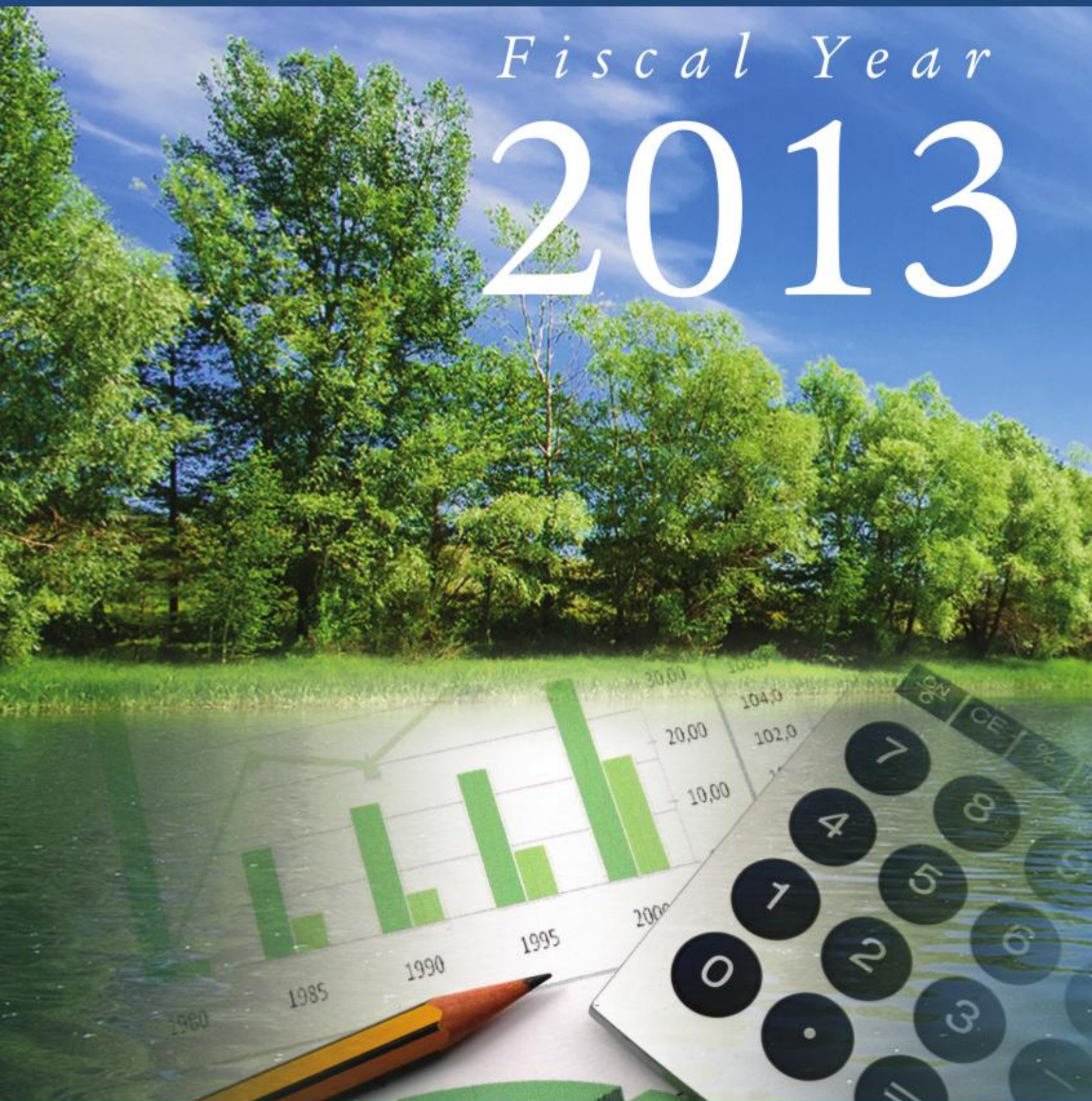


# AGENCY FINANCIAL REPORT

*Fiscal Year*  
**2013**



U.S. ENVIRONMENTAL PROTECTION AGENCY

## ABOUT THIS REPORT

The U.S. Environmental Protection Agency (EPA) is producing a Fiscal Year (FY) 2013 *Agency Financial Report (AFR)*, an *Annual Performance Report (APR)*, and an *FY 2013 Financial and Program Performance Highlights*, in accordance with Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

EPA's *AFR* describes the agency's financial and high-level performance during FY 2013. This allows the President, Congress, and the public to evaluate the Agency's accomplishments during the year beginning October 1 through September 30. The *FY 2013 AFR* contains EPA's *FY 2013 Financial Statements Audit Report* and *FY 2013 Management Integrity Act Report*. These reports present the Administrator's assurance statement on the soundness of the Agency's internal controls for financial and programmatic activities and report on progress toward addressing Office of Inspector General (OIG) audit recommendations.

EPA's *FY 2013 APR* provides information on the Agency's performance and progress toward achieving the goals established in its *FY 2011–2015 Strategic Plan* and FY 2013 performance budget. The *APR* is prepared according to the requirements set forth in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. EPA will produce the *FY 2013 APR* in conjunction with the FY 2014 Congressional Budget Justification and will post it on the Agency's website at <http://www2.epa.gov/planandbudget/results> by February 2014.

Additionally, EPA will publish an online *Financial and Program Performance Highlights* presenting key financial and performance information from both the *AFR* and *APR* in a brief, nontechnical, user-friendly format. *Highlights* information will be available on the Agency's website at <http://www2.epa.gov/planandbudget/> by February 2014.

### How the Report Is Organized

#### Administrator's Letter

The Administrator's letter transmits EPA's *FY 2013 AFR* from the Agency to the President and Congress. The letter assures financial and performance data presented in the *AFR* is reliable and complete. The letter also assures that the report communicates significant internal control weaknesses and actions EPA is taking to resolve them.

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

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

#### Section II—Financial Section

This section includes the Message from the Chief Financial Officer and the Agency's financial statements, related Independent Auditor's Report, and other information on the Agency's financial management.

#### Section III—Other Accompanying Information

This section provides additional material, as specified under OMB Circular A-136, *Financial Reporting Requirements*. The subsection titled “Management Challenges and Integrity Weaknesses” discusses EPA's progress toward strengthening management practices to achieve program results and presents the Inspector General's (IG's) list of top management challenges and associated Agency's response.

## **Appendices**

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



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## ADMINISTRATOR'S LETTER

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



Dear Mr. President:

I am submitting to you the first of three financial and performance reports on the U.S. Environmental Protection Agency's operations in FY 2013, the EPA's *Fiscal Year 2013 Agency Financial Report*. This report provides you, the Congress and the American public the opportunity to review the EPA's financial information, how we manage the funds entrusted to us and the progress we have made to further environmental protection and the health of all Americans.

I am pleased to report that our financial and performance data are reliable and complete and provide full transparency into our program operations. I also have highlighted some of our key accomplishments during fiscal year 2013.

### **Proposed Carbon-Pollution Standards for New Power Plants**

On September 20, 2013, the EPA proposed Clean Air Act standards to cut carbon pollution from new power plants. These proposed standards will combat climate change and improve public health. They will also spark the innovation we need to build the next generation of power plants while helping to grow a more sustainable clean-energy economy. We also initiated broad-based outreach and direct engagement with state, tribal and local governments, industry and labor leaders, nonprofits and others to begin consideration of carbon-pollution standards for existing power plants and build on state efforts to move toward a cleaner power sector.

### **Strengthened the EPA's Chemical Assessment Process**

One of the commitments I have made during my tenure at the EPA is to take action on toxics and to strengthen chemical safety in communities across the nation. Recently, the EPA made changes to our Integrated Risk Information System program to improve the scientific foundation of chemical assessments, increase transparency in the program and the process and allow our scientists to complete a higher number of IRIS assessments each year. The improvements are designed to enable us to better protect human health and the environment by completing more health assessments for chemicals that are being used across our nation every day. In addition, the agency is using a three-pronged approach to ensure the safety of chemicals for our families and children, focusing on: assessing chemicals with known health effects; increasing accessibility and usability of chemical information; and promoting the design and use of safer chemicals. This year, EPA launched ChemView, an easy-to-use online database with information on more than 1,500 chemicals that can help businesses, consumers, and others make more informed decisions about the chemicals they use. We also added more than 100 chemicals to the Safer Chemical Ingredient List this year to help

manufacturers make safer products and issued a new rule to help protect Americans from potentially harmful chemicals in carpets.

### **Modernized Reporting**

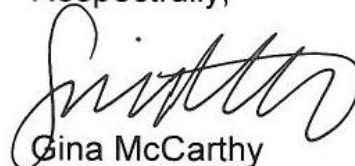
Continuing my predecessor's actions to bring the EPA's work into the 21<sup>st</sup> century, we are furthering our efforts to enable businesses to routinely conduct electronic environmental business transactions with regulators. For example, the EPA proposed a rule that would modernize Clean Water Act reporting processes for hundreds of thousands of municipalities, industries and other facilities by converting to an electronic-data reporting system. In addition to dramatically cutting costs for states and other regulatory authorities, the e-reporting rule could expand transparency by making it easier for everyone to quickly access critical data on pollution that might be affecting communities. The agency is also developing an e-manifest tool to help the regulated community share information on practices associated with managing hazardous materials. Finally, to increase the speed at which EPA can provide the public access to accurate chemical information, EPA issued a final rule to require companies to submit electronically a range of TSCA data, including new chemical submissions for agency review.

### **Management**

To carry out our critical work to protect American's health and our communities, our internal management systems, financial controls and careful oversight of funds utilization are key to our success. We continue to focus on strengthening our internal controls to ensure that the agency efficiently and effectively achieves its mission. As part of this effort, corrective actions are already under way to address the weaknesses and significant deficiencies identified during FY 2013. My assurance statement, as required under the Federal Managers' Financial Integrity Act, appears in Section I, "Management's Discussion and Analysis," of this report. Additional information on EPA's internal-control weaknesses is available in Section III, "Other Accompanying Information," of this report.

I look forward to providing you with the EPA's FY 2014-2018 strategic plan, which will outline our vision for protecting the environment and people's health in every community during the next four years and beyond. We continue to build upon our successes, address new demands and challenges that arise and strive to maximize our resources to the benefit of Americans, their health and their communities.

Respectfully,



Gina McCarthy

## ***Section I***

# ***Management's Discussion and Analysis***



# ABOUT EPA

## History and Purpose

EPA was created in 1970 in response to growing concern over the impacts of pollution on the nation's air, water, and land. Its formation united federal environmental research, monitoring, standard-setting, and enforcement responsibilities in a single, independent agency pursuing one mission: to protect human health and the environment.

In its first four decades, EPA has made great strides in protecting people in the places where they live, play, work, and learn. A clean, safe environment is vital to the health and economic prosperity of every community. By conducting focused cleanup efforts, monitoring and regulating pollutants, evaluating new chemicals, and encouraging reuse, recycling, and better environmental decision-making, EPA is creating a healthier national environment for today and for the future.

EPA's successes have not been achieved alone. The Agency safeguards a nation with multi-faceted environmental issues; solving them requires effective cooperation among diverse stakeholders at all levels. From international organizations working on global environmental issues to grassroots community groups addressing challenges in their own backyards, EPA welcomes the opportunity to collaborate with its many partners to develop innovative approaches and realize common benefits.

Addressing the myriad challenges of modern environmental threats will continue to require fresh thinking and new solutions at every level—from the global to the national to the local. The necessity of success will continue to drive EPA as it works with its partners and stakeholders to identify, evaluate, and execute scientifically sound, sustainable solutions.



*Then and now: The Cuyahoga River at present (top) and on fire in 1952. When another fire broke out in 1969, it helped launch the modern environmental movement including the establishment of the Clean Water Act and the founding of EPA.*

## Mission

### **What EPA Does...**

- ✓ *Develops and enforces regulations*
- ✓ *Gives grants to states, local communities, and tribes*
- ✓ *Studies environmental issues*
- ✓ *Sponsors partnerships*
- ✓ *Teaches people about the environment*
- ✓ *Publishes information*

EPA's mission is "to protect human health and the environment."

EPA's science provides the foundation for Agency decision-making and the basis for understanding and preparing to address future environmental needs and issues.

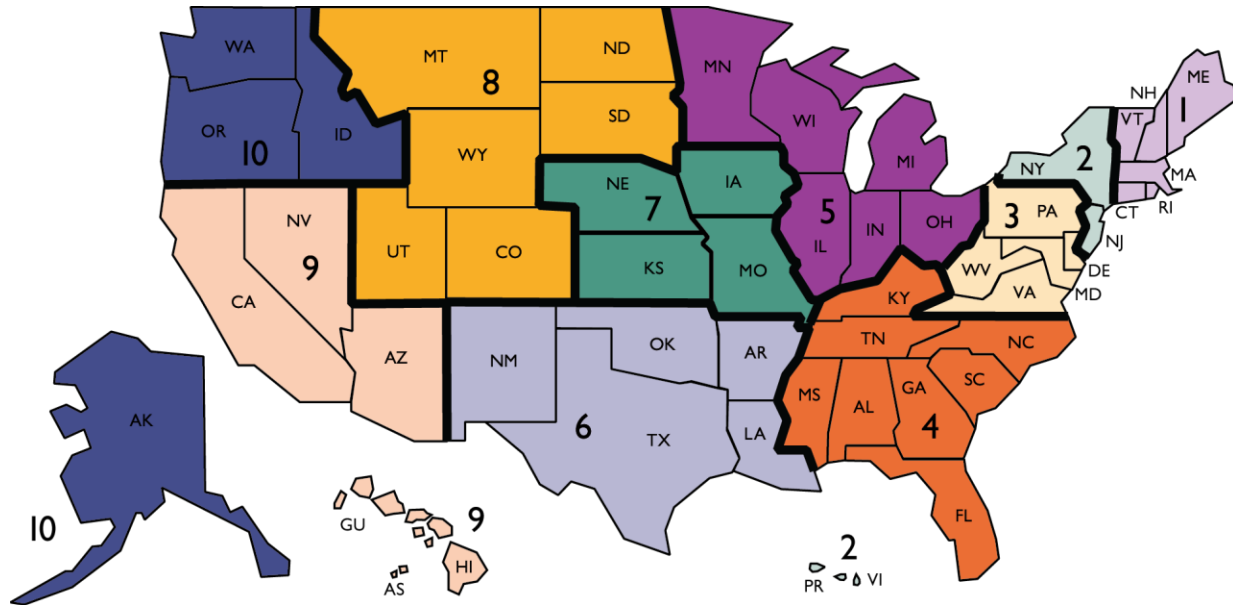
Increased transparency is vital for improving programmatic and financial performance. By making environmental information both available and understandable, EPA advances its work and furthers public trust in its operations.

## Organization

EPA's headquarters are in Washington, D.C. Together, EPA's headquarters offices, 10 regional offices, and more than a dozen laboratories and field offices across the country employ approximately 16,000 highly educated, technically trained men and women.



## Regional Map



## Collaborating With Partners and Stakeholders

EPA, states, and tribes share responsibility for implementing environmental laws and policies to protect human health and the environment. The federal government alone cannot begin to address all of the nation's environmental challenges. Today's complex environmental issues require cooperative and transparent action.

EPA works in concert with the states, tribes, local governments, and other federal agencies that constitute our country's environmental protection enterprise to ensure the efficiency, efficacy, and coordination of our distinct, joint, and complementary efforts. Work must be shared, roles must be refined, and stronger, more efficient and cost-effective partnerships must be built to ensure continued joint success. EPA works with its co-regulators as well as the regulated community, private industry, nonprofit organizations, and the public to build new tools and strategies that enhance coordination, establish joint priorities, manage resources effectively, and share information through E-Enterprise. E-Enterprise is a joint initiative of states and EPA to improve environmental outcomes and enhance service to the regulated community and the public by maximizing the use of advanced monitoring and information technologies, optimizing operations, and increasing transparency.

## A Framework for Performance Management

To carry out its mission to protect human health and the environment, and in compliance with the Government Performance and Results Modernization Act of 2010, EPA develops a *Strategic Plan* (<http://www2.epa.gov/planandbudget/strategicplan>) that establishes its long-term strategic goals, supporting objectives, and measures. To promote achievement of these goals and objectives, EPA commits to a suite of annual performance measures established in its *Annual Performance Plan and Budget*. The Agency reports its results against these annual performance measures and discusses progress toward longer term objectives and measures in its *Annual Performance Report*.

# EPA's Performance Management System



## FY 2013 Advances in Performance Management

During FY 2013, EPA designed and implemented a number of key initiatives to further strengthen its performance management system.

**Development of the FY 2014–2018 Strategic Plan:** EPA is drafting its *FY 2014–2018 Strategic Plan*, which will reflect [seven themes](#) to set the Agency's direction over the next four years. Developing a new Strategic Plan gives the Agency an important opportunity to reflect upon its progress to date and to work with its partners to refine priorities and strategies for advancing environmental and human health protection. EPA expects to issue its new Strategic Plan in early 2014.

**Agency Performance Reviews:** EPA's Deputy Administrator meets with senior leadership quarterly to discuss progress on the [Agency Priority Goals](#) (APGs) and twice a year (mid-year and end-of-year) to discuss progress toward the five goals and five cross-cutting fundamental strategies established in the [Agency's FY 2011–2015 Strategic Plan](#). EPA officials use this forum to discuss performance information and the impact of resource levels on Agency priorities and strategies. During the FY 2013 mid-year review, the Agency focused on how results could inform the development of the new Strategic Plan, the FY 2014–2015 APGs, and the Agency's FY 2015 Budget.

**Agency Priority Goals:** In FY 2013, EPA completed implementation of FY 2012–2013 Action Plans for each of its five APGs and documented progress toward the Cross-Agency Priority Goal for Cybersecurity. In addition to quarterly internal discussions, EPA reported progress under each Action Plan on <http://www.performance.gov> and will discuss end-of-year progress for these APGs in its *FY 2013 Annual Performance Report*. During FY 2013, the Agency also drafted FY 2014–2015 APGs as it

developed its FY 2014–2018 draft Strategic Plan. Final FY 2014–2015 APGs will be presented in the *FY 2014–2018 Strategic Plan*.

***Streamlined Performance Reporting:*** In February 2013, the Agency issued its first Web-based [\*Financial and Performance Highlights\*](#). Internally, the Agency continued to increase its use of the Performance Dashboard, which provides access to performance information for Agency managers to use in assessing program and performance status. Managers can view the results of their programs (as well as progress of other programs and regions) across time, determine whether they are meeting their annual targets, and communicate results at mid-year and end-of-year performance reviews. EPA continued to work with [OMB](#) to better use <http://www.performance.gov> to make performance information easily accessible to the public.

***Enhanced Stewardship:*** To increase attention to stewardship responsibilities for managing programs and resources effectively and efficiently, EPA piloted new comprehensive Management Accountability Reviews in selected program and regional offices. The reviews focus attention on the Agency's responsibilities for audit management and implementation of the Federal Managers' Financial Integrity Act (FMFIA), helping to ensure that EPA programs and activities are managed to prevent waste, fraud, and abuse.



## 2013 PROGRAM PERFORMANCE

During FY 2013, EPA and its partners achieved significant results under the long-term environmental goals and cross-cutting fundamental strategies established in the Agency's *FY 2011–2015 Strategic Plan*.

EPA's progress in implementing its cross-cutting fundamental strategies and detailed FY 2013 performance results by strategic goal will be presented in the *FY 2013 APR*, which the Agency will issue with its *FY 2015 Congressional Budget Justification* and post on its website at <http://www2.epa.gov/planandbudget/results> in February 2014.

### STRATEGIC GOALS

- Goal 1: Taking Action on Climate Change and Improving Air Quality
- Goal 2: Protecting America's Waters
- Goal 3: Cleaning Up Communities and Advancing Sustainable Development
- Goal 4: Ensuring the Safety of Chemicals and Preventing Pollution
- Goal 5: Enforcing Environmental Laws

### CROSS-CUTTING FUNDAMENTAL STRATEGIES

- Expanding the Conversation on Environmentalism
- Working for Environmental Justice and Children's Health
- Advancing Science, Research and Technological Innovation
- Strengthening State, Tribal and International Partnerships
- Strengthening EPA's Workforce and Capabilities

### Strategic Goals

#### Goal 1: Taking Action on Climate Change and Improving Air Quality

As part of its mission to protect human health and the environment, EPA develops national programs, policies, and regulations for [controlling air pollution](#) and [radiation exposure](#). In June 2013, President Obama issued a [Presidential Memorandum](#) directing EPA to work expeditiously to complete carbon pollution standards for the power sector. In September 2013, EPA achieved the first milestone outlined in the Memorandum, proposing [Clean Air Act standards](#) to cut carbon pollution from new power plants. EPA has also initiated broad-based outreach and direct engagement with external stakeholders to establish carbon pollution standards for existing power plants and build on state efforts to move toward a cleaner power sector.

In March 2013, EPA proposed [Tier 3 Motor Vehicle Emissions and Fuel Standards](#) for cars and gasoline that will significantly reduce harmful pollution and prevent thousands of premature deaths and illnesses, while also enabling efficiency improvements in the cars and trucks we drive. Once fully implemented, the standards will help avoid up to 2,400 premature deaths per year and 23,000 cases of respiratory ailments in children. The proposal will reduce emissions of harmful pollutants, including smog-forming volatile organic compounds and nitrogen oxides, by 80 percent; establish a 70 percent tighter particulate matter standard; and reduce fuel vapor emissions to near zero. The proposal will also reduce vehicle emissions of toxic air pollutants, such as benzene and 1,3-butadiene, by up to 40 percent and reduce gasoline sulfur levels by more than 60 percent—down to 10 parts per million in 2017.

The Agency took important steps to improve air quality by strengthening the annual health [National Ambient Air Quality Standard](#) for fine particles (PM<sub>2.5</sub>) to a level within a range of 13.0 to 12.0 micrograms per cubic meter. The Agency retained the existing standards for coarse particle pollution (PM<sub>10</sub>) and also finalized the [Renewable Fuel Standard program](#) for cellulosic biofuel, biomass-based diesel, advanced biofuel, and total renewable fuel. These standards ensure that produced or imported

gasoline and diesel sells in the United States with the minimum volume of renewable fuel required by the Energy Independence and Security Act of 2007.

The Agency also developed a number of tools to help business, industry, and the public better understand and address the impacts of a changing climate. In response to the President's call to make commercial buildings 20 percent more energy efficient, EPA upgraded the [ENERGY STAR Portfolio Manager](#). This tool allows businesses to track and assess energy and water consumption across a portfolio of buildings in a secure online environment. The Agency has also developed a [mobile emissions monitoring platform](#) that has been effectively applied to characterize emissions near source environments, including roadways, refineries, and oil and gas production pad studies in various states. Lastly, the Agency released the [National Stormwater Calculator](#), the first phase of the Stormwater Calculator and Climate Assessment Tool package announced in the President's Climate Action Plan. This tool allows planners and property owners to assess how green infrastructure can be used to reduce rainwater runoff from development sites.

## **Goal 2: Protecting America's Waters**

EPA coordinates with states, tribes, and other partners to ensure that our drinking water is safe and that aquatic ecosystems are sustained for economic and recreational activities, while providing a healthy habitat for fish, plants, and wildlife.

In FY 2013, EPA strengthened the Clean Water Act (CWA) [Section 319 program](#) by releasing the [final Nonpoint Source Program and Grants Guidelines for States and Territories](#). Under the reformed Section 319, states must allot 50 percent of funds for watershed projects to restore impaired waters. The final guidelines also use state planning processes to strategically focus resources, better leverage funds, and focus on accountability for 319-funded outcomes. Once the guidelines are implemented, states and tribes can better use 319 funds to address the most pressing Nonpoint Source Program issues.

EPA signed the final [2013 National Pollutant Discharge Elimination System \(NPDES\) Vessel General Permit](#) for another five years. This permit will cover 700,000 vessels, ensuring that vessels do not introduce invasive species to U.S. waters and reducing the toxicity level and volume of pollutant discharge (e.g., oils) to the nation's waterways. To develop appropriate science-based limits for the permit, EPA commissioned independent studies by both the [EPA Science Advisory Board](#) and the [U.S. National Research Council](#), successfully sought and concluded Endangered Species Act consultations, developed vessel discharge types documents, and conducted an economic analysis evaluating the cost of the permit. EPA issued the permit more than eight months ahead of its effective date to provide the regulated community time and flexibility to come into compliance with the permit's new requirements.

Under the Great Lakes Restoration Initiative, EPA, along with 15 other federal agencies, is working to clean up and delist Great Lakes Areas of Concern. In FY 2013, [Presque Isle Bay](#) became the second Great Lakes Area of Concern delisted in the United States since the Great Lakes Water Quality Agreement was signed in 1972. The delisting was based on the success of various cleanup activities in the bay. For example, changes to the city of Erie's collection, conveyance, and treatment systems reduced sewer overflow and stormwater runoff into the bay.

## **Goal 3: Cleaning Up Communities and Advancing Sustainable Development**

One of EPA's top priorities is to support sustainable, thriving communities by reducing waste, minimizing the use of resources, and cleaning up contaminated sites.

To respond to [Hurricane Sandy](#), EPA quickly activated the [Emergency Operation Centers](#) and assessed 105 Superfund removals and 142 long-term remedial sites in the storm's path to determine what damage Hurricane Sandy may have caused; supplemental funds were provided for response actions at four Superfund sites. EPA also supported debris management and recovery operations and partnered closely with the Federal Emergency Management Agency and the states of New York and New Jersey to investigate more than 1,000 underground storage tanks for potential damage.

EPA works closely with communities to encourage renewable energy development on current and formerly contaminated lands, landfills, and mine sites. In FY 2013, Harvard University's Kennedy School selected [EPA's RE-Powering America's Land Initiative](#) as one of the 25 finalists for the [Innovation in American Government Award](#). Since RE-Powering's inception, more than 85 renewable energy projects have been installed on contaminated sites or landfills, with a cumulative installed capacity of over 507 megawatts. Across the country, landfills have been turned into solar arrays and abandoned industrial sites into wind farms creating economic opportunities.

To support the Obama Administration's Investing in Manufacturing Communities Partnership, EPA is promoting the use of brownfield sites to encourage new manufacturing in areas previously used for industrial purposes. Communities are being charged to recycle vacant and abandoned properties for productive uses and to improve local economies. EPA convened community workshops focused on land revitalization and developed a technical assistance "playbook" for communities seeking new manufacturing investment.

EPA, along with the Occupational Safety and Health Administration and the Bureau of Alcohol, Tobacco, Firearms and Explosives issued a chemical advisory that provides information on the hazards of ammonium nitrate storage, handling, and management. This advisory outlines lessons learned for facility owners and operators, emergency planners, and first responders from recent incidents, including the explosion at a fertilizer plant in West, Texas, involving ammonium nitrate, in order to prevent similar incidents. This action supports the goals of President Obama's [Executive Order on Improving Chemical Facility Safety and Security](#).

In consultation with federal tribes, the Agency released the [Indian Environmental General Assistance Program Guidance on the Award and Management of General Assistance Agreements for Tribes and Intertribal Consortia](#). This guidance supersedes previous guidance and establishes a new framework for tribes and EPA, including the development of joint tribal-EPA environmental work plans to build tribal environmental protection program capacities.

#### **Goal 4: Ensuring the Safety of Chemicals and Preventing Pollution**

In FY 2013, EPA took a number of actions under the Toxic Substances Control Act (TSCA) to ensure the safety of chemicals in commerce. The Agency identified 83 chemicals in March 2012 that, if warranted, will be targeted for risk assessments and risk management over the coming years. Of these 83, EPA has now released for public comment [five draft risk assessments](#) for chemicals found in common household products. In March 2013, EPA announced plans to begin [assessments on another 23 commonly used chemicals](#), including 20 flame retardants.

In addition, EPA increased transparency and met its accelerated FY 2013 target for reviewing and where appropriate, challenging and declassifying, [confidential business information \(CBI\) claims](#) under the TSCA. Through FY 2013, approximately 78 percent of the 22,483 existing CBI cases have been addressed, positioning EPA to complete this effort by the end of FY 2014, a year ahead of schedule.

Access to and use of chemical information is critical to federal, state, and other governmental decision-makers, as well as to the public, in making informed choices about chemicals, products, and technologies. In September 2013, EPA launched a Web-based tool, [ChemView](#), to significantly improve access to chemical-specific regulatory information developed by EPA and data submitted under the TSCA. ChemView facilitates comparison of chemicals by use and by health or environmental effects, providing more streamlined access to EPA assessments, hazard characterizations, and information on safer chemical ingredients, as well as links to information on manufacturing, processing, use, and release data reported under the Chemical Data Reporting Rule and the Toxics Release Inventory.

To continue promoting pollution prevention, more than 500 manufacturers may use the [Design for the Environment](#) logo on more than 2,500 products. In FY 2013, the agency expanded the [Safer Chemical Ingredients](#) list, which now includes more than 600 safer chemicals. For the first time, 119 fragrance chemicals for commercial and consumer cleaning products have been added to the list.

A U.S. delegation, including representatives from EPA and led by the U.S. Department of State, participated in the fifth and final round of negotiations to establish a legally binding convention directed at reducing global mercury pollution. The [Minamata Convention](#) requires countries to reduce mercury emissions from power plants and other sources, reduce the use of mercury in certain products and industrial processes, and reduce and where feasible eliminate the use and release of mercury in artisanal gold mining; the Convention also addresses mercury supply and trade. EPA worked successfully with the State Department to conclude negotiations of this legally binding convention and completed an assessment of U.S. readiness to sign and join it. In November 2013, the United States signed the Convention and deposited its instrument of acceptance to enable the United States to become a party.

## **Goal 5: Enforcing Environmental Laws**

EPA works to ensure compliance with environmental laws and requirements to protect human health and the environment, and takes civil or criminal enforcement actions for violations that threaten communities and the environment. Over the past year, EPA finalized a number of key cases and worked to make environmental and enforcement information more accessible to the public. EPA is developing a comprehensive initiative to convert to 21<sup>st</sup>-century electronic reporting technology.

To further the *E-Enterprise* initiative, increase transparency, and support “[Next Generation Compliance](#),” EPA proposed the [NPDES Electronic Reporting Rule](#) to modernize reporting processes for NPDES permittees. Under this rule, facility-specific information, such as inspection and enforcement history, pollutant monitoring results, and other data required by permits would be reported electronically and made available on [EPA’s website](#), which could save the states about \$29 million each year. The Agency also modernized its [Enforcement and Compliance History Online \(ECHO\) website](#), which now offers interactive state dashboards and comparative maps and makes federal and state inspection, violation, and enforcement action information available to the public for more than 800,000 regulated facilities.

For its role in the [2010 Deepwater Horizon](#) disaster, [BP Exploration and Production Inc.](#) was sentenced to pay over \$4.4 billion in criminal fines and penalties after pleading guilty to 11 counts of felony manslaughter, one count of felony obstruction of Congress, and violations of the Clean Water and Migratory Bird Treaty Acts. More than half of the funds will be used to directly benefit the Gulf Coast region through acquiring, restoring, preserving, and conserving the marine and coastal environments, ecosystems, and bird and wildlife habitat in the Gulf of Mexico and bordering states harmed by the *Deepwater Horizon* oil spill. The funds will also support significant barrier island restoration and improved oil spill prevention and response efforts in the Gulf.

[Transocean Deepwater Inc.](#) also pleaded guilty for its role in the Deepwater Horizon disaster, agreeing to pay a total of \$1.4 billion in civil penalties and criminal fines for violating the CWA. Transocean Deepwater Inc. was sentenced to pay \$400 million in criminal fines, received five years' probation (the maximum probation term permitted by law), and must continue its ongoing cooperation in the government's criminal investigation. Transocean Ocean Holdings LLC, Transocean Offshore Deepwater Drilling Inc., Transocean Deepwater Inc., and Triton Asset Leasing GMBH agreed to pay an additional \$1 billion to resolve federal CWA civil penalty claims for the massive, three-month-long oil spill at the Macondo Well and the Transocean drilling rig *Deepwater Horizon*. Eighty percent of the \$1 billion will be used to fund projects that will benefit the environment and economy in the Gulf region.



## FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

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

EPA carries out its mission to protect human health and the environment while adhering to the highest standards for financial management. Highlighted below are some of EPA's most significant financial achievements in FY 2013:

- **Clean audit opinion.** For the 14<sup>th</sup> consecutive year, EPA's OIG issued an unqualified/unmodified or "clean" audit opinion on the Agency's financial statements. This means that EPA's financial statements are presented fairly in all material aspects, and they conform to generally accepted accounting principles used by the federal government. In simple terms, a clean opinion means the Agency's numbers are reliable and accurate.
- **Tightened conference spending and oversight.** EPA implemented a robust set of controls related to conference spending in FY 2012 and FY 2013. In FY 2013, EPA initiated detailed reporting to the public and OIG on conferences, providing greater transparency to the public on the scope and scale of EPA conferences. These controls have contributed toward an overall 29 percent reduction in travel expenditures from FY 2012 to FY 2013.
- **Policy verification.** EPA finalized its comprehensive review of internal controls over American Recovery and Reinvestment Act (ARRA) funds during FY 2013, as part of its Policy Verification Compliance Initiative. This initiative evaluated the Agency's implementation of the ARRA while also fostering managerial integrity and accountability by enabling early identification and resolution of potential areas of weakness.
- **Timely payments.** EPA paid 97 percent of its invoices on time, and the improper payments rate was less than 0.04 percent. This means EPA paid the correct amount on time and to the correct recipient in nearly every instance. Additionally, the Agency paid 100 percent of its grant payments electronically.
- **Strengthened internal controls over payments.** EPA revised its statistical methods and approach for testing the accuracy and compliance of payments. Additionally, the Agency incorporated the Do Not Pay solution, a data mining tool that enables it to identify potential improper payments made to ineligible recipients. Together, these efforts help EPA recoup erroneous payments, prevent future errors from occurring, and better identify the root causes of payment errors.
- **Improvements in travel payment processing.** The Agency implemented a new policy requiring employees to scan 100 percent of their travel receipts into EPA's electronic travel booking and processing system, allowing the agency to audit travel vouchers as they are paid. This increases efficiency by reducing the number of days needed for reimbursement, reducing delinquencies, and strengthening control over Agency travel expenses.
- **Improved employee time and attendance.** The Agency implemented new internal controls over employee time and attendance reporting. These controls will ensure that EPA employees are following appropriate procedures and that the Agency pays employees accurately.
- **Upgraded data quality control.** The Agency implemented routine reviews of budget table balances against the general ledger balances for consistency and accuracy. This new process ensures greater data quality control, leading to better overall management of the Agency's financial systems.


- **Increased oversight of user fee programs.** In FY 2013, EPA implemented a new process for conducting biennial reviews of its user fee programs. This process helps the Agency improve its estimated costs of providing user fee services and assists programs in conducting more detailed reviews.
- **Balanced checkbook.** The Agency general ledger matches the fund balance records maintained by the Department of the Treasury. This match translates to greater integrity of financial reports and budget results.

## Financial Condition and Results

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

EPA prepares four consolidated statements, including: 1) Balance Sheet, 2) Statement of Net Cost, 3) Statement of Changes in Net Position, and 4) Statement of Custodial Activity, and one combined statement, the Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of EPA's financial situation. Reviewers can glean a snapshot of the Agency's overall financial condition by examining key pieces of information from these statements. The complete statements with accompanying notes, as well as the auditor's opinion, are available in Section II of this report.

The **Balance Sheet** displays assets, liabilities, and net position as of September 30, 2013, and September 30, 2012. The **Statement of Net Cost** shows EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of EPA's financial condition—assets, liabilities, net position, and net cost of operations. The chart that follows depicts the Agency's financial activity levels since FY 2011.



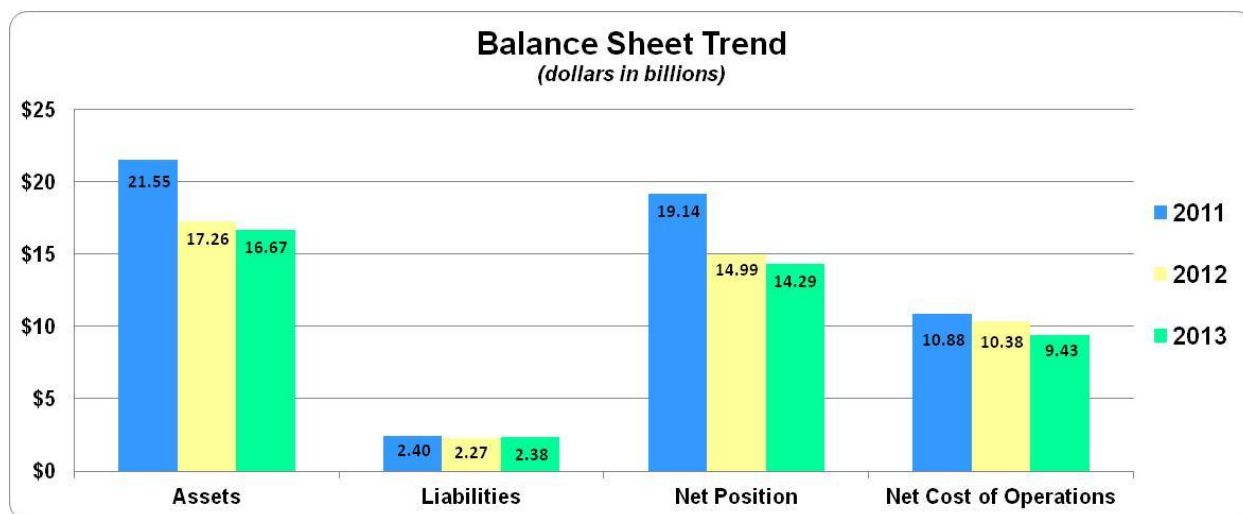
### Key Terms

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

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

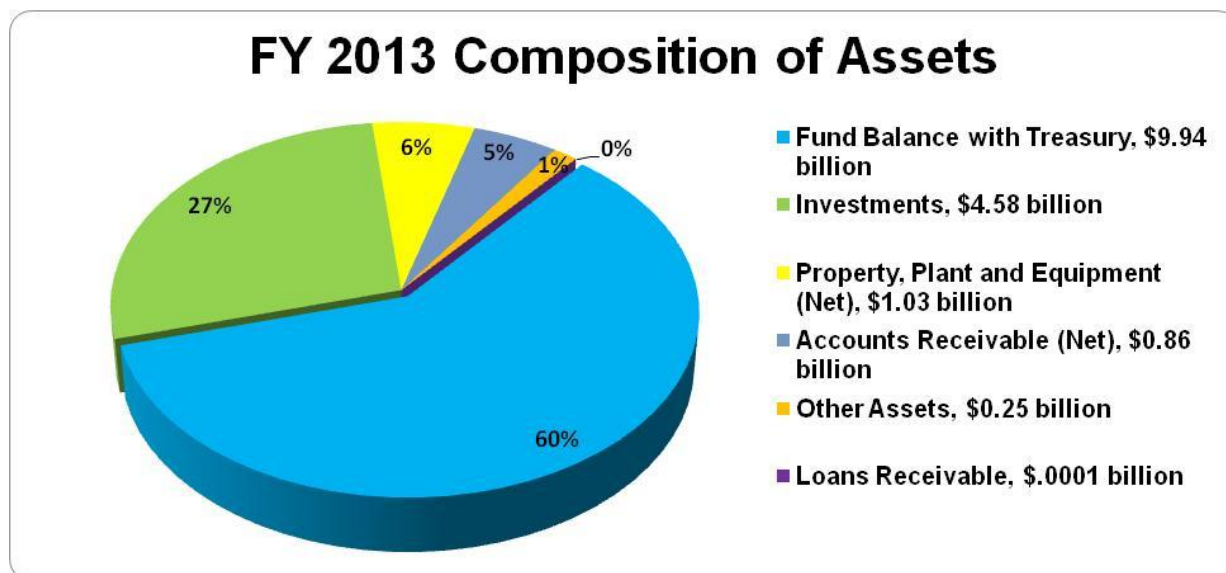
**Net Position:** The difference between EPA's assets and its liabilities.

**Net Cost of Operations:** The difference between the costs incurred by EPA's programs and EPA's revenues.

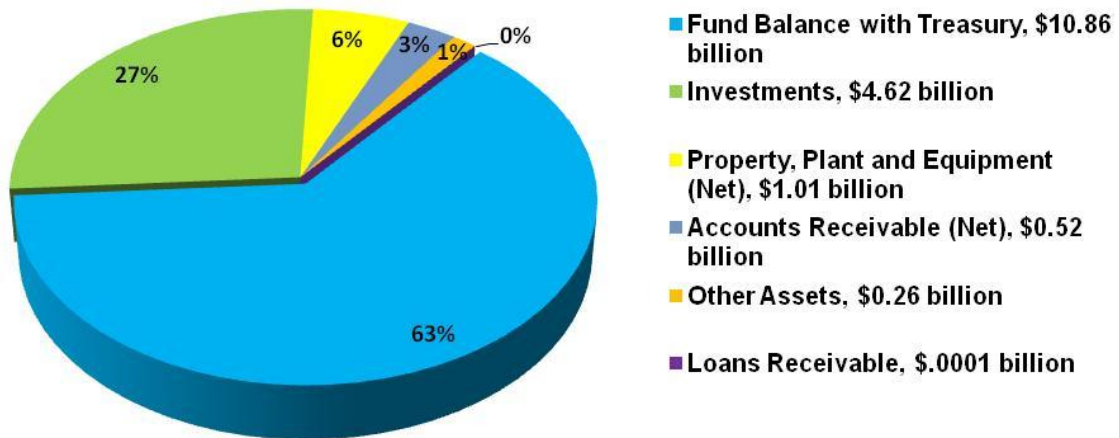


### Assets—What EPA Owns and Manages

EPA's assets totaled \$16.67 billion at the end of FY 2013, a decrease of \$597 million from the FY 2012 level. In FY 2013, almost 87 percent of EPA's assets fall into two categories: "Fund Balance with Treasury" and "Investments." All of EPA's investments are backed by U.S. government securities. The graphs that follow compare the Agency's FY 2013 and FY 2012 assets by major category.



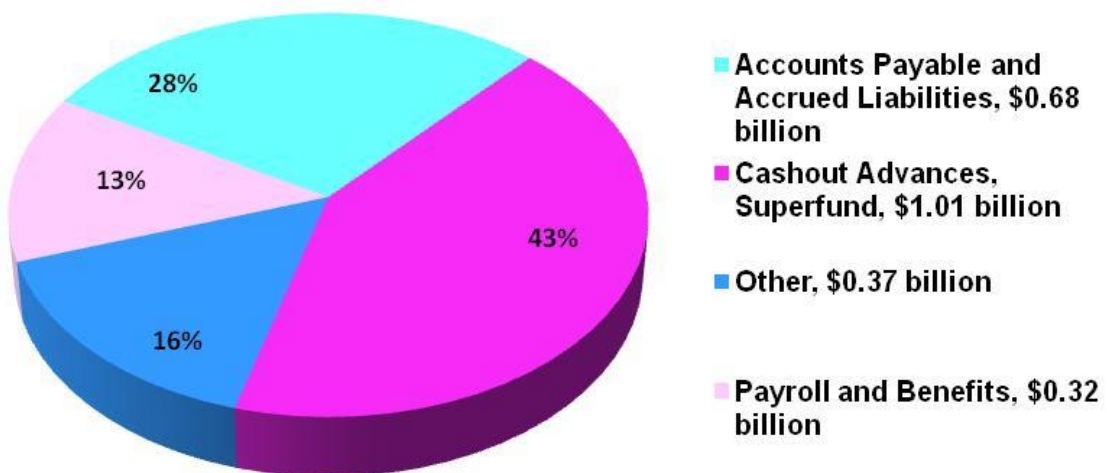
## FY 2012 Composition of Assets



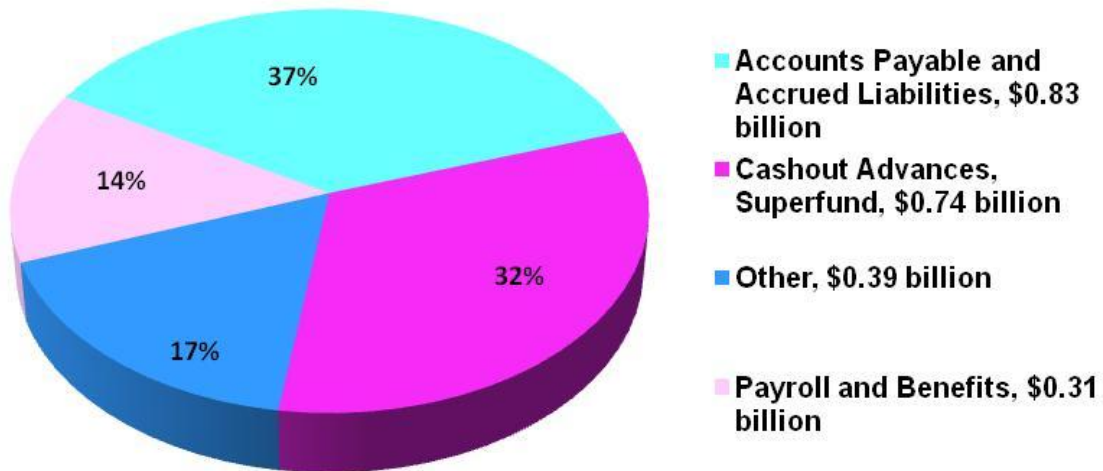
### Liabilities—What EPA Owes

EPA's liabilities were \$2.38 billion at the end of FY 2013, marking an increase of \$108 million from the FY 2012 level. In FY 2013, EPA's largest liability—representing 43 percent—covers Superfund cashout advances: funds paid by EPA for cleanup of contaminated sites under the Superfund program. The next largest category, EPA's combined accounts payable and accrued liabilities, represents 28 percent of what the Agency owes. The remaining two categories represent 29 percent of the Agency's liabilities. Payroll and benefits payable include salaries, pensions and other actuarial liabilities. Other liabilities include EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The graphs that follow compare FY 2013 and FY 2012 liabilities by major category.

## FY 2013 Composition of Liabilities



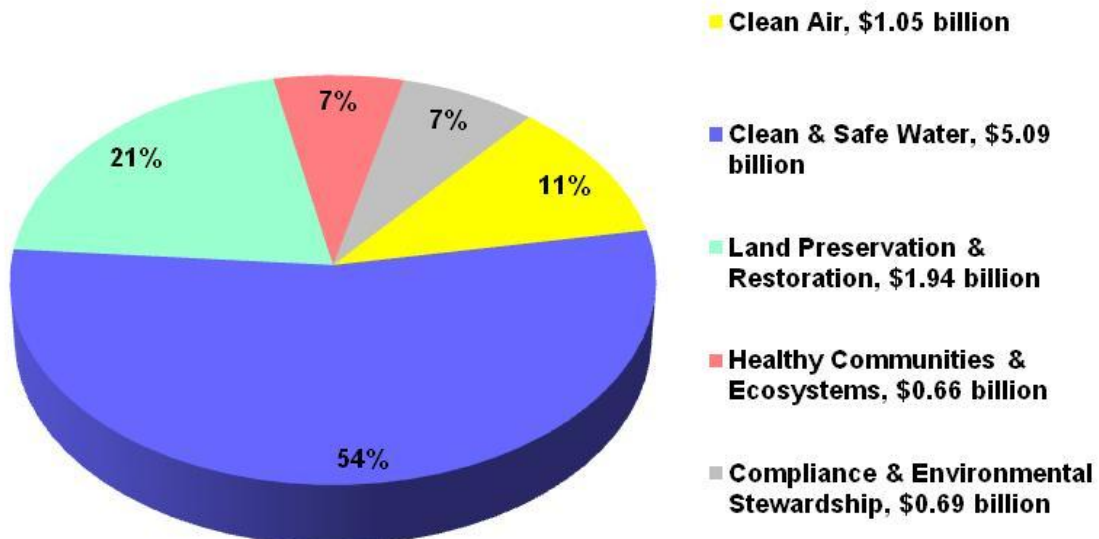
## FY 2012 Composition of Liabilities



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

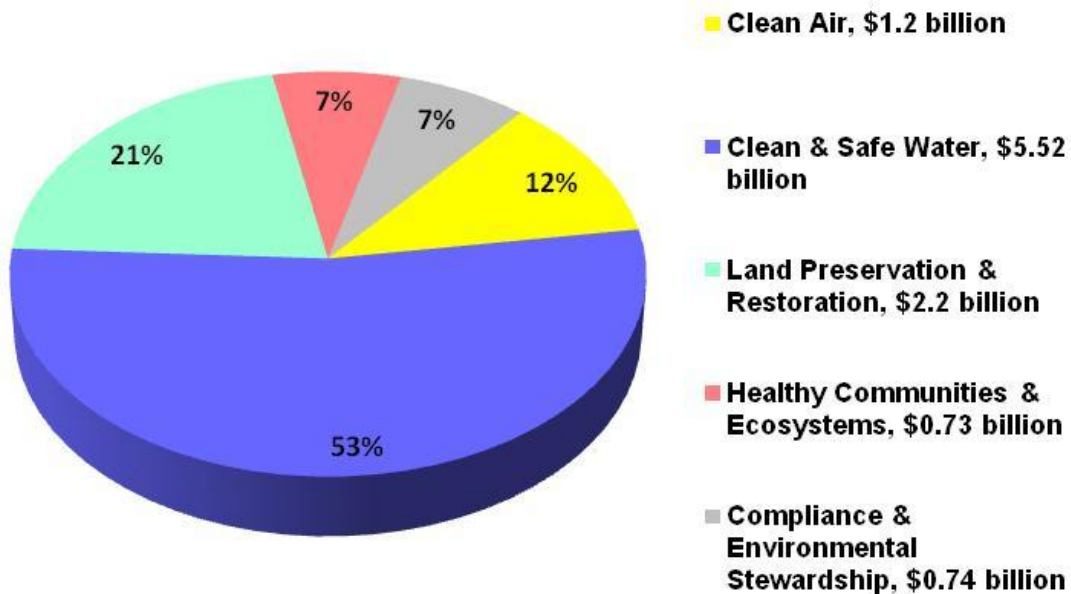
The graphs that follow show how EPA's funds are expended among its five program goal areas in FY 2013 and FY 2012:

## FY 2013 Net Cost by Goal





## FY 2012 Net Cost by Goal

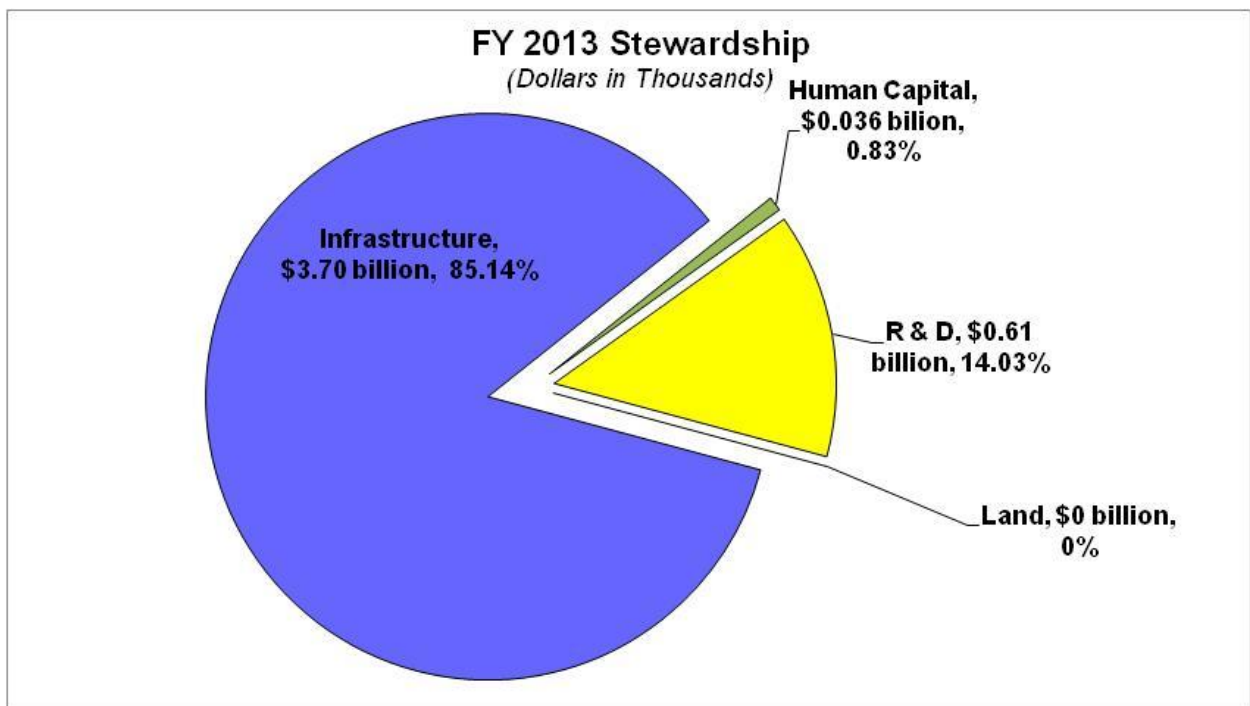


EPA serves as a steward on behalf of the American people. The chart below presents four categories of stewardship: infrastructure, research and development, human capital, and land. In FY 2013, EPA devoted a total of \$4.3 billion to its stewardship activities.

Per the Federal Accounting Standards Advisory Board, 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.

- **Infrastructure** efforts focus on clean water and drinking water facilities. EPA provides grants to states to support wastewater and drinking water treatment facilities. EPA provided nearly \$3.7 billion in FY 2013 to projects to ensure that people have clean water and, safe drinking water.
- **Research and development** activities enable EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for EPA's regulatory work, including regulations to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- **Human capital** includes EPA's educational outreach and research fellowships, both of which are designed to enhance the nation's environmental capacity.
- **Land** includes contaminated sites to which EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, EPA acquires easements that are in good and usable condition. These easements also serve to isolate the site and restrict usage while the cleanup is taking place.

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



### Financial Management for the Future

Sound stewardship of financial resources is critical to EPA's ability to protect the environment and human health. Reliable, accurate, and timely financial information is essential to ensure cost-effective decisions for managing programs addressing land, water, air and ecosystem issues.

To strengthen EPA's financial stewardship capabilities, EPA's Office of the Chief Financial Officer (OCFO) focuses on the fundamental elements of financial management: people and systems.

**People:** EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges. EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources.

**Systems:** In FY 2013, EPA used a component-based approach to managing its financial systems. It was designed to improve EPA's financial stewardship by strengthening accountability, data integrity, and internal controls. The system, called Compass, is based on a commercial-off-the-shelf software solution that addresses EPA's most critical business needs:

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

Compass provides core budget execution and accounting functions and facilitates more efficient transaction processing. The system posts updates to ledgers and tables as transactions are processed

and generates source data for the preparation of financial statements and budgetary reports. Compass is integrated with 15 other Agency systems that support diverse functions, such as budget planning, execution, and tracking; recovery of Superfund site-specific cleanup costs; property inventory; Agency travel; payroll time and attendance; document and payment tracking; and research planning. Compass is a Web-based, open architecture application managed at the CGI Federal Phoenix Data Center, a certified shared service provider in compliance with the Financial Management Line of Business.

EPA's financial systems modernization strategy builds upon Compass through the implementation of additional components, subject to future review by OMB:

- Human resources, payroll, and time and attendance
- Budget formulation
- Superfund imaging and cost accounting
- Payment systems

EPA plans to migrate its human resources and payroll systems to the Interior Business Center, an OMB Human Resources Line of Business approved shared service provider in FY 2014. In addition, EPA has started the planning phase of its new Budget Formulation System. Currently, EPA is reviewing requirements in preparation of designing the system.

#### **Limitations of the Principal Financial Statements**

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

## IMPROVING MANAGEMENT AND RESULTS

### Office of Inspector General Audits, Evaluations, and Investigations

OIG contributes to EPA's mission to protect human health and the environment by assessing the efficiency and effectiveness of EPA's program management and results; ensuring that Agency resources are used as intended; developing recommendations for improvements and cost savings; and providing oversight and advisory assistance in helping EPA carry out its ARRA objectives. In FY 2013, OIG identified key management challenges and internal control weaknesses and provided over 624 recommendations accounting for more than \$122 million in potential savings and recoveries and more than 215 actions taken by EPA for improvement from OIG recommendations.

OIG also contributes to the 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. For example, in response to OIG recommendations, the Agency agreed to:

- Develop assessment criteria and conduct regular reviews of its overall School Environmental Health programs to determine whether it is providing sufficient regulatory and voluntary program services to address the risks to children's health in school.
- Establish guidance, maintain database documentation, and track resources to enhance its ability to determine the efficiency of the rulemaking process.
- Develop a comprehensive strategic plan, assess water security by gathering available data and incorporating measures into national guidance, and improve internal controls by developing a program review strategy and a multi-year review plan.
- Update the March 2009 fees rule to reflect the size of fees necessary to recover the program costs, and apply indirect cost rates to all applicable direct costs to obtain the full cost of the program.
- Conduct biennial cost reviews of the lead-based paint fee collections and the full cost of operating the program to determine whether it is recovering its costs, and determine the appropriate Agency indirect cost rates to be used for its user fee programs.

Additionally, OIG investigations accounted for 256 criminal, civil, or administrative enforcement actions or allegations disproved during FY 2013. The EPA OIG Investigations team also participated in the joint federal task force, resulting in a criminal recovery of \$4.4 billion from the BP oil spill. Finally, the EPA OIG won the Alexander Hamilton Award, the highest achievement presented by the Council of Inspectors General for Integrity and Efficiency, for its work associated with the *Deepwater Horizon* spill: "In recognition of significant contributions to improving the protection of the environment from oil spills of unprecedented magnitude and the government's ability to meet its legal obligations and effectively manage and pay for associated costs."

### Grants Management

EPA met or exceeded most major performance metrics, including grant closeout and competition goals, under its second long-term Grants Management Plan (2009–2013), which builds on the progress made under the first Grants Management Plan (2003–2008) and will prevent the recurrence of a grants management weakness. The Agency was just 0.7 percent shy of the 99 percent grant closeout target for FY 2013.

Grants Management Performance Measures for EPA			
Performance Measure	Target	Progress in FY 2013	Progress in FY 2012
Percentage of eligible grants closed out	90%	93.4% in 2012	94% in 2011
	99%	98.3% in 2011 and earlier	99% in 2010 and earlier
Percentage of new grants subject to the competition policy that are competed	90%	96%	97%



## ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

### Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to conduct annual evaluations of their internal controls over programs and financial systems and report the results to the President and Congress. In addition, agencies are required to report on the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of OMB Circular A-123.

Each year, EPA's national program and regional offices conduct assessments and submit assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's annual statement of assurance on the adequacy of EPA's internal controls over programmatic operations and financial systems. Over the years, the Agency has taken several actions that strengthened its compliance with the FMFIA. For instance, the Agency piloted new Management Accountability Reviews to assess its implementation of the FMFIA and new audit management procedures. These reviews combined previously separate Management Integrity Compliance Reviews and Audit Management Reviews into one single review and yielded results that will be used to improve the Agency's technical guidance to senior managers.


To evaluate its internal controls over financial reporting (as required by OMB Circular A-123, Appendix A), the Agency reviewed 10 key financial processes and 287 key controls. This evaluation identified no new material weaknesses. Subsequent to the Agency's review, EPA's OIG identified no new material weaknesses and six new significant deficiencies during the FY 2013 financial statement audit. Based on the results of the Agency's and OIG's FY 2013 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of EPA's internal controls over programs and financial systems, and the Agency's internal controls over financial operations were found to be operating effectively and efficiently.

#### Fiscal Year 2013 Annual Assurance Statement

The U.S. Environmental Protection Agency conducted its Fiscal Year 2013 assessment of the effectiveness of internal controls over programmatic operations and financial activities, as well as conformance of financial systems to governmentwide standards. The assessment was conducted in compliance with the *Federal Managers' Financial Integrity Act*, Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, and other applicable laws and regulations.

Based on the results of the EPA's assessment and no findings of material weaknesses, I am providing reasonable assurance that the agency's internal controls over programmatic operations were operating effectively and financial systems conform to government-wide standards as of September 30, 2013.

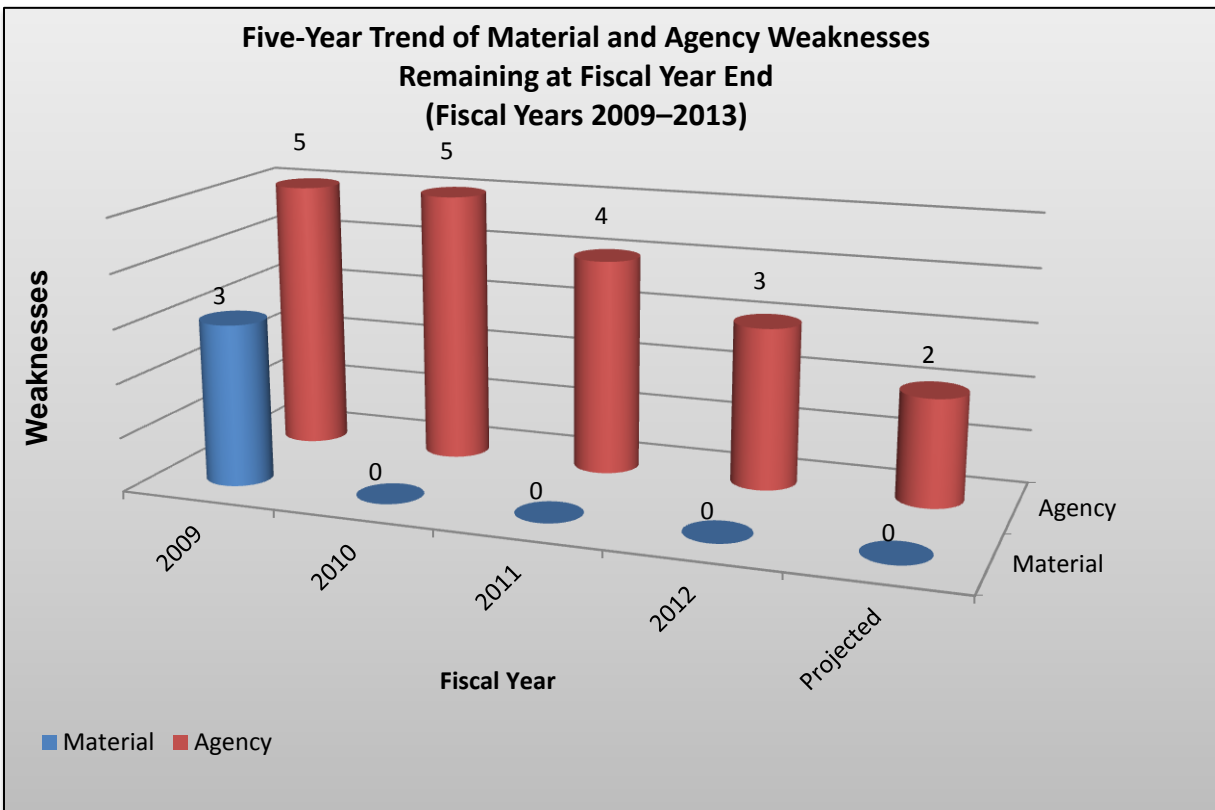
In addition, based on the results of the EPA's assessment of the effectiveness of internal controls over financial activities and no findings of material weaknesses as of June 30, 2013, I am providing reasonable assurance that the EPA's internal controls over financial activities were operating effectively.

  
Gina McCarthy  
Administrator

12/16/13  
Date

## Management Assurances

For FY 2013, no material weakness was identified by OIG. EPA is addressing a number of less severe weaknesses for which corrective actions are underway. Section III of this report provides details about corrective actions underway to rectify weaknesses and deficiencies. EPA will continue monitoring progress toward correcting these issues. The accompanying graph depicts EPA's progress toward correcting its material and Agency-level weaknesses since 2008. EPA continues to emphasize the importance of maintaining effective internal controls.



## Federal Financial Management Improvement Act (FFMIA)

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

EPA's FY 2013 assessment included the following:

- A-123 review found no significant deficiencies.
- OIG's FY 2013 financial statement audit identified no new material weaknesses related to financial management systems but identified EPA as non-compliant with FFMIA at the United States Standard General Ledger transaction level. The Agency disagrees with this finding and discusses its position in Section III of this AFR. Section II of this AFR includes the OIG's audit report.
- The Agency's annual Federal Information Security Management Act Report did not disclose any material weaknesses.

- The Agency conducted other systems-related activities, including:
  - Third-party control assessments.
  - Network scanning for vulnerabilities.
  - Annual certification for access to the Agency's accounting system

Based on the assessment described above, the Agency believes it is compliant with the FFMIA for FY 2013.

### Federal Information Security Management 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 Inspector General (IG)—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.

EPA's Chief Information Officer, senior Agency program officials, and the IG's FY 2013 FISMA Report and FY 2013 FISMA audit status meetings cite no material weakness in information security. The FY 2013 report, however, noted where EPA needs to make significant improvements in configuration, contractor systems, and risk management. EPA has been making improvements in configuration management through FY 2013 and will continue to focus efforts through FY 2014 in all these areas. The Agency plans to focus on the Administration Priorities (APs) for information security as well as in FY 2014 to progress on meeting the AP standards.

### Biennial User Fees

In accordance with OMB Circular A-25 Revised, User Charges, and the CFO Act of 1990, EPA conducted the biennial review of its user fee programs. The objective was to determine whether additional fees should be assessed for services it provides and/or recommend adjustments to reflect unanticipated changes in costs or market values.

The review evaluated the activities of the Agency's eight existing fee programs: Motor Vehicle and Engine Compliance Program Fee, Registration Service Fee, Pesticide Maintenance Fee, Premanufacture Notice Fee, Lead Accreditation and Certification Fee, Clean Air Part 71 Operating Fee, Outside User Fee Agreement Program, and Freedom of Information Act Requests.

Results of the review, including whether any may qualify for an exception under OMB Circular A-25 is still on-going and will be reported in a subsequent year. Pending the outcome of this process, EPA did not make recommendations to adjust its existing fees or propose any legislative changes.

### Inspector General Act Amendments of 1988—Audit Management

EPA uses the results of OIG audits and evaluations to assess its progress toward its strategic goals and make corrections and adjustments to improve program effectiveness and efficiency. The Agency is continuing to strengthen its audit management, addressing audit follow-up issues and working to complete corrective actions expeditiously and effectively to improve environmental results. For example:

- EPA completed first year implementation of its revised audit management policy, *EPA Manual 2750, Audit Management Procedures*, issued in September 2012. The new policy clarifies roles and responsibilities, ensures consistent audit management and follow-up practices Agencywide, and promotes timely, efficient, and effective resolution of OIG—as well as Government Accountability

Office and Defense Contract Audit Agency (DCAA)—audit findings and recommendations. Since the policy was issued, the Agency has noted increased attention to timely resolution of OIG audits: 55 percent of program/performance audits issued this fiscal year were resolved before issuance of the final report.

- To broaden its attention to its stewardship responsibilities for managing programs and resources effectively and efficiently, EPA piloted new comprehensive Management Accountability Reviews in selected program and regional offices. By focusing attention on the Agency's responsibilities for audit management—including accountability for, and completion of, outstanding unimplemented OIG recommendations—as well as implementation of the FMFIA, the reviews help ensure that EPA programs and activities are managed to prevent waste, fraud, and abuse.
- The Office of the Chief Financial Officer continued to prepare Audit Management Progress Reports highlighting the status of management decisions and corrective actions. Shared with program office and regional managers across EPA, these reports promote timely audit follow-up and completion of corrective actions.

In FY 2013, EPA was responsible for addressing OIG recommendations and tracking follow-up activities for 405 OIG reports. The Agency achieved final action (completing all corrective actions associated with the audit) on 191 audits, which included program evaluation/program performance, assistance agreement, and single audits. This total excludes DCAA audits issued after January 1, 2009; these audits are discussed in a separate section below. EPA's FY 2013 management activities for audits with associated dollars are represented in the following table.<sup>1</sup>

Category	Disallowed Costs (Financial Audits)		Funds Put to Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	47	\$ 18,726,977	84	\$ 145,113,342
B. Audits for which management decisions were made during the period: (i) Management decisions with disallowed costs (16) and with better use funds (4) (ii) Management decisions with no disallowed costs (135) and with no better use funds (47)	151	\$ 1,313,463	51	\$ 19,294,000
C. Total audits pending final action during the period (A+B)	198	\$ 20,040,440	135	\$ 164,407,342
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of property d) Other (ii) Write-offs (iii) Reinstated through grantee appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	148	\$ 11,811,362 \$ 4,432,054 \$ 233,480 \$ 0 \$ 3,232,360 \$ 0 \$ 3,913,468	43	\$ 51,402,608      \$ 51,402,608
E. Audits without final action at end of period (C-D)	50	\$ 8,229,078	92	\$ 113,004,734

<sup>1</sup> Any differences in number of reports and amounts of disallowed costs or funds put to better use between this report and our previous AFR results from corrections made to data in our audit tracking system.

EPA's FY 2013 management activities for audits without final corrective action are summarized as follows:

- **Final corrective action not taken.** Of the 405 audits that EPA tracked, a total of 199—including program evaluation/program performance, assistance agreement, contract, and single audits—were without final action and not yet fully resolved at the end of FY 2013. (The 15 audits with management decisions under administrative appeal by the grantee are not included in this total; see discussion below.)
- **Final corrective action not taken beyond one year.** Of the 199 audits, EPA officials had not completed final action on 66 audits (four of which involve multiple offices) within one year after the management decision (the point at which OIG and the action official reach agreement on the corrective action plan). Because the issues to be addressed may be complex, agency managers often require more than one year after management decisions are reached with OIG to complete the agreed-on corrective actions. These audits are listed below by category—audits of program performance, single audits and assistance agreements—and identified by title and responsible office.

**Audits of Program Performance:** Final action for program performance audits occurs when all corrective actions have been implemented, which can require more than one year when corrections are complex and lengthy. Some audits include recommendations requiring action by more than one office. EPA is tracking 52 audits in the program performance category (four of which involve multiple offices).

**Office of the Administrator**

11-P00708 EPA Progress on the 2007 Methamphetamine Remediation Research Act  
12-P00125 Use of Unapproved Asbestos Demolition Methods May Threaten Public Health

**Office of Administration and Resources Management**

9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets  
10-P00002 Review of Hotline Complaint on Employee Granted Full-Time Work-at-Home Privilege  
11-100015 Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements  
11-P00136 EPA Needs Better Agency-Wide Controls Over Staff Resources  
11-P00616 EPA Has Not Fully Implemented a National Emergency Response Equipment Tracking System  
11-P00687 EPA Should Improve Timeliness for Resolving Audits Under Appeal  
11-P00705 EPA's Contract Oversight and Controls Over Personal Computers Need Improvement  
12-100073 Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements  
12-P00388 EPA Should Improve Controls for Managing Contractor-Held Property

**Office of Air and Radiation**

2005-P00010 Evaluation of CAA Title V Operating Permit Quality  
9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets  
10-P00154 Key Activities in EPA's Integrated Urban Air Toxics Strategy Remain Unimplemented  
11-P00010 Energy Star Label Needs to Assure Superior Energy Conservation Performance  
11-P00701 EPA Should Update Its Fee Rule to Recover More Motor Vehicle and Engine Compliance Program Costs  
11-R00179 EPA Needs to Better Document Project Delays for Recovery Act Diesel Emission Reduction Act Grants

**Office of Chemical Safety and Pollution Prevention**

10-P00066 EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities

**Office of the Chief Financial Officer**



2006-P00013 SF Mandate: Program Efficiencies  
 9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets  
 10-100029 Audit of 2009 and 2008 (Restated) Consolidated Financial Statements  
 10-P00177+ Appointment Business Process  
 11-P00031 EPA Needs to Strengthen Internal Controls for Determining Workforce Levels  
 11-P00223 Review of Travel Controls  
 11-P00630 EPA Needs Workload Data to Better Justify Future Workforce Levels  
 12-P00311 EPA Can Improve Its Improper Payments Reporting

#### **Office of Enforcement and Compliance Assurance**

2001-P00013 State Enforcement Effectiveness—National Audit  
 2005-P00024 Priority Enforcement and Compliance Assurance Universe  
 10-P00007 EPA Oversight and Policy for High Priority Violations of Clean Air Act Need Improvement  
 10-P00224+ EPA Should Revise Outdated or Inconsistent EPA—State Clean Water Act Memoranda of Agreement  
 10-P00230 Data Quality Audit of ECHO System Phase II  
 11-P00315+ Agency-Wide Application of Region 7 NPDES Program Process Improvements Could Increase EPA Efficiency  
 12-P00376 Early Warning Report: Use of Contractors to Conduct Clean Air Act Risk Management Program Inspections in Certain States Goes Against Court Decisions

#### **Office of Environmental Information**

2007-P00008 EPA Could Improve Controls Over Mainframe Software  
 10-P00177+ Appointment Business Process  
 11-P00277 EPA Has Taken Steps to Address Cyber Threats But Key Actions Remain Incomplete  
 12-P00427 Office of Environmental Information Should Strengthen Controls Over Mobile Devices

#### **Office of Research and Development**

10-P00176 EPA's Office of Research and Development Performance Measures Need Improvement  
 11-P00333 Office of Research and Development Needs to Improve Its Method of Measuring Administrative Savings  
 11-P00386 Office of Research and Development Should Increase Awareness of Scientific Integrity Policies

#### **Office of Solid Waste and Emergency Response**

2007-P00002 Asbestos Cleanup in Libby Montana  
 10-P00042 Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks  
 11-P00171 EPA Needs an Agency-Wide Plan to Provide Tribal Solid Waste Management Capacity Assistance  
 11-P00173 EPA Promoted the Use of Coal Ash Products With Incomplete Risk Information  
 11-P00534 Revisions Needed to National Contingency Plan Based on *Deepwater Horizon* Oil Spill  
 12-P00253 EPA Needs to Further Improve How It Manages Its Oil Pollution Prevention  
 12-P00289 Controls Over State Underground Storage Tank Inspection Programs in EPA Regions Generally Effective  
 12-P00508 EPA Inaction in Identifying Hazardous Waste Pharmaceuticals May Result in Unsafe Disposal

#### **Office of Water**

9-P00223 EPA Needs to Accelerate Adoption of Numeric Nutrient Water Quality Standards  
 10-P00081 EPA Needs Procedures to Address Delayed Earmark Projects  
 10-P00224+ EPA Should Revise Outdated or Inconsistent EPA-State Clean Water Act Memoranda of Agreement  
 11-P00315+ Agency-Wide Application of Region 7 NPDES Program Process Improvements Could Increase EPA Efficiency

#### **Region 2**

2007-P00016 Ringwood Mines/Landfill Superfund Site

**Region 8**

11-P00430 An Overall Strategy Can Improve Communication Efforts at Asbestos Superfund Site in Libby, Montana

**Region 9**

2008-P00196 Making Better Use of Stringfellow SF Special Accounts  
11-P00725 Region 9 Technical and Computer Room Security Vulnerabilities Increase Risk to EPA's Network

**Region 10**

12-P00220 Region 10 Technical and Computer Room Security Vulnerabilities Increase Risk to EPA's Network

+ Indicates audits involving more than one office

**Single Audits:** Final action for single audits occurs when non-monetary and/or monetary compliance actions are completed. Achieving final action can require more than a year if the findings are complex or the grantee does not have the resources to take corrective action. Single audits are conducted of nonprofit organizations, universities, and state and local governments. EPA is tracking completion of corrective action on the following 12 single audits for the period beginning October 1, 2013.

**Region 2**

2007-300139 State of New York, FY 2006  
11-300022 United States Virgin Islands Government FY 2007  
11-300038 United States Virgin Islands Government FY 2008  
12-300444 New Jersey State FY 2011  
12-300725 Puerto Rico Environmental Quality Board Government FY 2010

**Region 9**

10-300208 City of Nogales FY 2008  
12-300285 Commonwealth Utilities Corporation MP FY 2010

**Region 10**

2003-300047 Stevens Village Council  
2003-300117 Stevens Village Council  
2003-300145 Circle Village Council^  
2006-300167 State of Alaska—FY 2003  
2006-300168 State of Alaska—FY 2004

^indicates that collection of funds has been turned over to the U.S. Department of the Treasury

**Audits of Assistance Agreements:** Reaching final action for assistance agreement audits can require more than one year, as the grantee may appeal, refuse to repay, or be placed on a repayment plan that spans several years. EPA is tracking the following two audits in this category.

**Region 3**

2001-100101 Center for Chesapeake Communities (CCC) Assist. Agreements^

**Region 5**

2008-200039 Village of Laurelville, Ohio^

^indicates that collection of funds has been turned over to the U.S. Department of the Treasury

**Audits Awaiting Decision on Appeal:** EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the

case of an appeal, EPA must not take action to collect the account receivable until it issues a decision on the appeal. At the end of FY 2013, 15 audits were in administrative appeal. When these audits are out of appeal and all issues have been resolved, they will be captured in audit follow-up data reported in EPA's AFR.

### Defense Contract Audit Agency Audits

Prior to January 1, 2009, DCAA audits of the EPA contracts requested by EPA's OIG and the results were included in OIG's Semiannual Report on to Congress. EPA will continue to track and report on these DCAA audits along with other OIG audits until they are resolved and final actions are taken; these audits are included in the previous summary. Beginning January 1, 2009, however, EPA's Office of Acquisition Management assumed responsibility for requesting DCAA audits. Accordingly, these audits are now reported separately from OIG audits. The following provides an overview of DCAA audit activity for the period of October 1, 2012, through September 30, 2013.

### Summary of Audit Activities for the Period Ending September 30, 2013

Since OIG no longer handles the DCAA audits, the resolution of these audits is not reported on in OIG's semi-annual report to Congress. Accordingly, we have summarized the status of audits in the resolution process in the following chart:

Category	Number	Questioned Costs
A. Audits for which no management decision was made by 10/1/2012	45	\$ 4,156,673
B. Audits which were issued during the period	42	\$ 1,355,254
C. Subtotal (A+B)	87	\$ 5,511,927
D. Audits for which a management decision was made during the reporting period	53	\$ 1,264,925
E Audits for which no management decision was made by 9/30/13	35	\$ 784,068
F. Reports for which no management decision was made within six months of issuance	0	\$ 0

During this reporting period, EPA management was accountable for monitoring 86 DCAA audits, one performed by a Certified Public Accountant (CPA) firm and one performed by the Defense Contract Management Agency (DCMA). The agency achieved final action on 50 audits. EPA's FY 2013 management activities for DCAA audits with associated dollars are represented in the following table:

Category	Disallowed Costs (Financial Audits)		Funds Put to Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	1	\$ 0	0	\$ 0
B. Audits for which management decisions were made during the period (i) Management decisions with disallowed costs (19) (ii) Management decisions with no disallowed costs (33)	52	\$ 656,754	0	\$ 0
C. Total audits pending final action during the period (A+B)	53	\$ 656,754	0	\$ 0
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of property	49	\$ 316,969 \$ 0 \$ 0 \$ 0	0	\$ 0

d) Other		\$ 316,969		
(ii) Write-offs		\$ 0		
(iii) Reinstated through appeal		\$ 0		
(iv) Value of recommendations completed				\$ 0
(v) Value of recommendations management decided should/could not be completed				\$ 0
E. Audits without final action at end of period (C-D)	4	\$ 339,785	0	\$ 0

**Final Corrective Action Not Taken on DCAA Audit Reports:** Of the 88 DCAA, DCMA, and CPA firm audits EPA tracked, 39 were without final action and not yet fully resolved at the end of FY 2013.

**DCAA Audits Awaiting Decision on Appeal:** As of September 30, 2013, there were no management decisions in administrative appeal status.

**DCAA Audits Without Management Decision in 180 Days:** As of September 30, 2013, EPA is tracking no DCAA reports, for which EPA is the cognizant agency, that have not reached management decision in over 180 days from the date of the report.

**Final Corrective Action Not Taken Beyond One Year:** Final action for contract audits performed by DCAA or other organizations occurs when non-monetary and/or monetary compliance actions are completed. Achieving final action may require more than a year if the findings are complex or the contractor does not have the resources to take corrective action. EPA is tracking completion of corrective action on the following contract audit for the period beginning October 1, 2013.

#### **Office of Acquisition Management**

2012-114475 Avanti Corporation Fiscal Years 2006, 2007 and 2008

***Section II***

***Financial Section***



## Message from the Chief Financial Officer

EPA's Agency Financial Report presents the performance and financial results that the agency achieved during fiscal year 2013. It provides information on the agency's accomplishments and challenges in protecting human health and the environment, use of the financial resources entrusted to us, and progress toward addressing key management challenges. During FY 2013, the Agency continued to demonstrate efficient, effective and accountable management and made innovative improvements to increase efficiency and reduce costs.

As required by Office of Management and Budget Circular A-123 and the Federal Managers' Financial Integrity Act, EPA conducted an annual assessment of the effectiveness of internal controls over financial reporting and programmatic operations. Based on the results of the Agency's FY 2013 evaluation and reviews, the Administrator can provide reasonable assurance on the adequacy and effectiveness of the agency's internal controls over programs, financial activities and financial systems.

In FY 2013, the Agency continued its efforts to enhance financial stewardship. Despite the austere conditions resulting from spending cuts to EPA's programs, we maintained a strong focus on ensuring effective internal controls were in place to manage our limited resources as efficiently and effectively as possible to achieve our mission.

EPA scrutinized expenses, including travel and training, and leveraged this opportunity to further enhance internal controls. For example, we implemented electronic processing and 100% audit of travel expenses and receipts, tightened our control over conference-related costs and provided EPA's first public report on agency conferences. Additionally, travel expenditures were reduced by 29% compared to FY 2012, the speed and accuracy of payments increased, and financial reporting improved.

The Agency implemented new internal controls to increase the accuracy of employee time and attendance reporting. These controls work to ensure that employees and managers are following appropriate procedures to enter and approve time and attendance data. Also, we implemented various system upgrades to improve time and attendance approval procedures to reduce erroneous payments.

To support the new and enhanced internal controls implemented during FY 2013, the Agency completed a major effort to review and update our financial policies. This effort resulted in 100% of EPA's financial policies being reviewed and the addition of a new three-year review cycle to prevent policies from becoming outdated.

In FY 2013, EPA piloted new Management Accountability Reviews to assess the agency's implementation of agencywide audit management guidance and facilitate employee training on FMFIA. The streamlined reviews found that agency managers are attending to their management integrity and audit management responsibilities and effectively implementing audit management programs.

As Acting Chief Financial Officer, I take seriously my responsibility to provide informed financial analysis to agency leaders and the public. As we start the new fiscal year, we will uphold our commitment to financial excellence and strive to ensure that we utilize taxpayer dollars effectively in fulfilling our mission to protect human health and the environment. EPA achieved great things this fiscal year and I look forward to continuing our success through collaboration with our partners and stakeholders and implementing innovative, cross-cutting strategies to help meet the challenges ahead.

Maryann Froehlich  
Acting Chief Financial Officer  
December 16, 2013



# PRINCIPAL FINANCIAL STATEMENTS

## Financial Statements

1. Consolidated Balance Sheet
2. Consolidated Statement of Net Cost
3. Consolidated Statement of Net Cost by Goal
4. Consolidating Statement of Changes in Net Position
5. Combined Statement of Budgetary Resources
6. Statement of Custodial Activity

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2. Stewardship Land
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**Required Supplementary Stewardship Information (Unaudited)**

**Environmental Protection Agency**  
**Consolidated Balance Sheet**  
**For the Periods Ending September 30, 2013 and 2012**  
**(Dollars in Thousands)**

	<u>FY 2013</u>	<u>FY 2012</u>
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 9,944,179	\$ 10,856,475
Investments (Note 4)	4,577,071	4,620,231
Accounts Receivable, Net (Note 5)	14,327	28,216
Other (Note 6)	243,654	252,837
Total Intragovernmental	\$ 14,779,231	\$ 15,757,759
 Cash and Other Monetary Assets (Note 3)	 10	 10
Accounts Receivable, Net (Note 5)	849,173	491,122
Loans Receivable, Net - Non-Federal (Note 7)	57	136
Property, Plant & Equipment, Net (Note 9)	1,030,807	1,010,021
Other (Note 6)	5,756	3,134
<b>Total Assets</b>	<b>\$ 16,665,034</b>	<b>\$ 17,262,182</b>
 Stewardship PP& E (Note 11 )		
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	55,961	55,021
Debt Due to Treasury (Note 10)	28	1,063
Custodial Liability (Note 12)	94,441	118,900
Other (Note 13)	102,693	117,520
Total Intragovernmental	\$ 253,123	\$ 292,504
 Accounts Payable & Accrued Liabilities (Note 8)	\$ 619,734	\$ 775,281
Pensions & Other Actuarial Liabilities (Note 15)	51,818	46,905
Environmental Cleanup Costs (Note 21)	21,549	21,560
Cashout Advances, Superfund (Note 16)	1,011,585	735,837
Commitments & Contingencies (Note 18)	25,200	25,180
Payroll & Benefits Payable (Note 32)	267,955	266,727
Other (Note 13)	125,908	105,068
<b>Total Liabilities</b>	<b>\$ 2,376,872</b>	<b>\$ 2,269,062</b>
 <b>NET POSITION</b>		
Unexpended Appropriations - Other Funds (Note 17)	8,980,012	9,811,870
Cumulative Results of Operations - Funds from Dedicated Collections (Note 19)	4,576,942	4,504,199
Cumulative Results of Operations - Other Funds	731,208	677,051
 Total Net Position	 14,288,162	 14,993,120
 <b>Total Liabilities and Net Position</b>	 <b>\$ 16,665,034</b>	 <b>\$ 17,262,182</b>

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

**Environmental Protection Agency  
Consolidated Statement of Net Cost  
For the Periods Ending September 30, 2013 and 2012  
(Dollars in Thousands)**

	<u>FY 2013</u>	<u>FY 2012</u>
<b>COSTS</b>		
Gross Costs (Note 20)	\$ 10,026,208	\$ 10,905,272
Less:		
Earned Revenue (Note 20)	<u>600,897</u>	<u>521,826</u>
<b>NET COST OF OPERATIONS (Note 20)</b>	<b><u>\$ 9,425,311</u></b>	<b><u>\$ 10,383,446</u></b>

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

**Environmental Protection Agency  
Consolidated Statement of Net Cost by Goal  
For the Period Ending September 30, 2013  
(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean &amp; Safe Water</u>	<u>Land Preservation &amp; Restoration</u>	<u>Healthy Communities &amp; Ecosystems</u>	<u>Compliance &amp; Environmental Stewardship</u>
<b>Costs:</b>					
Intragovernmental	\$ 166,921	\$ 405,439	\$ 341,138	\$ 163,742	\$ 194,386
With the Public	903,413	4,723,286	1,902,661	538,325	686,897
Total Costs (Note 20)	<u>1,070,334</u>	<u>5,128,725</u>	<u>2,243,799</u>	<u>702,067</u>	<u>881,283</u>
<b>Less:</b>					
Earned Revenue, Federal	21,275	7,733	67,803	12,732	3,489
Earned Revenue, non Federal	1,444	29,976	237,781	31,837	186,827
Total Earned Revenue (Note 20)	<u>22,719</u>	<u>37,709</u>	<u>305,584</u>	<u>44,569</u>	<u>190,316</u>
<b>NET COST OF OPERATIONS (Note 20)</b>	<b><u>\$ 1,047,615</u></b>	<b><u>\$ 5,091,016</u></b>	<b><u>\$ 1,938,215</u></b>	<b><u>\$ 657,498</u></b>	<b><u>\$ 690,967</u></b>

	<u>Consolidated Totals</u>
<b>Costs:</b>	
Intragovernmental	\$ 1,271,626
With the Public	\$ 8,754,582
Total Costs (Note 20)	<u>10,026,208</u>
<b>Less:</b>	
Earned Revenue, Federal	\$ 113,032
Earned Revenue, non Federal	\$ 487,865
Total Earned Revenue (Note 20)	<u>600,897</u>
<b>NET COST OF OPERATIONS (Note 20)</b>	<b><u>\$ 9,425,311</u></b>

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

**Environmental Protection Agency**  
**Consolidated Statement of Net Cost by Goal**  
**For the Period Ending September 30, 2012**  
**(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean &amp; Safe Water</u>	<u>Land Preservation &amp; Restoration</u>	<u>Healthy Communities &amp; Ecosystems</u>	<u>Compliance &amp; Environmental Stewardship</u>
<b>Costs:</b>					
Intragovernmental	\$ 184,695	\$ 380,760	\$ 358,603	\$ 184,459	\$ 216,865
With the Public	1,027,551	5,177,804	2,175,713	593,659	605,163
Total Costs (Note 20)	<u>1,212,246</u>	<u>5,558,564</u>	<u>2,534,316</u>	<u>778,118</u>	<u>822,028</u>
<b>Less:</b>					
Earned Revenue, Federal	12,171	8,220	79,371	12,092	5,877
Earned Revenue, non Federal	1,372	33,654	255,421	37,106	76,542
Total Earned Revenue (Note 20)	<u>13,543</u>	<u>41,874</u>	<u>334,792</u>	<u>49,198</u>	<u>82,419</u>
<b>NET COST OF OPERATIONS (Note 20)</b>	<b><u>\$ 1,198,703</u></b>	<b><u>\$ 5,516,690</u></b>	<b><u>\$ 2,199,524</u></b>	<b><u>\$ 728,920</u></b>	<b><u>\$ 739,609</u></b>

	<u>Consolidated Totals</u>
<b>Costs:</b>	
Intragovernmental	\$ 1,325,382
With the Public	\$ 9,579,890
Total Costs (Note 20)	<u>10,905,272</u>
<b>Less:</b>	
Earned Revenue, Federal	\$ 117,731
Earned Revenue, non Federal	\$ 404,095
Total Earned Revenue (Note 20)	<u>521,826</u>
<b>NET COST OF OPERATIONS (Note 20)</b>	<b><u>\$ 10,383,446</u></b>

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



**Environmental Protection Agency**  
**Consolidating Statement of Changes in Net Position**  
**For the Periods Ending September 30, 2013 and 2012**  
**(Dollars in Thousands)**

		<b>FY 2013</b>	<b>FY 2013</b>	<b>FY 2013</b>
		<b>Funds from</b>	<b>All Other</b>	<b>Consolidated</b>
		<b>Dedicated</b>	<b>Funds</b>	<b>Total</b>
		<b>Collections</b>		
<b>Cumulative Results of Operations:</b>				
<b>Net Position - Beginning of Period</b>		<u>4,504,199</u>	<u>677,051</u>	<u>5,181,250</u>
Beginning Balances, as Adjusted	\$	4,504,199	\$ 677,051	\$ 5,181,250
<b>Budgetary Financing Sources:</b>				
Appropriations Used		-	9,160,169	9,160,169
Nonexchange Revenue - Securities Investment (Note 34)		28,717	-	28,717
Nonexchange Revenue - Other (Note 34)		195,107	-	195,107
Transfers In/Out (Note 30)		(12,594)	29,885	17,291
Trust Fund Appropriations		<u>1,087,088</u>	<u>(1,087,088)</u>	<u>-</u>
Total Budgetary Financing Sources	\$	1,298,318	\$ 8,102,966	\$ 9,401,284
<b>Other Financing Sources (Non-Exchange)</b>				
Imputed Financing Sources (Note 31)		<u>25,151</u>	<u>125,776</u>	<u>150,927</u>
Total Other Financing Sources	\$	25,151	\$ 125,776	\$ 150,927
Net Cost of Operations		(1,250,726)	(8,174,585)	(9,425,311)
Net Change		72,743	54,157	126,900
<b>Cumulative Results of Operations</b>	\$	<u><b>4,576,942</b></u>	<u><b>731,208</b></u>	<u><b>5,308,150</b></u>
<b>Unexpended Appropriations:</b>				
<b>Net Position - Beginning of Period</b>		<u>-</u>	<u>9,811,870</u>	<u>9,811,870</u>
Beginning Balances, as Adjusted		-	9,811,870	9,811,870
<b>Budgetary Financing Sources:</b>				
Appropriations Received		-	8,782,272	8,782,272
Other Adjustments (Note 33)		-	(453,961)	(453,961)
Appropriations Used		<u>-</u>	<u>(9,160,169)</u>	<u>(9,160,169)</u>
Total Budgetary Financing Sources		-	(831,858)	(831,858)
<b>Total Unexpended Appropriations</b>		-	8,980,012	8,980,012
<b>TOTAL NET POSITION</b>	\$	<u><b>4,576,942</b></u>	<u><b>9,711,220</b></u>	<u><b>14,288,162</b></u>

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

**Environmental Protection Agency**  
**Consolidating Statement of Changes in Net Position**  
**For the Periods Ending September 30, 2013 and 2012**  
**(Dollars in Thousands)**

		<b>FY 2012</b>		<b>FY 2012</b>		<b>FY 2012</b>
		<b>Funds from</b>		<b>All Other</b>		<b>Consolidated</b>
		<b>Dedicated</b>		<b>Funds</b>		<b>Total</b>
		<b>Collections</b>				
<b>Cumulative Results of Operations:</b>						
<b>Net Position - Beginning of Period</b>		7,027,163		654,306		7,681,469
Beginning Balances, as Adjusted	\$	7,027,163	\$	654,306	\$	7,681,469
<b>Budgetary Financing Sources:</b>						
Appropriations Used		-		9,814,392		9,814,392
Nonexchange Revenue - Securities Investment (Note 34)		87,454		-		87,454
Nonexchange Revenue - Other (Note 34)		200,069		-		200,069
Transfers In/Out (Note 30)		(2,418,773)		32,018		(2,386,755)
Trust Fund Appropriations		1,075,367		(1,075,367)		-
Total Budgetary Financing Sources	\$	(1,055,883)	\$	8,771,043	\$	7,715,160
<b>Other Financing Sources (Non-Exchange)</b>						
Donations and Forfeitures of Property		-		-		-
Transfers In/Out (Note 30)		-		-		-
Imputed Financing Sources (Note 31)		26,337		141,806		168,143
Other Financing Sources		(76)		-		(76)
Total Other Financing Sources	\$	26,261	\$	141,806	\$	168,067
Net Cost of Operations		(1,493,342)		(8,890,104)		(10,383,446)
Net Change		(2,522,964)		22,745		(2,500,219)
<b>Cumulative Results of Operations</b>	\$	<b>4,504,199</b>	\$	<b>677,051</b>	\$	<b>5,181,250</b>
<b>Unexpended Appropriations:</b>						
<b>Net Position - Beginning of Period</b>		-		11,462,598		11,462,598
Beginning Balances, as Adjusted	\$	-	\$	11,462,598	\$	11,462,598
<b>Budgetary Financing Sources:</b>						
Appropriations Received		-		8,251,902		8,251,902
Appropriations Transferred In/Out (Note 30)		-		5		5
Other Adjustments (Note 33)				(88,243)		(88,243)
Appropriations Used		-		(9,814,392)		(9,814,392)
Total Budgetary Financing Sources		-		(1,650,728)		(1,650,728)
<b>Total Unexpended Appropriations</b>		-		9,811,870		9,811,870
<b>TOTAL NET POSITION</b>	\$	<b>4,504,199</b>	\$	<b>10,488,921</b>	\$	<b>14,993,120</b>

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

**Environmental Protection Agency**  
**Combined Statement of Budgetary Resources**  
**For the Periods Ending September 30, 2013 and 2012**  
**(Dollars in Thousands)**

	FY 2013	FY 2012
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 2,786,404	\$ 3,497,850
Unobligated balance brought forward, October 1, as adjusted	2,786,404	3,497,850
Recoveries of Prior Year Unpaid Obligations (Note 26)	286,170	571,576
Other changes in unobligated balance	(25,506)	(31,639)
Unobligated balance from prior year budget authority, net	3,047,068	4,037,787
Appropriations (discretionary and mandatory)	9,585,239	11,948,399
Spending authority from offsetting collections (discretionary and mandatory)	664,260	583,051
<b>Total Budgetary Resources (Note 25)</b>	<b>\$ 13,296,567</b>	<b>\$ 16,569,237</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations incurred (Note 25)	\$ 10,090,120	\$ 13,782,833
Unobligated balance, end of year:		
Apportioned (Note 27)	3,008,632	2,609,127
Unapportioned	197,815	177,277
Total unobligated balance, end of period	3,206,447	2,786,404
<b>Total Status of Budgetary Resources</b>	<b>\$ 13,296,567</b>	<b>\$ 16,569,237</b>
<b>CHANGE IN OBLIGATED BALANCE</b>		
<b>Unpaid Obligations:</b>		
Unpaid Obligations, Brought Forward, October 1 (gross)	\$ 11,311,842	\$ 12,774,894
Obligations incurred	10,090,120	13,782,833
Outlays (gross)	(11,331,761)	(14,674,309)
Recoveries of prior year unpaid obligations	(286,170)	(571,576)
Unpaid obligations, end of year (gross)	<b>\$ 9,784,031</b>	<b>\$ 11,311,842</b>
<b>Uncollected Payments:</b>		
Uncollected customer payments from Federal Sources, brought forward, October 1	\$ (305,514)	\$ (438,428)
Change in uncollected customer payments from Federal sources	9,338	132,914
Uncollected customer payments from Federal sources, end of year	<b>\$ (296,176)</b>	<b>\$ (305,514)</b>
<b>Memorandum entries:</b>		
Obligated balance, start of year	\$ 11,006,328	\$ 12,336,466
Obligated balance, end of year (net)	\$ 9,487,856	\$ 11,006,328
<b>BUDGET AUTHORITY AND OUTLAYS, NET:</b>		
Budget authority, gross (discretionary and mandatory)	\$ 10,249,499	\$ 12,531,450
Actual offsetting collections (discretionary and mandatory)	(673,598)	(715,965)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	9,338	(132,914)
Budget authority, net (discretionary and mandatory)	\$ 9,585,239	\$ 11,682,571
Outlays, gross (discretionary and mandatory) (Note 25)	\$ 11,331,761	\$ 14,674,309
Actual offsetting collections (discretionary and mandatory) (Note 25)	(673,598)	(715,965)
Outlays, net (discretionary and mandatory)	10,658,163	13,958,344
Distributed offsetting receipts (Notes 25 and 29)	(1,173,784)	(1,163,736)
Agency outlays, net (discretionary and mandatory)	<b>\$ 9,484,379</b>	<b>\$ 12,794,608</b>

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

**Environmental Protection Agency**  
**Statement of Custodial Activity**  
**For the Periods Ending September 30, 2013 and 2012**  
**(Dollars in Thousands)**

	<u>FY 2013</u>	<u>FY 2012</u>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Fines and Penalties	\$ 150,444	\$ 172,938
Other	<u>17,346</u>	<u>(51,707)</u>
Total Cash Collections	\$ 167,790	\$ 121,231
Accrual Adjustment	<u>(20,167)</u>	<u>62,980</u>
Total Custodial Revenue (Note 24)	<u>\$ 147,623</u>	<u>\$ 184,211</u>
<b>Disposition of Collections:</b>		
Transferred to Others (General Fund)	\$ 167,790	\$ 121,234
Increases/Decreases in Amounts to be Transferred	<u>(20,167)</u>	<u>62,977</u>
Total Disposition of Collections	<u>\$ 147,623</u>	<u>\$ 184,211</u>
<b>Net Custodial Revenue Activity (Note 24)</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

**Environmental Protection Agency**  
**Notes to the Financial Statements**  
**Fiscal Year Ended September 30, 2013 and 2012**  
**(Dollars in Thousands)**

<b>Note 1. Summary of Significant Accounting Policies</b>
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**A. Reporting Entities**

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

The FY 2013 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

**B. Basis of Presentation**

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (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. The Statement of Net Cost has been prepared with cost segregated by the agency's strategic goals.

**C. Budgets and Budgetary Accounting**

**1. General Funds**

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

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a one year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur in subsequent years after the loans were disbursed.

Funds transferred from other federal agencies are processed as non-expenditure transfers. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

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.

## **2. Revolving Funds**

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

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

In FY 2013, EPA received an advance of \$1.053 million from BP PLC (BP) to fund the National Resource Damage and Assessment Fund (NRDA) to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

## **3. Special Funds**

The Environmental Services Receipt Account obtains fees associated with environmental programs.

Exxon Valdez uses funding collected from reimbursement from the Exxon Valdez settlement.

## **4. Deposit Funds**

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. These are not EPA's funds.

## **5. Trust Funds**

Congress adopts an annual appropriation amount for the Superfund, Leaking Underground Storage Tank (LUST) and the Oil Spill Response Accounts to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the agency disburses obligated amounts from the transfer account, the agency draws down monies from the Superfund and LUST Trust Fund 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 adopts the Inland Oil Spill Programs appropriation amount to the EPA's Oil Spill Response Account.

The Office of General Counsel determined that the EPA did not have statutory authority to retain and use states voluntary cost share payments for Superfund removal actions and subsequently did not comply with the Miscellaneous Receipts Act and the EPA's Hazardous Substance



Superfund appropriation was improperly augmented. As a result of this decision, the EPA transferred \$9.3 million from the Superfund appropriation to Treasury's miscellaneous receipts.

#### **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. The financial statements are prepared in accordance with GAAP for Federal entities.

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

#### **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 Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources."

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under CERCLA Section 122(b)(3) placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

Most of the other funds receive funding needed to support programs through appropriations which may be used within statutory limits for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program receives funding to support the subsidy cost of loans through appropriations which may be used within statutory limits. The Asbestos Direct Loan Financing fund 4322, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

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

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

#### **F. Funds with the Treasury**

The agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing

Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

#### **G. Investments in U.S. Government Securities**

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity (see Note 4).

#### **H. Notes Receivable**

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

#### **I. Marketable Securities**

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

#### **J. Accounts Receivable and Interest Receivable**

The majority of receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, allocations receivable from Superfund (eliminated in consolidated totals), and refunds receivable for the STAG appropriation.

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by SARA. Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5).

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 lead 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.

#### **K. Advances and Prepayments**

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the agency for which a budgetary expenditure has not yet occurred.

## **L. Loans Receivable**

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. 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.

## **M. Appropriated Amounts Held by Treasury**

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

## **N. Property, Plant, and Equipment**

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

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

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the minimum lease payments must be \$75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an \$85 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the lease and other minimum lease payments equal or exceed 90 percent of the fair value.

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

An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in FAS 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. Real property, other than land, is capitalized when the value is \$85 thousand or more. 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 102 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.

Software for the WCF, a revenue generating activity, is capitalized if the purchase price is \$100 thousand or more with an estimated useful life of two years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to ten years.

#### **O. 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. 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.

#### **P. Borrowing Payable to the Treasury**

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans. Periodic principal payments are made to Treasury based on the collections of loans receivable.

#### **Q. Interest Payable to Treasury**

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt.

#### **R. Accrued Unfunded Annual Leave**

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 32 as a component of "Payroll and Benefits Payable."

#### **S. 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, 1984, the

Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

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

## **T. 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.

## **U. Recovery Act Funds**

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Act was enacted to create jobs in the United States, encourage technical advances, assist in modernizing the nation's infrastructure, and enhance energy independence. The EPA was charged with the task of distributing funds to invest in various projects aimed at creating advances in science, health, and environmental protection that will provide long-term economic benefits.

The EPA manages almost \$7.22 billion in Recovery Act funded projects and programs that will help achieve these goals, offer resources to help other "green" agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2013, EPA has paid out \$7.1 billion.

The EPA, in collaboration with states, tribes, local governments, territories and other partners, is administering the funds it received under the Recovery Act through four appropriations. The funds include:

- State and Tribal Assistance Grants (STAG) that in turn include:
  - \$4 billion for assistance to help communities with water quality and wastewater infrastructure needs and \$2 billion for drinking water infrastructure needs (Clean Water and Drinking Water State Revolving Fund programs and Water Quality Planning program);

- \$100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program);
- \$300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs);
- \$600 million for the cleanup of hazardous sites (Superfund program);
- \$200 million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank program); and
- \$20 million for audits and investigations conducted by the Inspector General (IG).

The vast majority of the contracts awarded under the Recovery Act have used competitive contracts. The EPA is committed fully to ensuring transparency and accountability throughout the agency in spending Recovery Act funds in accordance with OMB guidance.

EPA set up a Stimulus Steering Committee that meets to review and report on the status of the distribution of the Recovery Act Funds to ensure transparency and accuracy. EPA also developed a Stewardship Plan which is an Agency-level risk mitigation plan that sets out the Agency's Recovery Act risk assessment, internal controls and monitoring activities. The Stewardship Plan is divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Stewardship Plan was developed around Government Accountability Office (GAO) standards for internal control. Under each functional area, risks are assessed and related control, communication and monitoring activities are identified for each impacted program. The Plan is a dynamic document and will be updated as revised OMB guidance is issued or additional risks are uncovered.

EPA has the three-year EPM treasury symbol 6809/110108 that was established to track the appropriate operation and maintenance of the funds. EPA's other Recovery Act programs are the following: Office of Inspector General (IG), treasury symbol 6809/120113; State and Tribal Assistance Grants, treasury symbol 6809/100102; Payment to the Superfund, treasury symbol 6809/100249; Superfund, treasury symbol 6809/108195; and Leaking Underground Storage Tank, treasury symbol 6809/108196.

## **V. Deepwater Horizon Oil Spill**

On April 20, 2010 the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. In FY 2011, the EPA worked on the cleanup effort in conjunction with the U.S. Coast Guard who was named the lead Federal On-Scene Coordinator and continues to assist the Department of Justice on the pending civil litigation.

On September 10, 2012, the President designated EPA and USDA as additional trustees for the National Resource Damage and Assessment Council for restoration solely in conjunction with injury to, destruction of, loss of, or loss of the use of natural resources, including their supporting ecosystems, resulting from the Deepwater Horizon Oil Spill. In FY 2013, EPA received an advance of \$1.053 million from BP, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

## **W. Hurricane Sandy**

On January 29, 2013, President Obama signed into law the Disaster Relief Appropriations Act (Disaster Relief Act) which provides aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, agencies must ensure that the funds appropriated under the Act are used for their intended purposes. The Disaster Relief Act required Federal agencies supporting Sandy recovery and other disaster-related activities to implement internal controls to prevent waste, fraud and abuse of these funds. EPA implemented an internal control plan. The EPA Hurricane Sandy Internal Control Plan was submitted to OMB, GAO and the IG during March 2013.

EPA received a post sequestration appropriation of \$577 million in Hurricane Sandy funds. As of the end of FY 2013, \$433,005 in Hurricane Sandy funds have been expended. These funds are for the following programs (all amounts are post sequestration):

- The Clean Water State Revolving Fund received \$475 million for work on clean water infrastructure projects in New York and New Jersey.
- The Drinking Water State Revolving Fund received \$95 million for work on drinking water infrastructure projects in New York and New Jersey.
- The Leaking Underground Storage Tanks program received \$4.75 million for work on projects impacted by Hurricane Sandy.
- The Superfund program received \$1.9 million for work on Superfund sites impacted by Hurricane Sandy.
- EPA also received \$689,000 to make repairs to EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

## **X. 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



## Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2013 and 2012, consists of the following:

	<u>FY 2013</u>			<u>FY 2012</u>		
	<u>Entity</u>	<u>Non-Entity</u>	<u>Total</u>	<u>Entity</u>	<u>Non-Entity</u>	<u>Total</u>
	<u>Assets</u>	<u>Assets</u>		<u>Assets</u>	<u>Assets</u>	
<b>Trust Funds:</b>						
Superfund	\$ 40,254	\$ -	\$ 40,254	\$ 95,604	\$ -	\$ 95,604
LUST	38,368	-	38,368	35,310	-	35,310
Oil Spill	5,082	-	5,082	4,682	-	4,682
<b>Revolving Funds:</b>						
FIFRA/Tolerance	11,820	-	11,820	4,808	-	4,808
Working Capital	66,663	-	66,663	68,319	-	68,319
Cr. Reform Finan.	370	-	370	599	-	599
NRDA	1,037	-	1,037	-	-	-
<b>Appropriated</b>	9,402,247	-	9,402,247	10,300,004	-	10,300,004
<b>Other Fund Types</b>	<u>377,460</u>	<u>878</u>	<u>378,338</u>	<u>338,748</u>	<u>8,401</u>	<u>347,149</u>
<b>Total</b>	<u>\$ 9,943,301</u>	<u>\$ 878</u>	<u>\$ 9,944,179</u>	<u>\$ 10,848,074</u>	<u>\$ 8,401</u>	<u>\$ 10,856,475</u>

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

<b>Status of Fund Balances:</b>	<u><b>FY 2013</b></u>	<u><b>FY 2012</b></u>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 3,008,631	\$ 2,609,126
Unavailable for Obligation	199,569	177,277
Net Receivables from Invested Balances	(3,114,699)	(3,269,572)
Balances in Treasury Trust Fund (Note 36)	2,492	(994)
Obligated Balance not yet Disbursed	9,487,855	11,005,812
Non-Budgetary FBWT	<u>360,331</u>	<u>334,826</u>
<b>Totals</b>	<u><b>\$ 9,944,179</b></u>	<u><b>\$ 10,856,475</b></u>

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2013 and FY 2012 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

### Note 3. Cash and Other Monetary Assets

As of September 30, 2013 and 2012, the balance in the imprest fund was \$10 thousand.

### Note 4. Investments

As of September 30, 2013 and 2012 investments related to Superfund and LUST consist of the following:

		Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2013	\$ 4,510,044	\$ (60,737)	\$ 6,290	\$ 4,577,071	\$ 4,577,071
Non-Marketable	FY 2012	\$ 4,509,646	\$ (103,614)	\$ 6,971	\$ 4,620,231	\$ 4,620,231

CERCLA, as amended by SARA, authorizes 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, 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 (see Note 6). All investments in Treasury securities are funds from dedicated collections (see Note 19).

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

**Note 5. Accounts Receivable, Net**

The Accounts Receivable as of September 30, 2013 and 2012 consist of the following:

	<u><b>FY 2013</b></u>	<u><b>FY 2012</b></u>
<b>Intragovernmental:</b>		
Accounts & Interest Receivable	\$ 15,163	\$ 29,027
Less: Allowance for Uncollectibles	\$ (836)	\$ (811)
<b>Total</b>	<u><b>\$ 14,327</b></u>	<u><b>\$ 28,216</b></u>
<b>Non-Federal:</b>		
Unbilled Accounts Receivable	\$ 142,251	\$ 139,138
Accounts & Interest Receivable	2,484,674	2,036,177
Less: Allowance for Uncollectibles	(1,777,752)	(1,684,193)
<b>Total</b>	<u><b>\$ 849,173</b></u>	<u><b>\$ 491,122</b></u>

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

**Note 6. Other Assets**

Other Assets as of September 30, 2013 and 2012 consist of the following:

	<u><b>FY 2013</b></u>	<u><b>FY 2012</b></u>
<b>Intragovernmental:</b>		
Advances to Federal Agencies	\$ 243,586	\$ 252,537
Advances for Postage	68	300
<b>Total</b>	<u><b>\$ 243,654</b></u>	<u><b>\$ 252,837</b></u>
<b>Non-Federal:</b>		
Travel Advances	\$ 318	\$ 202
Other Advances	5,052	2,625
Operating Materials and Supplies	85	140
Inventory for Sale	301	167
<b>Total</b>	<u><b>\$ 5,756</b></u>	<u><b>\$ 3,134</b></u>

**Note 7. Loans Receivable, Net**

Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2013 and 2012 are as follows:

	<u><b>FY 2013</b></u>			<u><b>FY 2012</b></u>		
	<b>Loans Receivable, Gross</b>	<b>Allowance*</b>	<b>Value of Assets Related to Direct Loans</b>	<b>Loans Receivable, Gross</b>	<b>Allowance*</b>	<b>Value of Assets Related to Direct Loans</b>
Direct Loans Obligated After FY 1991	30	27	57	496	(360)	136
<b>Total</b>	<b>\$ 30</b>	<b>\$ 27</b>	<b>\$ 57</b>	<b>\$ 496</b>	<b>\$ (360)</b>	<b>\$ 136</b>

\* Allowance for Pre-Credit Reform loans (prior to FY 1992) is the Allowance for Estimated Uncollectible Loans, and the Allowance for Post Credit Reform Loans (after FY 1991) is the Allowance for Subsidy Cost (present value).

During FY 2008, the EPA made a payment within the U.S. Treasury for the Asbestos Loan Program based on an upward re-estimate of \$33 thousand for increased loan financing costs. It was believed that the payment only consisted of “interest” costs and, as such, an automatic apportionment, per OMB Circular A-11, Section 120.83, was deemed appropriate. However, approximately one third (\$12 thousand) of the \$33 thousand re-estimate was for increased “subsidy” costs which requires an approved apportionment by OMB before any payment could be made. Therefore, the payment resulted in a minor technical Antideficiency Act (ADA) violation. On October 13, 2009, EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB. On May 18, 2011, EPA sent a supplemental letter to the OMB Director to further identify the names of the persons responsible for the violation, and that they were not suspected of willfully or knowingly violating the ADA.

Subsidy Expenses for Credit Reform Loans (reported on a cash basis):

	<b>Interest Rate Re-estimate</b>	<b>Technical Re-estimate</b>	<b>Total</b>
Upward Subsidy Reestimate – FY 2013	\$ 302	\$ 96	\$ -
Downward Subsidy Reestimate - FY 2013			
<b>FY 2013 Totals</b>	<b>\$ 302</b>	<b>\$ 96</b>	<b>\$ 398</b>
Upward Subsidy Reestimate – FY 2012	\$ 247	\$ 85	\$ 332
Downward Subsidy Reestimate - FY 2012			-
<b>FY 2012 Totals</b>	<b>\$ 247</b>	<b>\$ 85</b>	<b>\$ 332</b>

**Schedule for Reconciling Subsidy Cost Allowance Balances**  
(Post-1991 Direct Loans)

	<u><b>FY 2013</b></u>	<u><b>FY 2012</b></u>
Beginning balance of the subsidy cost allowance	\$ (360)	\$ (131)
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs		
Default costs (net of recoveries)		
Fees and other collections		
Other subsidy costs		
Total of the above subsidy expense components	<u>\$ -</u>	<u>\$ -</u>
Adjustments:		
Loan Modification		
Fees received		
Foreclosed property acquired		
Loans written off		
Subsidy allowance amortization	\$ (11)	\$ 103
Other		
End balance of the subsidy cost allowance before reestimates	<u>\$ (11)</u>	<u>\$ 103</u>
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	302	(247)
(b) Technical/default reestimate	96	(85)
Total of the above reestimate components	<u>\$ 398</u>	<u>(332)</u>
<b>Ending Balance of the subsidy cost allowance</b>	<b>\$ 27</b>	<b>\$ (360)</b>

EPA has not disbursed Direct Loans since 1993.

<b>Note 8. Accounts Payable and Accrued Liabilities</b>
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The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2013 and 2012:

	<u><b>FY 2013</b></u>	<u><b>FY 2012</b></u>
<b>Intragovernmental:</b>		
Accounts Payable	\$ 642	\$ 2,610
Accrued Liabilities	<u>55,319</u>	<u>52,411</u>
<b>Total</b>	<u><u>\$ 55,961</u></u>	<u><u>\$ 55,021</u></u>
<b>Non-Federal:</b>		
Accounts Payable	\$ 78,614	\$ 107,294
Advances Payable	3	11
Interest Payable	7	7
Grant Liabilities	378,230	460,835
Other Accrued Liabilities	<u>162,880</u>	<u>207,134</u>
<b>Total</b>	<u><u>\$ 619,734</u></u>	<u><u>\$ 775,281</u></u>

Other Accrued Liabilities primarily relate to contractor accruals.

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

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

As of September 30, 2013 and 2012, General PP&E consist of the following:

		<u><b>FY 2013</b></u>			<u><b>FY 2012</b></u>	
	<u><b>Acquisition</b></u>	<u><b>Accumulated</b></u>	<u><b>Net Book Value</b></u>	<u><b>Acquisition</b></u>	<u><b>Accumulated</b></u>	<u><b>Net Book</b></u>
	<u><b>Value</b></u>	<u><b>Depreciation</b></u>		<u><b>Value</b></u>	<u><b>Depreciation</b></u>	<u><b>Value</b></u>
EPA-Held Equipment	\$ 273,725	\$ (169,592)	\$ 104,133	\$ 261,279	\$ (157,259)	\$ 104,020
Software	690,335	(272,155)	418,180	615,090	(231,599)	383,491
Contractor Held Equip.	48,158	(18,631)	29,527	59,812	(18,711)	41,101
Land and Buildings	680,344	(210,467)	469,877	672,096	(201,140)	470,956
Capital Leases	35,440	(26,350)	9,090	35,440	(24,987)	10,453
<b>Total</b>	<b>\$ 1,728,002</b>	<b>\$ (697,195)</b>	<b>\$ 1,030,807</b>	<b>\$ 1,643,717</b>	<b>\$ (633,696)</b>	<b>\$ 1,010,021</b>

**Note 10. Debt Due to Treasury**

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2013 and 2012 is as follows:

<u><b>All Other Funds</b></u>		<u><b>FY 2013</b></u>			<u><b>FY 2012</b></u>	
	<u><b>Beginning</b></u>	<u><b>Net</b></u>	<u><b>Ending</b></u>	<u><b>Beginning</b></u>	<u><b>Net</b></u>	<u><b>Ending</b></u>
	<u><b>Balance</b></u>	<u><b>Borrowing</b></u>	<u><b>Balance</b></u>	<u><b>Balance</b></u>	<u><b>Borrowing</b></u>	<u><b>Balance</b></u>
<b>Intragovernmental:</b>						
Debt to Treasury	\$ 1,063	\$ (1,035)	\$ 28	\$ 2,593	\$ (1,530)	\$ 1,063

**Note 11. Stewardship Land**

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, 2013 and 2012, the Agency possesses the following land and land rights:

	<u>FY 2013</u>	<u>FY 2012</u>
<b>Superfund Sites with Easements</b>		
Beginning Balance	36	36
Additions	0	0
Withdrawals	0	0
Ending Balance	<u>36</u>	<u>36</u>
 <b>Superfund Sites with Land Acquired</b>		
Beginning Balance	34	34
Additions	0	0
Withdrawals	1	0
Ending Balance	<u>33</u>	<u>34</u>

#### **Note 12. Custodial Liability**

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2013 and 2012, custodial liability is approximately \$94 million and \$119 million, respectively.

#### **Note 13. Other Liabilities**

Other Liabilities consist of the following as of September 30, 2013:

<b>Other Liabilities – Intragovernmental</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Current</b>			
Employer Contributions & Payroll Taxes \$	26,599	\$ -	\$ 26,599
WCF Advances	1,526	-	1,526
Other Advances	8,814	-	8,814
Advances, HRSTF Cashout	32,736	-	32,736
Deferred HRSTF Cashout	274	-	274
Liability for Deposit Funds	5	-	5
<b>Non-Current</b>			
Unfunded FECA Liability	-	10,581	10,581
Unfunded Unemployment Liability		158	158
Payable to Treasury Judgment Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b>\$ 69,954</b>	<b>\$ 32,739</b>	<b>\$ 102,693</b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances, Non-Federal \$	103,813	\$ -	\$ 103,813
Liability for Deposit Funds, Non-Federal	1,052	-	1,052
<b>Non-Current</b>			
Capital Lease Liability	-	21,043	21,043
<b>Total Non-Federal</b>	<b>\$ 104,865</b>	<b>\$ 21,043</b>	<b>\$ 125,908</b>

Other Liabilities consist of the following as of September 30, 2012:

<b>Other Liabilities – Intragovernmental</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Current</b>			
Employer Contributions & Payroll Taxes \$	25,304	\$ -	\$ 25,304
WCF Advances	1,294	-	1,294
Other Advances	23,505	-	23,505
Advances, HRSTF Cashout	34,341	-	34,341
Deferred HRSTF Cashout	604	-	604
<b>Non-Current</b>			
Unfunded FECA Liability	-	10,472	10,472
Payable to Treasury Judgment Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b>\$ 85,048</b>	<b>\$ 32,472</b>	<b>\$ 117,520</b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances, Non-Federal \$	72,728	\$ -	\$ 72,728
Liability for Deposit Funds, Non-Federal	9,335	-	9,335
<b>Non-Current</b>			
Capital Lease Liability	-	23,005	23,005
<b>Total Non-Federal</b>	<b>\$ 82,063</b>	<b>\$ 23,005</b>	<b>\$ 105,068</b>



## Note 14. Leases

### Capital Leases:

The value of assets held under Capital Leases as of September 30, 2013 and 2012 are as follows:

<b>Summary of Assets Under Capital Lease:</b>	<b>FY 2013</b>	<b>FY 2012</b>
Real Property	\$ 35,285	\$ 35,285
Personal Property	155	155
<b>Total</b>	<b>\$ 35,440</b>	<b>\$ 35,440</b>
Accumulated Amortization	\$ 26,350	\$ 24,987

EPA had two capital leases for land and buildings housing scientific laboratories and computer facilities. Both leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. One lease terminated in FY 2013 and the other terminates in FY 2025.

The total future minimum capital lease payments are listed below.

<b><u>Future Payments Due:</u></b>	
<b>Fiscal Year</b>	<b>Capital Leases</b>
2014	\$ 4,215
2015	4,215
2016	4,215
2017	4,215
After 5 years	30,910
<b>Total Future Minimum Lease Payments</b>	<b>47,770</b>
Less: Imputed Interest	\$ (26,727)
<b>Net Capital Lease Liability</b>	<b>21,043</b>
<b>Liabilities not Covered by Budgetary Resources</b>	<b>\$ 21,043</b>

(See Note 13)

### Operating Leases:

The GSA provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

EPA had two direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. Two leases expire in FY 2017 and FY 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

<u>Fiscal Year</u>	<u>Operating Leases, Land and Buildings</u>
2014	\$ 89
2015	89
2016	89
2017	83
Beyond 2018	114
<b>Total Future Minimum Lease Payments</b>	<b>\$ 464</b>

#### **Note 15. FECA Actuarial Liabilities**

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

The FECA Actuarial Liability as of September 30, 2013 and 2012 was \$51.8 million and \$46.9 million, respectively. The FY 2013 present value of these estimated outflows is calculated using a discount rate of 2.727 percent in the first year, and 3.127 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

#### **Note 16. Cashout Advances, Superfund**

Cashout advances are funds received by EPA, a state, or another PRP 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), cashout funds received by 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 EPA without further appropriation by Congress. As of September 30, 2013 and 2012, cashouts are approximately \$1.012 billion and \$736 million respectively.

#### **Note 17. Unexpended Appropriations – Other Funds**

As of September 30, 2013 and 2012, the Unexpended Appropriations consist of the following:

<b>Unexpended Appropriations:</b>	<b><u>FY 2013</u></b>	<b><u>FY 2012</u></b>
Unobligated		
Available	\$ 1,061,402	\$ 602,413
Unavailable	95,043	82,346
Undelivered Orders	7,823,567	9,127,111
<b>Total</b>	<b>\$ <u>8,980,012</u></b>	<b>\$ <u>9,811,870</u></b>

## **Note 18. Commitments and Contingencies**

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

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2013 and 2012 total accrued liabilities for commitments and potential loss contingencies is \$25.2 million and \$25.2 million, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

### **Litigation Claims and Assessments**

There is currently one legal claim which has been asserted against the EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. This loss has been deemed probable, and the unfavorable outcome is estimated to be between \$15 million and \$25 million. EPA has accrued the higher conservative amount as of September 30, 2013. The maximum amount of exposure under the claim could range as much as \$25 million in the aggregate.

### **Superfund**

Under CERCLA Section 106(a), 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 EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

### **Judgment Fund**

In cases that are paid by the U.S. Treasury Judgment Fund, EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

As of September 30, 2013, there are no material claims pending in the Treasury's Judgment Fund. However, EPA has a \$22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

## Other Commitments

EPA has a commitment to fund the United States Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. EPA paid \$3 million to the CEC in the period ended September 30, 2013 and \$3 million in the period ended September 30, 2012.

EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling \$5.92 million in FY 2013. Future payments totaling \$27 million have been deemed reasonably possible and are anticipated to be paid in fiscal years 2014 through 2016.

### Note 19. Funds from Dedicated Collections

Balance sheet as of September 30, 2013	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
<b>Assets</b>					
Fund Balance with Treasury	\$ 358,632	\$ 38,368	\$ 40,254	\$ 36,767	\$ 474,021
Investments	-	1,360,530	3,216,541	-	4,577,071
Accounts Receivable, Net	-	-	739,813	3,193	743,006
Other Assets	-	361	108,930	3,086	112,377
Total Assets	<u>358,632</u>	<u>1,399,259</u>	<u>4,105,538</u>	<u>43,046</u>	<u>5,906,475</u>
<b>Other Liabilities</b>	\$ -	\$ 8,973	\$ 1,277,641	\$ 42,919	\$ 1,329,533
Total Liabilities	<u>-</u>	<u>8,973</u>	<u>1,277,641</u>	<u>42,919</u>	<u>1,329,533</u>
Cumulative Results of Operations	\$ 358,632	\$ 1,390,286	\$ 2,827,897	\$ 127	\$ 4,576,942
Total Liabilities and Net Position	<u>358,632</u>	<u>1,399,259</u>	<u>4,105,538</u>	<u>43,046</u>	<u>5,906,475</u>
<b>Statement of Changes in Net Cost for the Period Ended September 30, 2013</b>					
Gross Program Costs	\$ -	\$ 114,051	\$ 1,558,007	\$ 74,237	\$ 1,746,295
Less: Earned Revenues	(470)	-	441,908	54,131	495,569
Net Cost of Operations	<u>470</u>	<u>114,051</u>	<u>1,116,099</u>	<u>20,106</u>	<u>1,250,726</u>
<b>Statement of Changes in Net Position for the Period ended September 30, 2013</b>					
Net Position, Beginning of Period	\$ 325,719	\$ 1,336,906	\$ 2,834,688	\$ 6,886	\$ 4,504,199
Nonexchange Revenue- Securities Investments	-	4,904	23,810	3	28,717
Nonexchange Revenue	33,383	162,167	(430)	(12)	195,108
Other Budgetary Finance Sources	-	-	1,062,303	12,190	1,074,493
Other Financing Sources	-	360	23,625	1,166	25,151
Net Cost of Operations	(470)	(114,051)	(1,116,099)	(20,106)	(1,250,726)
Change in Net Position	<u>32,913</u>	<u>53,380</u>	<u>(6,791)</u>	<u>(6,759)</u>	<u>72,743</u>
Net Position	<u>358,632</u>	<u>1,390,286</u>	<u>2,827,897</u>	<u>127</u>	<u>4,576,942</u>

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
<b>Balance sheet as of September 30, 2012</b>					
Assets					
Fund Balance with Treasury	\$ 325,719	\$ 35,310	\$ 95,604	\$ 22,518	\$ 479,151
Investments	-	1,315,101	3,305,130	-	4,620,231
Accounts Receivable, Net	-	-	374,791	10,017	384,808
Other Assets	-	332	114,354	3,924	118,610
Total Assets	<u>325,719</u>	<u>1,350,743</u>	<u>3,889,879</u>	<u>36,459</u>	<u>5,602,800</u>
Other Liabilities	\$ -	\$ 13,837	\$ 1,055,191	\$ 29,573	\$ 1,098,601
Total Liabilities	<u>-</u>	<u>13,837</u>	<u>1,055,191</u>	<u>29,573</u>	<u>1,098,601</u>
Cumulative Results of Operations	\$ 325,719	\$ 1,336,906	\$ 2,834,688	\$ 6,886	\$ 4,504,199
Total Liabilities and Net Position	<u>325,719</u>	<u>1,350,743</u>	<u>3,889,879</u>	<u>36,459</u>	<u>5,602,800</u>
<b>Statement of Changes in Net Cost for the Period Ended September 30, 2012</b>					
Gross Program Costs	\$ -	\$ 137,234	\$ 1,705,893	\$ 81,780	\$ 1,924,907
Less: Earned Revenues	<u>-</u>	<u>67,468</u>	<u>305,301</u>	<u>58,796</u>	<u>431,565</u>
Net Cost of Operations	<u>-</u>	<u>69,766</u>	<u>1,400,592</u>	<u>22,984</u>	<u>1,493,342</u>
<b>Statement of Changes in Net Position for the Period ended September 30, 2012</b>					
Net Position, Beginning of Period	\$ 302,677	\$ 3,575,201	\$ 3,143,619	\$ 5,666	\$ 7,027,163
Nonexchange Revenue- Securities Investments	-	60,572	26,879	3	87,454
Nonexchange Revenue	23,042	170,497	6,517	12	200,068
Other Budgetary Finance Sources	-	(2,400,000)	1,033,250	23,345	(1,343,405)
Other Financing Sources	-	402	25,015	844	26,261
Net Cost of Operations	-	(69,766)	(1,400,592)	(22,984)	(1,493,342)
Change in Net Position	<u>23,042</u>	<u>(2,238,295)</u>	<u>(308,931)</u>	<u>1,220</u>	<u>(2,522,964)</u>
Net Position	<u>325,719</u>	<u>1,336,906</u>	<u>2,834,688</u>	<u>6,886</u>	<u>4,504,199</u>

## Funds from Dedicated Collections are as follows:

**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 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.

**Leaking Underground Storage Tank (LUST) Trust Fund:** The LUST Trust Fund, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act.

**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 is largely financed through a transfer from general revenues with authorized augmentation through cost share agreements with state governments and cost recovery from and settlements with Federal, state, and industry responsible parties. 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.

#### **Other Funds from Dedicated Collections:**

***Oil Spill Liability Trust Fund:*** The Oil Spill Liability Trust Fund, was authorized by the Oil Pollution Act of 1990 (OPA). Monies are appropriated from the Oil Spill Liability Trust Fund to EPA's Oil Spill Response 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.

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

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

***National Resource Damage and Assessment Fund:*** In FY 2013, EPA received an advance of \$1.053 million from BP to fund the National Resource Damage and Assessment Fund (NRDA) to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

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

***Exxon Valdez Settlement Fund:*** The Exxon Valdez Settlement Fund authorized by P.L. 102-389, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993," has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

## Note 20. Intragovernmental Costs and Exchange Revenue

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

	FY 2013			FY 2012		
	Intragovernm ental	With the Public	Total	Intragovernm ental	With the Public	Total
<b>Clean Air</b>						
Program Costs	\$ 166,921	\$ 903,413	\$ 1,070,334	\$ 184,695	\$ 1,027,551	\$ 1,212,246
Earned Revenue	21,275	1,444	22,719	12,171	1,372	13,543
NET COST	\$ 145,646	\$ 901,969	\$ 1,047,615	\$ 172,524	\$ 1,026,179	\$ 1,198,703
<b>Clean and Safe Water</b>						
Program Costs	\$ 405,439	\$ 4,723,286	\$ 5,128,725	\$ 380,760	\$ 5,177,804	\$ 5,558,564
Earned Revenue	7,733	29,976	37,709	8,220	33,654	41,874
NET COSTS	\$ 397,706	\$ 4,693,310	\$ 5,091,016	\$ 372,540	\$ 5,144,150	\$ 5,516,690
<b>Land Preservation &amp; Restoration</b>						
Program Costs	\$ 341,138	\$ 1,902,661	\$ 2,243,799	\$ 358,603	\$ 2,175,713	\$ 2,534,316
Earned Revenue	67,803	237,781	305,584	79,371	255,421	334,792
NET COSTS	\$ 273,335	\$ 1,664,880	\$ 1,938,215	\$ 279,232	\$ 1,920,292	\$ 2,199,524
<b>Healthy Communities &amp; Ecosystems</b>						
Program Costs	\$ 163,742	\$ 538,325	\$ 702,067	\$ 184,459	\$ 593,659	\$ 778,118
Earned Revenue	12,732	31,837	44,569	12,092	37,106	49,198
NET COSTS	\$ 151,010	\$ 506,488	\$ 657,498	\$ 172,367	\$ 556,553	\$ 728,920
<b>Compliance &amp; Environmental Stewardship</b>						
Program Costs	\$ 194,386	\$ 686,897	\$ 881,283	\$ 216,865	\$ 605,163	\$ 822,028
Earned Revenue	3,489	186,827	190,316	5,877	76,542	82,419
NET COSTS	\$ 190,897	\$ 500,070	\$ 690,967	\$ 210,988	\$ 528,621	\$ 739,609
<b>Total</b>						
Program Costs	\$ 1,271,626	\$ 8,754,582	\$ 10,026,208	\$ 1,325,382	\$ 9,579,890	\$ 10,905,272
Earned Revenue	113,032	487,865	600,897	117,731	404,095	521,826
NET COSTS	\$ 1,158,594	\$ 8,266,717	\$ 9,425,311	\$ 1,207,651	\$ 9,175,795	\$ 10,383,446

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

## Note 21. Environmental Cleanup Costs

As of September 30, 2013, EPA has 2 sites that require clean up stemming from its activities. Two claimants' chances of success are characterized as probable with costs amounting to \$180 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund cleanup work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2013 or in FY 2012.

Accrued Cleanup Cost:

EPA has 15 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2013 and 2012, the estimated costs for site cleanup were \$21.6 million and \$21.6 million, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

#### ***Note 22. State Credits***

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Contracts (SSC) when 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 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 EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action.

Once 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 EPA. As of September 30, 2013 and 2012, the total remaining state credits have been estimated at \$25.1 million and \$24.7 million, respectively.

In Fiscal Year 2013 EPA started recognizing the credits to non-federal sponsors of Great Lakes Legacy Act (GLLA) agreements. The Legacy Act requires that at least 35 percent of project costs be provided by a nonfederal sponsor, with U.S. EPA providing up to 65 percent. Nonfederal sponsors must also cover 100 percent of the project's operation and maintenance costs. As of September 30, 2013 Great Lakes Legacy Act credits have been estimated at \$37 million.

#### ***Note 23. Preauthorized Mixed Funding Agreements***

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. 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, 2013, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling \$4.7 million. As of September 30, 2012, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling \$4.7 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, 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 EPA.



#### Note 24. Custodial Revenues and Accounts Receivable

	<u>FY 2013</u>	<u>FY 2012</u>
<b>Fines, Penalties and Other Miscellaneous Receipts</b>	<b>\$ 147,623</b>	<b>\$ 184,211</b>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:</b>		
Accounts Receivable	\$ 190,630	\$ 214,530
Less: Allowance for Uncollectible Accounts	(95,873)	(99,606)
<b>Total</b>	<b>\$ 94,757</b>	<b>\$ 114,924</b>

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

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

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2013 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2014 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2013 has not yet been published. We expect it will be published by early 2014, and it will be available on the OMB website at <http://www.whitehouse.gov/>.

The actual amounts published for the year ended September 30, 2012 are listed immediately below:

<b>FY 2012</b>	<b>Budgetary Resources</b>	<b>Obligations</b>	<b>Offsetting Receipts</b>	<b>Net Outlays</b>
<b>Statement of Budgetary Resources</b>	<b>\$ 16,569,237</b>	<b>\$ 13,782,833</b>	<b>\$ 1,163,736</b>	<b>\$ 13,958,344</b>
Expired and Immaterial Funds*	(226,301)	(53,198)		(415)
Rounding Differences**	1,064	365	264	71
<b>Reported in Budget of the U. S. Government</b>	<b>\$ 16,344,000</b>	<b>\$ 13,730,000</b>	<b>\$ 1,164,000</b>	<b>\$ 13,958,000</b>

\* Expired funds are not included in Budgetary Resources Available for Obligation in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

\*\* Balances are rounded to millions in the Budget Appendix.

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

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2013 and 2012:

	<u>FY 2013</u>	<u>FY 2012</u>
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	\$ 286,170	\$ 571,576
Temporarily Not Available - Rescinded Authority	(84,183)	(450)
Permanently Not Available:		
Payments to Treasury	(1,035)	(1,529)
Rescinded authority	(437,313)	(58,203)
Canceled authority	(16,649)	(30,116)
<b>Total Permanently Not Available</b>	<b>\$ (454,997)</b>	<b>\$ (89,848)</b>

**Note 27. Unobligated Balances Available**

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

The unobligated balances available consist of the following as of September 30, 2013 and 2012:

	<u>FY 2013</u>	<u>FY 2012</u>
Unexpired Unobligated Balance	\$ 3,022,122	\$ 2,609,303
Expired Unobligated Balance	184,325	177,101
<b>Total</b>	<b>\$ 3,206,447</b>	<b>\$ 2,786,404</b>

**Note 28. Undelivered Orders at the End of the Period**

Budgetary resources obligated for undelivered orders at September 30, 2013 and 2012 were \$9.23 billion and \$10.60 billion, respectively.

**Note 29. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2013 and 2012, the following receipts were generated from these activities:

	<u>FY 2013</u>	<u>FY 2012</u>
Trust Fund Recoveries	\$ 34,987	\$ 45,413
Special Fund Environmental Service	32,917	23,271
Trust Fund Appropriation	1,087,088	1,075,367
Miscellaneous Receipt and Clearing Accounts	18,792	19,685
<b>Total</b>	<b>\$ 1,173,784</b>	<b>\$ 1,163,736</b>

<b>Note 30. Transfers-In and Out, Statement of Changes in Net Position</b>
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**Appropriation Transfers, In/Out:**

For September 30, 2013 and 2012, 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, 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 follows for September 30, 2013 and 2012:

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

<b>Fund/Type of Account</b>	<b><u>FY 2013</u></b>	<b><u>FY 2012</u></b>
Army Corps of Engineers	\$ -	\$ 5
Total Appropriation Transfers	\$ -	\$ 5
(Other Funds)		
Net Transfers from Invested Funds	\$ 1,176,496	\$ 3,683,571
Transfers to Another Agency	(5,100)	-
Allocations Rescinded	81,518	389
Total of Net Transfers on Statement of Budgetary Resources	\$ <b><u>1,252,914</u></b>	\$ <b><u>3,683,960</u></b>

For September 30, 2013 and 2012, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consists of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and nonexpenditure, follows for September 30, 2013 and 2012:

<b>Type of Transfer/Funds</b>	<b><u>FY 2013</u></b>		<b><u>FY 2012</u></b>	
	<b>Funds from Dedicated Collections</b>	<b>Other Funds</b>	<b>Funds from Dedicated Collections</b>	<b>Other Funds</b>
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	\$ (29,885)	\$ 29,885	\$ (32,018)	\$ 32,018
Capital Transfer			(5,000)	
Transfers-in nonexpenditure, Oil Spill	12,190		23,344	
Transfers-in (out) nonexpenditure, Superfund	5,100		(5,099)	
Transfer-out LUST			(2,400,000)	-
Total Transfer in (out) without Reimbursement, Budgetary	\$ <b><u>(12,595)</u></b>	\$ <b><u>29,885</u></b>	\$ <b><u>(2,418,773)</u></b>	\$ <b><u>32,018</u></b>

<b>Note 31. Imputed Financing</b>
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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 2013 were \$142.5 million (\$22.9 million from Funds from Dedicated Collections, and \$119.6 million from Other Funds). For FY 2012, the estimates were \$151.6 million (\$24.1 million from Funds from Dedicated Collections, and \$127.5 million from Other Funds).

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. 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. 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 2013 total imputed costs were \$7.0 million (\$2.2 million from Funds from Dedicated Collections, and \$4.8 million from Other Funds).

In addition to the pension and retirement benefits described above, 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 2013 entries for Judgment Fund payments totaled \$1.4 million (Other Funds). For FY 2012, entries for Judgment Fund payments totaled \$10.0 million (Other Funds).

The combined total of imputed financing sources for FY 2013 and FY 2012 is \$150.9 million and \$168.1 million, respectively.

<b><i>Note 32. Payroll and Benefits Payable</i></b>
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Payroll and benefits payable to EPA employees for the years ending September 30, 2013 and 2012 consist of the following:

<b>FY 2013 Payroll &amp; Benefits Payable</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
Accrued Funded Payroll & Benefits	\$ 71,807	\$ -	\$ 71,807
Withholdings Payable	31,475	-	31,475
Employer Contributions Payable-TSP	6,944	-	6,944
Accrued Unfunded Annual Leave	-	157,729	157,729
<b>Total - Current</b>	<b>\$ 110,226</b>	<b>\$ 157,729</b>	<b>\$ 267,955</b>

**FY 2012 Payroll & Benefits Payable**

Accrued Funded Payroll and Benefits	\$ 72,799	\$ -	\$ 72,799
Withholdings Payable	31,511	-	31,511
Employer Contributions Payable-TSP	4,163	-	4,163
Accrued Unfunded Annual Leave	-	158,254	158,254
<b>Total - Current</b>	<b>\$ 108,473</b>	<b>\$ 158,254</b>	<b>\$ 266,727</b>

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

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 5 years earlier. These amounts affect Unexpended Appropriations.

	<b>Other Funds FY 2013</b>	<b>Other Funds FY 2012</b>
Rescissions to General Appropriations	\$ 437,280	\$ 64,991
Canceled General Authority	16,681	23,252
<b>Total Other Adjustments</b>	<b>\$ 453,961</b>	<b>\$ 88,243</b>

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

Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2013 and 2012 consists of the following Funds from Dedicated Collections items:

	<b>Funds from Dedicated Collections FY 2013</b>	<b>Funds from Dedicated Collections FY 2012</b>
Interest on Trust Fund	\$ 28,716	\$ 87,454
Tax Revenue, Net of Refunds	162,212	170,392
Fines and Penalties Revenue	(475)	6,624
Special Receipt Fund Revenue	33,371	23,053
<b>Total Nonexchange Revenue</b>	<b>\$ 223,824</b>	<b>\$ 287,523</b>

**Note 35. Reconciliation of Net Cost of Operations to Budget**

	<b>FY 2013</b>	<b>FY 2012</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 10,090,120	\$ 13,782,833
Less: Spending Authority from Offsetting Collections and Recoveries	(950,430)	(1,154,627)
Obligations, Net of Offsetting Collections	\$ 9,139,690	\$ 12,628,206
Less: Offsetting Receipts	(1,155,006)	(3,544,465)
Net Obligations	\$ 7,984,684	\$ 9,083,741
Other Resources		
Imputed Financing Sources	\$ 150,927	168,142
Other Resources to Finance Activities	-	(76)
Net Other Resources Used to Finance Activities	\$ 150,927	\$ 168,066
Total Resources Used to Finance Activities	\$ 8,135,611	\$ 9,251,807
<b>RESOURCES USED TO FINANCE ITEMS</b>		
<b>NOT PART OF THE NET COST OF OPERATIONS:</b>		
Change in Budgetary Resources Obligated	\$ 1,374,392	\$ 1,138,862
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances:	819	6,777
Offsetting Receipts Not Affecting Net Cost	67,917	69,098
Resources that Finance Asset Acquisition	(106,802)	(145,656)
Other Resources Not Affecting Net Cost	-	76
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 1,336,326	\$ 1,069,157
Total Resources Used to Finance the Net Cost of Operations	\$ 9,471,937	\$ 10,320,964
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	\$ (525)	\$ (4,590)
Increase in Environmental and Disposal Liability	(10)	722
Increase in Unfunded Contingencies	20	15,000
Upward/ Downward Reestimates of Credit Subsidy Expense	(730)	189
Increase in Public Exchange Revenue Receivables	(237,175)	(35,266)
Increase in Workers Compensation Costs	5,180	2,429
Other	(49)	1,242
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	\$ (233,289)	\$ (20,274)
<b>Components Not Requiring/ Generating Resources:</b>		
Depreciation and Amortization	\$ 81,041	\$ 96,481
Expenses Not Requiring Budgetary Resources	105,622	(13,725)
Total Components of Net Cost that Will Not Require or Generate Resources	\$ 186,663	\$ 82,756
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	\$ (46,626)	\$ 62,482
<b>Net Cost of Operations</b>	<b>\$ 9,425,311</b>	<b>\$ 10,383,446</b>

**Note 36. Amounts Held by Treasury (Unaudited)**

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

**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, 2013 and 2012. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

<b>SUPERFUND FY 2013</b>	<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ (433)	\$ (433)
Total Undisbursed Balance	-	(433)	(433)
Interest Receivable	-	3,851	3,851
Investments, Net	3,028,841	197,366	3,226,207
<b>Total Assets</b>	<b>\$ 3,028,841</b>	<b>\$ 200,784</b>	<b>\$ 3,229,625</b>
<b>Liabilities &amp; Equity</b>			
Equity	\$ 3,028,841	\$ 200,784	\$ 3,229,625
<b>Total Liabilities and Equity</b>	<b>\$ 3,028,841</b>	<b>\$ 200,784</b>	<b>\$ 3,229,625</b>
<b>Receipts</b>			
Corporate Environmental	-	46	46
Cost Recoveries	-	34,986	34,986
Fines & Penalties	-	3,478	3,478
Total Revenue	-	38,510	38,510
Appropriations Received	-	1,087,088	1,087,088
Interest Income	-	23,810	23,810
<b>Total Receipts</b>	<b>\$ -</b>	<b>\$ 1,149,408</b>	<b>\$ 1,149,408</b>
<b>Outlays</b>			
Transfers to/from EPA, Net	\$ 1,097,586	\$ (1,097,586)	-
<b>Total Outlays</b>	<b>1,097,586</b>	<b>(1,097,586)</b>	<b>-</b>
<b>Net Income</b>	<b>\$ 1,097,586</b>	<b>\$ 51,822</b>	<b>\$ 1,149,408</b>

In FY 2013, the EPA received an appropriation of \$1.09 billion for Superfund. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD 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, 2013 and 2012, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of \$3.01 billion and \$3.17 billion, respectively.

<b>SUPERFUND FY 2012</b>	<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 1,723	\$ 1,723
Total Undisbursed Balance	-	1,723	1,723
Interest Receivable	-	4,530	4,530
Investments, Net	3,171,409	129,191	3,300,600
<b>Total Assets</b>	<b>\$ 3,171,409</b>	<b>\$ 135,444</b>	<b>\$ 3,306,853</b>
<b>Liabilities &amp; Equity</b>			
Receipts and Outlays	-	-	-
Equity	\$ 3,171,409	\$ 135,444	\$ 3,306,853
<b>Total Liabilities and Equity</b>	<b>\$ 3,171,409</b>	<b>\$ 135,444</b>	<b>\$ 3,306,853</b>
<b>Receipts</b>			
Corporate Environmental	-	(104)	(104)
Cost Recoveries	-	45,413	45,413
Fines & Penalties	-	1,176	1,176
Total Revenue	-	46,485	46,485
Appropriations Received	-	1,075,367	1,075,367
Interest Income	-	26,879	26,879
<b>Total Receipts</b>	<b>\$ -</b>	<b>\$ 1,148,731</b>	<b>\$ 1,148,731</b>
<b>Outlays</b>			
Transfers to/from EPA, Net	\$ 1,221,693	\$ (1,221,693)	\$ -
<b>Total Outlays</b>	<b>1,221,693</b>	<b>(1,221,693)</b>	<b>-</b>
<b>Net Income</b>	<b>\$ 1,221,693</b>	<b>\$ (72,962)</b>	<b>\$ 1,148,731</b>

## LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2013 and 2012, there were no fund receipts from cost recoveries. Revenue provisions in section 40201 of Public Law 112-141 transferred and appropriated \$2.4 billion of LUST funds to the Highway Trust Fund. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.



<b>LUST FY 2013</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ 2,925	\$ 2,925
Total Undisbursed Balance		-	2,925	2,925
Interest Receivable		-	2,439	2,439
Investments, Net		85,858	1,272,232	1,358,090
<b>Total Assets</b>	<b>\$</b>	<b>85,858</b>	<b>1,277,596</b>	<b>1,363,454</b>
<b>Liabilities &amp; Equity</b>				
<b>Equity</b>	<b>\$</b>	<b>85,858</b>	<b>1,277,596</b>	<b>1,363,454</b>
<b>Receipts</b>				
Highway TF Tax	\$	-	\$ 103,695	\$ 103,695
Airport TF Tax		-	10,601	10,601
Inland TF Tax		-	62	62
Total Revenue		-	114,358	114,358
Interest Income		-	(4,904)	(4,904)
<b>Total Receipts</b>	<b>\$</b>	<b>-</b>	<b>109,454</b>	<b>109,454</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	103,695	\$ (103,695)	\$ -
<b>Total Outlays</b>		<b>103,695</b>	<b>(103,695)</b>	<b>-</b>
<b>Net Income</b>	<b>\$</b>	<b>103,695</b>	<b>5,759</b>	<b>109,454</b>

<b>LUST FY 2012</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (2,717)	\$ (2,717)
Total Undisbursed Balance		-	(2,717)	(2,717)
Interest Receivable		-	2,442	2,442
Investments, Net			1,312,659	1,312,659
<b>Total Assets</b>	<b>\$</b>	<b>-</b>	<b>1,312,384</b>	<b>1,312,384</b>
<b>Liabilities &amp; Equity</b>				
<b>Equity</b>	<b>\$</b>		<b>1,312,384</b>	<b>1,312,384</b>
<b>Receipts</b>				
Highway TF Tax	\$	-	\$ 159,325	\$ 159,325
Airport TF Tax		-	11,082	11,082
Inland TF Tax		-	90	90
Total Revenue		-	170,497	170,497
Interest Income		-	128,040	128,040
<b>Total Receipts</b>	<b>\$</b>	<b>-</b>	<b>298,537</b>	<b>298,537</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	2,504,142	\$ (2,504,142)	\$ -
<b>Total Outlays</b>		<b>2,504,142</b>	<b>(2,504,142)</b>	<b>-</b>
<b>Net Income</b>	<b>\$</b>	<b>2,504,142</b>	<b>(2,205,605)</b>	<b>298,537</b>

<b>Note 37. Antideficiency Act Violations</b>
---

The EPA experienced an Antideficiency Act violation on November 18 and 19, 2010 in the agency's Oil Spill Response Account in the amount of \$502,215. The violation occurred when the EPA made an expenditure in excess of the funds available in the account. The EPA was participating in the response to the Deepwater Horizon oil spill while simultaneously responding to a major inland oil spill in Enbridge, Michigan. The violation was rectified on November 20, 2010, when the EPA was reimbursed with funds from the U.S. Coast Guard. On October 25, 2012 EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB.

**Required Supplementary Information (Unaudited)**  
**Environmental Protection Agency**  
**As of September 30, 2013**  
**(Dollars in Thousands)**

**1. 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.

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices.

	<u>2013</u>
<b>Asset Category:</b>	
Buildings	\$ 34,618
EPA Held Equipment	<u>800</u>
Total Deferred Maintenance	<u>\$ 35,418</u>

**2. Stewardship Land**

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

**Required Supplementary Information (Unaudited)**  
**Environmental Protection Agency**  
**As of September 30, 2013**  
**(Dollars in Thousands)**

**3. Supplemental Combined Statement of Budgetary Resources**  
**For the Period Ending September 30, 2013**

	<u>EPM</u>	<u>SUPERFUND</u>	<u>LUST</u>	<u>S&amp;T</u>	<u>STAG</u>	<u>OTHER</u>	<u>TOTAL</u>
<b>BUDGETARY RESOURCES</b>							
Unobligated Balance, Brought Forward, October 1:	\$ 301,989	\$ 1,879,410	\$ 7,751	\$ 179,591	\$ 319,084	\$ 98,579	\$ 2,786,404
Unobligated balance brought forward, October 1, as adjusted	301,989	1,879,410	7,751	179,591	319,084	98,579	2,786,404
Recoveries of Prior Year Unpaid Obligations	59,256	120,676	4,979	20,020	59,374	21,865	286,170
Other changes in unobligated balance	(8,827)	(8,857)	-	(6,951)	-	(871)	(25,506)
Unobligated balance from prior year budget authority, net	352,418	1,991,229	12,730	192,660	378,458	119,573	3,047,068
Appropriations (discretionary and mandatory)	2,512,095	1,110,634	103,695	743,791	3,927,447	1,187,577	9,585,239
Spending authority from offsetting collections (discretionary and mandatory)	98,195	257,462	5	32,184	2,155	274,259	664,260
<b>Total Budgetary Resources</b>	<u>\$ 2,962,708</u>	<u>\$ 3,359,325</u>	<u>\$ 116,430</u>	<u>\$ 968,635</u>	<u>\$ 4,308,060</u>	<u>\$ 1,581,409</u>	<u>\$ 13,296,567</u>
<b>STATUS OF BUDGETARY RESOURCES</b>							
Obligations incurred	\$ 2,614,554	\$ 1,541,048	\$ 109,359	\$ 791,353	\$ 3,557,579	\$ 1,476,227	\$ 10,090,120
Unobligated balance, end of year:							
Apportioned	229,227	1,799,707	3,196	146,362	730,024	100,116	3,008,632
Unapportioned	118,927	18,570	3,875	30,920	20,457	5,066	197,815
Total unobligated balance, end of period	348,154	1,818,277	7,071	177,282	750,481	105,182	3,206,447
<b>Total Status of Budgetary Resources</b>	<u>\$ 2,962,708</u>	<u>\$ 3,359,325</u>	<u>\$ 116,430</u>	<u>\$ 968,635</u>	<u>\$ 4,308,060</u>	<u>\$ 1,581,409</u>	<u>\$ 13,296,567</u>
<b>CHANGE IN OBLIGATED BALANCE</b>							
<b>Unpaid Obligations</b>							
Unpaid Obligations, Brought Forward, October 1 (gross)	\$ 1,299,298	\$ 1,401,705	\$ 128,440	\$ 387,416	\$ 7,889,126	\$ 205,857	\$ 11,311,842
Obligations incurred	2,614,554	1,541,048	109,359	791,353	3,557,579	1,476,227	10,090,120
Outlays (gross)	(2,685,571)	(1,553,587)	(118,589)	(809,837)	(4,714,758)	(1,449,419)	(11,331,761)
Recoveries of prior year unpaid obligations	(59,256)	(120,676)	(4,979)	(20,020)	(59,374)	(21,865)	(286,170)
Unpaid obligations, end of year (gross)	<u>\$ 1,169,025</u>	<u>\$ 1,268,490</u>	<u>\$ 114,231</u>	<u>\$ 348,912</u>	<u>\$ 6,672,573</u>	<u>\$ 210,800</u>	<u>\$ 9,784,031</u>
<b>Uncollected Payments</b>							
Uncollected customer payments from Federal Sources, brought forward, October 1	\$ (110,004)	\$ (15,277)	\$ -	\$ (31,465)	\$ -	\$ (148,768)	\$ (305,514)
Change in uncollected customer payments from Federal sources	11,404	(2,914)	-	4,734	-	(3,886)	9,338
Uncollected customer payments from Federal sources, end of year	<u>\$ (98,600)</u>	<u>\$ (18,191)</u>	<u>\$ -</u>	<u>\$ (26,731)</u>	<u>\$ -</u>	<u>\$ (152,654)</u>	<u>\$ (296,176)</u>
<b>Memorandum Entries</b>							
Obligated balance, start of year	\$ 1,189,294	\$ 1,386,428	\$ 128,440	\$ 355,951	\$ 7,889,126	\$ 57,089	\$ 11,006,328
Obligated balance, end of year (net)	\$ 1,070,425	\$ 1,250,299	\$ 114,231	\$ 322,181	\$ 6,672,573	\$ 58,146	\$ 9,487,855
<b>BUDGET AUTHORITY AND OUTLAYS, NET:</b>							
Budget authority, gross (discretionary and mandatory)	\$ 2,610,290	\$ 1,368,096	\$ 103,700	\$ 775,975	\$ 3,929,602	\$ 1,461,836	\$ 10,249,499
Actual offsetting collections (discretionary and mandatory)	(109,599)	(254,547)	(5)	(36,919)	(2,155)	(270,373)	(673,598)
Change in uncollected customer payments from Federal sources	11,404	(2,914)	-	4,734	-	(3,886)	9,338
Budget authority, net (discretionary and mandatory)	<u>\$ 2,512,095</u>	<u>\$ 1,110,635</u>	<u>\$ 103,695</u>	<u>\$ 743,790</u>	<u>\$ 3,927,447</u>	<u>\$ 1,187,577</u>	<u>\$ 9,585,239</u>
Outlays, gross (discretionary and mandatory)	\$ 2,685,571	\$ 1,553,587	\$ 118,589	\$ 809,837	\$ 4,714,758	\$ 1,449,419	\$ 11,331,761
Actual offsetting collections (discretionary and mandatory)	(109,599)	(254,547)	(5)	(36,919)	(2,155)	(270,373)	(673,598)
Outlays, net (discretionary and mandatory)	2,575,972	1,299,040	118,584	772,918	4,712,603	1,179,046	10,658,163
Distributed offsetting receipts	-	(34,986)	-	-	-	(1,138,798)	(1,173,784)
Agency outlays, net (discretionary and mandatory)	<u>\$ 2,575,972</u>	<u>\$ 1,264,054</u>	<u>\$ 118,584</u>	<u>\$ 772,918</u>	<u>\$ 4,712,603</u>	<u>\$ 40,248</u>	<u>\$ 9,484,379</u>

**Environmental Protection Agency  
Required Supplemental Stewardship Information  
For the Quarter Ended September 30, 2013  
(Dollars in Thousands)**

***INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:***

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

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

For FY 2013, the full cost of the Agency's Research and Development activities totaled over \$610M. Below is a breakout of the expenses (dollars in thousands):

	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>
Programmatic Expenses	600,552	590,790	597,558	580,278	531,901
Allocated Expenses <sup>2</sup>	119,630	71,958	80,730	133,637	78,189

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development. Goals 1-4 of EPA's strategic plan incorporate the applied research necessary to ensure that EPA's decisions are supported by the highest quality science.

***INVESTMENT IN THE NATION'S INFRASTRUCTURE:***

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the

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<sup>2</sup> Allocated Expenses are calculated specifically for the Required Supplemental Stewardship Information report and do not represent the overall agency indirect cost rates.

nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

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

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

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

	<u>FY 2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>
Construction Grants	30,950	18,186	35,339	14,306	6,944
Clean Water SRF	836,502	2,966,479	2,299,721	1,925,057	1,976,537
Drinking Water SRF	906,803	1,938,296	1,454,274	1,240,042	1,027,613
Other Infrastructure Grants	306,366	264,227	269,699	196,085	166,050
Allocated Expenses	414,460	631,799	548,375	777,375	524,326

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

## ***HUMAN CAPITAL***

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

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

	<u>FY 2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>
Training and Awareness Grants	37,981	25,714	23,386	21,233	20,769
Fellowships	6,818	6,905	9,538	10,514	11,157
Allocated Expenses	8,924	3,973	4,448	7,311	4,118



U.S. ENVIRONMENTAL PROTECTION AGENCY

## OFFICE OF INSPECTOR GENERAL

# **Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements**

Report No. 14-1-0039

December 16, 2013

## Abbreviations

CIO	Chief Information Officer
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
IP	Internet Protocol
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
POA&Ms	Plans of Action and Milestones
RSSI	Required Supplementary Stewardship Information
SOP	Standard Operating Procedure
SSC	Superfund State Contracts
VM	Vulnerability Management

### Hotline

**To report fraud, waste or abuse, contact us through one of the following methods:**

**email:** [OIG\\_Hotline@epa.gov](mailto:OIG_Hotline@epa.gov)  
**phone:** 1-888-546-8740  
**fax:** 1-202-566-2599  
**online:** <http://www.epa.gov/oig/hotline.htm>

**write:** EPA Inspector General Hotline  
1200 Pennsylvania Avenue, NW  
Mailcode 2431T  
Washington, DC 20460

### Suggestions for Audits or Evaluations

**To make suggestions for audits or evaluations, contact us through one of the following methods:**

**email:** [OIG\\_WEBCOMMENTS@epa.gov](mailto:OIG_WEBCOMMENTS@epa.gov)  
**phone:** 1-202-566-2391  
**fax:** 1-202-566-2599  
**online:** [http://www.epa.gov/oig/contact.html#Full\\_Info](http://www.epa.gov/oig/contact.html#Full_Info)

**write:** EPA Inspector General Hotline  
1200 Pennsylvania Avenue, NW  
Mailcode 2431T  
Washington, DC 20460





# AT A GLANCE

## Why We Did This Review

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

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

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

### This report addresses the following EPA theme:

- *Embracing EPA as a high performing organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:  
[www.epa.gov/oig/reports/2014/20131216-14-1-0039.pdf](http://www.epa.gov/oig/reports/2014/20131216-14-1-0039.pdf)

## Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements

### EPA Receives an Unqualified Opinion

We rendered an unqualified opinion on the EPA's Consolidated Financial Statements for fiscal 2013 and 2012, meaning that they were fairly presented and free of material misstatement.

System weaknesses could impact the reliability of financial information.

### Internal Control Significant Deficiencies Noted

We noted the following significant deficiencies:

- EPA overstated Superfund State Contract credits.
- EPA's high number of accounting corrections indicates an internal control weakness.
- Internal controls over EPA's accountable personal property inventory process need improvements.
- Software was improperly recorded in Compass.
- EPA needs to improve access control procedures for key financial systems.
- EPA needs to improve processes for following up on identified network vulnerabilities.

### Noncompliance With Laws and Regulations Noted

EPA's high number of accounting corrections indicates an internal weakness.

### Recommendations and Planned Agency Corrective Actions

The agency agreed with most of our findings and recommendations. However, the agency did not agree with our finding that the number of error corrections were high, an internal control weakness and an instance of noncompliance with the Federal Financial Management Improvement Act. The agency posted over 100 journal entries to correct posting model errors, and just one of those entries involved 206 transactions. While we do not believe the noncompliance rose to the level of substantial noncompliance, we consider the number of errors at the transaction level to be high and an internal control weakness.



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

OFFICE OF  
INSPECTOR GENERAL

December 16, 2013

**MEMORANDUM**

**SUBJECT:** Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements  
Report No. 14-1-0039

**FROM:** Paul C. Curtis   
Director, Financial Statement Audits

**TO:** Maryann Froehlich, Acting Chief Financial Officer  
Office of the Chief Financial Officer

Craig E. Hooks, Assistant Administrator  
Office of Administration and Resources Management

Cynthia Giles, Assistant Administrator  
Office of Enforcement and Compliance Assurance

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2013 and 2012 consolidated financial statements. We are reporting six significant deficiencies, one of which is also a noncompliance issue. Attachment 2 contains the status of recommendations related to significant deficiencies reported in prior years' reports. The significant deficiencies included in attachment 2 also apply for fiscal 2013.

This audit report represents the opinion of the Office of Inspector General (OIG), and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon the EPA in any enforcement proceeding brought by the EPA or the Department of Justice. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 60 calendar days of the final report date. The response should address all issues and recommendations contained in attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether to close this report in our audit tracking system. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation

Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

Should you or your staff have any questions about the report, please contact Richard Eyermann, Acting Assistant Inspector General for Audit, at (202) 566-0565; or me at (202) 566-2523.

Attachments

cc: See appendix III, Distribution

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# **Inspector General's Report on EPA's Fiscal 2013 and 2012 Consolidated Financial Statements**

The Administrator  
U.S. Environmental Protection Agency

We have audited the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA) as of September 30, 2013, and September 30, 2012, and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of EPA management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*, dated October 21, 2013. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

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 goal, changes in net position, custodial activity, and combined budgetary resources of EPA as of and for the years ended September 30, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

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

We obtained information from the EPA management about its methods for preparing Required Supplementary Stewardship Information (RSSI), Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements. The Supplemental Information previously included the unaudited Superfund Trust Fund financial statements and certain footnotes. The agency has decided to omit those statements for fiscal 2013 and removed the previously published 2012 statements. The Superfund statements were presented for additional analysis and are not a required part of the basic financial statements. Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

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

### **Evaluation of Internal Controls**

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the agency's management and other personnel, that is designed to provide reasonable assurance that the following objectives are met:

**Reliability of financial reporting**—Transactions are properly recorded, processed and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition.

**Compliance with applicable laws, regulations and government-wide policies**—Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered the EPA's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, dated October 21, 2013. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, none of which are considered to be material weaknesses. These significant deficiencies are summarized below and detailed in attachment 1.

### ***EPA Overstated Superfund State Contract Credits***

The EPA overstated the value of Superfund State Contract credits available to reduce state shares of remedial action costs by \$15 million. The EPA's calculated credits were \$25.7 million as of June 30, 2013, but the general ledger showed a balance of \$40.7 million for Superfund State Contract credits. The overstatement would misstate the EPA's footnote disclosure and could mislead financial statement users.

### ***EPA's High Number of Accounting Corrections Indicates an Internal Control Weakness***

The EPA made numerous manual journal voucher entries in fiscal year (FY) 2013, of which over 100 were to correct transaction level errors in the accounting system. OMB directs agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. The EPA made the accounting corrections due to posting model and other system configuration errors. Although the EPA corrected the errors that the EPA and the OIG identified, the high number of corrections diminishes the reliability of the EPA's accounting system to process transactions accurately. Without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated.

### ***Internal Controls Over EPA's Accountable Personal Property Inventory Process Needs Improvements***

We found an \$11.5 million difference in accountable personal property, including \$7 million of capitalized property, between the agency's property management system (Maximo) and its FY 2013 property certification letters. In addition, our examination found that the EPA did not perform a complete inventory of \$3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, Maximo is missing detailed records for this property and such property is not included in the EPA's property certification letters. The EPA requires accountable personal property to be inventoried annually and equipment to have decals and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that the EPA's details within Maximo were not updated timely. The agency's capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. Inaccurate accountable personal property records

could compromise the EPA's property control system, impact the accuracy of the agency's financial statements, and result in the loss or misappropriation of assets.

### ***Software Improperly Recorded in Compass***

The EPA Software In Development and Loss On Disposition accounts were misstated by \$36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. The misstatement impacts the accuracy and reliability of information reported in the EPA's financial statements.

### ***EPA Needs to Improve Access Control Procedures for Key Financial Systems***

The EPA did not maintain up-to-date system access control lists for two key Office of the Chief Financial Officer (OCFO) financial systems. We found that users had access to these information systems for at least one year longer than their job duties required. Specifically, a contractor maintained privileged database administrator access to the production server controlling the interface to the EPA's core financial application. We also had concern regarding separation of duties because a system developer maintained a data creation account on another key financial application. In both instances, the EPA resolved these two access control violations uncovered during our audit.

### ***EPA Needs to Improve Processes for Following Up on Identified Network Vulnerabilities***

The process for resolving and tracking network vulnerabilities for OCFO was not operating in accordance with agency policy. In particular, OCFO failed to notify the Office of Environmental Information within the required 30-day resolution timeframe of high-risk vulnerabilities that the Office of Environmental Information incorrectly identified as belonging to the OCFO network. OCFO lacked a documented process for its internal staff to follow when reviewing the monthly vulnerability management reports. As such, OCFO received monthly vulnerability reports, but the reports were not distributed to personnel knowledgeable on how to take action or to provide status reports on vulnerability remediation activities.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in attachment 3 should be considered among the EPA's significant deficiencies for FY 2013. We reported to the agency on less significant internal control matters in writing during the course of the audit. We will not issue a separate management letter.

### ***Comparison of EPA's FMFIA Report With Our Evaluation of Internal Controls***

OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, dated October 21, 2013, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control such that there is a



reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

The agency reported that no material weaknesses had been found in the design or operation of internal controls over financial reporting as of June 30, 2013. We did not identify any material weaknesses during the course of our audit. Details concerning our findings on significant deficiencies can be found in attachment 1.

## **Tests of Compliance With Laws and Regulations**

The EPA management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, dated October 21, 2013. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

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

### ***FFMIA Noncompliance***

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

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

We found that the agency had a high number of accounting corrections due to posting model and other system errors at the transaction level. However, we do not believe that the errors we found reached the level of substantial non compliance as described in OMB guidance. We also reported this issue as a significant deficiency in attachment 1. The results of our tests did not disclose any other instances of noncompliance with FFMIA requirements.

No other significant matters involving compliance with laws and regulations came to our attention during the course of the audit. We will not issue a separate management letter.

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

## **Prior Audit Coverage**

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

- Compass system limitations.
- Posting models materially misstating general ledger activity and balances.
- Compass reporting limitations.
- Controls over expense accrual reversals.
- Accounts receivables internal controls.
- Fund Balance with Treasury Statement of Audit Differences not clearing timely.
- Property internal controls.
- Compass and Maximo not reconciling.
- System vulnerabilities.
- OCFO financial systems documentation.
- Compass service provider's controls over business processes.

Attachment 2 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues.

## **Agency Comments and OIG Evaluation**

In a memorandum received December 13, 2013, the acting Chief Financial Officer responded to our draft report.

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

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



Paul C. Curtis  
Director, Financial Statement Audits \\  
Office of Inspector General  
U.S. Environmental Protection Agency  
December 16, 2013

## ***Internal Control Significant Deficiencies***

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## **1 – EPA Overstated Superfund State Contract Credits**

The EPA overstated the value of Superfund State Contract (SSC) credits available to reduce state shares of remedial action costs by \$15 million. The EPA's calculated credits were \$25.7 million as of June 30, 2013, but the general ledger showed a balance of \$40.7 million for SSC credits. The overstatement would misstate the EPA's footnote disclosure and could mislead financial statement users.

Under Section 104(c)(5)(A) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the federal government shall grant credits to states for amounts they expend for remedial action. EPA Comptroller Policy Announcement No. 99-01, dated December 23, 1998, states that all approved SSC credit amounts will be recorded and tracked in the general ledger. The account with credits earned for the year will close at year-end to the account that reflects the liability for available credits.

The overstatement occurred because the EPA did not properly close the SSC credit accounts at the end of FY 2012. The EPA disclosed the correct amount of SSC credits in the FY 2012 footnote to the financial statements. However, the EPA did not properly set up the year-end closing entries and posted entries that reduced EPA's credits earned during FY 2012 instead of EPA's cumulative liability for credits. Therefore, FY 2013 opened with a \$15 million overstatement of the cumulative liability for credits. The EPA's general ledger overstated the cumulative state credits by \$15 million; without a correcting entry, the footnote to the financial statements for state credits would misstate the cumulative credits at the end of FY 2013. The footnote disclosures must be accurate because they are an integral part of the financial statements, and a misstatement could mislead financial statement users.

After we notified the EPA of the error, the EPA addressed the cause of the error and posted an entry to correct the account balances. Therefore, we make no recommendations.

### **Agency Comments and OIG Evaluation**

The agency did not respond to this issue. However, since the EPA addressed the cause of the error and corrected the balances, we determined the agency agreed with our finding.

## 2 – EPA’s High Number of Accounting Corrections Indicates an Internal Control Weakness

The EPA made numerous manual journal voucher entries in FY 2013, of which over 100 were to correct transaction level errors in the accounting system. OMB directs agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. The EPA made the accounting corrections due to posting model and other system configuration errors. Although the EPA corrected the errors that the EPA and the OIG identified, the high number of corrections diminishes the reliability of the EPA’s accounting system to process transactions accurately. Without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated.

The EPA’s manual journal voucher entries included corrections for the following types of transaction level errors:

- Posting model errors, including:
  - ✓ Misclassification of direct appropriations and reimbursable authority.
  - ✓ Misclassification of federal and non-federal activity.
  - ✓ Misclassification of new obligations as upward or downward adjustments of prior year obligations.
  - ✓ Misclassification of property accounts related to software in development.
- Erroneous journal voucher entries.
- Other system configuration errors, such as implied posting models.

The EPA misclassified \$89.5 million of new obligations at the transaction level because posting model errors incorrectly impacted the upward adjustments of prior year obligations 206 times. The errors significantly impacted general ledger balances. The EPA has not corrected the obligations posting model and continues to adjust the misstated balances.

The OMB’s *Memorandum M-09-06, Implementation Guidance for the Federal Financial Management Improvement Act*, directs federal agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. Federal government internal control standards require accurate and timely recording of transactions.

In October 2011, the EPA replaced its accounting system with a new system, Compass Financials (Compass). Following the conversion to Compass, the EPA has experienced posting model and other system configuration errors. We previously reported on the posting model errors we found in our FY 2012 audit. At that time the agency did not agree that incorrect posting models resulted in material misstated general ledger activity and balances. The agency stated that it has aggressively reviewed posting models to ensure that transactions are properly posting to the EPA’s financial accounts and will continue to do so. However, during FY 2013 we continued to find posting model errors. While the agency has corrected certain errors by posting journal vouchers, until they conduct a diligent review of the posting models, such errors will continue to occur.

Without a diligent review of posting models, errors could occur at the transaction level. The EPA has limited assurance that the accounting system can process transactions accurately and the account

balances and financial statements are accurate. Due to the high number of transaction level errors and corrections, we do not believe the EPA is in compliance with FFMIA. However, we do not believe that the errors we found reached the level of substantial noncompliance as described in OMB guidance. Agencies are required to post transactions to appropriate general ledger accounts at the transaction level, but the EPA posting models misclassified a high number of transaction-level entries that significantly impacted the general ledger balances.

## **Recommendations**

We recommend that the Chief Financial Officer:

1. Perform a thorough review of posting models and financial system configurations to ensure the proper accounts are impacted.
2. Perform quarterly analytical reviews of account activity at the transaction level to verify that the activity is reasonable.

## **Agency Comments and OIG Evaluation**

The agency concurred with our recommendation to perform quarterly analytical reviews of account activity but it did not concur with our recommendation to perform a thorough review of posting models. The agency maintained that it already has an established process for regularly reviewing posting models. We do not believe the agency's review process was effective because errors from posting models continued throughout FY 2013 with the EPA making journal voucher corrections as we notified them of errors.

We believe that the EPA is not in compliance with FFMIA because of the high number of transaction level errors. The EPA stated that it disagreed that the number of corrections was high. We found that over 100 of the journal voucher corrections were to correct posting models. Just one of the corrections consisted of 206 transaction errors. While we could not determine the total number of transaction level errors that made up all of the correcting entries, what we did find indicated the problem was more than inconsequential. Accordingly, the EPA's posting models misclassified a high number of transaction level entries that significantly impacted the general ledger balances. According to OMB, FFMIA compliance indicates that systems routinely provide reliable financial information consistently, accurately and uniformly. When a financial statement audit identifies a persistent significant deficiency, the agency must demonstrate that the deficiency does not have any impact on providing reliable and timely financial information.

While the agency did adjust for the errors so that the year-end financial statements were fairly stated, we believe that the EPA's posting model errors have persistently and adversely impacted the capability of the EPA's Compass financial management system to provide reliable financial information. The EPA claims that Compass does provide reliable financial information. We disagree because throughout FY 2013 the Compass posting model errors generated transaction level entries that caused significant misstatements to general ledger balances. Without making significant corrections to the system, the EPA could not have obtained reliable financial information. The EPA claimed that making posting model changes through its disciplined configuration management process is an integral part of complying with the Federal Information System Management Act requirements, which is an indicator of FFMIA compliance. We believe that performing a thorough review of posting models would be a more effective method of correcting system errors and achieving FFMIA compliance.

### 3 – Internal Controls Over EPA’s Accountable Personal Property Inventory Process Needs Improvements

We found an \$11.5 million difference in accountable personal property, including \$7 million of capitalized property, between the agency’s property management system (Maximo) and its FY 2013 property certification letters. In addition, our examination found the EPA did not perform a complete inventory of \$3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, Maximo is missing detailed records for this property and such property is not included in the EPA’s property certification letters. The EPA requires accountable personal property to be inventoried annually and equipment to have decals and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that the EPA’s details within Maximo were not updated timely. The agency’s capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. Inaccurate accountable personal property records could compromise the EPA’s property control system, impact the accuracy of the agency’s financial statements, and result in the loss or misappropriation of assets.

At the time of our examination we found that the EPA’s property management system was incomplete or inaccurate based on its FY 2013 inventory. For example, the EPA did not inventory \$3.7 million of sensitive personal property that was part of a contract buy-out. Sensitive items as defined in the EPA’s *Personal Property and Procedures Manual*, section 3.2.7, *Sensitive Items*, “are nonexpendable items (EPA owned or leased) that may be converted to private use or have a high potential for theft, must be recorded and controlled as accountable property. This type of accountability requires property to be tracked throughout its life cycle regardless of cost or value.” In addition to the \$3.7 million not inventoried, a total of 2,097 records totaling \$11.5 million, including 87 items totaling \$7 million of capitalized property, have not been updated in Maximo. Property managers can request a Board of Survey be held to review the circumstances of missing property. The Board of Survey can determine if the property should be removed from the property system inventory or referred for investigation. According to the agency’s Property Officer, a Board of Survey for one of the largest accountable areas (Washington D.C.) has not been held for the last two years. These factors contributed to incomplete inventory records as of September 30, 2013.

The Facilities Management and Services Division is responsible for administering the EPA Personal Property Management Program. The EPA’s *Personal Property and Procedures Manual*, Section 3.2.1, defines accountable personal property as “Personal property with an acquisition cost of \$5,000 or more, all leased personal property, and sensitive items.” Section 3.1.1, states that “Each AA’s [Accountable Area] personal property records must be maintained in IFMS [IFMS, the Integrated Financial Management System, has been replaced by Compass and includes a fixed asset subsystem which is updated by Maximo], thus providing all needed data for effective personal property management (i.e. location, procurement, utilization, disposal.)”

The agency’s capitalized property financial activity is dependent upon property management officers maintaining an accurate inventory of capitalized items at the EPA. The \$11.5 million difference between the property certification letters and Maximo indicate that accurate personal property records are not being maintained in the agency’s official property system. Inaccurate personal property records compromise the EPA’s property control system and can lead to the loss or misappropriation of agency assets and possible misstatements within the financial statements.

## **Recommendations**

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, to:

3. Establish timeframes that property records are to be entered or updated when a new accountable personal property item is received or inventoried, relocated, transferred or no longer in the EPA's custody.
4. Determine and resolve the issue of missing personal property records not in agency's official property system.
5. Verify capital assets are updated in Maximo (including new equipment, surplus and no longer in the EPA's custody).
6. Hold a Board of Survey to address missing items.

## **Agency Comments and OIG Evaluation**

The agency agreed with our findings and recommendations.



## **4 – Software Improperly Recorded in Compass**

The EPA's Software In Development and Loss On Disposition accounts were misstated by \$36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. The misstatement impacts the accuracy and reliability of information reported in the EPA's financial statements.

FFMIA emphasizes the need for agencies to have systems that can generate timely, accurate and useful information which managers can rely on to make informed decisions and ensure accountability on an ongoing basis. The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government defines the five standards for the minimum level of quality acceptable for internal control in government. The standard for Control Activities requires accurate and timely recording of transactions and events.

Every year, the EPA transfers software going on-line from the Software in Development account to the software in production account. Compass posting model FD01 Fixed Asset Disposition was used to transfer the software out of the development account and reacquire it into the production account. However, the posting model erroneously impacted revenue and cost offset accounts. When notified of the posting model, the EPA prepared two journal vouchers that corrected the revenue account balance. However, the offset account remained understated resulting in an overstatement to the Loss On Disposition of Assets account. The amount of the under- and overstatements to each account is in excess of \$36 million. Posting models that impact the wrong accounts will result in inaccurate financial information that can adversely impact the EPA's financial reporting and cost additional time and resources to find and correct the errors.

### **Recommendation**

We recommend that the Chief Financial Officer:

7. Require the Director of the Office of Technology Solutions to work with the Compass contractor to correct the FD01 model posting error.

### **Agency Comments and OIG Evaluation**

The agency did not concur with our finding. The agency believes it was human error and not a posting model error that caused software to be improperly recorded in Compass. Regardless of the cause of the error, multiple transactions occurred resulting in a \$36 million misstatement, which had to be corrected. The agency stated that staff will receive refresher training in FY 2014 for recording software transfers from the development to the production account. In addition, OCFO indicated it will review and analyze FD01 transactions for actual disposal entries in FY 2014.

## 5 – EPA Needs to Improve Access Control Procedures for Key Financial Systems

The EPA did not maintain up-to-date system access control lists for two key OCFO financial systems. We found that users had access to these information systems for at least one year longer than their job duties required. Specifically, a contractor maintained privileged database administrator access to the production server controlling the interface to the EPA's core financial application. We also had concern regarding separation of duties because a system developer maintained a data creation account on another key financial application. In both instances, the EPA resolved these two access control violations uncovered during our audit.

EPA Chief Information Officer (CIO) Transmittal No. 12-003, *Information Security – Interim Access Control Procedures*, V3.2, July 13, 2012, states that the agency must manage information system accounts through a life cycle consisting of establishing, activating and modifying accounts; periodically reviewing accounts; and disabling, removing or terminating accounts. This guidance requires, in part, that the agency review access controls every 30 days to ensure access lists are up-to-date and that users have only the system privileges needed to perform their assigned duties.

EPA management did not ensure personnel followed access control procedures outlined in EPA CIO Transmittal No. 12-003 for granting, monitoring and removing access to its systems/servers. For instance, in June 2012, an Office of Environmental Information (OEI) contractor transferred from the database administrator group to another group under the same EPA contract but was no longer required privileged access. In another instance, one department within the OCFO Office of Technology Solutions took over the responsibility of maintaining access control of OCFO payment systems. Previously, another Office of Technology Solutions department was responsible for this systems' access control, as well as software development. In both cases, EPA management did not ensure that responsible personnel updated access control lists to the OCFO systems/servers in question.

If agency personnel do not follow access control procedures, there is uncertainty as to whether all OCFO system access privileges are up-to-date, and whether security controls necessary to protect the confidentiality, integrity and availability of the EPA's financial data are in place. Additionally, management may be unaware of unnecessary or unauthorized access to agency systems, leaving no assurance of the reliability of data on the information systems and placing the agency systems at unnecessary risk.

### Recommendations

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

8. Conduct reviews of the access control lists for all agency financial applications under their responsibility to ensure they are up-to-date and reflect the current necessary system privileges of personnel.
9. Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.

## **Agency Comments and OIG Evaluation**

The agency agreed with our findings and recommendations.

## 6 – EPA Needs to Improve Processes for Following Up on Identified Network Vulnerabilities

The process for resolving and tracking network vulnerabilities for OCFO was not operating in accordance with agency policy. In particular, OCFO failed to notify the OEI within the required 30-day resolution timeframe of high-risk vulnerabilities that OEI incorrectly identified as belonging to the OCFO network. OCFO lacked a documented process for its internal staff to follow when reviewing the monthly vulnerability management reports. As such, OCFO received monthly vulnerability reports but the reports were not distributed to personnel knowledgeable on how to take action or to provide status reports on vulnerability remediation activities.

On February 15, 2013, OEI published a Standard Operating Procedure (SOP), *Vulnerability Management Program*, to describe regularly recurring activities for the agency's Vulnerability Management (VM) Program. OEI's VM Program reports vulnerabilities found on networked resources to EPA offices on a monthly basis. OCFO is responsible for monitoring all high-risk vulnerabilities included on its monthly VM report and ensuring they relate to OCFO-networked resources. The VM SOP requires offices receiving monthly scans to remediate network vulnerabilities labeled as "high" risk within 30 days of the scan report date. If the high-risk vulnerabilities cannot be remediated within the required 30 days, offices must enter Plans of Action and Milestones (POA&Ms) into the EPA's vulnerability tracking system to ensure the agency is monitoring the vulnerability and that a resolution is in progress with documented milestone dates.

OEI had not provided training to the agency staff within each office responsible for receiving and following up on identified vulnerabilities to ensure the responsible individual understood responsibilities for managing identified vulnerabilities. While OEI published the VM SOP that outlines roles and responsibilities, it did not provide details to inform responsible personnel on how to review the provided VM report and what actions to take with the identified vulnerabilities. Additionally, OCFO did not have a documented process in place to review the VM report to ensure all high-risk vulnerabilities are assigned within OCFO or that feedback is provided to OEI informing it that listed high-risk vulnerabilities do not correlate to OCFO information technology assets. OCFO lacks a complete inventory of its information technology assets to identify which vulnerabilities listed on the VM report belong to OCFO. According to the OCFO representative responsible for overseeing OCFO's VM program, OCFO was unaware of which systems or servers correlated with the Internet Protocol (IP) addresses communicated by the VM report. Our analysis disclosed that the VM report lacked a direct correlation, or common attribute, linking vulnerabilities reported on the monthly VM report to the POA&M entries in the agency's vulnerability tracking system. We noted that the monthly VM reports identify vulnerabilities by IP address, while the POA&M entries are organized by server or system name and do not contain specific IP addresses.

The lack of effective response to identified vulnerabilities can adversely affect the agency's network. As noted in table 1, our analysis showed that the weaknesses in the VM process resulted in four high-risk vulnerabilities unresolved within the 30-day timeframe. Personnel unfamiliar with the specific IP addresses associated with their offices' production servers were not reviewing monthly scan reports completely to ensure vulnerabilities belonged to OCFO systems. If high-risk vulnerabilities such as these go unresolved, they could be exploited to cause critical system flaws that are likely to have a significant impact on financial data and reporting. These weaknesses could result in unauthorized access to the production servers for financial applications and expose agency data, information and configurations to unnecessary risk.

**Table 1: High-risk vulnerabilities from monthly VM report that remained unresolved after 30 days**

<b>Vulnerability Name</b>	<b>Identified in March 2013</b>	<b>Identified in April 2013</b>	<b># of IP address vulnerabilities found</b>
SMTP Open Mail Relay	√	√	2
Open SSH buffer_init Buffer Management Vulnerabilities	√	√	1
Microsoft IIS hit-highlighting Remote Security Bypass Vulnerability	√	√	1
<b>Total</b>			<b>4</b>

Source: OIG analysis.

SMTP: Simple Main Transfer Protocol

Open SSH buffer\_init Buffer: Open Secure Shell Buffer Initialize Buffer

Microsoft IIS: Microsoft Internet Information Server

It is incumbent upon OCFO officials to have a process to train staff involved in the VM process to ensure that vulnerabilities on OCFO networked resources are properly identified, tracked and remediated in the required timeframe.

## Recommendations

We recommend that the Chief Financial Officer:

10. Develop a detailed listing of all OCFO information technology assets by IP address, system name and server name. Provide the OCFO staff in charge of receiving and analyzing monthly VM reports with the detailed listing of information technology assets. The detailed listing should include all OCFO information technology assets under OCFO operational control, as well as information technology assets operated on behalf of OCFO within and external to the agency.
11. Issue a memorandum to OCFO staff involved in the monthly VM process reiterating the importance of following roles and responsibilities outlined in the VM SOP. Specifically, the memorandum should stress the importance of communicating, to OEI, IP addresses that do not belong to OCFO so they are no longer included in OCFO's monthly reports. The memorandum should also specify timelines when responsible personnel must update the POA&M information in the agency's vulnerability tracking system and report the status of actions taken to OCFO's primary ISO.

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

12. Conduct training for staff in charge of receiving and analyzing monthly VM reports to ensure they are knowledgeable of the agency's remediation process for vulnerabilities. This training should included specific information on how to review the provided VM report and what actions offices must take regarding the identified vulnerabilities.

## Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. The agency stated it will develop training for staff responsible for receiving and analyzing the monthly VM reports, and make it available through the agency's enterprise training tool. While the OIG agrees with the agency's approach for

conducting the training, we believe the developed training should be required for all personnel responsible for reviewing the VM reports and tracked to ensure all responsible personnel take the training.

## ***Status of Prior Audit Report Recommendations***

The EPA is continuing to strengthen its audit management to address audit follow-up issues and complete corrective actions expeditiously and effectively to improve environmental results. The Chief Financial Officer is the agency follow-up official and is responsible for ensuring that corrective actions are implemented. EPA Manual 2750, *Audit Management Procedures*, is a comprehensive audit management guide that addresses OIG, U.S. Government Accountability Office, and Defense Contract Audit Agency audits. OCFO continued to issue a quarterly report that highlights the status of management decisions and corrective actions. This report is shared with program office and regional managers throughout the agency to keep them informed of the status of progress on their audits. Additionally, OCFO continued to conduct reviews of national and program offices, which it initiated in fiscal 2009. The reviews focus on offices' audit follow-up procedures and their use of the Management Audit Tracking System, or MATS. The reviews are designed to promote sound audit management; increase agency awareness of, and accountability for, completing unimplemented corrective actions; and ensure that audit follow-up data are accurate and complete. OCFO completed 4 of these on-site reviews in fiscal 2013, including 2 regional offices and 2 national program offices. These reviews will be performed on an ongoing, rotating basis.

The agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits with findings and recommendations that could have a material effect on the financial statements, and have corrective actions that are not completed or have not been demonstrated to be fully effective, are listed in the following table.

**Table 2: Significant deficiencies—Issues not fully resolved**

<ul style="list-style-type: none"> <li> <b>Posting Models in Compass Materially Misstated GL Activities and Balances</b>            In FY 2012, the EPA materially misstated general ledger activity and balances due to incorrect posting models. The EPA corrected posting model errors that were identified during FY 2012. However, during FY 2013 we continued to find posting model errors. While the agency has corrected the errors identified in FY 2013, such errors will continue to occur until the EPA conducts a diligent review of the posting models. The EPA has implemented corrective actions to correct activity in accounts incorrectly impacted by improper posting models, develop internal control procedures to confirm the proper accounts are impacted for transactions, and to perform analytical reviews of account activity on a quarterly basis to verify account activity is reasonable. The EPA's remaining corrective action is to complete a thorough review of all posting models.         </li> </ul>
<ul style="list-style-type: none"> <li> <b>Compass Reporting Limitations Impair Accounting Operations and Internal Controls</b>            The EPA did not agree that the reporting limitations we identified in FY 2012 in several accounting areas significantly impair the effectiveness of the agency's accounting operations and internal controls. However, the EPA stated that it will continue to analyze the agency's reports, identify any concerns and develop new reports for users as needed. In FY 2013, the EPA had not developed reports at the security organization level needed to reconcile accounts receivable and update allowance for doubtful account estimates and to reconcile property financial data in Compass to the property management data in Maximo. The EPA needs to complete corrective action in these areas to develop reports to provide users with accurate data on a timely basis.         </li> </ul>

<ul style="list-style-type: none"> <li> <b>EPA Should Improve Compliance With Internal Controls for Accounts Receivable</b>            During FY 2012, we found numerous deficiencies in EPA's compliance with accounts receivable internal controls. Various factors contributed to EPA not properly following its internal control procedures to ensure timely and accurate recording of accounts receivable. We found that Cincinnati Finance Center did not timely receive accounts receivable judicial legal documents from the Department of Justice and EPA. In FY 2013, the agency made progress on the corrective action; however, the corrective action is not complete. The agency revised agency accounts receivable guidance to remove the requirement for Regional Legal Enforcement Offices to forward copies of executed judicial orders to the Cincinnati Finance Center within five workdays. EPA's Office of Enforcement and Compliance Assurance is still in the process of working with the Cincinnati Finance Center and the Department of Justice to assess the timely transmission of judicial orders to the Cincinnati Finance Center. The agency is scheduled to complete this corrective action in FY 2014.         </li> </ul>
<ul style="list-style-type: none"> <li> <b>EPA Is Not Clearing Fund Balance with Treasury Statement of Differences Timely</b>            During FY 2012, EPA did not clear Fund Balance with Treasury differences reported on the U.S. Department of the Treasury's Statement of Differences within two months. Various problems resulting from the agency's conversion from the Integrated Financial Management System to Compass contributed to the untimely clearing of Statement of Differences transactions. In FY 2013 the agency improved its process for clearing Statement of Differences transactions with the implementation of the Central Accounting Reporting System. The EPA has made progress in clearing Statement of Differences transactions in two months. However, the EPA has not fully completed corrective action because some differences still remain, especially at the Washington Finance Center.         </li> </ul>
<ul style="list-style-type: none"> <li> <b>Property Internal Controls Need Improvement</b>            In our FY 2012 audit, we found that Compass did not sufficiently reject personal property information entries that were not accurate. As a result, the agency could possibly lose accountability and control over property. We identified personal property items for which the location was not properly identified, and items were physically located in accountable areas other than the locations identified in the property system. During FY 2013, we found that some capital property items valued at approximately \$1.1 million in Research Triangle Park were not in the exact location as recorded in the Fixed Assets System. The EPA transferred the pieces of equipment to a new location, but did not update the system.         </li> </ul>
<ul style="list-style-type: none"> <li> <b>Compass and Maximo Cannot Be Reconciled</b>            During FY 2012, we found that the EPA could not reconcile capital equipment property management data within its property management subsystem, Maximo, to relevant financial data within Compass. The inability to reconcile the property subsystem with Compass could compromise the effectiveness and reliability of financial reporting. The EPA could not reconcile Maximo and Compass because historical property data did not migrate properly from the Integrated Financial Management System to Compass. We recommended that the EPA develop procedures to reconcile capitalized property in the agency's system with Maximo. According to agency officials, they identified the need to develop additional procedures to reconcile capital property. The EPA is currently reviewing the policy and the target completion date is December 31, 2013.         </li> </ul>
<ul style="list-style-type: none"> <li> <b>EPA Should Improve Controls Over Expense Accrual Reversals</b>            In FY 2012, the EPA did not reverse approximately \$108 million of FY 2011 year-end expense accruals. The agency did not reverse the accrual transactions because the Compass posting configuration for the applicable fund category was inaccurate. By not reversing the accruals timely, EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. EPA's Policy Announcement No. 95-11, <i>Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals</i>, require the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our final audit report issued November 16, 2012, we recommended that the agency update the EPA's Policy Announcement 95-11 to require reconciliations of accruals and accrual reversals. Agency officials concurred with our finding and recommendations and took corrective action by implementing an independent review of the FY 2012 accruals and reversals. The agency also performed accrual reviews prior to the issuance of the FY 2013 quarterly financial statements. However, the agency has extended the target due date to update Policy Announcement 95-11 until June 2014.         </li> </ul>



<ul style="list-style-type: none"> <li> <b>EPA Needs to Remediate System Vulnerabilities That Place Financial Data at Risk</b>  In our FY 2012 audit, we found that OCFO officials did not monitor the testing of its networked information technology assets to identify commonly known vulnerabilities or take action to remediate those weaknesses. We found the lack of monitoring, in part, because EPA's OEI took almost 3 years to resolve a long-standing recommendation to define duties and responsibilities for testing networked resources managed under EPA's service support contract. Information technology assets used by finance center personnel contained 286 commonly known vulnerabilities that could potentially undermine EPA's financial reporting capability, if exploited. We made several recommendations to the agency's program office senior information official to establish a process to closely monitor the contractor to ensure that they test the finance centers' networked resources and remediate all noted vulnerabilities. During FY 2013, we identified four high-risk vulnerabilities that went unresolved within the required 30-day timeframe for the OCFO network. </li> </ul>
<ul style="list-style-type: none"> <li> <b>CFO Financial Systems Security Documentation Needs Improvement</b>  During FY 2012 financial statement audit, we found that the EPA has inaccurate system security plans for the following key financial information systems: Contract Payment System, Fellowship Payment System, Grants Payment System and Small Purchase Information Tracking System. During FY 2013 financial statement audit, we found that the EPA has integrated these financial information systems as modules in the overarching Payment Tracking System. As of September 19, 2013, the EPA has an approved system security plans for the Payment Tracking System. The Payment Tracking System's system security plans incorporated the assessment and control reviews from the Contract Payment System, Fellowship Payment System, Grants Payment System and Small Purchase Information Tracking System system security plans. However, the Payment Tracking System's system security plans includes reference to an outdated policy under controls AC-5 that was found during the FY 2012 financial statement audit and the Contingency Plan provided was not finalized. </li> </ul>
<ul style="list-style-type: none"> <li> <b>Financial Management System User Account Management Needs Improvement</b>  EPA had previously considered these recommendations closed; however, OCFO agreed in FY 2013, to develop alternative corrective action for recommendation 27. OCFO is in the process of developing our proposal. Regarding recommendation 32, OCFO has been receiving automated human resources data/reports and is working with the Office of Administration and Resources Management on the implementation of the Human Resources Line of Business which will further respond to this recommendation." </li> </ul>

Source: OIG analysis.

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

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	11	Perform a thorough review of posting models and financial system configurations to ensure the proper accounts are impacted.	U	Chief Financial Officer			
2	11	Perform quarterly analytical reviews of account activity at the transaction level to verify that the activity is reasonable.	O	Chief Financial Officer	Ongoing quarterly activity		
3	14	Require the Director, Facilities Management and Services Division, to establish timeframes that property records are to be entered or updated when a new accountable personal property item is received or inventoried, relocated, transferred or no longer in the EPA's custody.	O	Assistant Administrator for Office of Administration and Resources Management	1/31/14		
4	14	Require the Director, Facilities Management and Services Division, to determine and resolve the issue of missing personal property records not in agency's official property system.	O	Assistant Administrator for Office of Administration and Resources Management	1/31/14		
5	14	Require the Director, Facilities Management and Services Division, to verify capital assets are updated in Maximo (including new equipment, surplus and no longer in the EPA's custody).	O	Assistant Administrator for Office of Administration and Resources Management	Ongoing quarterly activity		
6	14	Require the Director, Facilities Management and Services Division, to hold a Board of Survey to address missing items.	O	Assistant Administrator for Office of Administration and Resources Management	1/31/14		
7	15	Require the Director of the Office of Technology Solutions to work with the Compass contractor to correct the FD01 model posting error.	U	Chief Financial Officer			
8	16	Conduct reviews of the access control lists for all agency financial applications under their responsibility to ensure they are up-to-date and reflect the current necessary system privileges of personnel.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	1/15/14		
9	17	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	1/15/14		
10	19	Develop a detailed listing of all OCFO information technology assets by IP address, system name and server name. Provide the OCFO staff in charge of receiving and analyzing monthly VM reports with the detailed listing of information technology assets. The detailed listing should include all OCFO information technology assets under OCFO operational control, as well as information technology assets operated on behalf of OCFO within and external to the agency.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	4/30/14		

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
11	19	Issue a memorandum to OCFO staff involved in the monthly VM process reiterating the importance of following roles and responsibilities outlined in the VM SOP. Specifically, the memorandum should stress the importance of communicating, to OEI, IP addresses that do not belong to OCFO so they are no longer included in OCFO's monthly reports. The memorandum should also specify timelines when responsible personnel must update the POA&M information in the agency's vulnerability tracking system and report the status of actions taken to OCFO's primary ISO.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	4/30/14		
12	19	Conduct training for staff in charge of receiving and analyzing monthly VM reports to ensure they are knowledgeable of the agency's remediation process for vulnerabilities. This training should include specific information on how to review the provided VM report and what actions offices must take regarding the identified vulnerabilities.	U	Assistant Administrator for Environmental Information and Chief Information Officer			

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
C = recommendation is closed with all agreed-to actions completed  
U = recommendation is unresolved with resolution efforts in progress

***EPA's Fiscal 2013 and 2012  
Consolidated Financial Statements***

PROVIDED SEPARATELY

## ***Agency Response to Draft Report***

**December 13, 2013**

### **MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Draft Audit Report No. OA-FY13-0235, “*Audit of EPA’s Fiscal 2013 and 2012 Consolidated Financial Statements*,” dated December 9, 2013

**FROM:** Maryann Froehlich  
Acting Chief Financial Officer

**TO:** Arthur A. Elkins, Jr.  
Inspector General

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

### **AGENCY’S OVERALL POSITION**

The agency concurs with 10 of the 12 recommendations. We have attached a technical comments document which explains our position for those report recommendations with which the agency does not agree and for one recommendation on which the agency agrees.

### **AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS**

#### **Agreements**

<b>No.</b>	<b>Recommendation</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion by Quarter and FY</b>
2	Perform quarterly analytical reviews of account activity at the transaction level to verify that the activity is reasonable.	Concur. The EPA already performs quarterly reviews at the transactional level.	Complete. (Ongoing quarterly activity)
3	Establish timeframes that property records are to be entered or updated when a new accountable personal property item is received or inventoried, relocated, transferred or no longer in the EPA’s custody.	Concur. The Office of Administration and Resources Management will amend the EPA Personal Property Policy and Procedures manual to require posting within 5 days of installation or on-site receipt.	1/ 31/14

4	Determine and resolve the issue of missing personal property records not in agency's official property system.	<p>Concur.</p> <p>1) Agency property officers are working to identify and update any missing personal property records in the official property system.</p> <p>2) In addition, EPA Property guidance will be revised to ensure all future reconciliations occur by September 1.</p>	<p>1) Updates of property records complete. (ongoing activity)</p> <p>2) 1/31/14 for guidance revision</p>
5	Verify capital assets are updated in Maximo (including new equipment, surplus and no longer in the EPA's custody).	Concur. Updates of capital assets records are required per the Agency Personal Property Policy and Procedure Manual (4382).	Complete. (Ongoing quarterly activity)
6	Hold a Board of Survey to address missing items.	<p>Concur.</p> <p>1) A Board of Survey has been identified to address missing items.</p> <p>2) A report is anticipated by late January 2014. The Agency Personal Property Policy and Procedure Manual will be updated to require BOS reports by September 15.</p>	<p>1) BOS re-established 10/31/13</p> <p>2) Manual updated by 1/31/14</p>
8	Conduct reviews of the access control lists for all agency financial applications under their responsibility to ensure they are up-to-date and reflect the current necessary system privileges of personnel.	Concur. The Office of Environmental Information/ Office of Technology Operations and Planning will conduct the review of access control lists for financial applications under OTOP/National Computer Center's purview.	1/15/14
9	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.	Concur. OEI/OTOP will issue a memorandum to responsible personnel regarding adherence to access control procedures.	1/15/14

10	Develop a detailed listing of all OCFO information technology assets by IP address, system name and server name. Provide the OCFO staff in charge of receiving and analyzing monthly VM reports with the detailed listing of information technology assets. The detailed listing should include all OCFO information technology assets under OCFO operational control, as well as information technology assets operated on behalf of OCFO within and external to the agency.	Concur. The Office of the Chief Financial Officer will update its detailed inventory of Internet Protocol addresses and system and server names. Information will be provided to appropriate staff.	4/30/14
11	Issue a memorandum to OCFO staff involved in the monthly VM process reiterating the importance of following roles and responsibilities outlined in the VM SOP. Specifically, the memorandum should stress the importance of communicating, to OEI, IP addresses that do not belong to OCFO so they are no longer included in OCFO's monthly reports. The memorandum should also specify timelines when responsible personnel must update the POA&M information in the agency's vulnerability tracking system and report the status of actions taken to OCFO's primary ISO.	Concur. OCFO will issue a memo to the appropriate staff regarding roles and responsibilities related to the Vulnerability Management review process including procedures on handling items that do not belong to OCFO and related timelines.	4/30/14
12	Conduct training for staff in charge of receiving and analyzing monthly VM reports to ensure they are knowledgeable of the agency's remediation process for vulnerabilities.	Concur. OEI will develop training on monthly VM reports and make it available through the agency's enterprise training tool.	TBD

### Disagreements

No.	Recommendation	Agency Explanation/Response	Proposed Alternative
1	Perform a thorough review of posting models and financial system configurations to ensure the proper accounts are impacted.	Nonconcur. The agency already has an established process for regularly reviewing posting models to ensure that the proper accounts are impacted.	N/A
7	Require the Director, Office of Technology Solutions to work with CGI to correct the FD01 model posting error.	Nonconcur. The FD01 posting model did not cause the erroneous postings referenced in the draft report. The erroneous posting was due to user errors.	N/A

### CONTACT INFORMATION

If you have any questions regarding this response, please contact Stefan Silzer, Director, Office of Financial Management on (202) 564-5389.

### Attachment

cc: David Bloom  
Rich Eyermann  
Renee Wynn  
Stefan Silzer  
Jeanne Conklin  
Raffael Stein  
Mel Visnick  
Quentin Jones  
Robert Hill  
Christopher Osborne  
Sherri Anthony  
John O'Connor  
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John Showman  
David Shelby  
Anne Mangiafico  
Judi Maguire  
Meg Hiatt  
Wanda Arrington  
Art Budelier  
Cynthia Poteat  
Robert Hairston  
Sheila May  
Scott Dockum  
Barbara Freggens



Sandy Womack  
Lorna Washington  
Susan Lindenblad  
Sandy Dickens  
Janice Kern  
Bernie Davis-Ray

**Technical Comments Related to OIG’s Draft Audit Report No. OA-FY13-0235, “Audit of EPA’s Fiscal 2013 and 2012 Consolidated Financial Statements,” dated December 9, 2013**

• **OIG Finding - “Federal Financial Management Improvement Act Noncompliance”**

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

*The results of our tests did not disclose any instances where the Agency’s financial management systems did not substantially comply with the applicable Federal accounting standards.*

*We found that the Agency had a high number of accounting corrections due to posting model and other system errors at the transaction level. However, we do not believe that the errors we found reached the level of substantial non compliance as described in OMB guidance. We also reported this issue as a significant deficiency in attachment 1. The results of our tests did not disclose any other instances of non compliance with FFMIA requirements.”*

**Agency Response: Do Not Concur**

**Agency Position on Finding:**

The agency’s financial system is in compliance with FFMIA. The OMB guidance does not require a perfect system. The guidance states, “...FFMIA compliance itself neither requires nor results in ideal or state-of-the-art system performance or system efficiency; nor does it require that systems be entirely automated. What FFMIA compliance indicates is that systems routinely provide reliable financial information consistently, accurately and uniformly.” Accordingly, the system routinely and substantially provides reliable financial information. Specifically, the Compass system:

- Gives the EPA the ability to prepare financial statements and other required financial and budget reports using information generated;
- Provides reliable and timely financial information for managing current operations;
- Enables the agency to safeguard its assets reliably; and
- Enables the EPA to comply with the U.S. Government Standard General Ledger at the transaction level.

Compass is based on a FSIO-compliant, commercial-off-the-shelf software solution from an OMB-approved shared service provider. Changes to the system, such as the posting model changes in progress, are accomplished through our disciplined configuration management process which includes rigorous development, testing and approval procedures. Adhering to a disciplined configuration management process is an integral part of complying with the Federal Information System Management Act requirements. Compliance with FISMA is cited in OMB Memorandum M-09-06 as an indicator in determining compliance with FFMIA. Specifically, the CM process aligns with the FISMA requirement

for continuous monitoring of information systems components and associated security controls. This process ensures the consistency of financial system performance through the orderly management, documentation, testing, and review of system changes over the course of the system lifecycle. The CM process enables EPA to introduce posting model changes in a manner that satisfies fundamental accounting standards while mitigating the risk of disrupting existing functionality.

Further, the agency disagrees that the number of corrections made in FY 2013 is high given that the agency processes thousands of transactions on a daily basis. The agency has developed and implemented a rigorous process to continuously review, analyze and make the necessary corrections, where needed, to posting models. This process is one of the reasons that we are confident that we are providing reliable and timely information for managing current operations. Through this process we identify opportunities for system changes to improve automated operations. Of particular note, the agency is working on a system change to correct a defect related to upward and downward adjustments of prior year obligations. To ensure the defect is corrected in an efficient and effective manner and that we remain FISMA compliant, we are applying best practices in CM to change the system to correct handling of the upward and downward adjustments. Pending implementation of the system change, we have adopted manual procedures involving the use of journal vouchers as part of the process for properly recording upward and downward adjustments to prior year obligations; we have followed the manual procedures in FY 2013.

- **OIG Finding “2— EPA’s High Number of Accounting Corrections indicates an Internal Weakness”**

*“The EPA made 396 manual journal voucher entries FY 2013 to correct transaction level errors in the accounting system, including 138 entries for posting model errors. OMB directs agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. The EPA made the accounting corrections due to posting model and other system configuration errors. Although the EPA corrected the errors that the EPA and the Office of Inspector General identified, the high number of corrections diminishes the reliability of the EPA’s accounting system to process transactions accurately. Without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated.”*

**Agency Response: Do Not Concur**

**Agency Position on Finding:**

The EPA disagrees that the high number of accounting corrections indicates an internal weakness. We believe the journal vouchers processed were fully supported and were significantly less in number than the amount stated in OIG’s condition statement. For example, journal voucher entries made as part of normal financial business processes were erroneously classified by the OIG as corrections to transaction level errors.

Also, The agency does not agree that the number of corrections diminishes the reliability of the EPA’s financial system. The agency took steps in FY 2012 and 2013 to ensure the integrity of its financial data and identified many of the issues in the OIG finding. The EPA has a process in place to proactively analyze and validate posting models. For example, during FY 2013, the agency identified accounting model issues, corrected them in the system, and made necessary journal voucher entries in compass to reflect the accurate United States Standard General Ledger impact. OCFO established an internal GL Issues email box to collect agency identified accounting model and reference table issues. OCFO

prioritized, and tracked progress in resolving accounting model and reference table issues. We continue to remain vigilant in our efforts to ensure that Compass accounting models are properly recording accounting events.

As discussed above, the EPA complies with FFMIA.

- **OIG Finding “3—Internal Controls Over EPA’s Accountable Personal Property Inventory Process Needs Improvements”**

*“We found an \$11.5 million difference in accountable personal property, including \$7 million of capitalized property, between the agency’s property management system (Maximo) and its fiscal year (FY) 2013 property certification letters. In addition, our examination found the EPA did not perform a complete inventory of \$3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, Maximo is missing detailed records for this property and such property is not included in the EPA’s property certification letters. The EPA requires accountable personal property to be inventoried annually and equipment to be decaled and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that the EPA’s details within Maximo were not updated timely. The agency’s capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. Inaccurate accountable personal property records could compromise the EPA’s property control system, impact the accuracy of the agency’s financial statements, and result in the loss or misappropriation of assets.”*

**Agency Response: Concur**

**Agency Position on Finding:** EPA concurs that the inventory purchased from the Customer Technology Solutions in the last quarter of FY 2013 was not completed. An official agency inventory could not be conducted until the equipment buy-out was completed and the agency owned the assets. The purchase of CTS equipment in August 2013 was an unusually large purchase resulting in the acquisition of approximately 12,000 assets near the end of the year. The equipment buyout did not occur until late August and Property notification in mid September. As a result, Facilities Management and Services Division could not inventory all equipment by the end of FY13. Inventory of these assets was initiated in October and should be completed by January 2014.

OARM will amend the EPA Personal Property policy and Procedures Manual to require posting of records within 5 days of installation or receipt on site.

- **OIG Finding “4— Software Improperly Recorded in Compass”**

*“The U.S. Environmental Protection Agency’s (EPA) Software In Development and Loss On Disposition accounts were misstated by \$36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. The misstatement impacts the accuracy and reliability of information reported in the EPA’s financial statements.”*

**Agency Response: Do Not Concur**

**Agency Position on Finding:** The EPA does not concur with the finding that the posting model applied to the referenced transaction impacted the wrong actions. The “Software in Development” and the “Loss on Disposition” postings were incorrect due to system users applying an incorrect document type. The

correct posting for this type of transaction, which moves software in development status to production, is the Fixed Asset Transfer (FT) document type. The FT document type allows the system to directly reclassify the asset's status from development to production. While OCFO staff were trained by the contractor in FY 2013 on how to process this transaction using the FT document type, the use of the FD document type was used in error. To help mitigate the risk of this type of incorrect posting in the future, OCFO will review with staff the correct posting for the business event of transferring software from the development account to the production account. Staff will receive refresher training in FY2014.

The resulting postings using the FD01 were corrected with Journal Vouchers (RAS13582JAN & RAS13583JAN) to allow the general ledger accounts to correctly reflect the intent of the accounting events that were initiated. As part of the agency's internal process for reviewing transaction events, OCFO will review and analyze the document/transaction type FD01 for the actual disposal entries in FY 2014.

## Distribution

Office of the Administrator  
 Chief Financial Officer  
 Assistant Administrator for Administration and Resources Management  
 Assistant Administrator for Enforcement and Compliance Assurance  
 Assistant Administrator for Environmental Information and Chief Information Officer  
 Assistant Administrator for Solid Waste and Emergency Response  
 General Counsel  
 Associate Administrator for Congressional and Intergovernmental Relations  
 Associate Administrator for External Affairs and Environmental Education  
 Director, Office of Policy and Resource Management, Office of Administration and  
 Resources Management  
 Director, Office of Grants and Debarment, Office of Administration and Resources Management  
 Director, Office of Administration, Office of Administration and Resources Management  
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 Director, Payroll Management and Outreach Staff, Office of the Chief Financial Officer  
 Agency Audit Follow-Up Coordinator  
 Audit Follow-Up Coordinator, Office of the Administrator  
 Audit Follow-Up Coordinator, Office of the Chief Financial Officer  
 Audit Follow-Up Coordinator, Office of Administration and Resources Management  
 Audit Follow-Up Coordinator, Office of Enforcement and Compliance Assurance  
 Audit Follow-Up Coordinator, Office of Solid Waste and Emergency Response  
 Audit Follow-Up Coordinator, Office of Environmental Information  
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 Resources Management  
 Audit Follow-Up Coordinator, Office of Financial Management, Office of the  
 Chief Financial Officer  
 Audit Follow-Up Coordinator, Office of Financial Services, Office of the Chief Financial Officer

## ***Section III***

### ***Other Accompanying Information***

## SCHEDULE OF SPENDING

### Money Management

The Schedule of Spending (SOS) presents an overview of how and where EPA is spending money. The SOS that follows reflects total budgetary resources available to the Agency, gross outlays, and fiscal year-to-date total obligations for the Agency. “What Money Is Available to Spend?” represents the authority that EPA was given to spend by law and the status of that authority. In this section:

- “Total Resources” represents amounts approved for spending by law.
- “Less Amount Not Agreed to Be Spent” represents amounts that EPA was allowed to spend but did not take actions to spend.
- “Less Amount Not Available to Be Spent” represents the amount of total budgetary resources that were not approved for spending.
- “Total Amounts Agreed to Be Spent” represents the amount of spending actions taken by EPA for the fiscal year. This represents contracts, orders, and other legally binding obligations of the federal government to pay for goods and services when received.

“How Was the Money Spent?” identifies the major categories for which EPA made payments during the year. In this section:

- “Total Spending” represents the sum of all payments EPA made during each year against amounts agreed to be spent. Balances include payments made to liquidate amounts agreed to be spent originating in both the current as well as from prior fiscal years.
- “Amounts Remaining to Be Spent” represents the difference between total spending and amounts agreed to be spent. Since payments can relate to spending activity initiated in the current and prior years, it is not unusual for total payments in a fiscal year to exceed the amount of the new spending actions originated that year, reported under “Amounts Agreed to be Spent.” When this occurs, negative amounts will be displayed as the balance of amounts remaining to be spent.



	FY 2013	FY 2012
<b>What Money is Available to Spend?</b>		
Total Resources (Note 1)	\$ 13,296,567	\$ 16,569,231
Less:		
Amount Available but Not Agreed to be Spent (Note 2)	3,008,632	2,609,126
Amount Not Available to be Spent (Note 3)	197,815	177,271
<b>Total Amounts Agreed to be Spent (Note 4)</b>	<b>\$ 10,090,120</b>	<b>\$ 13,782,834</b>
<b>How was the Money Spent?</b>		
<b>Clean Air</b>		
Contracts	\$ 214,518	\$ 255,814
Grants	387,064	439,049
Payroll	491,693	512,031
Rent, Communications and Utilities	5,918	3,582
Structures and Equipment	12,674	10,963
Travel	3,911	4,558
	<b>\$ 1,115,778</b>	<b>\$ 1,225,997</b>
<b>Clean &amp; Safe Water</b>		
Contracts	\$ 373,002	\$ 401,295
Grants	4,252,641	4,688,261
Payroll	543,846	565,306
Rent, Communications and Utilities	1,891	1,997
Structures and Equipment	4,192	6,209
Travel	5,032	5,969
Insurance	115	
	<b>\$ 5,180,719</b>	<b>\$ 5,669,037</b>
<b>Land Preservation &amp; Restoration</b>		
Contracts	\$ 2,142,979	\$ 2,313,557
Financial Transfers	-	2,400,000
Grants	580,798	635,493
Payroll	733,638	762,945
Rent, Communications and Utilities	2,767	2,355
Structures and Equipment	9,694	9,690
Travel	11,636	13,919
Insurance	15,611	
	<b>\$ 3,497,123</b>	<b>\$ 6,137,959</b>
<b>Healthy Communities &amp; Ecosystems</b>		
Contracts	\$ 149,817	\$ 156,617
Grants	66,141	70,944
Payroll	508,491	555,562
Rent, Communications and Utilities	1,900	1,816
Structures and Equipment	2,517	4,529
Travel	3,749	4,140
Insurance	27	
	<b>\$ 732,642</b>	<b>\$ 793,608</b>
<b>Compliance &amp; Environmental Stewardship</b>		
Contracts	\$ 100,165	\$ 99,986
Grants	32,116	36,067
Payroll	663,671	704,365
Rent, Communications and Utilities	1,899	1,836
Structures and Equipment	1,782	2,699
Travel	5,066	6,190
Insurance	800	
	<b>\$ 805,499</b>	<b>\$ 851,143</b>
Total Spending (Note 5)	<b>\$ 11,331,761</b>	<b>\$ 14,677,744</b>
Amounts Remaining to be Spent	(1,241,641)	(894,913)
<b>Total Amounts Agreed to be Spent (Note 4)</b>	<b>\$ 10,090,120</b>	<b>\$ 13,782,831</b>

Notes:

- 1.This amount ties to CSBR as Total Budgetary Resources.
- 2.This amount ties to CSBR as Unobligated Balance-Appportioned.
- 3.This amount ties to CSBR as Unobligated Balance-Unapportioned.
- 4.This amount ties to CSBR as Total Obligations Incurred.
- 5.This amount ties to CSBR as Gross Outlays.

## MANAGEMENT INTEGRITY AND CHALLENGES

### Overview of EPA's Efforts

Management challenges and integrity weaknesses represent vulnerabilities in program operations that may impair EPA's ability to achieve its mission and threaten its safeguards against fraud, waste, abuse, and mismanagement. These areas are identified through internal agency reviews and independent reviews by EPA's external evaluators, such as OMB, the U.S. Government Accountability Office, and EPA's Office of Inspector General. This section of the AFR discusses in detail two components related to challenges and weaknesses: 1) key management challenges identified by EPA's OIG, followed by the Agency's response, and 2) a brief discussion of EPA's progress in addressing its FY 2013 management integrity weaknesses.

Under the FMFIA, all federal agencies must provide reasonable assurance that policies, procedures, and guidance are adequate to support the achievement of their intended mission, goals, and objectives. (See Section I, "Management Discussion and Analysis," for the Administrator's assurance statement.) Agencies also must report any material weaknesses identified through internal and/or external reviews and their strategies to remedy the problems. Material weaknesses are vulnerabilities that could significantly impair or threaten fulfillment of the Agency's programs or mission. In FY 2013, no new material weakness was identified by the OIG. (See following subsection for a discussion of new, existing, and corrected weaknesses and significant deficiencies.)

The Agency's senior managers remain committed to maintaining effective and efficient internal controls to ensure that program activities are carried out in accordance with applicable laws and sound management policy. Agency leaders meet periodically to review and discuss EPA's progress in addressing issues raised by OIG and other external evaluators, as well as progress in addressing current weaknesses and emerging issues. The Agency will continue to address its remaining weaknesses and report on its progress.

## 2013 KEY MANAGEMENT CHALLENGES

### OIG-Reported Key Management Challenges

The Reports Consolidation Act of 2000 requires 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 2013, OIG identified five challenges. The table below includes issues OIG identified as key management challenges facing EPA; the years in which OIG identified the challenge; and the relationship of the challenge to the Agency's goals in its FY 2011–2015 strategic plan, found at <http://www2.epa.gov/planandbudget/strategicplan>.

OIG-Identified Top Major Management Challenges for EPA	FY 2011	FY 2012	FY 2013	EPA Strategic Goal
<b>The Need for a National Environmental Policy:</b> Environmental quality depends on policies related to farming, energy, water, transportation, and federal land management. A national environmental policy would help EPA and other federal agencies to set national environmental goals and regulatory standards, particularly for problems that cross state or national borders, or pose risks to future generations.	•			Cross-Goal
<b>Oversight of Delegations to States:</b> Due to differences between state and federal policies, interpretation, strategies, and priorities, EPA needs to more consistently and effectively oversee its delegation of programs to the states assuring that delegated programs are achieving their intended goals.	•	•	•	Cross-Goal
<b>Safe Reuse of Contaminated Sites:</b> EPA's duty is to ensure that reused contaminated sites are safe for humans and the environment. EPA must strengthen oversight of the long-term safety of sites, particularly within a regulatory structure in which non-EPA parties have key responsibilities, site risks change over time, and all sources of contamination may not be removed.	•	•	•	Goal 3
<b>Enhancing Information Technology Security to Combat Cyber Threats</b> ( <i>Formerly Limited Capability to Respond to Cyber Security Attacks</i> ): EPA has a limited capacity to effectively respond to external network threats. Although the Agency has deployed new tools to improve its architecture, these tools raise new security challenges. EPA has reported that over 5,000 servers and user workstations may have been compromised from recent cyber security attacks. (Previously reported under Homeland Security.)	•	•	•	Cross-Goal
<b>EPA's Framework for Assessing and Managing Chemical Risks:</b> EPA's effectiveness in assessing and managing chemical risks is limited by its authority to regulate chemicals under the Toxic Substances Control Act. Chemicals manufactured before 1976 were not required to develop and produce data on toxicity and exposure, which are needed to properly and fully assess potential risks.	•	•	•	Goal 4 Goal 5
<b>Workforce Planning:</b> EPA's human capital is an internal control weakness in part due to requirements released under the President's Management Agenda. OIG identified significant concerns with EPA's management of human capital. EPA has not developed analytical methods or collected data needed to measure its workload and the corresponding workforce levels necessary to carry out that workload.		•	•	Cross-Goal



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

JUL - 1 2013

THE INSPECTOR GENERAL

**MEMORANDUM**

**SUBJECT:** The EPA's Fiscal Year 2013 Management Challenges

**FROM:** Arthur A. Elkins Jr. *Arthur A. Elkins Jr.*

**TO:** Bob Perciasepe, Acting Administrator and Deputy Administrator

We are pleased to provide you with a list of areas the Office of Inspector General considers as key management challenges confronting the U.S. Environmental Protection Agency. According to the Government Performance and Results Act Modernization Act of 2010, major management challenges are programs or management functions, within or across agencies, that have greater vulnerability to waste, fraud, abuse, and mismanagement, and a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

The Reports Consolidation Act of 2000 requires our office to report what we consider the most serious management and performance challenges facing the agency. Given this requirement, our list includes management challenges and significant performance issues facing the EPA. We used audit, evaluation and investigative work, as well as additional analysis of agency operations, to identify challenges and weaknesses. Additional challenges and weaknesses may exist in areas that we have not yet reviewed, and other significant findings could result from additional work. We provide detailed summaries of each challenge in the attachment.

Proposed Management Challenge	Page
Oversight of Delegations to States	1
Safe Reuse of Contaminated Sites	4
Enhancing Information Technology Security to Combat Cyber Threats (formerly <i>Limited Capability to Respond to Cyber Security Attacks</i> )	9
The EPA's Framework for Assessing and Managing Chemical Risks	13
Workforce Planning	15

While the EPA has made progress, and we recognize that budgetary pressures are considerable, we repeated the five management challenges reported from last year (although we changed the title of the challenge on cyber security). We welcome the opportunity to discuss our list of challenges and any comments you might have.

Attachment



## Oversight of Delegations to States

The U.S. Environmental Protection Agency's oversight of state programs remains a key management challenge. The EPA has made strides to improve its oversight of states but has not completed its actions.

To accomplish its mission to protect human health and the environment, the EPA develops regulations and establishes programs that implement environmental laws. Many federal statutes also establish state regulatory programs that give states the opportunity to enact and enforce laws when minimum federal standards and regulatory objectives are met. The EPA may authorize state, local or tribal governments to implement environmental laws when they request authorization and the EPA deems that government capable of operating the program consistent with federal standards. The EPA relies heavily on authorized state and tribal agencies to obtain performance data and implement compliance and enforcement programs. These EPA partners perform a critical role in supporting the EPA's administration of key environmental laws.

The EPA performs oversight of state, local and tribal programs to provide reasonable assurance that they achieve national goals. However, state delegation does not exempt the EPA from its statutory and trust responsibilities to protect human health and the environment. Federal intent is to ensure national minimum-level environmental protection standards. In addition, federal requirements establish consistency for businesses and within industries nationwide. States' discretion adds flexibility to address specific circumstances and local issues, but joint implementation and enforcement leads to special challenges in interpretations, strategies and priorities. Budget limitations faced by many states impose an added pressure on EPA to maintain oversight of state environmental management.

The uneven quality of the EPA's oversight of state programs has been a concern for many years. The U.S. Government Accountability Office brought renewed attention to this issue in 2007 when it reported that while the EPA has made substantial progress in improving priority setting and enforcement planning with states, its oversight needed further enhancement. In response, the EPA implemented the "State Review Framework" to provide a consistent approach for overseeing programs and identifying weaknesses and areas for improvement. However, in fiscal year 2012 we reported that the EPA had not implemented the framework in a consistent manner.<sup>1</sup> Past reviews of this framework also indicated that the EPA had limited ability to determine whether states perform appropriate and timely enforcement and whether states apply violator penalties in a fair and consistent manner. In response to these and other findings, the EPA made changes to the State Review Framework and initiated a Clean Water Act Action Plan aimed at strengthening agency oversight of state water quality compliance and enforcement.

We issued a number of other reports on state oversight in recent years. Those reports pointed to the EPA's inadequate and inconsistent oversight of a variety of state activities—from state revolving fund projects to state enforcement of major environmental laws. Oversight of state activities requires that the EPA establish consistent national baselines that state programs must meet, and monitor state programs to determine whether they meet federal standards. Our work

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<sup>1</sup> EPA OIG, *EPA Must Improve Oversight of State Enforcement*, Report No. 12-P-0113, January 30, 2012.

identified the absence of national baselines and a lack of consistent and robust state oversight of multiple programs within the Clean Water Act, Clean Air Act, and Resource Conservation and Recovery Act. We also found that unclear and outdated agreements caused confusion between the EPA and states. For example:

- The EPA's oversight of states did not ensure that requirements of the American Recovery and Reinvestment Act of 2009 were met on Clean Water State Revolving Fund projects. We found that the Recovery Act inspection checklist did not include enough detailed questions to facilitate the EPA oversight of state programs. Further, the Office of Water was not conducting and documenting reviews of state programs in a timely manner and did not use the resulting reports to make national program decisions. Management did not make completion of the review reports a priority and did not use all of the Recovery Act funding Congress allocated for oversight. As a result, the EPA oversight process could not ensure that states complied with Recovery Act program requirements.<sup>2</sup>
- The EPA takes a variety of approaches to correcting underperforming state programs. These include making recommendations under the State Review Framework process, overfiling on states (i.e., when a state fails to enforce a program, EPA can enforce a provision for which a particular state has authorization), and taking independent actions when states choose not to act. We found that the EPA does not maximize its resources so that it can take the most stringent step—revoking state authorization—when a state is underperforming. The EPA primarily identifies underperforming state programs through the State Review Framework process. The EPA's criteria for state performance varied from region to region and state to state, depending on factors like state resources and environmental priorities. This means that citizens in different states cannot expect the same baseline of protection from pollution and human health risks. By establishing stronger organizational structures, the EPA can directly implement a national enforcement strategy that ensures all citizens have, and industries adhere to, a baseline level of environmental protection. The EPA could make more effective use of its resources by directing a single national workforce instead of 10 inconsistent regional enforcement programs.<sup>3</sup>
- Region 4 gave Georgia's concentrated animal feeding operation program a positive assessment. However, our review identified concentrated animal feeding operations that were operating without National Pollutant Discharge Elimination System permits or Nutrient Management Plans. We also noted that inspection reports were missing required components and the state was not assessing compliance with permit conditions. We recommended implementing controls to require enforcement data tracking between EPA and the state, assuring concentrated animal feeding operation inspections are complete, and taking timely and appropriate enforcement actions.<sup>4</sup>

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<sup>2</sup> 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.

<sup>3</sup> EPA OIG, *EPA Must Improve Oversight of State Enforcement*, Report No. 12-P-0113, January 30, 2012.

<sup>4</sup> EPA OIG, *Region 4 Should Strengthen Oversight of Georgia's Concentrated Animal Feeding Operation Program*, Report No. 11-P-0274, June 23, 2011.



- Region 4 has not adequately implemented management controls to assure that North Carolina National Pollutant Discharge Elimination System permits comply with the Clean Water Act and applicable federal regulations concerning thermal discharges. Region 4 determined that the thermal limits for four of the six facilities reviewed were renewed based on insufficient documentation. Most of the draft permits we reviewed were missing critical information needed to allow the EPA and the public an opportunity for review and comment as required. Public notices for five draft permits did not contain the required statements describing the proposed thermal variance.<sup>5</sup>

The EPA agreed when we identified oversight of delegations to states as a 2012 management challenge. In July 2012, the EPA convened an agencywide workgroup of staff responsible for administering major agency programs in order to plan and implement an agencywide effort to collect available information to define, describe and assess the EPA's processes, practices and tools for overseeing state delegations and authorizations. This workgroup is reviewing key components of the EPA/state partnership such as the EPA-State Memoranda of Agreement, permit and program reviews, technical assistance to states, petitions to withdraw state programs, and variability of regional oversight. It is also planning to analyze key similarities and differences among the major permitting programs to improve communication between states and the EPA. Findings and options for improving state oversight are expected to be reported to the Deputy Administrator by September 2013.

In addition, the EPA agreed to implement recommendations contained in our past reports. For example, in response to our January 2012 report on state oversight, the EPA agreed to:

- Review its public website to identify current compliance and enforcement documents that affect state oversight and improve the presentation of these documents on its website.
- Revise many of the policies and guidance that direct the national enforcement program and refine the State Review Framework metrics.
- Develop an escalation policy to address state performance issues including exploring mechanisms, such as utilizing state grant funds to directly implement programs if appropriate.
- Develop and make publicly available state performance dashboards for the Clean Water Act, Clean Air Act, and Resource Conservation and Recovery Act, to track state enforcement activities from year to year (which the EPA completed and demonstrated to our office).

The workgroup and the EPA's positive responses to the recommendations contained in our past reports are promising steps that should improve the EPA's relationship with its state partners. We will continue to monitor the EPA's progress in addressing this management challenge.

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<sup>5</sup> EPA OIG, *Oversight of North Carolina's Renewals of Thermal Variances*, Report No. 11-P-0221, May 9, 2011.

## Safe Reuse of Contaminated Sites

The EPA is increasingly emphasizing the reuse of contaminated or once contaminated properties. The EPA Fiscal Years 2011–2015 Strategic Plan announced a shift in the definition of success at a Superfund site from “construction complete” to “ready for anticipated use.”<sup>6</sup> The EPA’s FY 2013 budget states that it will continue to place emphasis on promoting site reuse in affected communities,<sup>7</sup> and agency guidance states that revitalizing communities and ensuring the long-term protection of human health and the environment remains a high priority for the EPA at Superfund sites.<sup>8</sup> Currently, the agency is actively encouraging communities, developers, industry, state and local governments, and anyone else interested in reusing contaminated sites for renewable energy development (e.g., wind, solar, biomass) facilities.<sup>9</sup>

The EPA has successfully turned some actual or perceived problem sites into properties that reinvigorate communities and create jobs.<sup>10</sup> Contaminated properties become viable again as retail stores, public recreation areas, housing complexes, sports stadiums and commercial office space. Recycling and reusing contaminated property can produce measured economic benefits, provide environmental benefits that result from preserving undeveloped lands, and improve quality of life for communities. While the EPA’s recycle and reuse goals are notable and may have made positive contributions in difficult economic times, the EPA’s duty is to ensure that contaminated sites are safe for humans and the environment. The EPA faces significant and increasing challenges in this area due to: (1) the common practice of not removing all contamination sources from hazardous sites; (2) a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties that may lack necessary resources, information and skill; (3) varying risks as site conditions change over time; and (4) weaknesses in EPA’s oversight of long-term site safety.

Many contaminated sites, such as Superfund sites, must be monitored in the long term (i.e., 30 years or more) because known contamination is often not fully removed or remediated, and controls that prevent prohibited activities at sites must be maintained and enforced. New controls or monitoring may be required if previously undetected or new contaminants emerge,<sup>11</sup> which can be a direct result of site changes brought about by reuse. Ineffective or missing long-term safety controls at reused contaminated sites can pose significant risks to human health and the environment. The New York Department of Environmental Conservation released a report listing hundreds of “old” Superfund, brownfields and other cleanup cases that were reopened to investigate potential new threats from vapor intrusion.<sup>12</sup> Improvements in analytic techniques and knowledge gained from site investigations have increased awareness of soil vapor as a medium of concern and of the potential for human exposure from the soil vapor intrusion

<sup>6</sup> EPA, *FY 2011–2015 Strategic Plan*, p. 38.

<sup>7</sup> EPA, *FY 2013 EPA Budget in Brief*.

<sup>8</sup> EPA, *Office of Solid Waste and Emergency Response, FY 2013 National Program Manager's Guidance*, April 27, 2012, Publication Number 530R12001, p. 20.

<sup>9</sup> EPA website, “RE-Powering America’s Land.”

<sup>10</sup> EPA website, “Superfund Redevelopment.”

<sup>11</sup> EPA, *Brownfields Technology Primer. Vapor Intrusion Considerations for Redevelopment*, EPA 542-R-08001, March 2008.

<sup>12</sup> New York State Department of Environmental Conservation, *Status of Vapor Intrusion Evaluations at Legacy Sites*, February 11, 2009.



pathway.<sup>13</sup> However, the EPA has yet to finalize guidance on assessing or addressing potential risks from vapor intrusion and does not have a current estimate of when this will be completed,<sup>14</sup> although the EPA has engaged stakeholders and considered public comments received in 2011 and 2012 as it works to issue final guidance.<sup>15</sup>

The EPA has acknowledged challenges to ensuring the long-term safety of contaminated sites. In 2005, the agency released a report that examined a range of long-term stewardship issues<sup>16</sup> and challenges it faced, as well as the role of non-EPA parties (e.g., states, tribes and other federal agencies) in ensuring long-term safety of contaminated sites.<sup>17</sup> EPA identified five categories of challenges: (1) understanding roles and responsibilities; (2) implementing and enforcing institutional controls;<sup>18</sup> (3) implementing, enforcing and monitoring engineering controls;<sup>19</sup> (4) estimating long-term stewardship costs and obtaining funding and resources; and (5) managing and communicating information to prevent breaches of controls and ensure consistent information in databases. The report made a number of recommendations that generally rely on partnerships and relationships to share, communicate and exchange necessary information on roles, responsibilities and costs associated with long-term stewardship responsibilities. The report encouraged non-EPA parties to adhere to legal provisions for implementing institutional controls where applicable (e.g., Uniform Environmental Covenants Act).<sup>20</sup>

In response to a GAO report on institutional controls, the EPA has also taken some steps to better manage the implementation of institutional controls at Superfund sites.<sup>21</sup> However, there are many sites where the status of institutional controls is not available.<sup>22</sup> In 2010, the EPA completed an internal evaluation to determine whether the required and necessary institutional controls were in place at national priority Superfund sites.<sup>23</sup> This review disclosed that controls

<sup>13</sup> New York State Department of Environmental Conservation, *Strategy for Evaluating Soil Vapor Intrusion at Remedial Sites in New York*, DER-13, October 18, 2006.

<sup>14</sup> EPA OIG, *Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks*, Report No. 10-P-0042, December 14, 2009.

<sup>15</sup> EPA Vapor Intrusion website at <http://www.epa.gov/oswer/vaporintrusion/>.

<sup>16</sup> EPA generally characterizes long-term stewardship activities as activities that ensure (1) ongoing protection of human health and the environment, (2) the integrity of remedial or corrective actions so they continue to operate properly, and (3) the ability of people to reuse sites in a safe and protective manner.

<sup>17</sup> EPA, *Long-Term Stewardship: Ensuring Environmental Site Cleanups Remain Protective Over Time: Challenges and Opportunities Facing EPA's Cleanup Programs*, EPA 500-R-05-001, September 2005.

<sup>18</sup> Institutional controls are legal or administrative controls intended to minimize the potential for human exposure to contamination by limiting land or resource use. A local government is often the only entity that has legal authority to implement certain types of institutional controls (e.g., zoning restrictions).

<sup>19</sup> Engineering controls are the engineered physical barriers or structures designed to monitor and prevent or limit exposure to the contamination.

<sup>20</sup> The Uniform Environmental Covenants Act confirms the validity of environmental covenants (i.e., institutional controls/land use controls) by ensuring that land use restrictions, mandated environmental monitoring requirements, and a wide range of common engineering controls designed to control the potential environmental risk of residual contamination will be reflected in land records and effectively enforced over time. Currently, about one-half of U.S. states have passed a Uniform Environmental Covenants Act. The Uniform Environmental Covenants Act was drafted by the National Conference of Commissioners on Uniform State Laws in August 2003.

<sup>21</sup> GAO, *Hazardous Waste Sites: Improved Effectiveness of Controls at Sites Could Better Protect the Public*, GAO 05-163, January 28, 2005. See also EPA's website "Institutional Controls."

<sup>22</sup> EPA website, "Published Institutional Controls."

<sup>23</sup> EPA, *Summary of Program Evaluations for FY 2010 Annual Performance Report*.

to protect human health were not in place at a number of sites reviewed. The EPA made recommendations to improve the implementation of these controls to protect human health at sites where risks remained. In December 2012, the EPA issued final guidance, *Institutional Controls: A Guide to Planning, Implementing, Maintaining, and Enforcing Institutional Controls at Contaminated Sites*.<sup>24</sup> The guidance is a noteworthy improvement in the agency's management of this important issue by recognizing the critical role of non-EPA parties in ensuring effective institutional controls.<sup>25</sup> The EPA has also issued final guidance with recommended contents for such Institutional Control Implementation and Assurance Plans in its December 2012 guidance, *Institutional Controls: A Guide to Preparing Institutional Control Implementation and Assurance Plans at Contaminated Sites*.<sup>26</sup>

Our work has identified additional and ongoing challenges that EPA faces in ensuring effective long-term monitoring or stewardship of contaminated sites. We found that some states were not financially prepared to take over their long-term monitoring and maintenance responsibilities for Superfund cleanups.<sup>27</sup> In 2010, Michigan's Department of Environmental Quality believed it would run out of money for its hazardous waste cleanup program.<sup>28</sup> We have reported on state failures to enforce cleanup agreements,<sup>29</sup> the EPA's failure to follow Superfund site deletion guidance<sup>30</sup> and Five-Year Review procedures,<sup>31</sup> and the EPA's lack of systems to determine whether a site cleanup is noncompliant.<sup>32</sup> In our February 2011 report,<sup>33</sup> we found that the EPA relies on the self-certification of a third-party environmental professional to determine whether required environmental due diligence has been performed at Brownfields sites funded by the EPA grants. For the environmental due diligence investigations we reviewed, environmental professional certifications failed to meet federal requirements and therefore failed to assure that a proper environmental investigation occurred. The EPA also conducts no oversight of the requirement to meet "continuing obligations" at Brownfields properties funded by the EPA. These obligations include land use controls and institutional controls designed to prevent

<sup>24</sup> OSWER 9355.0-89 EPA-540-R-09-001 December 2012.

<sup>25</sup> This guidance states that "[w]hen ICs [Institutional Controls] are to be employed as a component of a site response, site managers and site attorneys should carry out an analysis to determine if the state, local, and tribal governments or other stakeholders (e.g., responsible parties) have the ability and capacity to implement, maintain, and enforce the ICs." It also states that "[a] good way to ensure effective implementation of ICs is to develop an ICIAP [Institutional Control Implementation and Assurance Plan] that documents responsibilities over the full life cycle of each IC, and include this plan, or a reference to it, in the final decision documents."

<sup>26</sup> EPA, OSWER 9200.0-77 EPA-540-R-09-002 December 2012.

<sup>27</sup> EPA OIG, *Some States Cannot Address Assessment Needs and Face Limitations in Meeting Future Superfund Cleanup Requirements*, Report No. 2004-P-00027, September 1, 2004.

<sup>28</sup> *The Detroit News*, "Michigan Out of Cash to Clean Up Toxic Sites," March 4, 2010.

<sup>29</sup> EPA OIG, *Improved Controls Would Reduce Superfund Backlogs*, Report No. 08-P-0169, June 2, 2008.

<sup>30</sup> EPA OIG, *EPA Decisions to Delete Superfund Sites Should Undergo Quality Assurance Review*, Report No. 08-P-0235, August 20, 2008.

<sup>31</sup> EPA OIG, *EPA Has Improved Five-Year Review Process for Superfund Remedies, But Further Steps Needed*, Report No. 2007-P-00006, December 5, 2006; EPA OIG, *EPA's Safety Determination for Delatte Metals Superfund Site Was Unsupported*, Report No. 09-P-0029, November 19, 2008.

<sup>32</sup> EPA OIG, *EPA Needs to Track Compliance with Superfund Cleanup Requirements*, Report No. 08-P-0141, April 28, 2008.

<sup>33</sup> EPA OIG, *EPA Must Implement Controls to Ensure Proper Investigations Are Conducted at Brownfields Sites*, Report No. 11-P-0107, February 14, 2011.



unacceptable use of contaminated properties.<sup>34</sup> Weaknesses or lapses in meeting environmental due diligence or continuing obligations requirements can result in undetected or undisclosed contamination and property reuse that may pose unacceptable risk to humans. In response to our February 2011 report, the EPA agreed to develop outreach materials and conduct training for Brownfields grantees and regional staff to increase compliance with federal requirements for environmental due diligence investigations. The EPA reported it completed these activities during FY 2012.

Our January 2010 report found new contamination at a delisted Superfund site in Delaware where the EPA conducted informal and undocumented oversight of the site reuse plans.<sup>35</sup> The current site owner had nearly finalized plans for reusing the site for public recreation but in a manner inconsistent with the site cleanup plan. The EPA had not kept current with the current owner's site reuse plans. In addition, the EPA did not issue a "Ready for Reuse" determination for this site because it believed it was not necessary. A Ready for Reuse determination could potentially address some of the internal challenges to ensuring safe reuse of contaminated sites. However, there is no requirement to complete Ready for Reuse determinations, and they have been treated as discretionary. Nonetheless, the EPA has held up these determinations as providing the necessary "limitations that need to be followed to ensure [site] protectiveness." A Ready for Reuse determination was not issued for the site reviewed in our January 2010 report because site managers believed such a determination was only needed to aid the real estate market. At another Superfund site, we also found that the EPA did not take action to address a 6-year gap in environmental sampling that the state should have conducted.<sup>36</sup> This type of oversight weakness can result in a failure to detect conditions that indicate a cleanup remedy does not protect human health and the environment.

In August 2011, we reported the results of a review of hyperspectral imaging data taken of Superfund sites that had been remediated and deleted from the National Priorities List. This review identified conditions at two sites that warranted additional consideration by EPA. One of these sites, a former landfill, had expanded since EPA's last review. At one former industrial site, the current landowner was building a residence although levels of contamination for some metals exceeded residential risk-based screening levels, and the site contained buried drums and other debris.

The EPA's management of the long-term oversight and monitoring requirements for the safe reuse of contaminated sites has lagged behind its marketing of site reuse opportunities and showcasing of successes. Only in recent years has the EPA focused attention on the long-term stewardship aspects of contaminated sites across its cleanup programs. This gap could increase substantially as the EPA continues to heavily promote the reuse of contaminated sites and create new incentives without investing in tools needed to ensure the safe, long-term use of these sites. Many Superfund sites are now moving to the long-term monitoring phase, with more sites

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<sup>34</sup> EPA, *Brownfields Fact Sheet, EPA Brownfields Grants CERCLA Liability and All Appropriate Inquiries*, EPA 560-F-09-026, April 2009.

<sup>35</sup> EPA OIG, *Changes in Conditions at Wildcat Landfill Superfund Site in Delaware Call for Increased EPA Oversight*, Report No. 10-P-0055, January 27, 2010.

<sup>36</sup> EPA OIG, *EPA Should Improve Oversight of Long-term Monitoring at Bruin Lagoon Superfund Site in Pennsylvania*, Report No. 10-P-0217, September 8, 2010.

expected to do so in the future.<sup>37</sup> The EPA's December 2008 report on future Superfund workload needs states that the "post-construction" workload will increase by 89 percent over the current full-time equivalent distribution.<sup>38</sup> The EPA will continually need to assess challenges it faces, as well as challenges among the diverse group of non-EPA parties it must work with, to ensure that sites are safely reused. In its assessments, the EPA should consider new or expanded authorities and regulations, new organizations, measures and goals, new methods of sharing information, and dedicated funding and resources for long-term stewardship activities.

In 2009, the EPA agreed with this challenge.<sup>39</sup> In its 2010,<sup>40</sup> 2011,<sup>41</sup> and 2012<sup>42</sup> responses to this challenge, the EPA stated that it actively promotes several tools to ensure appropriate and safe reuse of sites and that it will continue to explore new tools and approaches to sharing risk information to ensure that sites remain safe in their future uses. The EPA has stated that its Superfund Five-Year Review process addresses the vast majority of "emerging contaminant" situations observed at Superfund National Priorities List sites and conveyed that the Five-Year Review process worked well. Specific "tools" the EPA has said it promotes to ensure appropriate and safe reuse of sites are: (1) Ready for Reuse determinations, (2) comfort and status letters, (3) prospective purchaser inquiry calls, (4) EPA-funded reuse planning offers, and (5) site reuse fact sheets.<sup>43</sup> In 2011, the EPA identified these tools as things they can offer to ensure that reuse is appropriate and will enhance long-term protectiveness.<sup>44</sup> In 2012, these tools, except for prospective purchaser inquiry calls, were also identified as things they can use to ensure that reuse is appropriate and will enhance long-term protectiveness.<sup>45</sup>

The above tools appear to serve a purpose in enhancing reuse, but their use and effectiveness as management controls for ensuring long-term human health protection has not been evaluated. However, the EPA has taken significant steps to address and remedy vulnerabilities in the Superfund Five-Year Review process. In 2009, the EPA completed a review of the quality of Five-Year Reviews.<sup>46</sup> The agency identified many reviews that needed additional support and some that needed to modify their safety determinations. Additional actions such as modifying the agency's 2001 guidance on Five-Year Reviews may be forthcoming. In a February 2012 report, we recognized important improvements in the EPA's review and oversight of Five-Year Reviews.<sup>47</sup> The EPA has implemented national review of Five-Year Reviews to improve their consistency and quality. Still, our February 2012 report identified additional opportunities for the

<sup>37</sup> EPA, *Long-Term Stewardship: Ensuring Environmental Site Cleanups Remain Protective Over Time: Challenges and Opportunities Facing EPA's Cleanup Programs*, EPA 500-R-05-001, September 2005.

<sup>38</sup> EPA, *Superfund Workload Assessment Report*, OSWER Document 9200-2-81, December 2, 2008.

Post-construction workload can refer to all activities after a cleanup remedy is constructed (including long-term monitoring and reuse activities).

<sup>39</sup> EPA, *Performance and Accountability Report for Fiscal Year 2009*, section IV, p. 43.

<sup>40</sup> EPA, *Fiscal Year 2010 Agency Financial Report*, section III, p. 37-40.

<sup>41</sup> *Ibid.*, p. 174.

<sup>42</sup> *Ibid.*, p. 187.

<sup>43</sup> *Ibid.*, p. 39.

<sup>44</sup> *Ibid.*, p. 174-175.

<sup>45</sup> *Ibid.*, p. 187-188.

<sup>46</sup> EPA, *Assessing Protectiveness for Asbestos Sites: Supplemental Guidance to Comprehensive Five-Year Review Guidance*, December 3, 2009.

<sup>47</sup> EPA OIG, *Stronger Management Controls Will Improve EPA Five-Year Reviews of Superfund Sites*, Report No. 12-P-0251 February 6, 2012.



EPA to improve its national review process to ensure Five-Year Reviews conducted in the regions are based on quality data and adhere to agency guidance. We believe that the Superfund Five-Year Review process is and should be a “safety-net” for detecting new contamination or other changing site conditions that may identify new potential human health risks. However, our reviews of the Five-Year Review process and conditions at deleted Superfund sites continue to demonstrate that the Five-Year Review process needs to be a stronger safety-net. We currently have an ongoing assignment related to the Office of Solid Waste and Emergency Response’s Cross Program Revitalization Measures. We are evaluating whether the EPA’s designation of assessed and cleaned up sites that have achieved the “ready for anticipated uses” and/or “protective for people” performance measures include effective controls to ensure long-term protection to human health and the environment.

We will review and recognize the EPA’s efforts to address the significant challenge of ensuring the long-term safety of contaminated sites. Our work and the agency’s work have shown that the EPA can address some of these internal challenges through improved oversight and management of EPA-directed activities inherent to successful long-term stewardship of contaminated sites. However, successful long-term stewardship also depends on having properly resourced and informed non-EPA parties who have ongoing access to current information, are actively involved in compliance, and conduct appropriate due diligence and oversight of contaminated sites. The EPA is highly limited in addressing this challenge when state or local governments with primary responsibility for addressing many long-term safety issues have neither the money nor the apparent will to do so. Lessons from recent issues such as vapor intrusion show that site reuse can generate new environmental risks. In its FY 2011-2015 Strategic Plan, the EPA notes that:

Complications can arise when new scientific information concerning contaminants at a site suggests that a risk assessment that was protective when a remedy was selected is no longer protective given the contaminant levels remaining at a site and their potential exposure pathways.... EPA must incorporate emerging science into decision making to maintain its commitment to provide permanent solutions.<sup>48</sup>

The EPA needs new strategies to address the challenges of providing needed information and resources, and having the authority, to ensure long-term safety of reused sites.

### **Enhancing Information Technology Security to Combat Cyber Threats**

From 2000 to 2010, global Internet usage increased from 360 million people to over 2 billion.<sup>49</sup> The EPA, like other federal agencies, has adopted this technology to become more citizen focused and enhance its business operations. Whether it is exchanging data between states, tribes and territories, or conducting financial operations, the Internet has become increasingly woven into how the EPA conducts its daily operations. The EPA’s decentralized structure to implement security controls makes it increasingly important for the EPA executives to adopt information technology and cyber security strategies that ensure these practices are fully integrated throughout the agency.

<sup>48</sup> EPA FY 2011–2015 Strategic Plan, p. 25.

<sup>49</sup> Department of Defense, *Strategy for Operating in Cyberspace*, July 2011, p. 1.

We reported that the EPA continues to strengthen its IT and cyber security by improving processes in four key areas: (1) risk management planning, (2) Security Information and Event Management tool implementation, (3) Computer Security Incident Response Capability and network operation integration, and (4) Computer Security Incident Response Capability relationship building. However, the challenge still exists primarily due to needed management oversight to ensure components of the information security program are implemented throughout the EPA and offices follow through with executing EPA policies, procedures and practices.

Our audit work highlights the need for management action to address the growing use of Internet technologies and the challenges that cyber threats like Advanced Persistent Threats pose to defending the agency's network. While progress has been made, EPA must continue to strengthen its IT security program to reduce the threat posed by cyber attacks. In particular, the agency needs to do the following.

**Strengthen User Authentication and Identification Processes.** In September 2012, we reported that the EPA needed to improve management and implementation of security controls for its network directory service system and related servers. The EPA lacks effective management oversight practices for this critical system that manages the information and access privileges for users, computers and other equipment on the EPA's network. This weakens the agency's security posture and ability to respond to cyber threats.<sup>50</sup> We noted that the EPA lacks processes to: (1) ensure key information system security documents are kept up to date, (2) manage inactive user accounts and accounts for personnel who have left the agency, (3) oversee users with privilege access to the directory system and to monitor these individuals' activities, and (4) manage the physical security and environmental controls at the locations where the system equipment is located.<sup>51</sup> In response to our report, the EPA concurred with all our recommendations and indicated it has already completed actions to address many of our concerns.<sup>52</sup>

**Implement Automated Tools.** EPA acknowledges that many of its continuous monitoring effects pivot around the successful implementation of its Security Information Event Management tool.<sup>53</sup> Our September 2012 report disclosed that the EPA lacks a fully developed strategy to include the agency's headquarters offices within the Security Information Event Management tool environment.<sup>54</sup> The strategy includes each of the EPA's regional offices, yet efforts to include headquarters offices fell short due to turnover of technical staff and the EPA discontinuing meetings with headquarters personnel.<sup>55</sup> The EPA also did not develop a formal employee training program on how to use the tool or a computer security log management policy on practices for audit log

<sup>50</sup> EPA OIG, *EPA Should Improve Management Practices and Security Controls for Its Network Directory Service System and Related Servers*, Report No. 12-P-0836, September 21, 2012.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> EPA FY 2012 *Agency Financial Report*, p. 183.

<sup>54</sup> EPA OIG, *Improvements Needed in EPA's Network Security Monitoring Program*, Report No. 12-P-0899, September 27, 2012.

<sup>55</sup> EPA Security Information and Event Management (SIEM) Infrastructure, *SIEM Concept of Operations (CONOPS)*, June 12, 2011.



storage and disposal and management roles and responsibilities.<sup>56</sup> The EPA has completed two of the four recommendations. Management stated the remaining recommendations would be completed by December 2013.<sup>57</sup> Until then, the EPA faces the challenge that the tool may not meet its intended purpose due to the lack of a clearly defined policy outlining respective roles within the log management infrastructure.

**Correct Known Weaknesses in Incident Response Capability.** In September 2012, we reported that the EPA did not follow up with staff to confirm whether corrective actions were taken to address identified weaknesses in the agency's incident response program. From 2009 to 2010, the EPA conducted three internal reviews of its information security program to include its incidence response capabilities. We found that the EPA did not create Plans of Actions and Milestones to track completion of 80 of the 102 reported recommendations. The EPA also lacks a centralized oversight process to ensure management completed the recommended actions.<sup>58</sup> We recommended that the EPA create Plans of Actions and Milestones to track the progress in completing the internal recommendations and create a process to verify that the prescribed actions were completed.<sup>59</sup> The EPA completed these corrective actions.<sup>60</sup>

**Develop a Vulnerability Remediation Program.** In September 2009, we reported that project delays continued to prevent EPA from implementing an agencywide information security vulnerability management program. Our audit highlighted both the need for the EPA to implement a tool to continuously monitor for vulnerabilities and a management process to ensure identified vulnerabilities are remediated.<sup>61</sup> The EPA has since taken steps to procure a vulnerability management tool and established an agencywide methodology to continuously identify vulnerabilities to agency assets.<sup>62</sup> However, EPA offices continue to face challenges in eradicating known vulnerabilities from its assets.<sup>63</sup> Our September 2012 follow-up found that the EPA conducts monthly vulnerability scans of EPA's network, but the staff does not follow up with system owners to verify that they remediated the identified weaknesses. As a result, there is no assurance that EPA's information security staff is remediating vulnerabilities in a timely manner. This places EPA's assets at risk to unauthorized access and potential harm to the network.<sup>64</sup>

<sup>56</sup> EPA OIG, *Improvements Needed in EPA's Network Security Monitoring Program*, Report No. 12-P-0899, September 27, 2012.

<sup>57</sup> EPA OIG, *Office of Environmental Information Improvements Needed in EPA's Network Security Monitoring Program*, Report No. 12-P-0899, December 21, 2012.

<sup>58</sup> EPA OIG, *Improvements Needed in EPA's Network Security Monitoring Program*, Report No. 12-P-0899, September 27, 2012.

<sup>59</sup> *Ibid.*

<sup>60</sup> EPA OIG, *Improvements Needed in EPA's Network Security Monitoring Program*, Report No. 12-P-0899, December 21, 2012.

<sup>61</sup> EPA OIG, *Project Delays Prevent EPA from Implementing an Agency-wide Information Security Vulnerability Management Program*, Report No. 09-P-0240, September 21, 2009.

<sup>62</sup> *Ibid.*

<sup>63</sup> EPA OIG website, FYs 2009–2012 OIG reports on the results of technical vulnerability assessments of the EPA's network, <http://www.epa.gov/oig/reports/infotech.htm>.

<sup>64</sup> EPA OIG, *Improvements Needed in EPA's Network Security Monitoring Program*, Report No. 12-P-0899, September 27, 2012.

In response, the EPA is ensuring that offices have access to all agency server vulnerability findings and updating standard operating procedures, to include oversight responsibilities for remediating vulnerabilities within 30 days or putting in place Plans of Actions and Milestones.<sup>65</sup> Minimizing the EPA's response time between vulnerability identification and remediation is key to protecting EPA's critical assets and data, and combating cyber attacks.

**Increase Skills for Personnel With Significant Security Responsibilities.** We found that the EPA did not develop strategies to align its workforce with legislative, regulatory and agency objectives. Having personnel with the right skills in the right position is critical for EPA to respond effectively to cyber attacks. The EPA recognizes that not all information security officers perform the same functions nor possess comparable technical knowledge and abilities.<sup>66</sup> We initiated an audit to evaluate the qualifications, skills and competencies of personnel with significant information security responsibilities.<sup>67</sup>

**Improve the Overall Information Security Program.** The EPA is strengthening risk management governance by: (1) providing EPA executive reports on system authorizations and plans of actions to elevate awareness of system statuses; (2) conducting independent reviews of information system security controls, with all agency systems being assessed by the end of FY 2014; (3) defining an enterprise level risk management process; and (4) implementing a Risk Executive Board to ensure acceptable and cost-effective system authorizations.<sup>68</sup> However, the EPA has significant deficiencies in the following security areas: Continuous Monitoring Management, Configuration Management, Risk Management, Plan of Action and Milestones, and Contractor Systems. While the EPA developed a continuous monitoring strategic plan, the agency has yet to implement ongoing assessment of security controls as outlined in the plan and required by federal guidance. The EPA does not have a process for timely remediation of deviations noted during testing. The EPA can also improve its oversight to ensure that Plans of Action and Milestones are completed and all offices complete required annual security reviews.<sup>69</sup>

While the EPA's decentralized structure provides management with the flexibility to tailor information security controls to address local needs, the structure proves to be problematic in ensuring that controls are consistently implemented agencywide and that weaknesses are properly reported for remediation tracking. The EPA leadership must continue to meet the IT and cyber security challenge head-on as it defines ways to protect its infrastructure and the data within the network. Stronger executive leadership, with emphasis on enhancing the IT

<sup>65</sup> Ibid.

<sup>66</sup> EPA OEI, PowerPoint Presentation, *Dual ISO Designations*, presented at September 20, 2011, Quality and Information Council Meeting.

<sup>67</sup> EPA OIG, *Notification Memorandum for Project No. OMS-FY12-0006, Assessment of the Qualifications of Environmental Protection Agency Personnel with Significant Security Responsibilities*, February 15, 2012.

<sup>68</sup> EPA OIG, *Fiscal Year 2012 Federal Information Security Management Act Report Status of EPA's Computer Security Program*, Report No. 13-P-0032, October 26, 2012.

<sup>69</sup> EPA OIG, *Briefing Report: Improvements Needed in EPA's Information Security Program*, Report No. 13-P-0257, May 13, 2013.



management control structure and holding EPA offices accountable for following it, is needed. Our current audits continue to highlight the need for management to take recommended actions to strengthen IT security practices pivotal to combating the growing cyber threat. Without immediate action, the EPA will not have the requisite tools to implement an effective, risk-based security program capable of addressing the most sophisticated threats on the horizon.

## **The EPA's Framework for Assessing and Managing Chemical Risks**

Since 1976, the Toxic Substances Control Act has charged the EPA with the responsibility of assessing risks from and taking action against those chemicals that pose significant risks to human health and the environment. Under TSCA, the EPA is required to (1) create an inventory of existing chemicals already in commerce,<sup>70</sup> (2) regulate unreasonable risk from new chemicals introduced into commerce subsequent to the act,<sup>71</sup> and (3) make health and safety information available while protecting manufacturers' confidential business information.<sup>72</sup> The TSCA inventory of chemicals in commerce now exceeds 84,000 chemicals.<sup>73</sup> In February 2012, the EPA issued its Existing Chemicals Program Strategy to pursue a multi-pronged approach focusing on risk assessment and reduction, data collection, screening, and furthering public access to chemical data and information. The EPA believes that this significant and long-term challenge can best be met via legislative reform of TSCA to improve the EPA's chemical management authorities.

The EPA's effectiveness to assess and manage chemical risks is held back in part by limitations on the agency's authority to regulate chemicals under TSCA. When TSCA was enacted, it authorized the manufacture and use, without any evaluation, of all chemicals that were produced for commercial purposes prior to 1976. As a result, manufacturers of these grandfathered chemicals were not required to develop and produce data on toxicity and exposure that the EPA needs to fully assess potential risks. Compounding this problem, TSCA did not provide the EPA with adequate authority to evaluate existing chemicals as new concerns arose or as new scientific information became available. However, until reform occurs, the EPA's responsibility to create a sustained and effective existing chemicals program must be carried out under current authorities.

Every year, the EPA's New Chemicals Program reviews and manages the potential risks from approximately 1,000 new chemicals, products of biotechnology, and nanoscale materials prior to their entry into the marketplace. Our 2010 report showed that the New Chemicals Program did not have integrated procedures and measures in place to ensure that new chemicals do not pose an unreasonable risk to human health and the environment.<sup>74</sup> We recommended that the EPA better coordinate risk assessment and oversight activities by establishing a management plan with new goals and measures to demonstrate the results of EPA actions. We further recommended that the EPA establish criteria for: (1) selecting chemicals or classes of chemicals

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<sup>70</sup> 15 U.S.C. §2607(b)

<sup>71</sup> 15 U.S.C. §2605

<sup>72</sup> 15 U.S.C. §2613.

<sup>73</sup> EPA website, TSCA Chemical Substance Inventory: Basic Information. (Updated February 25, 2013)

<http://www.epa.gov/oppt/existingchemicals/pubs/tscainventory/basic.html#background>.

<sup>74</sup> EPA OIG, *EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities*, Report No. 10-P-0066, February 17, 2010.

for low-level exposure and cumulative risk assessments, and (2) classifying confidential business information to improve the EPA's transparency and information sharing. Finally, we recommended that the EPA develop a management plan for core TSCA enforcement, including training, consistent monitoring and inspection strategies across regions, and a list of manufacturers and importers of chemicals for strategic targeting. The agency agreed with our recommendations and is completing the corrective actions.

We continued to identify challenges to the EPA's ability to both assess and manage chemical risks when we evaluated how effectively the EPA manages the human health and environmental risks of nanomaterials.<sup>75</sup> We found that although the EPA has the statutory authority to regulate nanomaterials, it lacks the environmental and human health exposure and toxicological data to do so effectively. The EPA has proposed mandatory reporting rules for nanomaterials under the Federal Insecticide, Fungicide, and Rodenticide Act, and is also developing proposed rules under TSCA. We also found that the EPA lacked a formal process to coordinate the dissemination and utilization of the potentially mandated information. The agency agreed with our recommendation to establish a process.

We also evaluated whether the outcomes of the EPA's Voluntary Children's Chemical Evaluation Program met its goals outlined under the Chemical Right-to-Know Initiative.<sup>76</sup> We found that the Voluntary Children's Chemical Evaluation Program pilot did not achieve its goals to design a process to assess and report on the safety of chemicals to children. The pilot's design had a flawed chemical selection process and lacked an effective communication strategy. Programmatic effectiveness was further hampered by industry partners who chose not to voluntarily collect and submit information, and the EPA's decision not to exercise its regulatory authorities under TSCA to compel data collection. The EPA has not demonstrated that it can achieve children's health goals with a voluntary program.

The EPA's framework for assessing and managing chemical risks from endocrine disruptors is also failing to show results.<sup>77</sup> In 2000, the EPA estimated that approximately 87,000 chemicals would need to be screened for potential endocrine-disrupting effects. Thirteen years after establishing its Endocrine Disruptor Screening Program, the EPA still has yet to determine whether *any* chemical is a potential endocrine disruptor. We found that the EPA had not developed a management plan laying out the program's goals and priorities or performance measures to track program results. The agency did not establish specific procedures to evaluate screening results. Completed activities also exceeded their targets by about 4½ to 6 years. In response to our recommendations, the EPA issued its Endocrine Disruptor Screening Program

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<sup>75</sup> EPA OIG, *EPA Needs to Manage Nanomaterial Risks More Effectively*, Report No. 12-P-162, December 29, 2011.

<sup>76</sup> EPA OIG, *EPA's Voluntary Chemical Evaluation Program Did Not Achieve Children's Health Protection Goals*, Report No. 11-P-0379, July 21, 2011. The goal of the initiative was to give citizens information on the effects of chemicals to enable them to make informed choices in the home and marketplace. The initiative directed the EPA to undertake testing of chemicals to which children are disproportionately exposed.

<sup>77</sup> In August 1996, Congress passed both the Food Quality Protection Act and amendments to the Safe Drinking Water Act that require the screening and testing of chemicals and pesticides for possible endocrine-disrupting effects (i.e., adverse effects on the development of the brain and nervous system, reproductive system, metabolism and blood-sugar levels). The EPA then established the Endocrine Disruptor Screening Program in 1998 to use validated methods for the screening and testing of chemicals to identify potential endocrine disruptors.



Comprehensive Management Plan containing a three-part plan to implement: (1) scientific advancement of Tier 1 data reviews and Tier 2 assay development and validation (including advancing the state of the science in chemical priority setting and screening); (2) test order management and implementation, including prioritizing chemicals, developing policies and procedures, and issuing and managing test orders; and (3) data management by developing an enhanced and consolidated information infrastructure.<sup>78</sup>

In May 2009, the EPA released a new Integrated Risk Information System process for completing health assessments. The goals of the new process are to strengthen program management, increase transparency, and expedite the timeliness of health assessments. Since then, the agency's National Center for Environmental Assessment has completed over 20 assessments. In response to congressional interest, we surveyed the EPA to determine if it regularly incorporates exposure dose concentrations or toxicity values from the IRIS database into regulatory decision-making.<sup>79</sup> We found no EPA policy mandating the use of any toxicity database including IRIS. Nevertheless, 85 percent of the EPA survey respondents reported that they have used IRIS as their primary source for cancer values and 81 percent have used IRIS as their primary source for non-cancer values. About one-third of the respondents reported that they have used an alternate source for toxicity values when an IRIS value was available, primarily because the alternate source was more up to date with current scientific practice or information.

We have initiated work to determine how well the EPA's Reduced-Risk Pesticide Initiative meets its goal of reducing risks to human health and the environment by encouraging the development, registration and use of pesticide products that are lower risk.<sup>80</sup> Given our completed and ongoing work, coupled with the size, complexity and significance of chemical risks to human health and the environment, we believe this issue warrants being retained as an agency management challenge.

## Workforce Planning

In 2002, the EPA first acknowledged human capital as an agency internal control weakness in part due to requirements released under the President's Management Agenda<sup>81</sup> and audit findings that identified significant concerns with the agency's management of human capital.<sup>82</sup> The EPA since has developed numerous strategic documents to direct its human capital efforts to focus on the skills, competencies and occupations needed to carry out its mission.<sup>83</sup> While this is useful,

<sup>78</sup> EPA OIG, *EPA's Endocrine Disruptor Screening Program Should Establish Management Controls to Ensure More Timely Results*, Report No. 11-P-0215, May 3, 2011.

<sup>79</sup> EPA OIG, *Congressionally Requested Information on the EPA Utilization of Integrated Risk Information System*, Report No. 13-P-0127, January 31, 2013. IRIS evaluates risk information on human health effects that may result from exposure to environmental contaminants. IRIS consists of chemical assessments and quantitative toxicity values that have been developed by the EPA and undergone peer review. It contains information for more than 550 chemical substances, including cancer and non-cancer human health effects.

<sup>80</sup> EPA OIG, *Notification of Preliminary Research to Evaluate the U.S. Environmental Protection Agency's Reduced-Risk Pesticide Initiative Project No. OPE-FY13-003*, March 13, 2013.

<sup>81</sup> EPA, *EPA Strategic Alignment – Human Capital Planning*, January 3, 2008, p. 1.

<sup>82</sup> EPA, OCF, *2007 Performance Accountability Report*, p. 205-06.

<sup>83</sup> EPA, *EPA Strategic Alignment – Human Capital Planning, Green Summary*, January 3, 2008, p. 1.

the EPA has not developed analytical methods or collected data to measure its workload and the corresponding workforce levels necessary to carry out that workload.

In 2008, the EPA removed human capital from the list of agency weaknesses and added the more specific topic of workforce planning as an Office of the Chief Financial Officer office-level weakness. Previous EPA OIG and GAO reports—described below—recommend that the EPA strengthen internal controls—policies, procedures and methods—for workforce planning. The need for systematic, agencywide analysis of workload and workforce levels is broader than OCFO and impacts the ability of all EPA programs to efficiently and effectively carry out their mission. Due to the broad implications of workforce planning on accomplishing the EPA's mission, we are including it as an agency management challenge for 2012.

In 2010, we reported that the EPA did not have controls or a defined methodology to determine workforce levels based upon the workload of the agency.<sup>84</sup> The EPA's OCFO establishes budget workforce levels based on the prior year's levels and proposed funding levels. The EPA's program and regional offices are not conducting systematic workload analysis or identifying workforce needs for budget justification purposes, and have not done so in more than 20 years.

In 2011, we reported<sup>85</sup> that the EPA does not require program offices to collect and maintain workload data. These programs do not have databases or cost accounting systems in place to collect data on time spent on specific mission-related outputs. Without such data, program offices are limited in their ability to analyze their workload and justify resource needs.

The GAO also reported that the EPA's process for budgeting and allocating resources does not fully consider the agency's current workload. In March 2010, the GAO reported that it had brought this issue to the attention of EPA officials in successive reports in 2001, 2005, 2008 and 2009.<sup>86</sup> In response, the EPA stated that it recognized the need to improve its ability to understand and quantify the relative workload of its component organizations and to make allocation decisions based on those assessments. The EPA said that it was committed to improving its analytical capabilities and examining workload measures to support the resource allocation process.

In February 2010, we reported that the EPA does not enforce a coherent program of position management to assure the efficient and effective use of its available workforce.<sup>87</sup> Without an agencywide position management program, the EPA leadership lacks reasonable assurance that it is using personnel both effectively and efficiently to achieve its mission. In 2011,<sup>88</sup> we found that EPA's Office of Enforcement and Compliance Assurance is constrained from actively managing its resources to direct them to the most important state enforcement problems. Currently, the

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<sup>84</sup> EPA OIG, *EPA Needs to Strengthen Internal Controls for Determining Workforce Levels*, Report No. 11-P-0031, December 20, 2010.

<sup>85</sup> EPA OIG, *EPA Needs Workload Data to Better Justify Future Workforce Levels*, Report No. 11-P-0630, September 14, 2011.

<sup>86</sup> GAO, *Workforce Planning: Interior, EPA, and the Forest Service Should Strengthen Linkages to Their Strategic Plans and Improve Evaluation*, GAO-10-413, March 31, 2010, page 19.

<sup>87</sup> EPA OIG, *EPA Needs Better Agency-Wide Controls over Staff Resources*, Report No. 11-P-0136, February 22, 2011.

<sup>88</sup> EPA OIG, *EPA Must Improve Oversight of State Enforcement*, Report No. 12-P-0113, December 9, 2011.



EPA regions divide their resources among several enforcement priorities, including state oversight. If these regions report that they are having problems with state enforcement, the Office of Enforcement and Compliance Assurance cannot reallocate full-time equivalents to address the problem because the office does not control enforcement resources in the regions. Therefore, priority enforcement issues may not receive needed resources.

The EPA has paid contractors nearly \$3 million to conduct various workload studies over the years, but then generally did not take action on or widely share the results. In 2006, OCFO awarded a contract to gather information on methods other government agencies use to assess workload and staffing needs and their potential use by the EPA. The EPA planned to use this information to develop methods for assessing staffing in relation to workload and benchmark staffing levels against workload shifts over time. Results showed that there were not significant similarities among agencies. The contractor then recommended that OCFO develop its own approach for assessing and adjusting workforce allocation to align with workload.

In 2012, the EPA issued a final report, *Developing a Model Civil Rights Program for the Environmental Protection Agency*, highlighting fundamental changes the EPA is planning to develop a more robust civil rights program. One of the key recommendations from this effort was the development of a staffing plan for agency civil rights functions. The recommendation calls for the same types of workforce actions we have been encouraging the agency to undertake, including:

- Identifying the essential functions based upon data.
- Determining the skills and numbers of employees to carry out those functions.
- Developing a staffing plan.
- Requesting needed full-time equivalents/resources through the budget process.

The EPA continues to develop and test options for implementing workforce planning but has yet to implement workforce analysis agencywide. The EPA's ability to assess its workload and accurately estimate workforce levels necessary to carry out that workload is critically important to mission accomplishment. While the EPA has and continues to take action to address the longstanding issue of workforce analysis, much work remains to develop practical methods that the agency can use to accurately estimate workload and staffing levels.

## **Challenge #1—Oversight of Delegations to State**

**Agency Response:** EPA acknowledges that state oversight is a very complex and changeable arena. Through federal statutes, implementing regulations, and program design, states are allowed flexibility in how they manage and implement environmental programs. Within EPA, national program managers are directly responsible for state oversight of individual programs. The Agency has committees, workgroups, special projects, and initiatives to continuously improve its programs delegated to states.

In FY 2012, the Agency identified the oversight of state delegations as a strategic priority and developed a key performance indicator in the FY 2012 Action Plan for Strengthening State, Tribal, and International Partnerships. Under this key performance indicator, EPA established an Agencywide workgroup (comprising national program managers, regions, and headquarters support offices) to plan and implement an Agencywide effort to collect available information to define, describe, and assess EPA's processes, practices, and tools for overseeing state delegations and authorizations. The workgroup will report its findings to the Deputy Administrator and propose options for next steps as needed to ensure that the Agency is carrying out its oversight responsibilities in a coordinated, transparent, and accountable manner.

With continued budgetary constraints and cutbacks, EPA's strategy for assisting states in meeting their federal environmental program requirements is focused on identifying programmatic areas that may be reduced in scope, reducing administrative burdens where possible, and providing additional time for required activities where allowed while still meeting the intent of all regulatory mandates. For example; among EPA's collaborative efforts to reduce states' administrative burdens are: introducing cost effective, streamlined administrative processes, such as reforming the State Implementation Plan process for efficiency and cost saving; striving to write rules to maintain additional state burdens; implementing electronic emissions reporting for sources; delaying the deployment of the near-road monitoring network; and acknowledging mutually established priorities with states in annual national program guidance.

## **Challenge #2—Safe Reuse of Contaminated Sites**

**Agency Response:** Cleaning up contaminated sites and ensuring their safe reuse over the long term is an Agency priority and central to EPA's mission. The Agency's authority and control over contaminated sites varies depending on the statutory authority under which the site is being addressed. Sites undergoing cleanup through the Superfund Program provide the Agency the most direct control through its authority to order the cleanup, provide oversight, seek penalties for non-compliance, and negotiate the cleanup process. EPA's ability to oversee and manage the long-term stewardship of contaminated sites must be based on these differences in its legal authority and state and local governments' responsibilities.

EPA and state and tribal response programs continue to make progress in cleaning sites to protect public health and the environment and support the safe use of cleaned and stabilized properties. The Agency believes that it is communicating site risks and remedies, and information needed to ensure protectiveness. However, in many circumstances the maintenance for long-term stewardship rests with a state, local, trust, or other private entity.

The Superfund, Corrective Action, Brownfields, and Underground Storage Tank programs annually report the number of sites ready for anticipated use (RAU). This measure is met when programs receive information that a site has no pathway for human exposures to unacceptable levels of contamination based on current site conditions, all cleanup goals are achieved for media that may affect anticipated land use, and all institutional controls identified as part of the response action are in place. Any determination made for the purposes of the RAU measure is based on the information at the time the determination is made. This may change if the site's conditions change or if new or additional information is discovered regarding the contamination or conditions on the site. As such, parties (e.g.

landowners or developers) interested in finding out what uses would be protective for a particular property should rely on site-specific cleanup documents and site-specific institutional controls.

Whenever waste is left in place at sites on the National Priorities List, the Comprehensive Environmental Response, Compensation and Liability Act requires that the remedy at the site be reviewed at least once every five years to ensure its continued protectiveness. EPA's national Superfund Program reviews Five-Year Reports at all sites and tracks any recommendations for needed further action to ensure implementation. Recently, EPA has developed several new guidance documents to ensure consistent decision-making and documentation for Five-Year Reviews.

EPA and its state and tribal co-implementers may select institutional controls (ICs) to control land and resource use where residual contamination remains in place. ICs help minimize the potential for exposure to contamination and/or protect the integrity of engineered components. The Agency has developed cross-program guidance, *Institutional Controls: A Guide to Planning, Implementing, Maintaining and Enforcing Institutional Controls at Contaminated Waste Sites*, which stresses the need for EPA site managers and attorneys to coordinate with tribes, state and local governments, communities, and other stakeholders to ensure that ICs are properly implemented, maintained, and enforced over their lifetime. The guidance also highlights a number of factors for entities implementing ICs to consider, including 1) providing adequate documentation of use restrictions in the response decision documents, 2) formalizing agreements for state assurance on IC responsibilities early in the response process, 3) providing strategies to implement ICs on properties with non-labile landowners, and 4) criteria to select an appropriate grantee to hold the covenant or title to the real property interest (for proprietary controls). The Agency has also developed *Institutional Controls: A Guide to Preparing Institutional Controls Implementation and Assurance Plans at Contaminated Sites*, which will help regions systematically establish and document the activities associated with implementing and ensuring the long-term stewardship of ICs. These plans will provide information to stakeholders on the legal authorities for enforcing ICs, including relevant state IC laws, Agency orders or agreements, or voluntary cleanup agreements. These guidances relate to ICs when they are a component of EPA's cleanup decisions; the installation of ICs is by state and local governments.

The Agency will continue to encourage state and tribal response program funding of tracking and management systems for land use and ICs. Each year, EPA prepares a report that highlights response programs and their brownfield and contaminated site inventory efforts and systems in place to track institutional and other land use controls. The latest report is posted at <http://www.epa.gov/brownfields>.

The Agency has developed general education and outreach materials about ICs and their importance in supporting safe land reuse. EPA continues to include training sessions on ICs as part of its national brownfields conference as well as panel discussions between local government and state programs. EPA will also continue to develop and maintain information systems like "Cleanups in My Community" (<http://www.epa.gov/cimc>) to educate and inform the public about federally funded contaminated site assessment and cleanup activities.

Promoting reuse involves communities in cleanup and reuse discussions. EPA will continue to explore new tools to ensure appropriate reuse and enhance long-term protectiveness, including:

- "Ready for Reuse" determinations (environmental status reports on site reuse).
- Comfort and status letters (which convey status of the site remediation and liability issues).
- EPA-funded reuse planning.
- Site reuse fact sheets (which highlight critical remedial components in place, long-term maintenance activities, and ICs).

### **Challenge #3—Enhancing Information Technology Security to Combat Cyber Threats** (Formerly Limited Capability to Respond to Cyber Security Attacks)

**Agency Response:** EPA acknowledges that advanced persistent threats pose a significant challenge for all federal agencies. EPA is implementing several corrective actions to address concerns raised by OIG and is securely implementing specific automated tools to address cyber security challenges. To address the six areas identified by OIG, EPA is:

- Strengthening user authentication and identification processes by identifying opportunities for improving network discovery services.
- Implementing automated tools, such as the Security Information Event Management tool.
- Correcting known weaknesses in incident response capability by addressing audit findings and recommendations and tracking remediation efforts.
- Developing a vulnerability remediation program and incorporating needed modifications to its vulnerability management standard operating procedure.
- Developing a strategy to analyze needed and current skill sets for personnel with significant security responsibilities. The agency is also developing training based on National Institute of Science and Technology and Office of Personnel Management guidance.

### **Challenge #4—EPA’s Framework for Assessing and Managing Chemical Risks**

**Agency Response:** GAO continues to identify “Transforming EPA’s Processes for Assessing and Controlling Chemicals” as a high-risk area, and OIG continues to identify “EPA’s Framework for Assessing and Managing Chemical Risks” as a management challenge. In October 2009, EPA acknowledged “Streamlining Chemical Assessments Under IRIS” as an Agency-level weakness under the FMFIA and has made progress in addressing concerns raised by both oversight organizations.

**Improving the Integrated Risk Information System (IRIS).** In May 2009, the Agency released a new IRIS process for completing health assessments. The goals of the new process are to strengthen program management, increase transparency, and expedite the timeliness of health assessments. Since then, the Agency’s National Center for Environmental Assessment has completed 25 assessments, which include some of the Agency’s highest priorities such as trichloroethylene, tetrachloroethylene, and dioxin (noncancer). The Agency has made significant progress on several other high-profile assessments such as formaldehyde, inorganic arsenic, chromium VI, methanol, benzo[a]pyrene, and Libby asbestos. In addition, EPA’s IRIS Program is developing assessments of health effects for chemicals found in environmental mixtures such as polycyclic aromatic hydrocarbons (PAHs), phthalates, and polychlorinated biphenyls (PCBs). These cumulative assessments will increase the number of chemicals that are addressed by the IRIS Program and are based upon the Agency’s expressed needs.

The following actions, some of which are now being implemented or are completed, address many of GAO’s concerns, including issues related to transparency and development of timely and credible assessments.

- EPA will begin releasing preliminary materials and hold a public meeting early in the IRIS assessment development process to explain the criteria for selecting studies and to ensure that critical research was not omitted. Meeting with the public earlier in the process will result in more timely opportunities for public input into the assessment and comment on the information available for each chemical assessed.



- The IRIS Program continues to use a database that facilitates public access to the scientific studies that underpin key regulatory decisions. The Health and Environmental Research Online (HERO) database contains the key studies EPA uses to develop environmental risk assessments. It includes references and data for IRIS assessments, which support critical Agency decision-making for chemical regulation. The HERO database is publicly accessible, so anyone can review the scientific literature behind EPA assessments, thereby strengthening the transparency of the science supporting Agency decisions.
- The Agency has adopted a new streamlined document structure for assessments with standardized evidence tables and a systematic approach to conducting literature searches, identifying relevant literature, and selecting key studies. Except for assessments that are late in the process, all IRIS assessments have been converted to the streamlined structure. This new document structure for IRIS assessments is clearer, more concise, and more systematic, making information more accessible.
- The IRIS Program has partnered with the National Academies' National Research Council (NRC). In FY 2013, the National Center for Environmental Assessment focused on responding to several general recommendations by NRC for all IRIS assessments, which were issued as part of NRC's April 2011 review report of EPA's draft IRIS assessment of formaldehyde. Separately, EPA is sponsoring an NRC review of the IRIS assessment development process and the changes being implemented or planned by EPA. As part of this review, the NRC is reviewing current methods for evidence-based reviews and will recommend approaches for weighing scientific evidence for chemical hazard and dose-response assessment.
- EPA's Science Advisory Board established the Chemical Assessment Advisory Committee (CAAC) to provide expert peer review for IRIS assessments. The CAAC will review most IRIS assessments, starting with the draft IRIS assessments of ammonia and 1, 2, 3-, 1, 2, 4-, and 1, 3, 5-trimethylbenzenes, followed closely by the draft benzo[a]pyrene assessment.

To enhance overall productivity, scientific quality, and management of IRIS assessments, EPA has instituted a new internal process for developing assessments. Eight disciplinary workgroups (neurotoxicity, reproductive/developmental toxicity, respiratory/inhalation toxicity, systemic toxicity/cancer/immunotoxicity, epidemiology, toxic pathways/genotoxicity, pharmacokinetics, and statistics) have been established to develop and revise specific sections of IRIS assessments and work with the assessment leads to develop an integrated assessment. This approach will improve the scientific quality and consistency of the assessments by having a critical mass of experts in each area write and review the sections. To manage the new draft development process, the Agency has established an IRIS Management Council, consisting of managers who supervise scientists working on IRIS assessments. The Council is responsible for assigning appropriate staff to assessments, developing schedules, and ensuring that schedules are met. A parallel IRIS Science Council, consisting of science managers and the chairs of the disciplinary workgroups, is responsible for identifying and resolving cross-cutting scientific issues.

With these changes, EPA's goal is to increase the number of assessments being completed each year, provide more accurate assessment development timelines to the public, and comprehensively address all of GAO's concerns and recommendations.

**Assessing and Managing Chemical Risk.** EPA agrees that statutory changes are needed to enable the Agency to successfully meet its goal of ensuring chemical safety now and into the future. The Administration has put forward a set of essential principles for reform of chemicals management legislation that will modernize and strengthen the tools available in the TSCA to increase confidence that chemicals used in commerce are safe. However, until legislative reform takes place, EPA has

adopted and is following an Existing Chemicals Strategy, released in February 2012, that outlines a comprehensive approach for prioritizing chemicals for risk assessment and risk reduction, increasing the public's access to chemical data, and advancing innovation for safer products and green chemistry. Integral to this approach are the key steps of identifying chemicals for detailed risk assessment, collecting and making effective use of chemical data, and pursuing action to manage the risks from existing chemicals found to pose unreasonable risk to human health and the environment.

EPA has taken a number of specific steps to strengthen its chemical safety work within existing authorities. Among the most significant are the following:

- EPA has identified a group of 83 TSCA Work Plan Chemicals for risk assessment under the TSCA to help focus and direct the activities of the Existing Chemicals Program over the next several years. Significant progress has already been made on risk assessments for an initial group of seven Work Plan Chemicals identified in March 2012, five of which were released for public review in January 2013.
- EPA is filling information gaps on existing chemicals by taking a range of TSCA information gathering actions (including the Chemical Data Reporting Rule and test rules); expanding electronic reporting of premanufacture notices and other submissions under the TSCA; and reviewing, and where appropriate challenging, all new submissions under the TSCA where CBI is claimed in health and safety studies as well as all CBI cases submitted before August 2010.

### **Challenge #5—Workforce Planning**

**Agency Response:** EPA is making significant progress in both workforce and workload management. The Agency is developing functional workload analyses to inform planning decisions in a cost-effective manner and has conducted two Agencywide organizational workforce assessments. Examining EPA's workforce to improve its resource planning is a broad and lengthy process requiring extensive reporting and analysis. EPA continually reviews how to maximize the productivity of its limited staff and other resources. As part of its annual budget process, EPA plans and tracks the use of resources at a detailed level in terms of organization and media and by strategic planning goals. These data are analyzed to inform the relative allocation of resources, staffing, and funding. EPA complements these management and planning efforts and data by strengthening both workforce planning (Agency-led research into the type of staff and skills needed) and workload analytics (Agency-led efforts to understand and calculate the level of staffing needed for particular tasks). Lead offices for both these efforts work extensively with experts in programs and offices across the Agency.

EPA has undertaken three major initiatives to increase understanding of resources needed for specific functions to strengthen its ability to capture and evaluate workload data and use those data to analyze specific tasks:

- Surveying more than 1,000 managers to capture their best estimates of their unit levels of work required for six critical functions (scientific research, environmental monitoring, regulatory development, permitting, enforcement, and financial management) as well as major tasks within each function, work drivers, and products.
- Completing a report on 23 other federal agencies' workload analysis tools and efforts. The report focused on how other agencies managed functions and processes similar to EPA's, illustrating lessons and options for EPA's efforts. It was noteworthy that no other agencies had active workload models for functions similar to EPA's.
- Piloted an approach that the Coast Guard used for gathering and analyzing data. In FY 2012, EPA's Offices of Air and Radiation, Water, and the Chief Financial Officer and the regions combined their pilot projects and developed workload analyses for the air and water permitting programs. In FY

2013, the Agency extended these efforts to grants management and Superfund enforcement. These processes are intended to serve as templates for additional future analyses.

The Agency is leading a series of collaborative workforce planning initiatives—conducted annually, beginning in August 2011—to identify the critical occupations required to meet its current and future mission objectives. The initiatives are aligned with the Agency’s fiscal year budget process and a report was issued to senior leadership in August 2012. In September 2012, the Agency conducted its second workforce planning initiative. Through the initiative, every regional and program office evaluated its existing workforce and identified occupational needs to the sub-office level, engaging local level managers and providing a more accurate representation of planned workforce changes. The results will be included in the *Workforce Planning Gap Analysis Report 2013—EPA’s Workforce Needs 2013–2016*.

EPA intends to continue working closely with programs and other major stakeholders to refine workload analysis tools to provide the most salient and actionable management understanding. GAO and OIG acknowledge EPA’s efforts to develop and test options for implementing workforce planning aimed to institutionalize workforce analysis Agencywide. The Agency’s ability to assess its workload and accurately estimate workforce levels necessary to carry out that workload is critically important to mission accomplishment.

## PROGRESS IN ADDRESSING FY 2012 WEAKNESSES AND SIGNIFICANT DEFICIENCIES

In FY 2013, EPA continued to address its Agency-level internal control weaknesses and significant deficiencies. This section discusses the weaknesses and significant deficiencies EPA resolved in FY 2013, as well as those that are new or for which corrective actions are still underway.

### FY 2013 Weaknesses and Significant Deficiencies

#### Agency Weaknesses

1. *Permit Compliance System\**
2. *Streamlining EPA's Process for Developing Chemical Assessments Under IRIS*
3. *Electronic Content Management*

#### Significant Deficiencies

1. *Federal Reimbursable Costs Not Billed Timely\**
2. *Accounts Receivable Detail Not Provided Timely By Regions\**
3. *Posting Models in Compass Materially Misstated GL Activities and Balances\**
4. *Compass Reporting Limitations Impair Accounting Operations and Internal Controls\**
5. *Compass System Limitations Impair Internal Controls of Financial Operations\**
6. *EPA Is Not Clearing Fund Balance With Treasury Statement of Differences Timely\**
7. *Property Internal Controls Need Improvement\**
8. *EPA Needs to Remediate System Vulnerabilities That Place Financial Data at Risk\**
9. *OCFO Financial Systems Security Documentation Needs Improvement\**
10. *EPA Should Improve Compliance With Internal Controls for Accounts Receivable*
11. *EPA Double Counted Contractor-Held Property*
12. *Compass and Maximo Cannot Be Reconciled*
13. *EPA Should Improve Controls Over Expense Accrual Reversals*
14. *Improvements Needed in Controls for Headquarters Personal Property*
15. *EPA Overstated Superfund State Credits\**
16. *EPA's High Number of Accounting Corrections Indicates an Internal Weakness\**
17. *Internal Controls Over EPA's Accountable Personal Property Inventory Process Needs Improvements\*\**
18. *Software Improperly Recorded in Compass\**
19. *EPA Needs to Improve Access Control Procedures for Key Financial Systems\*\**
20. *EPA Needs to Improve Processes for Following Up on Identified Network Vulnerabilities\*\**

*\* All corrective actions were completed in FY 2013*

*\*\* Items identified as new in FY 2013*

## Agency Weaknesses

### Permit Compliance System (PCS)

In FY 1999, EPA declared the PCS an Agency-level weakness. The weakness focused on the need for EPA to revitalize or replace the PCS to provide an information system that both the states and EPA can use to ensure complete and accurate NPDES permit and discharge data.

EPA has now developed and successfully implemented a modern, national information system designed to meet the needs of today's NPDES permitting and enforcement program. All states have been migrated from the PCS to the new system, the Integrated Compliance Information System (ICIS). The states and EPA can now use the new system to ensure complete and accurate NPDES permit and discharge data. Currently, all states (except New Jersey), two tribes, eight territories, and the District of Columbia are using the new system. The legacy PCS system was shut down on April 1, 2013.

Specific actions taken in FY 2013 include:

- Implemented Wave 3 of ICIS-NPDES Full Batch functionality (electronic reporting of NPDES violation, program reports, and enforcement action data from states to ICIS-NPDES).
- Moved the remaining 15 PCS Wave 3 states from legacy PCS to ICIS-NPDES.
- Completed the user validation and acceptance testing for Wave 3 of ICIS-NPDES Full Batch functionality.
- Completed PCS modernization.
- Shut down the legacy PCS system.

The Agency has completed all corrective actions for this Agency-level weakness. The Agency will continue to validate the effectiveness of the corrective actions through its analyses of the quality and completeness of the data in the modernized PCS system; evaluation of EPA headquarters', regional offices', and states' use of the system to more effectively manage the NPDES program; and evaluation of EPA's and states' ability to track activities and manage new NPDES program areas, such as stormwater, that were not reported in the legacy PCS system.

### Streamlining EPA's Process for Developing Chemical Assessments Under IRIS

In FY 2009, EPA declared this an Agency-level weakness. GAO identified "Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals" as a high-risk area in its January 2009 High-Risk Series. In its report, GAO stated that the Agency needs to take actions to increase IRIS's transparency and enhance its ability under the TSCA to obtain health and safety information from the chemical industry.

In May 2009, the Agency released a new IRIS process for completing health assessments. The goals of the new process are to strengthen program management, increase transparency, and expedite the timeliness of health assessments. Since then, the Agency's National Center for Environmental Assessment has completed 25 assessments, which include some of the Agency's highest priorities, such as trichloroethylene, tetrachloroethylene, and dioxin (noncancer). The Agency has made significant progress on several other high-profile assessments, such as formaldehyde, inorganic arsenic, chromium VI, methanol, benzo[a]pyrene, and Libby asbestos. In addition, EPA's IRIS Program is developing assessments of health effects for chemicals found in environmental mixtures such as PAHs, phthalates, and PCBs. These cumulative assessments will increase the number of chemicals that are addressed by the IRIS Program and are based upon the Agency's expressed needs.

The following actions, now being implemented or already completed, address many of GAO's concerns, including issues related to transparency and development of timely and credible assessments.

- EPA will begin releasing preliminary materials and hold a public meeting early in the IRIS assessment development process to explain the criteria for selecting studies and to ensure that critical research was not omitted.
- EPA continues to use the HERO database, which contains the key studies EPA uses to develop environmental risk assessments.
- The Agency has adopted a new streamlined document structure for assessments with standardized evidence tables and a systematic approach to conducting literature searches, identifying relevant literature and selecting key studies.
- EPA partnered with the National Academies' NRC. In FY 2013, the National Center for Environmental Assessment focused on responding to several general recommendations by NRC for all IRIS assessments, which were issued as part of NRC's April 2011 review report of EPA's draft IRIS assessment of formaldehyde. Separately, EPA is sponsoring an NRC review of the IRIS assessment development process and the changes being implemented or planned by EPA. As part of this review, NRC is reviewing current methods for evidence-based reviews and will recommend approaches for weighing scientific evidence for chemical hazard and dose-response assessment.
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With these changes, EPA's goal is to increase the number of assessments completed each year, provide more accurate assessment development timelines to the public, and comprehensively address all of GAO's concerns and recommendations.

The projected closure date for this Agency-level weakness is FY 2015.

### **Electronic Content Management**

In FY 2009, EPA declared electronic content management an Agency-level weakness. Although the Agency has a formal, structured, and vigorously managed records management program in place that has met past records management requirements, it is rooted in traditional paper-based records

management, maintenance, and access. The Agency's inconsistencies in how electronic content is stored, maintained, and assessed are impacting critical processes related to electronic records management.

To implement effective changes to content management practices within the Agency, corrective actions must be addressed enterprise-wide. An enterprise approach will allow for integration with the Agency's lines of business and replace current piecemeal or ad hoc approaches. To accomplish this, the Agency is implementing a system for the effective management of its information assets that will include a governance structure for content management and the selection of enterprise tools, as well as the formulation of new policies for content management responsibilities and processes.

The Agency has taken the following corrective actions to address this weakness:

- Established a new Quality Information Council Electronic Content Subcommittee.
- Developed a charter for the subcommittee.
- Established two enterprise-wide workgroups under the subcommittee.
- Developed interim procedures to address the storage and preservation of electronically stored information.
- Launched two pilot projects to evaluate tools for e-discovery and the management of email records. The results of the pilot projects will be used to inform the subcommittee's decisions on future policy or tool implementation.

The Agency has developed a corrective action plan that focuses on three sub-areas of electronic content management: FOIA, email records, and e-discovery. Additionally, the Agency has developed a validation strategy that will assess the effectiveness of various activities undertaken to address the identified weakness. The validation strategy will consist of processes that allow the Agency to review and determine whether policies and tools are being implemented and used.

The projected closure date for this Agency-level weakness is FY 2015.

## Significant Deficiencies

### **Federal Reimbursable Costs Not Billed Timely**

During the FY 2011 Financial Statement Audit, OIG stated that EPA did not timely bill other federal agencies for reimbursable costs.

The Agency works diligently to research, resolve, and bill outstanding reimbursable costs and will continue to research and resolve unbilled costs, particularly before the funding period is cancelled. To remedy this significant deficiency, the Agency reviewed Interagency Agreements quarterly and continued processing bills for new expenses identified to individual agreements. The Agency is working to use functionality within Compass so all costs charged to reimbursable agreements will be linked to a reimbursable agreement, thereby eliminating unidentified reimbursable costs.

The Agency continues working to resolve unbilled costs by billing for costs prior to cancellation of the fund. The Agency will pursue collectability information for those not identified to an agreement to move or write off costs that cannot be billed. Additionally, the Agency created a process for removing reimbursable cost in cancelling funds if they cannot be reconciled to a reimbursable agreement. The Agency will review and clear prior year charges before cancellation of the funds.

The Agency has completed all corrective actions for this significant deficiency.

### **Accounts Receivable Detail Not Provided Timely by Regions**

During the FY 2011 Financial Statement Audit, OIG found that the Agency was not timely in providing supporting documentation of penalty debts to the Cincinnati Finance Center (CFC) to ensure prompt recording of accounts receivable for all penalty debts.

In response to this finding and to remedy the significant deficiency, the Agency developed new procedures, issued in April 2011, that require regions and/or headquarters to provide documentation of penalty debts to CFC within five business days of receipt of the final administrative penalty order. Specifically, within five business days the final order is filed with the Regional Hearing Clerk, the Headquarters Hearing Clerk, or the Clerk for the Environmental Appeals Board. Under annual guidance, the Agency is required to meet this five-business-day standard 95 percent of the time. The Agency also created corrective actions to improve EPA-wide performance in providing timely accounts receivable, which has resulted in improved performance and is expected to continue in the coming fiscal year.

Additionally, the Agency has completed numerous activities to improve Agencywide performance in providing timely accounts receivable. For example, in November 2011 and May 2012, webinars were held on "Improving the EPA's Financial Integrity by Financial Reporting of Administrative Penalty Accounts Receivable." The Agency worked internally to provide FY 2012 performance data to regions to identify inaccuracies and enable needed changes to improve performance.

The Agency has completed all corrective actions for this significant deficiency and will continue to monitor performance and engage with senior regional and headquarters management.

### **Posting Models in Compass Materially Misstated GL Activity and Balances**

During the FY 2012 Financial Statement Audit, OIG declared that Compass materially misstated general ledger (GL) activity and balances due to incorrect posting models.

EPA has aggressively reviewed posting models to ensure that transactions are properly posted its financial accounts. The Agency continues to hold weekly meetings with Agency finance centers and other OCFO offices to address known and potential accounting model issues. This approach has served the Agency well, identifying and correcting more than 30 models and related transactions.

The Agency has in place a number of internal control procedures. For instance, the Finance Center staff compares feeder system interfaced transactions to hard copy documentation and approves them. The Agency periodically reviews the status of all documents in Compass to make sure all transactions have processed properly. None of these reviews have revealed any significant problems or issues with internal controls. When errors are found, they are reviewed, corrective actions identified, approved, and entered into Compass. The Agency developed internal control procedures to confirm that the proper accounts are impacted for all transactions. In addition, the Agency oversees and develops accounting models and their impacts through GL analyses. If discrepancies are found, they are investigated and reviewed for their impact on transactions and the GL to determine the nature of the matter. Issues are tracked through the resolution and validation processes. These activities provide reasonable assurance that EPA's GL balances are correct.

The Agency performs a quarterly comparative analysis based on the financial statement line. This analysis highlights unusual variances between fiscal years. EPA will continue to conduct these analytical reviews of account activity on a quarterly basis and more frequently if deemed necessary.

The Agency has completed all corrective actions for this significant deficiency.



## **Compass Reporting Limitations Impair Accounting Operations and Internal Controls**

During the FY 2012 Financial Statement Audit, OIG declared that EPA has been unable to obtain the reports it needs from Compass for many accounting applications.

The Agency analyzes its financial reports, identifies any concerns, and develops new reports for users as needed. All of the issues cited by OIG were based on observations made during the first six months of the operation of Compass Financials, the Agency's new financial system. At that time, EPA was learning the intricacies of the new system and applying this knowledge to reengineer day-to-day business processes. This allowed the Agency to take advantage of the many features of the modern system to best meet its business needs. EPA disclosed and discussed this approach with OIG in December 2011.

To the maximum extent practicable, EPA adapted its business practices to take immediate advantage of the new system. For example, Compass allowed EPA to streamline accounts receivable processes by moving from reconciliation of accounts receivable based on Servicing Finance Offices to a centralized approach. Reconciliation of accounts receivable at the Servicing Finance Office level was a "hold-over" practice from before the establishment of EPA's current finance center structure, when regional offices performed accounting functions. In adopting a centralized approach, EPA found that it could cancel a policy on July 11, 2012, that required the finance centers to perform monthly reconciliations of accounts receivable.

In other cases, the Agency deferred adoption of automated features available in Compass. For example, EPA deferred adoption of the full capabilities of Compass to support the Fund Balance with Treasury, instead using a Compass process very similar to the process used in the Integrated Financial Management System, EPA's previous financial management system. EPA adopted this approach based on hands-on daily experience with Compass gained during the first six months of operations and in consideration of change management principles for the successful implementation of financial systems.

The Agency has completed all corrective actions for this significant deficiency.

## **Compass System Limitations Impair Internal Controls of Financial Operations**

During the FY 2012 Financial Statement Audit, OIG declared that Compass experienced several impairments to processing financial transactions.

The Agency has corrected the impairments. In December 2011, it updated proper controls and tolerance levels to prevent grant payments from exceeding the related obligation accounting lines. In May 2012, it corrected the issue of preventing the improper posting of transactions to prior accounting periods, except via Standard Voucher and Journal Voucher transactions. The Agency confirmed that the Compass table was fixed to prevent spending against canceled appropriations.

The Agency has completed all corrective actions for this significant deficiency.

## **EPA Is Not Clearing Fund Balance With Treasury Statement of Differences Timely**

During the FY 2012 Financial Statement Audit, OIG found that EPA did not clear Fund Balance with Treasury differences reported on the U.S. Department of Treasury's Statement of Differences (SOD) within two months.

The Agency has taken steps to remedy these timing differences. Early in the year, EPA was involved in learning the intricacies of the new Compass system and applying this knowledge to reengineer day-to-

day business processes. There was a significant learning curve. The Agency experienced a high volume of rejects because of tighter budget controls and project notebook edits that occurred in Compass. The Agency is now much more proficient in this process and has designed new reports to assist accountants in performing the reconciliation.

The Agency updated the accounting model in July 2012 and, by the end of September 2012, resolved the backlog of transactions that required clearing and submitted the SF224 report to Treasury. While there were delays initially, the Agency is now able to clear differences in a timely manner. The majority of the SOD differences were the result of timing differences (e.g., difference in reported month of activity) rather than dollar differences. Since the reported values in the financial reports agreed exactly with the Treasury balance, the discrepancies in the SOD did not affect the accuracy of the financial reports. Through diligent effort, this was fully corrected and is no longer an issue with either the posting logic or reconciliation process.

The Agency has completed all corrective actions for this significant deficiency.

### **Property Internal Controls Need Improvement**

During the FY 2012 Financial Statement Audit, OIG declared that Compass does not sufficiently reject inaccurate personal property information entries.

The Agency worked with its contractor to build a default into Maximo that will eliminate property record errors. Corrective action was taken in August 2012 to reflect correct inventory dates for the 28 property items that had future acquisition dates. In September 2012, Agency Property Officers reconciled property records to ensure that the system reflected the correct location for the \$2.9 million in assets. In September 2012, the Agency conducted a system analysis to ensure that no other assets had the same discrepancy; none were discovered.

The Agency has completed all corrective actions for this significant deficiency.

### **EPA Needs to Remediate System Vulnerabilities That Place Financial Data at Risk**

During the FY 2012 Financial Statement Audit, OIG found that Agency officials did not monitor the testing of the Agency's networked information technology assets to identify commonly known vulnerabilities or take action to remediate those weaknesses.

The Agency currently conducts vulnerability assessments for all its general support systems and major applications as directed by National Institutes of Standards and Technology guidelines, specifically NIST 800-37, "Guide for Applying the Risk Management Framework to Federal Information Systems," and NIST 800-53, "Recommended Security Controls for Federal Information Systems and Organizations." All general support systems and major applications undergo risk assessments (as mandated by NIST Risk Management Framework certification) every three years or as the affected application or system implements major modifications. Per the NIST guidelines and EPA policy, a plan of action and milestones are created to address and remediate any weakness or threats identified by the scans.

The Agency developed a memorandum of understanding that delineates the roles and responsibilities of each organization with respect to identifying and remediating vulnerabilities of network resources.

The Agency has completed all corrective actions for this significant deficiency.

## **OCFO Financial Systems Security Documentation Needs Improvement**

During the FY 2012 Financial Statement Audit, OIG found that EPA lacked reliable information on the implementation of required security controls for key financial applications at the Research Triangle Park Finance Center.

The Agency established and is using a process covering security controls for key financial applications. The Application Security Officer prepares the System Security Plans, and office Information Security Officers review the documents before they are forwarded to the organization's Information Security Officer, Information Management Officer, and Senior Information Official for review and approval.

The Agency has completed all corrective actions for this significant deficiency.

## **EPA Should Improve Compliance With Internal Controls for Accounts Receivable**

During the FY 2012 Financial Statement Audit, OIG found numerous deficiencies in EPA's compliance with accounts receivable internal controls.

EPA has a process in place whereby the Department of Justice's (DOJ's) Environment and Natural Resources Division transmits judicial documents to EPA's CFC. In the case of payments due to the United States under CERCLA cases referred to DOJ, EPA and DOJ have an Interagency Agreement in place. Under this agreement, once a case has been settled under the terms of an entered consent decree or other court judgment, DOJ is responsible for transmitting the supporting documentation to CFC so that it can promptly record the required accounts receivable for those cases. Specifically, the agreement requires that "[w]ithin seven [calendar] days of receipt of notice of entry of a consent decree or other federal court judgment that requires payment of a sum certain to the EPA, DOJ ENRD will send electronic notification of such entry, and attach a copy of the consent decree and/or judgment, as entered, to [accountsreceivable.cinwd@epa.gov](mailto:accountsreceivable.cinwd@epa.gov)."

The Agency uses the DOJ Debt Assessed Report, DOJ 30 Day Tracking Reports, and ICIS Tracking Reports to review and follow up on documents not received by CFC. CFC compares these reports to the Compass Data Warehouse to determine if receivables have been established. Although obtaining Compass Data Warehouse query information caused some delays early in the year, these reconciliations were completed timely by the fourth quarter. CFC will work with staff to ensure that these reports are reviewed timely and fully utilized in obtaining missing documentation.

CFC developed standard operating procedures for the various types of receivables managed within the office, and will ensure these procedures are in line with Agency policy. This has been a transition year for CFC in that some files are now electronically maintained in Compass. CFC will clarify to staff the requirements for electronic files.

The Agency anticipates that all remaining corrective actions for this significant deficiency will be completed in FY 2014.

The projected closure date for this significant deficiency is FY 2014.

## **EPA Double Counted Contractor-Held Property**

During the FY 2011 Financial Statement Audit, OIG stated that EPA double counted contractor-held property in its financial system because it did not remove property from that system that had been transferred to contractors.

To remedy this issue, EPA reviewed current policies and procedures and revised them as needed to ensure that they address responsibilities for removing property transferred to contractors from the Agency financial system. The Agency took the following actions to address this deficiency:

- Completed 10 desk audits on contracts with contractor-held property to ensure that property items assigned to the contract did not appear in the Agency's inventory. Property duplications identified were corrected.
- Developed draft guidance for inclusion in the *Property Management Manual* to reflect changes in the April 2, 2012, Federal Acquisition Regulation. The guidance will assist contracting officers and property managers in deciding whether property should be assigned to a contract or included in the Agency inventory.
- Conducted two webinars for contracting officers and property managers to review parameters for contractor-held property management.

The Agency will continue to perform desk audits during the fiscal year to ensure that contractor-held property is not being double counted.

The Agency anticipates that the Property Management Manual will be finalized by December 2013. The manual will contain a detailed chapter on managing contractor-held property. The projected closure date for this significant deficiency is FY 2014.

### **Compass and Maximo Cannot Be Reconciled**

During the FY 2012 Financial Statement Audit, OIG found that EPA could not reconcile capital equipment property management data within its property management subsystem, Maximo.

EPA can reconcile capital equipment within the property management subsystem, Maximo, to relevant data within Compass. The Finance Centers recently completed this reconciliation. The Agency will document the procedures for reconciling capitalized property by the first quarter of FY 2014.

The projected closure date for this significant deficiency is FY 2014.

### **EPA Should Improve Controls Over Expense Accrual Reversals**

During the FY 2012 Financial Statement Audit, OIG declared that the Agency did not reverse approximately \$18 million of FY 2011 year-end expense accruals in FY 2012. The Agency is updating its policy for recognizing year-end accruals to require reconciliation of accruals and accrual reversals.

The Agency anticipates that all remaining corrective actions for this significant deficiency will be completed in FY 2014.

### **Improvements Needed in Controls for Headquarters Personal Property**

During the FY 2010 Financial Statement Audit, OIG identified improvements needed in the controls for personal property at EPA headquarters.

The Agency acknowledged several significant challenges related to tracking personal property for which headquarters is accountable.

To remedy this significant deficiency, the Agency took the following actions:

- Developed mandatory training for all managers and supervisors that is being monitored and tracked by the Agency property management officer.
- Conducted a “wall-to-wall” inventory and significantly reduced the unaccounted assets identified in 2010 and 2011 by more than 250 assets.
- Developed a new property tracking system that includes individual as well as location tracking features.

The Agency anticipates that the updated Property Management Manual will be completed by December 2013. Although the Agency has developed a new property tracking system, the interface with Compass system cannot be completed until January 2015 due to limited funding and the priority of the human resources line of business.

The projected closure date for this significant deficiency is FY 2015.

### **EPA Overstated Superfund State Credits**

During the FY 2013 Financial Statement Audit, OIG found that EPA overstated the value of Superfund State Contract (SSC) credits available to reduce state shares of remedial action costs by \$15 million. The Agency’s calculated credits were \$25.7 million as of June 30, 2013, but the general ledger showed a balance of \$40.7 million for SSC credits. OIG believes the overstatement would misstate EPA’s footnote disclosure and could mislead financial statement users.

To remedy this significant deficiency, the Agency addressed the cause of the error and posted an entry to correct the account balance. The Agency has completed all corrective actions for this significant deficiency.

### **EPA’s High Number of Accounting Corrections Indicates an Internal Weakness**

During the FY 2013 Financial Statement Audit, OIG stated that EPA made 396 manual journal voucher entries in FY 2013 to correct transaction level errors in the accounting system, including 138 entries for posting model errors. The Agency made the accounting corrections due to posting model and other system configuration errors. Although EPA corrected the errors identified, OIG believes the high number of corrections diminishes the reliability of EPA’s accounting system to process transactions accurately. OIG states without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated.

EPA disagrees that the high number of accounting corrections indicates an internal weakness. We believe the journal vouchers processed were fully supported and were significantly less in number than the amount stated in OIG’s condition statement. For example, journal voucher entries made as part of normal financial business processes were erroneously classified by OIG as corrections to transaction level errors.

Also, the Agency does not agree that the number of corrections diminishes the reliability of EPA’s financial system. The Agency took steps in FY 2012 and 2013 to ensure the integrity of its financial data and identified many of the issues in the OIG finding. EPA has a process in place to proactively analyze and validate posting models. For example, during FY 2013, the Agency identified accounting model issues, corrected them in the system, and made necessary journal voucher entries in compass to reflect the accurate United States Standard General Ledger impact. OCFO established an internal *GL Issues* email box to collect agency identified accounting model and reference table issues. OCFO prioritized, and tracked progress in resolving accounting model and reference table issues. The Agency

will continue to remain vigilant in our efforts to ensure that Compass accounting models are properly recording accounting events.

### **Internal Controls Over EPA's Accountable Personal Property Inventory Process Needs Improvements**

During the FY 2013 Financial Statement Audit, OIG found an \$11.5 million difference in accountable personal property, including \$7 million of capitalized property, between the agency's property management system (Maximo) and its FY 2013 property certification letters. In addition, OIG found EPA did not perform a complete inventory of \$3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, OIG details that Maximo is missing detailed records for this property and such property is not included in the EPA's property certification letters. The Agency requires accountable personal property to be inventoried annually and equipment to be decaled and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that EPA's details within Maximo were not updated timely. The Agency's capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. OIG states that inaccurate accountable personal property records could compromise EPA's property control system, impact the accuracy of the Agency's financial statements, and result in the loss or misappropriation of assets.

EPA concurs that the inventory purchased from the Customer Technology Solutions (CTS) in the last quarter of FY 2013 was not completed. An official agency inventory could not be conducted until the equipment buy-out was completed and the Agency owned the assets. The purchase of CTS equipment in August 2013 was an unusually large purchase resulting in the acquisition of approximately 12,000 assets near the end of the year. The equipment buyout did not occur until late August and Property notification in mid September. As a result, Facilities Management and Services Division could not inventory all equipment by the end of FY13. Inventory of these assets was initiated in October and should be completed by January 2014.

The Agency will amend the EPA Personal Property policy and Procedures Manual to require posting of records within five days of installation or receipt on site.

The projected closure date for this significant deficiency is FY 2014.

### **Software Improperly Recorded in Compass**

During the FY 2013 Financial Statement Audit, OIG stated that the EPA Software in Development and Loss on Disposition accounts were misstated by \$36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. OIG states the misstatement impacts the accuracy and reliability of information reported in the Agency's financial statements.

EPA does not concur with the finding that the posting model applied to the referenced transaction impacted the wrong actions. The "Software in Development" and the "Loss on Disposition" postings were incorrect due to system users applying an incorrect document type. The correct posting for this type of transaction, which moves software in development status to production, is the Fixed Asset Transfer (FT) document type. The FT document type allows the system to directly reclassify the asset's status from development to production. While OCFO staff were trained by the contractor in FY 2013 on how to process this transaction using the FT document type, the use of the FD document type was used in error. To help mitigate the risk of this type of incorrect posting in the future, OCFO will review with staff the correct posting for the business event of transferring software from the development account to the production account. Staff will receive refresher training in FY 2014.

The resulting postings using the FD01 were corrected with Journal Vouchers (RAS13582JAN & RAS13583JAN) to allow the general ledger accounts to correctly reflect the intent of the accounting events that were initiated. As part of the Agency's internal process for reviewing transaction events, the Agency will review and analyze the document/transaction type FD01 for the actual disposal entries in FY 2014.

#### **EPA Needs to Improve Access Control Procedures for Key Financial Systems**

During the FY 2013 Financial Statement Audit, OIG found that EPA did not maintain up-to-date system access control lists for two key OCFO financial systems. OIG found that users had access to these information systems for at least 1 year longer than their job duties required. Specifically, a contractor maintained privileged database administrator access to the production server controlling the interface to the Agency's core financial application. We also had concern regarding separation of duties because a system developer maintained a data creation account on another key financial application. In both instances, EPA resolved these two access control violations uncovered during our audit.

The Agency will conduct reviews of access control lists for relevant financial application and will issue a memo to responsible personnel regarding adherence to access control procedures.

The projected closure date for this significant deficiency is FY 2014.

#### **EPA Needs to Improve Processes for Following Up on Identified Network Vulnerabilities**

During the FY 2013 Financial Statement Audit, OIG stated that the process for resolving and tracking network vulnerabilities for the OCFO was not operating in accordance with agency policy. In particular, OCFO failed to notify the OEI within the required 30-day resolution timeframe of high-risk vulnerabilities that OEI incorrectly identified as belonging to the OCFO network. OCFO lacked a documented process for its internal staff to follow when reviewing the monthly vulnerability management reports. As such, OCFO received monthly vulnerability reports but the reports were not distributed to personnel knowledgeable on how to take action or to provide status reports on vulnerability remediation activities.

The Agency will update its detailed inventory of Internet Protocol address and system and server names, and distribute to the appropriate staff. Additionally, EPA will issue a memo to the appropriate staff regarding roles and responsibilities related to the Vulnerability Management review process, including procedures on handling items that do not belong to OCFO and related timelines.

The projected closure date for this significant deficiency is FY 2014.

## Summary of Financial Statement Audit

Audit Opinion	<b>Unmodified</b>				
Restatement	<b>No</b>				
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
Compass Systems Limitations	1	0	1	0	0
<i>Total Material Weaknesses</i>	1	0	1	0	0

## Summary of Management Assurance

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

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

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

Compliance With Federal Financial Management Information Act (FFMIA)		
	Agency	Auditor
1. System Requirement	<b>No non-compliance noted</b>	<b>No non-compliance noted</b>
2. Accounting Standards	<b>No non-compliance noted</b>	<b>No non-compliance noted</b>
3. USSGL at Transaction Level	<b>No non-compliance noted</b>	<b>Non-compliance noted</b>

See “EPA Holds Itself Accountable” in Section I of this report for additional information on FMFIA 2, FMFIA 4, and FFMIA presented in the summary graphs above.”

**\*Explanation of Summary Differences** – Please see “Significant Deficiencies” subsection that preceded the Summary Charts. The new OIG-identified deficiency write-up “EPA’s High Number of Accounting Corrections Indicates an Internal Weakness” provides details on this difference. Additional details are available in the OIG’s Final Audit Report located in Section II of this AFR.



## IMPROPER PAYMENTS COMPLIANCE

EPA is dedicated to reducing fraud, waste, and abuse by reviewing and reporting on programs susceptible to significant improper payments, in accordance with applicable law and OMB guidance. On July 22, 2010, the President signed into law the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Public Law No. 111-204), which amends the Improper Payments Information Act of 2002 (IPIA; Public Law No. 107-300). Passed in November 2002, the IPIA requires executive branch agency heads 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. On April 14, 2011, OMB issued Memorandum M-11-16 revising Circular A-123, Appendix C, Parts I and II, *Requirements for Effective Measurement and Remediation of Improper Payments*, which requires each executive branch agency to take the following steps:

- 1) Review all programs and activities to identify those that are susceptible to significant improper payments. This term is defined as gross annual improper payments exceeding both 2.5 percent of program outlays<sup>3</sup> and \$10 million of all program or activity payments during the fiscal year reported, or \$100 million (regardless of the rate).
- 2) Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities that are identified as susceptible to significant improper payments.
- 3) Implement a plan to reduce improper payments in risk susceptible programs or activities.
- 4) Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

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

The information in this report describes the Agency's efforts to reduce improper payments in its principal payment streams and is submitted in compliance with applicable law and OMB guidance. EPA is committed to improving performance by taking corrective action for any payment stream that is determined to be susceptible to significant improper payments.

In this report, it should be noted that Tables 1 through 6 correspond to the tables required in OMB Circular A-136 and that Figures A through G provide additional data collected by the Agency to demonstrate results of its improper payments program.

### Risk Assessments

OMB Circular A-123, Appendix C, requires executive agencies to conduct risk assessments of their programs or activities to determine if they are susceptible to significant improper payments. Each year, the Agency conducts quantitative risk assessments of its principal payment streams, which include

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<sup>3</sup> In a February 14, 2013 email to the CFO Council, OMB indicated that agencies should use 2.5 percent for FY 2013 reporting.

grants, contracts, commodities, the Clean Water State Revolving Fund (CWSRF), and the Drinking Water State Revolving Fund (DWSRF). The purpose of these risk assessments is to identify improper payments and determine whether the payment streams are susceptible to significant improper payments. In FY 2013, the CWSRF and DWSRF were considered to be risk susceptible programs, and the Agency's grants, contracts, and commodities payment streams remain at low risk of improper payments.

### **A) State Revolving Funds**

In FY 2012, the SRFs exceeded OMB's threshold for significant improper payments. As a result, in FY 2013, the Agency initiated a statistical sampling methodology that treats the CWSRF and DWSRF programs as separate entities and determines a statistically valid estimate of improper payments for each.

The SRFs are state-administered programs that provide federal funds to the states and Puerto Rico to capitalize revolving loan fund programs. The states receive invoices from fund recipients, review them for eligibility and accuracy, and electronically submit cash draw requests for batches of invoices to EPA. A cash draw is a disbursement from Treasury for the payment of state grants. Each disbursement can refer to a single invoice or a batch of invoices. The Agency makes payments to the revolving loan funds and conducts annual onsite reviews in each state. During the state reviews, EPA conducts improper payment sampling, reviews invoices for eligibility, confirms that the total amount of invoices matches the amount of cash draw, and examines accounting records to confirm that the states made matching deposits. Additional details about the sampling methodology are provided under "Statistical Sampling."

### **B) Grants**

Each year, the Agency's Office of Grants and Debarment randomly selects a number of recipients with active grant awards for advanced monitoring reviews. OGD stratifies its active grant recipients into five categories: state governments, local governments, tribes, universities, and nonprofits. A proportionate number is randomly selected from each group for review. Using a standard protocol, an onsite or desk review is performed and each selected recipient's administrative and financial management controls are examined. These reviews include an examination of the recipient's administrative policies and procedures in addition to the testing of grant funds drawn for the period.

The Agency continues to monitor grantees to ensure payment accuracy and responds to single and OIG audits to recover improper payments when they are discovered. In calendar year 2012, the Agency closed a combination of 270 grant recipient reviews, single audits, and OIG audits as a means of identifying improper payments. Of these 270 reviews and audits, 25 had actual improper payments or unallowable costs.

In addition, the Agency maintains internal controls to help prevent improper payments in grants. Since 2008, EPA has implemented annual "baseline" monitoring of all active assistance agreements that review fund drawdowns for appropriateness. As part of the baseline monitoring, each assistance agreement is reviewed programmatically by a Project Officer and administratively by a Grants Specialist, both of whom review financial drawdowns for consistency with the project's duration and progress. Any irregularities found are examined with the recipient and further scrutinized when warranted. Project Officers also review quarterly reports submitted by recipients to ensure that projects are on schedule and progress matches the amount of funding used. Additionally, the Agency's Las Vegas Finance Center routinely monitors grant payments made under the Agency's Automated Standard Application Payment system for irregularities.

Results of advanced monitoring reviews are presented in Figure A, "EPA's Review of Grantees." Additional sources of improper payments discovered outside the scope of sampling, such as single audits or OIG audits that were completed and closed in calendar year 2012, are presented in Table 6,

“Overpayments Recaptured Outside of Payment Recapture Audits.” The preceding calendar year remains the basis for improper payments reporting in the Agency’s grants payment stream. For FY 2013 reporting, the Agency is publishing the results of grantee reviews closed during calendar year 2012.

<b>Figure A: EPA’s Review of Grantees <sup>(1)</sup></b>					
<b>Improper Payment Results</b>	<b>CY 2008 Review</b>	<b>CY 2009 Review</b>	<b>CY 2010 Review</b>	<b>CY 2011 Review</b>	<b>CY 2012 Review <sup>(2)</sup></b>
Total grant outlays (non-SRFs)	n/a	n/a	n/a	\$2,283,853,375	\$2,495,597,052
Total dollars sampled	\$120,209,284	\$10,258,129	\$21,242,755	\$118,531,428	\$17,035,826
Improper payments (unallowable costs)	\$111,329	\$12,697	\$7,110	\$610,131	\$64,136
Recovered costs	\$111,329	\$4,647	\$7,110	\$465,462	\$64,136
Error rate	0.093%	0.124%	0.033%	0.515%	0.376%
Estimated improper payments	n/a	n/a	n/a	\$11,761,845	\$9,395,354

(1) In this table, “CY” refers to “Calendar Year.”

(2) Values reported in this column refer to statistical sample reviews closed in CY 2012. Other improper payments identified from audits, enforcement actions, and overpayments/adjustments are reported in Table 6, “Overpayments Recaptured Outside of Payment Recapture Audits.”

### **C) Commercial Payments (Contracts and Commodities)**

The contracts and commodities payment streams are collectively known as commercial payments. In FY 2013, the commercial payment streams had very low error rates and were not susceptible to significant improper payments. Due to the historical low percentage of improper payments in these payment streams, the Agency relies on its internal review process to detect and recover improper payments.

The Agency produces monthly improper payment reports for the commercial payment streams and uses them as its primary tool for tracking 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 dollar amount of recoveries made for current and prior years.

The Agency’s commercial payments are subject to financial review, invoice approval, and payment certification. Since 100 percent of commercial payments are subject to rigorous internal controls, the Agency relies upon its system of internal controls to minimize improper payments. 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 from occurring, include 1) the 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 in wrong period of performance dates, and payment to wrong vendor; 3) electronic submission of the invoice to Agency 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 Finance Center of suspensions and disallowances, if taken, prior to the final payment certification for Treasury processing. Additional preventive reviews are performed by the Finance Center on all credit and re-submittal invoices. Additionally, EPA Contracting Officers perform annual

review of invoices on each contract they administer, and DCAA performs audits on cost-reimbursable contracts at the request of the Agency.

Figures B and C quantify the agency's improper payment efforts in FY 2013 and in recent years. Additional improper payments identified from sources such as OIG, A-123, and DCAA audits are reported in Table 6, "Overpayments Recaptured Outside of Payment Recapture Audits."

<b>Figure B: EPA's Review of Contract Payments</b>			
<b>Fiscal Year</b>	<b>Number of Erroneous Payments</b>	<b>Erroneous Payments (Dollars in Thousands)</b>	<b>Error Rate for Dollars</b>
2009	31 (of 35,929)	\$716.4	0.05%
2010	35 (of 39,060)	\$882.6	0.08%
2011	21 (of 38,965)	\$162.9	0.01%
2012	29 (of 33,473)	\$953.7	0.06%
2013	43 (of 29,645)	\$406.8	0.03%

<b>Figure C: EPA's Review of Commodity Payments</b>			
<b>Fiscal Year</b>	<b>Number of Erroneous Payments</b>	<b>Erroneous Payments (Dollars in Thousands)</b>	<b>Error Rate for Dollars</b>
2009	32 (of 41, 585)	\$193.7	0.07%
2010	34 (of 39,571)	\$166.3	0.05%
2011	44 (of 40,083)	\$2,178.5	0.67%
2012	50 (of 34,908)	\$363.6	0.13%
2013	197 (of 33,467)	\$156.8	0.06%

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 discounted payment, such as an expired or short period upon receipt of the invoice or the approval process exceeds the discount period; and 2) a situation in which it is not economically advantageous to take the discount (i.e., the discounted amount is not economically advantageous in comparison to the Treasury's current value of funds rate).

Part of IPERA's definition of an improper payment includes "any payment that does not account for credit for applicable discounts." In applying this definition, the Agency determined that an applicable discount is one that is actually taken, as only a discount that is taken would result in credit for which to account. In accordance with IPERA's definition, it is the Agency's responsibility to properly account for the credit. To that end, the Agency must take the discount within the specified timeframe and also in the correct amount. Any errors made in accounting for the credit are reported as an improper payment. This includes situations in which a discount is taken outside the discount period or if the wrong amount of the invoice or percent is applied. In FY 2013, only one discount was determined to be an improper payment.

### Statistical Sampling

In FY 2013, the Agency developed a more rigorous sampling methodology for the SRFs. As part of the sampling design process, the Agency obtained OMB's approval to treat each SRF as a separate reporting entity in order to provide greater transparency and better address the root causes of error. In years past, the Agency grouped the SRFs together as a single reporting entity. FY 2013 is the first year

in which the Agency is treating each SRF as a separate reporting entity, publishing a unique error rate and improper payment estimate for each program.

The new sampling methodology draws a random, statistically valid, stratified sample of payments made by each SRF during the preceding federal fiscal year.<sup>4</sup> For FY 2013 reporting, the payment universe for each SRF included each state's cash draws for base and ARRA funding. The samples were randomly selected and stratified by dollar amount, then tested for improper payments during the state reviews conducted by the Agency's financial analysts. In addition, supplemental transaction testing was conducted in states where no samples were drawn.

The new sampling methodology provides a sample size sufficient to estimate the proportion of erroneous payments within a margin of error of plus or minus 2.5 percent and a 90 percent confidence level, assuming an estimated proportion of erroneous payments of 3.0 percent. Given the variability in the distribution of dollar payments within each SRF, the Agency used stratified sampling, which involves a greater probability of selecting larger payments relative to the smaller payments and increases the precision of the estimated percentage of erroneous payments. For example, the dollar value of CWSRF payments selected using stratified random sampling represents 17.5 percent of all dollars paid, whereas the dollar value of the payments selected using simple random sampling would represent only 2.3 percent of all dollars paid. Similarly, the dollar value of DWSRF payments selected using stratified random sampling represents 14.5 percent of all dollars paid, whereas the dollar value of the payments selected using simple random sampling would represent only 1.9 percent of all dollars paid. The following figures provide an overview of the sampling strategy undertaken in each SRF during FY 2013. Results of the statistical sampling are presented under "Improper Payment Reporting."

**Figure D: Stratification of Clean Water State Revolving Fund Payments**

Stratum	Payment Range	Total Number of Payments	Total Dollars	Number of Payments Sampled	Dollars Sampled
1	< \$100,000	1,626	\$42,314,658	15	\$292,736
	\$100,000–\$999,999	1,165	\$422,447,928	11	\$3,772,859
2	\$1,000,000–\$2,999,999	276	\$458,016,464	68	\$113,117,364
	\$3,000,000–\$9,999,999	106	\$500,031,258	23	\$110,731,096
	\$10,000,000–\$39,999,999	19	\$337,553,160	3	\$51,869,477
	> \$39,999,999	5	\$389,522,375	1	\$96,371,862
<b>Total</b>		<b>3,197</b>	<b>\$2,149,885,843</b>	<b>121</b>	<b>\$376,155,393</b>

**Figure E: Stratification of Drinking Water State Revolving Fund Payments**

Stratum	Payment Range	Total Number of Payments	Total Dollars	Number of Payments Sampled	Dollars Sampled
1	< \$100,000	3,281	\$87,116,556	36	\$965,385
	\$100,000–\$999,999	1,609	\$509,020,903	18	\$5,796,595
2	\$1,000,000–\$2,999,999	180	\$291,335,691	51	\$85,536,721
	\$3,000,000–\$9,999,999	46	\$229,783,848	16	\$79,917,435
	\$10,000,000–\$39,999,999	14	\$241,244,227	2	\$24,185,794
	> \$39,999,999	0	\$0	0	\$0
<b>Total</b>		<b>5,130</b>	<b>\$1,358,501,224</b>	<b>123</b>	<b>\$196,401,930</b>

<sup>4</sup> In prior years, each SRF used the preceding state fiscal year (i.e., the 12-month period from July 1 through June 30) as its basis for improper payments reporting.

## Corrective Actions

The Agency identifies and tracks the reasons for any improper payments identified and also takes appropriate steps to reduce future errors and make recoveries. In FY 2013, all improper payments identified were the result of administrative and documentation errors, which are caused by the “absence of supporting documentation necessary to verify the accuracy of the claim; or inputting, classifying, or processing applications or payments incorrectly by a relevant federal agency, State agency, or third party who is not the beneficiary.” Neither authentication nor verification errors were found. Given the nature of the Agency’s programs, medical necessity errors are not a possibility.

In FY 2012, the EPA identified improper payments in its SRF program which exceeded the threshold for significant improper payments of \$10 million and 2.5% of program outlays. In its FY 2012 IPERA compliance audit, the OIG determined that the corrective actions that the Agency published in the AFR did not fully comply with IPERA requirements. In FY 2013, EPA developed a multi-year corrective action plan that addresses weaknesses determined by the OIG and the root causes of error identified by the Agency’s ongoing improper payment activities. As a result, the Agency’s corrective action plan is presented in Figure F. This corrective action plan is being implemented by both SRFs and will guide their progress in reducing improper payments over time. In FY 2013, the DWSRF program identified \$11.1 million of improper payments from \$196 million of sampled cash draws. Extrapolating to the full payment population of \$1.36 billion yields an estimated improper payment rate of 4.06 percent, in the amount of \$55.2 million.

**Figure F: FY 2013 Corrective Action Plan—State Revolving Funds**

Description	Target Completion	Status	Anticipated Results
Publish revised standard operating procedures on transaction testing.	January 2013	Completed	Ensures consistency in improper payments reporting across regions.
Develop a more robust sampling methodology for identifying improper payments.	February 2013	Completed	The improved methodology provides greater precision, allowing EPA to better address the root causes of error while providing greater transparency.
Designate senior Agency official for ensuring SRF compliance with IPERA.	May 2013	Completed	Appointed the Office of Water’s Deputy Assistant Administrator as the senior agency official responsible for SRF compliance with IPERA.
Conduct training for regions to ensure a proper understanding of SRF proportionality errors.	May 2013	Completed	Applying lessons learned and clarifying when certain payments should be identified as improper will ensure greater accuracy in reporting.
Improve internal business processes.	FY 2013	Ongoing	Comparison of the Program Evaluation Reports and transaction testing worksheets will help ensure data integrity.
Publish DWSRF Eligibility Handbook.	Oct. 2013	In progress	Decrease improper payments due to ineligible expenses.
Determine baseline measurements for FY 2013 reporting and set appropriate out-year reduction targets.	Nov. 2013	Completed	Provide an accurate reflection of the program’s improper payment rate and establish reasonable reduction targets over time.
Ensure documentation of state internal control procedures.	March 2014	In progress	Strengthen state procedures.
Conduct webinars, including materials on improper payments and internal controls, audits, and proportionality.	March 2014	Under development	Strengthen internal controls and oversight of both programs.
Develop clarifying materials on adequate documentation.	June 2014	To be started in Nov. 2013	Decrease improper payments due to inadequate documentation.



## Improper Payment Reporting

### State Revolving Funds

Table 1 and Figure G below represent the Agency's improper payment results for the CWSRF and DWSRF programs.

Table 1: Improper Payment Reduction Outlook (Dollars in millions)																	
Program	FY12 Outlays	FY12 IP%	FY12 IP \$	FY13 Outlays	FY13 IP%	FY13 IP \$	FY13 Over- pmt	FY13 Under- pmt	FY14 Outlays	FY14 IP%	FY14 IP \$	FY15 Outlays	FY15 IP%	FY15 IP \$	FY16 Outlays	FY16 IP%	FY16 IP \$
Clean Water SRF	n/a	n/a	n/a	2,150	0.73%	\$15.6 (1)	\$11.1 (2)	\$4.5 (2)	1,528 (est.)	1.50 target	22.9 (est.)	1,538 (est.)	1.50 target	23.1 (est.)	1,325 (est.)	1.50 target	19.9 (est.)
Drinking Water SRF	n/a	n/a	n/a	1,358	4.06%	\$55.2 (1)	\$10.0 (2)	\$1.1 (2)	1,093 (est.)	3.00 target	32.8 (est.)	1,006 (est.)	2.50 target	25.2 (est.)	944 (est.)	2.00 target	18.9 (est.)

- (1) These estimates are derived by extrapolating the error rate identified from sampling to the full population of each program's payments.
- (2) These estimates are derived by applying the proportion of actual overpayment and underpayment amounts identified from sampling to the total estimate of total improper payments in each SRF.

**Figure G: EPA's Review of Clean Water and Drinking Water SRFs**

Fiscal Year	Outlays	Outlays Tested	Actual Improper Payments	Estimated Improper Payments <sup>(1)</sup>	Error Rate
2009 (combined)	\$1.9 billion	n/a	\$1.1 million	n/a	0.06 percent
2010 (combined)	\$4.8 billion	n/a	\$1.8 million	n/a	0.04 percent
2011 (combined)	\$3.64 billion	n/a	\$14.18 million	n/a	0.39 percent
2012 (combined)	\$2.67 billion	\$459.7 million	\$13.38 million	\$77.96 million	2.91 percent
2013 (CWSRF)	\$2.14 billion	\$376.1 million	\$1.45 million	\$15.64 million <sup>(2)</sup>	0.73 percent
2013 (DWSRF)	\$1.36 billion	\$196.4 million	\$11.12 million	\$55.20 million	4.06 percent

<sup>(1)</sup> Prior to FY 2012, the SRF error rate was not extrapolated to the full universe of SRF outlays.

<sup>(2)</sup> In FY 2012, EPA began extrapolating the error rate to determine an overall estimate of improper payments in the SRFs. The change in methodology does not allow for comparison between FY 2013 and FY 2012 results.

## Recapture of Improper Payments

The Agency's improper payment program is managed by Agency employees who continually monitor its payment streams to prevent, identify, and recover improper payments. No programs or activities are excluded from these reviews.<sup>5</sup> The Agency's improper payment program reviews grants, contracts, commodities, and the Clean Water and Drinking Water SRFs for erroneous payments.

When improper payments are identified in the SRFs, the errors are discussed with the state during the review. Many of the payment errors are immediately corrected by the state or resolved quickly 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

<sup>5</sup> A-123 reviews of payroll, travel, and purchase card efforts are an integral internal control mechanism for reducing improper payments, but these areas are not required for reporting under IPERA. Because they involve payments to federal employees, they are exempt from the definition of improper payments, per OMB M-11-16, Question 2.



course of action. The agreement is described in EPA's Program Evaluation Report, and the Agency follows up with the state to ensure compliance. SRF improper payments typically arise from inadequate cost documentation, incorrect proportionality used for drawing federal funds, ineligible costs, and draws made from the wrong account.

Since inception, the Agency's improper payments program has recovered approximately \$37.7 million across all payment streams. This amount consists of approximately \$2.8 million from contracts and \$4.4 million from commodities (beginning in FY 2004 for each), \$700,000 from grants (beginning with the CY 2006 review), \$24.7 million from the combined SRFs during the state fiscal year 2009 through 2012 reviews, and \$5.1 million from the DWSRF program in FY 2013. The following tables provide more detailed information concerning the Agency's past and present efforts at identifying and recapturing improper payments.

**Table 2: Payment Recapture Audit Reporting**

Program or Activity	Type of Payment	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported (CY)	Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding of Amount Identified (CY)	Amount Determined Not to Be Collectable (CY)	% of Amount Determined Not to Be Collectable of Amount Identified (CY)	Amounts Identified for Recovery (PYs)	Amounts Recovered (PYs)	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)	Cumulative Amounts Outstanding (CY + PYs)	Cumulative Amounts Determined Not to Be Collectable (CY + PYs)
CWSRF <sup>(2)</sup>	Grants	2,149,885,843	376,155,393	1,025,022	\$0	0% <sup>(3)</sup>	1,025,022 <sup>(3)</sup>	100%	\$0	0%	n/a	n/a	1,025,022	\$0	1,025,022	\$0
DWSRF <sup>(2)</sup>	Grants	1,358,501,224	196,401,930	10,032,644	5,133,840	51.2%	4,898,804	48.8%	\$0	0%	n/a	n/a	10,032,644	5,133,840	4,898,804	\$0
Grants <sup>(4)</sup>	Grants	2,495,597,052	17,035,826	64,136	64,136	100%	\$0	0%	\$0	0%	793,867	621,779	858,003	685,915	172,088	117,108 <sup>(5)</sup>
Contracts <sup>(6)</sup>	Contracts	1,298,210,581	1,298,210,581	70,721	70,718	99.99%	3	0.01%	\$0	0%	2,722,237	2,722,237	2,792,958	2,792,955	3	\$0
Commodities <sup>(6)</sup>	Small purchases	259,846,330	259,846,330	152,071	146,901	96.6%	\$5,170	3.4%	\$0	0%	4,295,635	4,284,081	4,447,707	4,430,982	16,724	1,217

<sup>(1)</sup> In this table, "CY" refers to "Current Year" and "PY" refers to "Prior Year."

<sup>(2)</sup> For CWSRF and DWSRF, "CY" refers to the agency's FY 2013 review of state cash draws made in FY 2012.

<sup>(3)</sup> Full recovery is expected to be made on subsequent cash draws during the next several months.

<sup>(4)</sup> For grants, "CY" refers to reviews closed in calendar year 2012, and "PYs" refers to reviews closed in calendar years 2006 through 2011.

<sup>(5)</sup> In certain cases a recipient may no longer be in business, the assistance agreement has been financially and administratively closed, or the outstanding debt has been referred to the CFC Claims Processor/Department of Treasury for collection.

<sup>(6)</sup> For contracts and commodities, "CY" refers to FY 2013, and "PYs" refers to FY 2004–2012.

**Table 3: Payment Recapture Audit Targets**

Program or Activity	Type of Payment	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered/Amount Identified)	CY +1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
CWSRF	Grants	\$1,025,022	\$0	0%	90%	90%	90%
DWSRF	Grants	10,032,644	5,133,840	51.2%	90%	90%	90%
Grants	Grants	\$64,136	\$64,136	100%	87%	87%	87%
Contracts	Contracts	\$70,721	\$70,718	99.9%	92%	92%	92%
Commodities	Small purchases	\$152,071	\$146,901	96.6%	92%	92%	92%

Table 4: Aging of Outstanding Overpayments				
Program or Activity	Type of Payment	CY Amount Outstanding (0 to 6 Months)	CY Amount Outstanding (6 Months to 1 Year)	CY Amount Outstanding (Over 1 Year)
CWSRF <sup>(1)</sup>	Grants	\$0	\$0	\$1,025,022
DWSRF <sup>(1)</sup>	Grants	\$0	\$0	\$4,898,804
Grants <sup>(2)</sup>	Grants	\$0	\$0	\$0
Contracts	Contracts	\$0	\$0	\$3
Commodities	Small Purchases	\$5,170	\$0	\$0

<sup>(1)</sup> For each SRF, "CY" (for "Current Year") refers to the Agency's FY 2013 review, which covered state expenditures made during FY 2012. Thus, all amounts outstanding for improper payments identified from the FY 2013 review are classified as outstanding for over 1 year.

<sup>(2)</sup> For grants, "CY" results are from reviews closed in calendar year 2012.

Table 5: Disposition of Recaptured Funds <sup>(1)</sup>							
Program or Activity	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
CWSRF <sup>(2)</sup>	Grants	\$55,500	\$0	\$0	\$0	\$0	\$0
DWSRF <sup>(2)</sup>	Grants	\$55,500	\$0	\$0	\$0	\$0	\$0
Grants	Grants	\$603,000 <sup>(3)</sup>	\$0	\$0	\$0	\$0	\$0
Contracts <sup>(4)</sup>	Contracts	\$39,500	\$0	\$0	\$0	\$0	\$0
Commodities <sup>(4)</sup>	Small purchases	\$39,500	\$0	\$0	\$0	\$0	\$0

<sup>(1)</sup> No recoveries originated from expired funds appropriated after the enactment of IPERA. Therefore, all recoveries were returned to their original appropriation.

<sup>(2)</sup> All SRF recoveries automatically return to the program since they are revolving loan funds (per OMB Circular A-123, Appendix C, Part I).

<sup>(3)</sup> Includes CY 2012 costs for post award monitoring contract and the cost of EPA personnel performing reviews.

<sup>(4)</sup> The same cost estimate applies to both contracts and commodities.

**Table 6: Overpayments Recaptured Outside of Payment Recapture Audits**

Source of Recovery	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY + PYs)	Cumulative Amount Recovered (CY + PYs)
OIG and single audits (CWSRF) (FY 2013)	\$0	\$0	n/a	n/a	\$0	\$0
OIG and single audits (DWSRF) (FY 2013)	\$6,127,575	\$6,127,575	n/a	n/a	\$6,127,575	\$6,127,575
Supplemental reviews (CWSRF) (FY 2013) <sup>(1)</sup>	\$687,136	\$0	n/a	n/a	\$687,136	\$0
Supplemental reviews (DWSRF) (FY 2013) <sup>(1)</sup>	\$13,308,985	\$13,307,435	n/a	n/a	\$13,308,985	\$13,307,435
Secondary review in Puerto Rico (CWSRF)	n/a	n/a	\$29,985,095 <sup>(2)</sup>	n/a	\$29,985,095	n/a
Secondary review in Puerto Rico (DWSRF)	n/a	n/a	\$2,827,209 <sup>(2)</sup>	n/a	\$2,827,209	n/a
Grant enforcement actions	\$127,461	\$102,641	n/a	n/a	\$127,461	\$102,641 <sup>(2)</sup>
Grant OIG and single audits	\$173,866	\$173,866	\$100,980	\$100,980	\$274,846	\$274,846
Grant adjustments <sup>(3)</sup>	\$944,136	\$904,647	n/a	n/a	\$944,136	\$904,647
Grants—other <sup>(4)</sup>	\$236,168	\$236,168	\$0	\$0	\$236,168	\$236,168
DCAA audits	\$1,670	\$1,670	\$0	\$0	\$98,868	\$98,868

<sup>(1)</sup> The secondary reviews conducted in Puerto Rico in FY 2012 identified \$29.9 million (CWSRF) and \$2.8 million (DWSRF) in questioned costs that were reported as improper payments in the FY 2012 AFR. However, following extensive review, the Agency identified offsetting eligible costs to cover the amount in question.

<sup>(2)</sup> The \$24,820 not recovered has been referred to Treasury for collection.

<sup>(3)</sup> These are final adjustments made for 106 assistance agreements during grant closeout.

<sup>(4)</sup> A recipient overdraw its ASAP account.

## Accountability

The Agency continues to strengthen internal controls in key payment processes and has taken steps to continue holding Agency managers accountable for reducing and recovering improper payments. In FY 2013, the Office of Water's Deputy Assistant Administrator was designated as the senior agency official for ensuring compliance of the CWSRF and DWSRF programs with IPERA. The Agency's improper payments program is overseen by OCFO to ensure compliance with all IPERA and reporting requirements, and action is taken by appropriate program officials to identify and recover improper payments.

## Agency Information Systems and Other Infrastructure

The Agency's internal controls, human capital, information systems, and other infrastructure are sufficient to monitor the reduction of improper payments to targeted levels.

### Do Not Pay Implementation

Treasury's Do Not Pay (DNP) program is a government-wide solution designed to prevent payment errors and detect waste, fraud, and abuse in programs administered by the federal government. In accordance with the April 2012 OMB Memorandum M-12-11, "Reducing Improper Payments Through the 'Do Not Pay List,'" the Agency developed an implementation plan to incorporate the use of Treasury's DNP solution into its business processes. Following the January 2013 enactment of IPERIA, which codified the requirement for federal agencies to implement the DNP program, the Agency took further steps to integrate its use.

In FY 2013, Treasury initiated the first phase of DNP implementation, which involves the review of agency payment files for contracts, grants, small purchases, travel, and other payments on a post-payment basis. Currently, the Agency receives monthly reports from the DNP program listing possible improper payments made to potentially ineligible recipients. These reports identify matches occurring when the DNP program compares the names of EPA's payees against the names contained in relevant federal databases, such as the Death Master File and the System for Award Management exclusion list.

EPA researches all matches identified in the monthly DNP reports and submits an adjudication report back to Treasury, detailing the status of all matches and indicating whether they are false positives, proper payments, or improper payments pending recovery.

Beginning in FY 2014, Treasury plans to initiate the second phase of DNP implementation, which may include the review of agency payments on a pre-payment basis and would provide the option to stop payments in accordance with pre-defined business rules. The Agency plans to work with Treasury to ensure successful implementation of the second phase, with the goal of preventing improper payments from being made to ineligible recipients.

## Statutory or Regulatory Barriers

None.

## Conclusions

The Agency commits to the following activities in FY 2014:

- Pursue recovery of outstanding overpayments from FY 2013.
- Review and revise the CWSRF and DWSRF sampling strategies as appropriate.

- Initiate improper payments sampling of Hurricane Sandy relief funding.
- Continue to use Treasury's Do Not Pay program to identify payments to potentially ineligible recipients.

# ***Appendix A***

## ***Public Access***



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## ***Appendix B***

### ***Acronyms and Abbreviations***

AFR	Agency Financial Report
APG	Agency Priority Goal
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act
CAAC	Chemical Assessment Advisory Committee
CBI	Confidential Business Information
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFC	Cincinnati Finance Center
CFO	Chief Financial Officer
CO	Contracting Officer
CPA	Certified Public Accountant
CWA	Clean Water Act
CY	Calendar Year
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
DOT	U.S. Department of Transportation
DWSRF	Drinking Water State Revolving Fund
ECHO	Enforcement and Compliance History Online
EPA	U.S. Environmental Protection Agency
EPM	Environmental Programs and Management
FAS	Fixed Assets Subsystem
FBWT	Fund Balance with Treasury
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GL	General Ledger
GSA	U.S. General Services Administration
HERO	Healthy Environmental Research Online database
IC	Institutional Control
ICIS	Integrated Compliance Information System
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRIS	Integrated Risk Information System
LUST	Leaking Underground Storage Tank
NIST	National Institutes of Standards and Technology
NPDES	National Pollutant Discharge Elimination System

NPL	National Priorities List
NRC	National Research Council
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PM	Office of Personnel Management
PAH	Polycyclic Aromatic Hydrocarbon
PAR	Performance and Accountability Report
PCB	polychlorinated biphenyl
PCS	Permit Compliance System
PP&E	Plant, Property and Equipment
PRP	potentially responsible party
RAU	Ready for Anticipated Use
RP	Responsible Party
SFFAS	Statement of Federal Financial Accounting Standards
SOD	Statement of Differences
SRF	State Revolving Fund
SSC	Superfund State Contracts
STAG	State and Tribal Assistance Grants
TSCA	Toxic Substances Control Act
WCF	Working Capital Fund

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