\$48,762
33 U.S.C. 1321(b)(7)(D)	CWA	1990	2021	\$195,047/\$5,851
33 U.S.C. 1414b(d)(1)	MARINE PROTECTION, RESEARCH, AND SANCTUARIES ACT (MPRSA)	1988	2021	\$1,299
33 U.S.C. 1415(a)	MPRSA	1972	2021	\$205,276/\$270,784
33 U.S.C. 1901 note (see 1409(a)(2)(A))	CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO)	2000	2021	\$14,966/\$37,412
33 U.S.C. 1901 note (see 1409(a)(2)(B))	CACSO	2000	2021	\$14,966/\$187,059
33 U.S.C. 1901 note (see 1409(b)(1))	CACSO	2000	2021	\$37,412
33 U.S.C. 1908(b)(1)	ACT TO PREVENT POLLUTION FROM SHIPS (APPS)	1980	2021	\$76,764
33 U.S.C. 1908(b)(2)	APPS	1980	2021	\$15,352
42 U.S.C. 300g-3(b)	SAFE DRINKING WATER ACT (SDWA)	1986	2021	\$59,017
42 U.S.C. 300g-3(g)(3)(A)	SDWA	1986	2021	\$59,017
42 U.S.C. 300g-3(g)(3)(B)	SDWA	1986/1996	2021	\$11,803/\$41,120
42 U.S.C. 300g-3(g)(3)(C)	SDWA	1996	2021	\$41,120
42 U.S.C. 300h-2(b)(1)	SDWA	1986	2021	\$59,017
42 U.S.C. 300h-2(c)(1)	SDWA	1986	2021	\$23,607/\$295,088
42 U.S.C. 300h-2(c)(2)	SDWA	1986	2021	\$11,803/\$295,088
42 U.S.C. 300h-3(c)	SDWA	1974	2021	\$20,528/\$43,792
42 U.S.C. 300i(b)	SDWA	1996	2021	\$24,674
42 U.S.C. 300i-1(c)	SDWA	2002	2021	\$143,621/\$1,436,220
42 U.S.C. 300j(e)(2)	SDWA	1974	2021	\$10,263
42 U.S.C. 300j-4(c)	SDWA	1986	2021	\$59,017
42 U.S.C. 300j-6(b)(2)	SDWA	1996	2021	\$41,120
42 U.S.C. 300j-23(d)	SDWA	1988	2021	\$10,832/\$108,315
42 U.S.C. 4852d(b)(5)	RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992	1992	2021	\$18,364

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 December 23, 2020
42 U.S.C. 4910(a)(2)	NOISE CONTROL ACT OF 1972	1978	2021	\$38,805
42 U.S.C. 6928(a)(3)	RESOURCE CONSERVATION AND RECOVERY ACT (RCRA)	1976	2021	\$102,638
42 U.S.C. 6928(c)	RCRA	1984	2021	\$61,820
42 U.S.C. 6928(g)	RCRA	1980	2021	\$76,764
42 U.S.C. 6928(h)(2)	RCRA	1984	2021	\$61,820
42 U.S.C. 6934(e)	RCRA	1980	2021	\$15,352
42 U.S.C. 6973(b)	RCRA	1980	2021	\$15,352
42 U.S.C. 6991e(a)(3)	RCRA	1984	2021	\$61,820
42 U.S.C. 6991e(d)(1)	RCRA	1984	2021	\$24,730
42 U.S.C. 6991e(d)(2)	RCRA	1984	2021	\$24,730
42 U.S.C. 7413(b)	CLEAN AIR ACT (CAA)	1977	2021	\$102,638
42 U.S.C. 7413(d)(1)	CAA	1990	2021	\$48,762/\$390,092
42 U.S.C. 7413(d)(3)	CAA	1990	2021	\$9,753
42 U.S.C. 7524(a)	CAA	1990	2021	\$48,762/\$4,876
42 U.S.C. 7524(c)(1)	CAA	1990	2021	\$390,092
42 U.S.C. 7545(d)(1)	CAA	1990	2021	\$48,762
42 U.S.C. 9604(e)(5)(B)	COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA)	1986	2021	\$59,017
42 U.S.C. 9606(b)(1)	CERCLA	1986	2021	\$59,017
42 U.S.C. 9609(a)(1)	CERCLA	1986	2021	\$59,017
42 U.S.C. 9609(b)	CERCLA	1986	2021	\$59,017/\$177,053
42 U.S.C. 9609(c)	CERCLA	1986	2021	\$59,017/\$177,053
42 U.S.C. 11045(a)	EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA)	1986	2021	\$59,017
42 U.S.C. 11045(b)(1)(A)	EPCRA	1986	2021	\$59,017
42 U.S.C. 11045(b)(2)	EPCRA	1986	2021	\$59,017/\$177,053
42 U.S.C. 11045(b)(3)	EPCRA	1986	2021	\$59,017/\$177,053
42 U.S.C. 11045(c)(1)	EPCRA	1986	2021	\$59,017
42 U.S.C. 11045(c)(2)	EPCRA	1986	2021	\$23,607
42 U.S.C. 11045(d)(1)	EPCRA	1986	2021	\$59,017

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 December 23, 2020
42 U.S.C. 14304(a)(1)	MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT)	1996	2021	\$16,450
42 U.S.C. 14304(g)	BATTERY ACT	1996	2021	\$16,450

BIENNIAL REVIEW OF USER FEES

This fiscal year, the EPA was not required to review or report on user fee activities. This section reiterates work that was discussed in the FY 2020 Agency Financial Report. The FY 2020 user fee review included options the agency was considering for the FY 2021 user fee program. The agency will review its user fees in FY 2022 and report the results in the FY 2022 AFR.

The CFO Act of 1990 and OMB Circular No. A-25 Revised, User Charges, directs agencies to biennially review their fees, royalties, rents, and other charges and to recommend fee adjustments as appropriate. OMB Circular No. A-25 Revised also directs agencies to review other agency programs and determine whether fees should be initiated for government services or goods for which fees are not currently charged.

The EPA's FY 2020 user fee review found the EPA's existing user fee programs compliant with their statutory requirements regarding the cost recovery of its activities. However, the agency recommended that the Motor Vehicle and Engine Compliance Fee Program provide additional information on the program's estimated cost and their allocation methodologies. In FY 2021, the EPA will review MVECP's additional information and conduct a detailed analysis to ensure fees are aligned with actual program costs and activities.

In FY 2020, the EPA administered the following user fee programs. The bold-highlighted programs are statutorily required to recover the full cost of the services provided.

FY 2020 User Fee Programs	
Pesticides Registration Service Fees	Pesticides Maintenance Fees
Motor Vehicle and Engine Compliance Fee Program	Water Infrastructure Finance and Innovation Act Fees*
e-Manifest Fees*	Toxic Substance Control Act Fees*
Lead-Based Paint Fee Program	Clean Air Part 71 Permit Fees

*New user fee programs

The agency also conducted a review to determine whether fees should be assessed for programs that provide special benefits to recipients beyond those that accrue to the public. The EPA will work with OMB to determine whether exceptions are justified for each program that was reviewed in preparation of the FY 2022 AFR. For some programs, the cost of collecting fees can often represent an unduly large part of the fee activity or other conditions may exist that would cause the implementation of a fee to be inappropriate.

The agency is also exploring options and opportunities for programs where collecting fees may be appropriate, for which the EPA is not recommending an exception to OMB.

GRANTS PROGRAM

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

CATEGORY	2-3 Years FY18-19	>3-5 Years FY17-18	>5 Years Before FY16
Number of Grants/Cooperative Agreements with Zero Dollar Balances	63	40	4
Number of Grants/Cooperative Agreements with Undisbursed Balances	55	18	1
Total Amount of Undisbursed Balances	\$929,196	\$2,893,044	\$241,075

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

Section IV

Appendices



APPENDIX A PUBLIC ACCESS

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

EPA newsroom: www.epa.gov/newsroom

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

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

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

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

EPA's *Regulations* website: <https://www.epa.gov/laws-regulations/regulations>

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

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

EPA regional offices:

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

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

Hotlines and clearinghouses:

<https://www.epa.gov/home/epa-hotlines> Publications:

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

Education resources: www.epa.gov/students/

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

About EPA: www.epa.gov/aboutepa

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

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

EPA for business and nonprofits:

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

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

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

Budget and performance: www.epa.gov/planandbudget

Careers: www.epa.gov/careers/

EPA en Español: espanol.epa.gov

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

EPA 한국어로: <https://www.epa.gov/lep/korean>

APPENDIX B ACRONYMS AND ABBREVIATIONS

ACE	Affordable Clean Energy	GHG	Greenhouse Gases
ADA	Anti-deficiency Act	GMO	Grants Management Office
ADP	Action Development Process	GSA	U.S. General Services Administration
AFR	Agency Financial Report	GTAS	Governmentwide Treasury Accounting Symbol Adjusted Trial Balance System
AICPA	American Institute of Certified Public Accountants	HVAC	Heating, Ventilation, and Air Conditioning
APPS	Act to Prevent Pollution from Ships	IA	Interagency Agreement
APR	Annual Performance Report	IBC	Interior Business Center
ASAP	Automated Standard Application for Payments	IPIA	Improper Payments Information Act
B&F	Building and Facilities	IPP	Invoice Processing Platform
BFS	Bureau of Fiscal Services	IRIS	Integrated Risk Information System
BP	British Petroleum	IT	Information Technology
CAA	Clean Air Act	LUST	Leaking Underground Storage Tank
CACSO	Certain Alaskan Cruise Ship Operations	MOU	Memorandum of Understanding
CARES	Coronavirus Aid, Relief and Economic Security Act	MVECP	Motor Vehicle and Engine Compliance Fee Program
CEC	Commission of the North American Agreement on Environmental Cooperation	MPRSA	Marine, Protection, Research, and Sanctuaries Act
CERCLA	Comprehensive Environmental Response Compensation and Liability Act	NAS	National Academy of Sciences
CDPHE	Colorado Department of Public Health and Environment	NEIC	National Enforcement Investigations Center
CFO	Chief Financial Officer	NPL	National Priorities List
CFR	Code of Federal Regulations	NRDA	Natural Resource Damages Assessment
CO	Contracting Officer	OCE	Office of Civil Enforcement
CSRS	Civil Service Retirement System	OECA	Office of Enforcement and Compliance Assurance
CW	Clean Water	OCFO	Office of the Chief Financial Officer
CWA	Clean Water Act	OFR	Office of the Federal Register
CWSRF	Clean Water State Revolving Fund	OGD	Office of Grants and Debarment
		OIG	Office of Inspector General
		OMB	Office of Management Budget
		OPA	Oil Pollution Act
		OPM	Office of Personnel Management
		OPP	Office of Pesticide Program

DATA	Data Accountability and Transparency Act	OPPTS	Office of Pollution Prevention and Toxics
		ORD	Office of Research and Development
DCAA	Defense Contract Audit Agency	PFCRA	Program Fraud Civil Remedies Act
DM&R	Deferred Maintenance and Repairs	PIIA	Payment Integrity Information Act
DNP	Do Not Pay	PMA	President's Management Agenda
DW	Drink Water	PO	Project Officer
DWH	Deepwater Horizon	PFAS	Per-and Polyfluoroalkyl Substance
DWSRF	Drinking Water State Revolving Fund	PP&E	Plant, Property and Equipment
EDSP	Endocrine Disruptor Screening Program	PRASA	Puerto Rico Aqueduct and Sewer Authority
EJ	Environmental Justice	PRIA	Pesticides Registration Improvement Act
EO	Executive Order	PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
EPA	U.S. Environmental Protection Agency	PRP	Potential Responsible Party
EPCRA	Emergency Planning and Community Right-to-know Act	RCRA	Resource Conservation and Recovery Act
		R&I	Repair and Improvement
EPM	Environmental Programs and Management	RMDS	Resource Management Directives System
FAR	Federal Acquisition Regulations	RTF	Reduce the Footprint
FAS	Fixed Assets Subsystem	RTP	Research Triangle Park
FASAB	Federal Accounting Standards Advisory Board	SARA	Superfund Amendments and Reauthorization Act
FBWT	Fund Balance with Treasury	SDWA	Safe Drinking Water Act
FECA	Federal Employees Compensation Act	SCORPIO	Superfund Cost Recovery Package Imaging and Online System
FERS	Federal Employees Retirement System	SFFAS	Statement of Federal Financial Accounting Standards
FFMIA	Federal Financial Management Improvement Act of 1996	SOP	Standard Operating Procedures
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act	SRF	State Revolving Fund
FISMA	Federal Information Security Modernization Act	SSC	Superfund State Contracts
FMFIA	Federal Managers' Financial Integrity Act of 1982	S&T	Science & Technology
		STAG	State and Tribal Assistance Grants
FR	Financial Report	TED	Talent Enterprise Diagnostic
FRPP	Federal Real Property Profile	Treasury	U.S. Department of Treasury
		TSCA	Toxic Substance Control Act
		ULO	Unliquidated Obligation

FY	Fiscal Year	U.S.C.	United States Code
GAAP	Generally Accepted Accounting Principles	USSGL	U.S. Standard General Ledger
		WCF	Working Capital Fund
GAO	Government Accountability Office	WIFIA	Water Infrastructure Finance and Innovation Act

WE WELCOME YOUR COMMENTS!

Thank you for your interest in the U.S. Environmental Protection Agency's *Fiscal Year 2021 Agency Financial Report*. We welcome your comments on how we can make this report a more informative document for our readers. Please send your comments to:

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