OFFICE OF INSPECTOR GENERAL
AUDIT REPORT

FINANCIAL MANAGEMENT

AUDIT OF EPA'S FISCAL 2000 FINANCIAL STATEMENTS

Audit Report 2001-1-00107

FEBRUARY 28, 2001

Inspector General Divisions
Conducting the Audit:

Lead Division:	Financial Audit Division Washington, D.C.
Assist Divisions:	Mid-Atlantic Audit Division Philadelphia, Pennsylvania
	Southern Audit Division Atlanta, Georgia Research Triangle Park, North Carolina
	Northern Audit Division Chicago, Illinois Cincinnati, Ohio
	Eastern Audit Division New York, New York
	Central Audit Division Kansas City, Kansas Dallas, Texas
	Western Audit Division San Francisco, California
	Information Technology Audits Staff Washington, D.C.
Regional and Program Offices Involved:	Agency-wide

Photo of Grand Teton National Park
by Roland Cyr
Financial Audit Division

February 28, 2001

MEMORANDUM

SUBJECT: Audit Report on EPA's Fiscal 2000 Financial Statements

FROM: Edward Gekosky /*signed/*
Divisional Inspector General
Financial Audit Division (2422)

TO: Michael W.S. Ryan
Deputy Chief Financial Officer (2710A)

Dave O'Connor
Acting Assistant Administrator for
Administration and Resources Management (3101A)

Attached is our audit report on the Agency's fiscal 2000 financial statements. The report recognizes that the Agency significantly improved the preparation process for the fiscal 2000 financial statements compared to prior year efforts. I am happy to say that the extensive effort resulted in an unqualified audit opinion.

Our work shows, however, that further improvements are needed in the Agency's financial statement preparation processes to ensure that accurate and timely information is available for external reporting purposes, as well as on an ongoing basis for the day-to-day management of the Agency's environmental programs. Of even greater significance, the report reflects our view that the Agency is not in substantial compliance with the managerial cost accounting standard, and your opposing view. The audit report also contains other findings that describe issues the Office of Inspector General has identified and corrective actions the OIG recommends.

This audit report represents the opinion of the OIG, and the findings contained in this report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. We have no objections to the further release of this report to the public.

In this particular audit, the OIG did not measure the audited offices' performance against the standards established by the National Contingency Plan (NCP). The findings contained in this audit report are not binding in any enforcement proceeding brought by EPA or the

Department of Justice under Section 107 of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) to recover costs incurred not inconsistent with the NCP.

In accordance with EPA Order 2750, *Audit Management Process*, the primary action official is required to provide us with a written response to the audit report within 90 days of the final audit report date. Since this report deals primarily with financial management issues, we are requesting the Deputy Chief Financial Officer, as the primary action official, take the lead in coordinating and providing us a written response to this report. 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 or not to close this report in our audit tracking system.

Should you or your staff have any questions about the report, please contact me at 260-1072, or either of the following staff: Paul Curtis at 260-8442 or Alan Bogus at 260-4943.

Attachment

cc: See Appendix IV, Report Distribution List

Executive Summary

Introduction

We performed this audit in accordance with the Government Management Reform Act, which requires the Environmental Protection Agency (EPA or the Agency) to prepare, and the Office of Inspector General (OIG) to audit, the Agency=s financial statements each year. 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.

Objectives

Our primary objectives were to determine whether:

- EPA=s financial statements were fairly presented in all material respects in conformity with generally accepted accounting principles;

- EPA’s internal control over financial reporting related to the financial statements were in place; and

- EPA management complied with applicable laws and regulations which, if not followed, could have a direct and material effect on the financial statements.

Results in Brief

Opinions on EPA’s Fiscal 2000 Financial Statements

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the year ended September 30, 2000, in accordance with generally accepted accounting principles.

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

We inquired of EPA’s management as to their methods of preparing its Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the principal financial statements. However, our audit was not designed to express, and we are not expressing, an opinion on this information.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. The January 7, 2000, technical amendments to OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, require agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by federal trading partner. We did find that, through no fault of EPA, other Federal agencies were unable to reconcile EPA's reported transactions with their records. We note that this is a government-wide issue that needs to be resolved.

Evaluation of Internal Controls

The objective of our audit was not to provide assurance on internal controls, accordingly, we do not express an opinion on internal controls. Material weaknesses are situations where internal controls do not reduce, to a relatively low level, the risk that errors, fraud or noncompliance in amounts material to the financial statements may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. In evaluating the Agency's internal controls, we noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In evaluating the Agency's internal control structure, we identified seven reportable conditions in the following areas which are detailed further in Attachment 1:

- Process for Preparing Financial Statements
- Accounting for Capitalized Property
- EPA's Process for Reviewing Unliquidated Obligations
- EPA's Interagency Agreement Invoice Approval Process
- Documentation and Approval of Journal Vouchers
- Timely Repayment of Asbestos Loan Debt to Treasury
- Automated Application Processing Controls for the IFMS

Tests of Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the Agency's financial statements were 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. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit.

Accordingly, we do not express such an opinion.

We did not identify any instances of noncompliance with laws and regulations that would result in material misstatements to the audited financial statements. However, we did note the following noncompliance issues.

Compliance with the Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires that, as a part of our annual financial statement audit, we determine whether EPA's financial management systems substantially comply with Federal financial management system requirements, applicable accounting standards, and the Standard General Ledger at the transaction level.

We identified the following instance of substantial (as defined by OMB) noncompliance with FFMIA requirements, and two other noncompliances with FFMIA which are discussed further in Attachment 2, Compliance with Laws and Regulations.

- The Agency was not in substantial compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 that requires EPA to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs.

- Reconciliation of intra-governmental transactions and financial system security were reported as noncompliances, but they do not meet the OMB criteria for substantial noncompliances.

Other Noncompliance Issue with Laws and Regulations

EPA is not complying with appropriation law when making disbursements for grants funded with more than one appropriation. Disbursements for these grants are made using the oldest available funding (appropriation) first, which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA to match disbursements to the benefitting appropriation.

Agency Comments and OIG Evaluation

In a memorandum dated February 15, 2001, the Acting Comptroller responded to our draft report. The OCFO generally concurred with our recommendations and has completed or planned a number of corrective actions to implement most of our recommendations. However, the OCFO disagreed with our classifying the process for preparing financial statements as a reportable condition. The OCFO believed that the specific examples depicted are few in number and, in some cases, reflect differences of professional judgement on presentation rather than errors and did not believe the occurrences were serious enough to warrant a reportable condition on the preparation process. Also, the OCFO disagreed with our conclusion that the Agency is in substantial noncompliance with the requirements of SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The OCFO believes that the Agency is in substantial compliance with the managerial cost accounting standard and therefore did not agree with our recommendations for corrective action and did not believe that a remediation plan under FFMIA would be required.

The OIG has not changed the classification of the process for preparing financial statements as a reportable condition or our conclusion on reporting a substantial noncompliance with the managerial cost accounting standard. The rationale for our conclusions and a summary of the Agency comments is included in the appropriate sections of this report. The Agency's complete response is included as Appendix II to this report.

Table of Contents

This page intentionally left blank

Inspector General's Report on EPA's Fiscal 2000 Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidating balance sheet of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other) as of September 30, 2000, and the related consolidating statements of net cost and changes in net position, consolidated statement of net cost by goal, combined statement of budgetary resources, combined statement of financing, and consolidated statement of custodial activity for the year then ended. These financial statements are the responsibility of EPA's 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 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 Bulletin 01-02, Audit Requirements for Federal Financial Statements. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit 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 expense of grantees, contractors and other Federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts and interagency agreements performed at a later date may disclose questioned costs of an undeterminable amount at this time. In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.[1] The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not 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 its operations that are presented in the financial statements. The amounts included for the

---

1 The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other assets of the Agency's activities.

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the year ended September 30, 2000, in accordance with generally accepted accounting principles.

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

We inquired of EPA's management as to their methods of preparing its RSSI, Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the financial statements. However, our audit was not designed to express an opinion, and accordingly, we do not express an opinion.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. The January 7, 2000, technical amendments to OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, require agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by federal trading partner. We did find that, through no fault of EPA, other Federal agencies were unable to reconcile EPA's reported transactions with their records (see Attachment 2 for additional details on this issue).

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, effected by the Agency's management and other personnel, 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 timely and reliable preparation of the financial statements and RSSI in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

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

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not express an opinion on internal controls.

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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on these internal controls, and accordingly, we do not express an opinion on such controls.

Finally, with respect to internal control related to performance measures presented in *EPA's Fiscal Year 2000 Annual Report*, Section 1, Overview and Analysis (which addresses requirements for a Management's Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not express an opinion on such controls.

Reportable Conditions

Reportable conditions are internal control weakness matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the OMB objectives for financial reporting discussed above.

In evaluating the Agency's internal control structure, we identified seven reportable conditions in the following areas:

Process for Preparing Financial Statements

The Agency significantly improved the preparation process for its fiscal 2000 financial statements compared to prior year submissions. However, the financial statement preparation process did not provide the needed result, an unqualified audit opinion, without difficulty. Problems were encountered by the Agency in fairly presenting grant accrual amounts. Additionally, some other material items were identified by auditors and then jointly resolved so they would not affect the audit opinion.

Accounting for Capitalized Property

For a number of years, we have reported that EPA needs to make improvements in its accounting for property. During fiscal 2000, although the Agency continued to take action to correct weaknesses in this area, we determined that the Agency needs to continue its efforts to improve its accounting for property. Specifically, we found that:

- property was not timely or accurately entered in the Fixed Assets Subsystem (FAS);[2]
- there were weaknesses in the Agency's process for reconciling property information in the Integrated Financial Management System (IFMS) with that in FAS;
- financial statement balances for contractor-held property were incorrect;
- contractor-held property transferred was misclassified; and
- real property values were not accurately recorded.

---

[2]In late fiscal 1997, the Agency implemented FAS, the Agency's property accountability system, which is integrated with IFMS, the Agency's accounting system.

EPA's Process for Reviewing Unliquidated Obligations

EPA did not timely identify and deobligate inactive unliquidated obligations during its annual review. As a result of weaknesses in the review process, the Agency had to perform an additional "special review" to obtain a more accurate accounting of its unliquidated obligations. This special review identified $26.5 million of open unliquidated obligations that should have been deobligated by September 30, 2000.

EPA's Interagency Agreement Invoice Approval Process

Some EPA project officers did not fulfill oversight duties related to reviewing and approving Interagency Agreement (IAG) invoices. We noted deficiencies in this area in prior reports, and we continue to find instances where project offices at EPA's Headquarters and Cincinnati Financial Management Center (CFMC) did not timely approve IAG invoices because they did not receive the supporting cost information from other Federal agencies to substantiate invoice amounts. Additionally, CFMC continued to use the "first-in first-out" accounting basis (charging the first line of accounting) to allocate costs charged on IAGs with multiple goals/subobjectives, which provides limited assurance that costs were charged to the appropriate goals/subobjectives.

Documentation and Approval of Journal Vouchers

Journal and standard vouchers prepared by the Financial Reports and Analysis Branch, OCFO, were not always properly documented and approved. While most of the entries appear to be correct, we are concerned about the vulnerability associated with executing transactions without proper supervisory review and approval.

Timely Repayment of Asbestos Loan Debt to Treasury

The Las Vegas Financial Management Center (LVFMC) has not made timely repayments of the Agency's asbestos loan debt to the Department of Treasury. EPA collects payments from loan recipient schools each year but has not made regular repayments to Treasury. The balance, approximately $6.8 million, represents repayments of principal EPA has collected since fiscal 1997 but has yet to repay, less the amounts paid to Treasury for annual interest.

Automated Application Processing Controls

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Attachment 1 describes each of the above reportable conditions in more detail and provides our recommendations and Agency comments on actions that should be taken to correct these conditions. We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls

OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act (FMFIA or Integrity Act) report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FMFIA report. This year, for the first time, EPA will report on Integrity Act decisions in EPA's *Fiscal Year 2000 Annual Report*. For a discussion on Agency reported Integrity Act material weaknesses and corrective action strategy, please refer to EPA's *Fiscal Year 2000 Annual Report*, Section III, FY 2000 Management Accomplishments and Challenges.

For reporting under FMFIA, material weaknesses are defined differently than they are defined for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB defines material weaknesses in internal control as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weakness that was not reported by the Agency as part of the Integrity Act process.

As a part of the fiscal 2000 Integrity Act process, the Agency reported the following material weaknesses that relate to the Agency's financial statements:

> **Information System Security** - The Office of Environmental Information (OEI) recognizes that past improvements to its information security program have not resulted in a complete, comprehensive information security program. Therefore, this office is expanding its existing material and Agency weaknesses, Information Systems Security Plans and Cyber Security, to address all security-related deficiencies. Corrective actions are expected to be completed in fiscal 2002.
>
> **Construction Grants Close Out** - In 1992, EPA designated this area as an Agency weakness, and in 1996 reclassified it as a material weakness due to a concern that lack of

Agency-wide attention might result in the loss of resources to properly complete the program. Corrective actions are expected to be completed in fiscal 2002.

Tests of Compliance with Laws and Regulations

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. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB Memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. The OMB guidance requires that we evaluate compliance with Federal financial management system requirements, including the requirements referred to in the FFMIA of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to 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. There are a number of ongoing investigations involving EPA's grantees and contractors that could reveal violations of laws and regulations, but a determination about these cases has not been made.

None of the noncompliances discussed below would result in material misstatements to the audited financial statements.

Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Bulletin No. 01-02, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, substantially changed the guidance for determining whether or not an Agency substantially complied with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The document is intended to focus Agency and auditor activities on the essential requirements of FFMIA. The document lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to Agency heads for developing corrective action plans to bring an Agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with

FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests disclosed one instance where the Agency's financial management systems did not substantially comply with the applicable Federal accounting standard. We identified a substantial noncompliance with the SFFAS No. 4 accounting standard for managerial cost accounting which is described more fully in Attachment 2.

In addition to the above instance of substantial noncompliance, we identified two other noncompliances related to reconciliation of intra-governmental transactions and financial system security. However, these noncompliances do not meet the definition of a substantial noncompliance as described in OMB guidance.

Attachment 2 provides additional details and provides our recommendations and Agency comments on actions that should be taken on these matters.

Appropriation Law Noncompliance

Disbursements for Multiple Appropriation Grants. EPA is not complying with appropriation law when making disbursements for grants funded with more than one appropriation. Disbursements for these grants are made using the oldest available funding (appropriation) first which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA to match disbursements to the benefitting appropriation. A January 13, 2000, Office of General Counsel decision concluded that making disbursements for multiple appropriation grants using the oldest available funding first violates Title 31 U.S.C. 1301 and is an inappropriate method of charging, except in limited situations. This issue was first reported in our fiscal 1994 audit. See Attachment 3 for a description of the Agency's corrective action plans and milestones.

Prior Audit Coverage

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

- The Agency's process for preparing financial statements, including the Statements of Budgetary Resources, Financing, and Net Cost.
- Complying with FFMIA requirements.
- Reviewing unliquidated obligations.
- Reporting intra-governmental assets and liabilities by Federal trading partner.
- Accounting for the cost to achieve goals and complying with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.
- Accounting for and managing Superfund accounts receivable.

- Accounting for and controlling property.
- Recording accrued liabilities for grants.
- Approving payments for IAGs.
- Documenting EPA's IFMS.
- Complying with Federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Identifying and allocating indirect costs.
- Reviewing Agency user fees.
- Allocating costs to the Superfund Trust Fund.

Attachment 3, Status of Prior Audit Report Recommendations, summarizes the current status of corrective actions taken on prior audit report recommendations in each of these areas.

The Chief Financial Officer, as the Agency=s Audit Follow-up Official, oversees EPA=s follow-up on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the Chief Financial Officer with various Assistant Administrators, Regional Administrators, and Office Directors before they can be completely resolved. A number of issues have been unresolved for a number of years.

In response to our inquiries on actions taken by the OCFO to resolve long outstanding audit recommendations, a representative informed us of a number of efforts that were conducted in fiscal 2000. The OCFO continued efforts to stress the importance of timely and effective audit management practices. The OIG and OCFO held a joint meeting with the Audit Follow-up Coordinators to: (1) reinforce their roles and responsibilities, (2) review expectations for audit follow-up, as laid out in EPA Order 2750, *Audit Management Process*, and (3) reemphasize the importance to Audit Follow-up Coordinators in keeping their managers and the OIG informed of progress.

The OIG will continue to work with the OCFO in helping to resolve all audit issues resulting from our financial statement audits.

Agency Comments and OIG Evaluation

In a memorandum dated February 15, 2001, the Acting Comptroller responded to our draft report. The OCFO generally concurred with our recommendations and has completed or planned a number of corrective actions to implement most or our recommendations. However, the OCFO disagreed with our classifying the process for preparing financial statements as a reportable condition. The OCFO believed that the specific examples depicted are few in number and, in some cases, reflect differences of professional judgement on presentation rather than errors and did not believe the occurrences were serious enough to warrant a reportable condition on the preparation process. Also, the OCFO disagreed with our conclusion that the Agency is in substantial noncompliance with the requirements of SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The OCFO believes that the Agency is in substantial compliance with the managerial cost accounting standard and therefore did not agree with our recommendations for corrective action and did not believe that a remediation plan under FFMIA would be required.

The OIG has not changed the classification of the process for preparing financial statements as a reportable condition or our conclusion on reporting a substantial noncompliance with the managerial cost accounting standard.

The preparation process for financial statements, while substantially improved from prior years, still is far from routine. Problems identified by our audit included several issues that would have resulted in a qualified audit opinion. We continue to report this matter as a reportable condition because the process should be routine, and should result in draft financial statements without material errors. To a lesser degree than in prior years, auditors are being used as a quality control mechanism. Accordingly, we believe the preparation process warrants reporting as a reportable condition.

Relative to Agency comments on managerial cost accounting, the Agency did not produce or utilize cost per output during fiscal 2000 as required by SFFAS No. 4. Without an indirect cost policy that provides for full cost of outputs, the Agency cannot satisfy the accounting standard. The goal, objective, and stated purposes of SFFAS No. 4 were not being met.

The rationale for our conclusions and a summary of the Agency comments is 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 EPA, OMB, and Congress, and it is not intended to be and should not be used by anyone other than these specified parties.

/*signed*/
Edward Gekosky
Divisional Inspector General
Financial Audit Division
U.S. Environmental Protection Agency
February 26, 2001

Reportable Conditions

Table of Contents

This page intentionally left blank

Process for Preparing Financial Statements

The Agency significantly improved the preparation process for its fiscal 2000 financial statements compared to prior year submissions. However, the financial statement preparation process did not provide the needed result, an unqualified audit opinion, without difficulty. Problems were encountered by the Agency in fairly presenting grant accrual amounts. Additionally, some other material items were identified by auditors and then jointly resolved so they would not affect the audit opinion. The grant accrual issue was resolved after we issued the draft audit report, and EPA did consequently receive unqualified audit opinions on its fiscal 2000 financial statements. Agency efforts were significant and exemplary to improve their process for preparing the financial statements. Yet, the needed results were not obtained without difficulty, thus requiring the preparation process to be categorized by us as a reportable condition.

Statement Submitted Timely and Quality Control Evident

The Government Management Reform Act (GMRA) requires EPA to submit its audited financial statements to OMB by March 1. To ensure timely completion of the fiscal 2000 audited financial statements, our office and the Office of the Chief Financial Officer (OCFO) agreed that the OCFO would provide us a complete set of financial statements with related footnotes and supplemental information by January 10, 2001. This information would be used as the basis for expressing our opinions. The Agency provided a timely draft set of statements that was better quality controlled than prior years, although a number of issues were identified.

During the fiscal 1998 and 1999 financial statement audits, we reported financial statement preparation as a material weakness. The Agency subsequently declared financial statement preparation as an Integrity Act Agency-level control weakness. Building upon the corrective actions taken in fiscal 1999, the Agency agreed to implement additional corrective actions to improve the preparation of the fiscal 2000 financial statements. These corrective actions included: (1) completing the data integrity evaluation of the IFMS accounting model by analyzing each accounting transaction type, conducting general ledger account analysis, and analyzing account relationship between proprietary and budgetary accounts; (2) completing preparation of 9-month interim financial statements; (3) strengthening quality control processes by increasing training, issuing financial statement preparation guidance, establishing financial statement preparation milestones, and establishing controls with the OIG on audit questions and adjustments; and (4) implementing the automated reporting process for SF133 / FACTS II.

Further Improvements Needed

OCFO addressed some difficulties in the preparation and presentation of the financial statements, in efforts to make the process routine. Improvement efforts combined with the need to produce quality statements under rigid time frames meant that a number of OCFO staff were called upon to provide significant and exemplary work to prepare the financial statements. OCFO leadership is dedicated to make the necessary process improvements to prepare the financial statements and improve the Agency's financial management practices. While we acknowledge the OCFO's efforts to improve the process, the financial statement preparation efforts fell short in the area of grant accruals. Additionally, not having the process to the point of routine indicates improvements are still needed.

EPA's Grant Accrual Liability for All Other Appropriated Funds was Inconsistently Calculated

In its initial financial statement presentation, EPA did not properly calculate and accrue its fiscal 2000 liability for grantee expenses. In prior years, EPA calculated the liability for grantee expenses by confirming a sample of grantees for its three categories of grants (Superfund, Construction, and Other). EPA then used the sample results and projected the results to the respective categories of grants.

In fiscal 2000, EPA changed its method for calculating the liability for grantee expenses to combining historical accrual percentages and cash flow projections. The new method was meant to streamline a very cumbersome historical process. The new method improperly combined Construction and Other grants, two categories of grants with materially different accrual percentages, into one category. Calculating the accrual in this manner would have materially misstated the grant accrual liability. However, after EPA became aware of the error, attempts to recreate the accrual using a breakout of Construction and Other grants consistent with prior years were successful and EPA did receive an unqualified audit opinion on its fiscal 2000 financial statements.

A Routine Process is Needed

While the OCFO staff improved the quality level in the financial statement preparation process, some problem areas remained. Continuing efforts are needed to provide draft financial statements more timely that undergo even higher quality control, to make the statement preparation process routine, and to provide the necessary financial information routinely to all stakeholders throughout the year.

Auditor identification of issues, including some that were material, in the draft fiscal 2000 statements shows that OCFO's current process for preparing financial statements needs further improvement to meet the intent of the CFO Act and GMRA. Several examples follow:

- For the Superfund and Leaking Underground Storage Tank Trust Funds, the change in trust fund accounting was not initially properly reported and disclosed in the notes to the financial statements.

- Superfund Trust Fund Appropriation Transfers from All Other Appropriated Funds to the Superfund Trust Fund of $700 million was not initially properly reported and disclosed in the notes to the financial statements.

- There was a $10 million difference in the fiscal 1999 ending balance and the fiscal 2000 beginning balance for contractor-held property.

- Note 17 "Environmental Cleanup Costs" was not complete and was inaccurate. A portion of the note (dated January 10, 2001) was missing, which addresses cleanup stemming from EPA's activities being paid from the Treasury Judgment Fund. The agreed-upon milestone date between the OCFO and the OIG indicated EPA would provide an interim legal letter on environmental liability by December 15, 2000. However, the legal letter, with this information, was not issued until December 27, 2000, and the January 10, 2001 statements did not include it. Furthermore, the estimated accrued cleanup cost presented in the footnote was incorrect and did not present total estimated costs. This is because not all survey responses for environmental liabilities and cleanup costs were received by January 10, 2001 as was anticipated; the remaining surveys were received by January 26, 2001. This issue is now resolved.

- The RSI's Required Supplemental Stewardship Information (RSSI) and supporting documentation was not submitted by the January 10, 2001 agreed-upon milestone date, but was subsequently submitted on January 17, 2001. This issue is now resolved.

The OCFO needs to continue its efforts to improve the statement preparation process to make this work routine. The present process leaves little margin for error and allows very little time to correct any errors identified.

Recommendations

We recommend that the Chief Financial Officer:

1-1. Continue its aggressive efforts to improve the preparation and presentation of the Agency's financial statements, in particular to evaluate and make process improvements to the year-end closing process, and system improvements to assist in the preparation of the financial statements.

1-2. Advance substantially the time frames for submitting the fiscal 2001 draft financial statements. Prepare the financial statements with equivalent or better quality control efforts, so there is more of a chance to quickly resolve any problems that may be identified late in the final review and audit process.

Agency Comments and OIG Evaluation

The OCFO appreciates the OIG's recognition of the significant improvements the Agency has made in our process for preparing financial statements. The OCFO believes strongly in the principle of continuous improvement and OCFO looks forward to a close working relationship with the OIG again in the future. Together, OIG and OCFO can build on our collective achievements in improving the financial statements and address evolving federal requirements for financial statements.

The draft audit report contains a section entitled "A Routine Process is Needed." The OCFO shares in the OIG's view that ultimately the production and audit of financial statements should be considered a "routine" process. However, the OCFO believes the specific examples depicted are few in number and, in some cases, reflect differences of professional judgement on presentation rather than errors. The OCFO does not believe that these occurrences are numerous enough or serious enough to warrant a reportable condition on the preparation process. Rather, this discussion is more appropriate for inclusion in the management letter. The OCFO also agreed with the thrust of our recommendations.

We, in OIG, believe the examples shown above support our judgement to categorize the financial statement preparation process as a reportable condition. In our draft report, we categorized the financial statement preparation process as a material weakness. Due to the subsequent resolution of the material weakness resulting from the proper calculation and accrual of EPA's fiscal 2000 liability for grantee expenses, we now classify the process as a reportable condition. In addition, the examples shown here are just that: examples. Other problems were found with the initial financial statements the Agency submitted to us. Some of the issues would have warranted a qualified opinion, if not brought to Agency attention by the auditors, and resolved before the financial statements were finalized. Also, we note that the improvements that were made justify downgrading this issue from the material weakness reported in fiscal 1999 to a reportable condition this fiscal year.

Continued Improvements Needed in Accounting for Capitalized Property

For a number of years, we have reported that EPA needs to make improvements in its accounting for property. During fiscal 2000, although the Agency continued to take action to correct weaknesses in this area, we determined that the Agency needs to continue its efforts to improve its accounting for property. Specifically, we found that:

- property was not timely or accurately entered in the Fixed Assets Subsystem (FAS)[3];
- there were weaknesses in the Agency's process for reconciling property information in the Integrated Financial Management System (IFMS) with that in FAS;
- financial statement balances for contractor-held property were incorrect;
- contractor-held property transferred was misclassified; and
- real property values were not accurately recorded.

When property is not accurately accounted for, it impacts the quality of data available to manage EPA's resources, and increases the risk of theft, loss, or misuse of the property.

Property Not Always Recorded Timely or Accurately in FAS

OMB Circular No. A-123, *Management Accountability and Control*, requires that transactions be promptly recorded, properly classified, and accounted for, in order to prepare timely accounts and reliable financial and other reports. The Statement of Federal Financial Accounting Standards (SFFAS) Number 6, *Accounting for Property, Plant, and Equipment,* and Agency policy require that property be recognized when title passes to the acquiring entity or when the property is delivered to the entity or an agent of the entity.

As a result of the weaknesses in the Agency's property accounting, the OCFO's Financial Management Division (FMD) made prior period adjustments to personal property and accumulated depreciation at year-end of $8.5 million and $1.8 million, respectively, as shown in the following table:

Acquisition Date	Acquisition Amount	Accumulated Depreciation
Fiscal 1987-1998	$5,766,561	$1,548,694
Fiscal 1999	$2,749,590	$289,992
Total	$8,516,151	$1,838,686

[3]In late fiscal 1997, the Agency implemented FAS, the Agency's property accountability system, which is integrated with IFMS, the Agency's accounting system.

FMD called these prior period adjustments as "Found-on-Station," which are considered prior year acquisitions entered into FAS in the current year. In other words, the property was not entered into FAS timely. FMD made these adjustments so that current year acquisitions would not be overstated. Because of the numerous adjustments, we do not have reasonable assurance as to the accuracy and reliability of the Agency's personal property balance.

Problems Experienced During Year-End Reconciliation Process

Personal property balances reported in the fiscal 2000 financial statements were derived from the IFMS general journal balances. FMD provided guidance and year-end instructions to the Financial Management Officers (FMOs) requiring them to reconcile capital equipment transactions recorded in IFMS with the entries recorded in FAS. This was done to ensure the IFMS general journal properly reflected the amount of capitalized equipment. Any differences were to be corrected by adjusting entries after a review of the source documents. During the reconciliation process, if the FMOs identified payments in the IFMS general journal for which there were no corresponding entries in the FAS, the FMOs were instructed to forward supporting documentation (i.e. invoices or purchase requests) to the appropriate Property Management Office (PMO). The PMO is responsible to locate the property, complete the property fields in FAS, and forward the receiving report to finance staff.

We determined that year-end balances in FAS and the IFMS general journal did not reconcile. For example, we found property that was included in the IFMS but not the FAS, thus causing an imbalance in some instances. FMD personnel adjusted some property items in the IFMS general journal in an attempt to match FAS because they believed the FAS is the best source of Agency's property accountability. However, the FAS ending balance did not match the 16th month IFMS general journal ending balance amount that was used for the fiscal 2000 financial statements. While these amounts have no material effect on the Agency-wide financial statements, failure to accurately record these items in the Agency's property accountability systems in a timely manner increases the risk of theft, loss, or misuse of the property. The differences in the FAS and the 16^{th} month IFMS general journal for two accounting points are shown in the following table:

Accounting Point	FAS Ending Balance	16^{th} Month IFMS General Journal Ending Balance	Difference
AP99	$921,686	$1,208,486	($286,800)
AP22	$1,326,811	$4,108,343	($2,781,532)
Total			($3,068,332)

Incorrect Financial Statement Balance for Contractor-held Property

Fiscal 2000 financial statement balances for contractor-held property and accumulated depreciation are incorrect. In computing these balances, FMD made adjustments based on differences in the fiscal 1999 ending inventory balances, and the fiscal 2000 beginning inventory balances for contractor-held property. The previous year ending and current year beginning balances should be the same, but differed by $10,198,000. The difference was based on incorrect data provided by the Office of Acquisition Management (OAM). We are working with FMD and OAM to resolve the difference.

Contractor-Held Property Transferred Misclassified

During fiscal 2000, the Agency transferred contractor-held property into FAS to strengthen accountability. This property, which represents EPA-owned property being used by a contractor, was reported at $20.7 million for fiscal 2000. FMD posted this amount in the IFMS general ledger account 1750, "Equipment" instead of general ledger account 1770, "Federal Equipment Held by Contractors." As a result, the Agency's fiscal 2000 financial statement property footnote improperly classified the $20.7 million in the "EPA-Held Equipment" instead of the "Contractor-Held Equipment."

We also found that, for one contractor, the property balance of about $22 million was about $4 million less than the fiscal 1999 ending inventory balance of about $26 million. The Agency attributed the difference to an adjustment based on a physical inventory conducted by personnel at Research Triangle Park, although the Agency has not provided inventory records to account for the difference. Consequently, property totaling about $4 million remains unaccounted for and the risk of theft, lost, or misuse is increased.

Real Property Values Not Accurately Recorded

For fiscal 2000, the Agency continued to make on-top adjustments to financial statements so that real property balances would be accurately stated. When the Agency implemented its new FAS, the Agency recorded EPA's real property amounts at fiscal 1996 net book values. However, EPA's real property should have been recorded in FAS at their original cost estimate or acquisition value.

Failure to record the property in FAS at original cost estimate or acquisition value increases the risk for misstatements in the real property account balances. For example, in fiscal 1999, when the Agency disposed of real property, the total value of the property was not removed from the Agency's accounting records. The Agency accurately removed the cost of capital improvements made since fiscal 1997, but the fiscal 1996 net book value of the initial property recorded in FAS was removed, even though notations were made to the FAS records of the real property's original value. The on-top adjustment did not consider the effects of the disposal on the property balance. As a result, the disposal of real property was understated, which resulted in an overstatement of the fiscal 1999 property balance.

To ensure that the Agency's financial statements accurately reflect the value of EPA's real property, an adjustment for each year since fiscal 1996 is needed to restore the fiscal 1996 real property balances and related accumulated depreciation balances to recognize their original cost estimate or acquisition value. For the fiscal 1996 financial statements, we made an on-top audit adjustment. Subsequently, the Agency has been making an on-top adjustment each year of approximately $94 million to the Agency's real property and related accumulated depreciation balances to recognize their original cost estimate or acquisition value.

Good accounting practices would suggest that information in any Agency system, such as the FAS, have correct information, and that the system's users can use the system's functions without the need to rely on adjustments to the financial statements to fairly state the real property balances.

Recommendations

We recommend the Chief Financial Officer and Assistant Administrator for Administration and Resources Management:

2-1. Strengthen controls over FMO and PMO accountability to ensure that property is timely and accurately recorded in the FAS.

2-2. Continue to conduct monthly FMO reconciliations of IFMS and FAS, and ensure all property is entered into FAS within 1 month of the last reconciliation.

2-3. Resolve the differences between the fiscal 1999 ending balance and the fiscal 2000 beginning balance for contractor-held property.

2-4. Revise the FMO year-end certification to include ending property balance amount in FAS and IFMS reconciled as of September 30.

2-5. Reclassify the contractor-held property to general ledger account 1770, and include it on the financial statements with the acquisition value for contractor-held property.

2-6. Work diligently with Research Triangle Park’s PMO to reconcile the $4 million difference for the fiscal 2000 transfer of contractor-held property.

2-7. Re-establish in FAS the balances for each real property item at the original cost estimate or acquisition value instead of its recorded fiscal 1996 net book value.

We have reported property issues since our first financial statement audit of the Superfund Trust Fund in fiscal 1992. Since that time, we have reported continuing problems with the accountability and control of capitalized property. Over the years, we have qualified our opinion based on property balances, and reported property findings as material weaknesses and reportable conditions. Therefore, we also recommend the Chief Financial Officer and Assistant Administrator for Administration and Resources Management:

2-8. Undertake a comprehensive property study to review, make recommendations, and propose corrective actions on:

- ✓ the Agency's monthly and year-end reconciliation process of FAS and IFMS,
- ✓ the accountability and recording of personal and real property,
- ✓ transferring and recording of contractor-held property,
- ✓ financial statement preparation, and
- ✓ other areas as warranted to improve the accountability of the Agency's property.

Agency Comments and OIG Evaluation

In responding to our draft audit report, the Agency generally agreed with our recommendations. The Agency agreed to conduct monthly FMO reconciliations of IFMS and FAS, and ensure all property is entered into FAS within 1 month of the last reconciliation; resolve differences between the fiscal 1999 ending balance and the fiscal 2000 beginning balance for contractor-held property; revise the FMO year-end certification to include ending property balance amount in FAS and IFMS reconciled as of September 30; reclassify contractor-held property to the proper general ledger account; reconcile the $4 million difference in contractor-held property transferred; and undertake a comprehensive property study.

The Agency partially agreed with our recommendation to strengthen controls over FMO and PMO accountability to ensure that property is timely and accurately recorded in FAS. The Agency recognized that while some property was not being recorded timely, however, adequate controls and accountability exists as the result of the implementation of FAS, policies, procedures and the reconciliation process and numerous training sessions. The Agency also commented that a two-way reconciliation process between the IFMS general journal and FAS is ongoing and provides for greater control over property balances that EPA owns and maintains.

The Agency disagreed with our recommendation to reestablish in FAS the balances for each real property item at the original cost estimate or acquisition value instead of its recorded fiscal 1996 net book value. The Agency cited their practice of recording the property at net book value is an acceptable practice in accordance with the Statement of Federal Financial Accounting Standard Number 6 and will request clarification from the FASAB. We agree that recording property at net book value is an acceptable SFFAS practice only when historical cost information was not maintained. However, EPA had determined the acquisition value or original cost estimate of each property item. We continue to stress that the Agency's reliance on FAS when properly utilized should avoid the need for manual yearly on-top adjustments.

We concur with the Agency's planned and completed corrective actions.

Further Improvements Needed in EPA's Process for Reviewing Unliquidated Obligations

EPA did not timely identify and deobligate inactive unliquidated obligations during its annual review. As a result of weaknesses in the review process, the Agency had to perform an additional "special review" to obtain a more accurate accounting of its unliquidated obligations. This special review identified $26.5 million of open unliquidated obligations that should have been deobligated by September 30, 2000.

Review Process Needs Improvement

EPA Office of the Comptroller Policy Announcement 96-04 and OMB guidance require EPA to review unliquidated obligations at least once each year to ensure transactions are valid (i.e., that appropriated funds are still available for the purpose and time period specified, and an actual need still exists within the life of that appropriation). As a part of this annual review, OCFO sends reports on inactive unliquidated obligations to each responsible office for review. EPA's policy requires officials to ensure that appropriate staff review the inactive unliquidated obligations administered by their office, and that the review was completed and appropriate deobligations were made. These certifications are then sent to the OCFO, which verifies the submissions.

Weaknesses in EPA's deobligation process were previously documented by both internal and external reports, and the Agency was aggressive during fiscal 2000 in identifying and deobligating invalid obligations. Nonetheless, our fiscal 2000 audit work showed that EPA's process for reviewing inactive unliquidated obligations for validity still needs improvement. There were inadequacies in the Agency's annual review and certification of unliquidated obligations, and the Agency did not deobligate unnecessary funds in a timely manner.

Special Reviews Necessary

Because the mandated annual review was not entirely effective in identifying and deobligating invalid obligations, the Agency had to rely on a "special review" (performed subsequent to the closing of the general ledger) to determine the true status of obligations and make necessary adjustments. In fiscal 2000, as a result of this special review, the Agency was required to make a $26.5 million "on-top" adjustment to its obligations balance in order to more accurately present the Statements of Budgetary Resources and Financing. This included $2.2 million that should have been deobligated based on the fiscal 1999 special review.

Prior Recommendations Still Being Implemented

We recognize that the Agency has taken corrective actions in response to our previous recommendations and plans to take additional corrective actions. Once the Agency's closeout weaknesses are resolved, OCFO plans to eliminate the "special review" process. To strengthen obligation management, the OCFO also recognized that starting with the fiscal 2001 annual review, emphasis will be placed on older unliquidated obligations using EPA's financial data warehouse reports, to be included as part of the annual review guidance. In addition, the annual review guidance will include information about responsible official deobligation verification requirements. These actions are scheduled for completion by April 30, 2001. Since this finding is similar to our fiscal 1998 and 1999 reported issues, we are not repeating the respective recommendations, since the Agency has not completed implementing all of these corrective actions. Attachment 3, Status of Prior Audit Report Recommendations, notes our previous recommendations on this issue.

Agency Comments and OIG Evaluation

The OCFO agreed that the annual review process needs further improvement. The OCFO indicated that the special review has been used as a safety net to ensure the integrity of the financial statements and anticipates that one last special review will be needed for the fiscal 2001 financial statements.

However, the OCFO noted that weaknesses in the grant and Interagency Agreement closeout process, rather than the annual review process, constituted the major portion of the year-end adjustment. Approximately $24.4 million of the $26.5 million adjustment was to address grant and Interagency Agreement obligations identified in the special review balances on grants/Interagency Agreements that the Agency was unable to close out by September 30, 2000.

We concur with Agency plans to address the needed corrective actions, including the grant and Interagency Agreement closeout process, to fairly present unliquidated obligations in its financial statements at fiscal year end.

Additional Improvements Needed in EPA's Interagency Agreement Invoice Approval Process

Some EPA project officers did not fulfill oversight duties related to reviewing and approving Interagency Agreement (IAG) invoices. We noted deficiencies in this area in prior reports, and we continue to find instances where project offices at EPA's Headquarters and Cincinnati Financial Management Center (CFMC) did not timely approve IAG invoices because they did not receive the supporting cost information from other Federal agencies to substantiate invoice amounts. As a result, CFMC disbursed funds and recorded transactions in the accounting system with limited assurance that invoices were valid, appropriate, and allowable under the terms of the IAG. Additionally, CFMC continued to use the "first-in first-out" accounting basis (charging the first line of accounting) to allocate costs charged on IAGs with multiple goals/subobjectives, which provides limited assurance that costs were charged to the appropriate goals/subobjectives.

Project Officer Responsibilities Outlined

The Resources Management Directive System, Section 2550C, Chapter 4, *Interagency Agreements*, paragraph 5 (g), states that the project officer is responsible for:

- providing technical and managerial oversight;
- receiving and reviewing detailed cost information submitted by other agencies, which should be provided on a project-by-project basis;
- approving vouchers and OPAC (On-Line Payment and Collection System) billings received from other agencies after determining that performance is in accordance with the agreement; and
- forwarding approved vouchers to CFMC for payment within five days after receipt.

EPA's training manual for project officers, *Managing Your Financial Assistance Agreement*, 3rd Edition, October 1996, Module VIII, provides guidance on OPAC billing. CFMC charges a bill to the appropriate IAG and submits the invoice to the project officer for approval. If there is a problem with the bill, EPA has 90 days to "charge back" the funds to the appropriate account.

Progress Being Made But Further Improvements Needed

We recognize that the Agency has taken corrective actions in response to our previous recommendations and plans to take additional corrective actions. On February 7, 2000, the GAD issued Fact Sheet No. 12, "Project Officer's Responsibility for Payments Under Interagency Agreements." The fact sheet directs program leaders to assure project officers disapprove IAG invoices unless adequate information on progress and costs incurred are reasonable. In addition, the fact sheet advises project officers to request the necessary information from the receiving Agency (with GAD or Financial Services Branch assistance, if necessary) and to request Financial Management Division to suspend or charge back payment if information is not provided promptly.

In response to our previous recommendations, the Agency indicated that since March 2000, notifications have been sent to IAG approving officials of the project officers with numerous outstanding approval forms, and the Agency plans to continue this practice until the backlog is eliminated. In addition, the Agency indicated a new database for tracking IAGs will be developed to automatically send second notices. In April and October, 2000, Senior Resource Officials were sent a list of chronically delinquent project officers to elicit their assistance in having invoice reviews completed timely and properly.

Since our finding on IAG invoices is similar to what we previously found, and since EPA appears to be taking steps to implement its corrective actions, we are not repeating our previous recommendations. We will continue to evaluate the effectiveness of the Agency's corrective action plans during subsequent financial statement audits. Attachment 3, "Status of Prior Audit Report Findings," notes our previous recommendations on this issue and the status of corrective actions.

Agency Comments and OIG Evaluation

In response to our draft report, the OCFO commented that CFMC used a "FIFO-like" process for IAGs to temporarily charge payments pending confirmation of appropriate charging by the project officer. This process evolved to reduce the excessive balances in EPA's suspense account (OPAC bills were placed in suspense accounts until the related IAG was identified). If the returned approval form indicated that the "FIFO-like" accounting was incorrect, CFMC recorded the proper charge based on the project officer's assertions. The OCFO also indicated that most IAGs do not charge multiple PRCs, so the original FIFO-like charge generally does not change.

The OIG acknowledges that the "FIFO-like" practice as originally developed, addressed a disbursing method limited to charging older funds first. In light of the Agency's recent actions to align its costs to its goals/subobjectives, the FIFO-like practice has more of an impact in charging costs at the PRC level. The cost information and project officers' certification of approval forms are the control factors to validate costs charged to EPA's goals/subobjectives. The absence of these control factors provide uncertainty that the "FIFO-like" payments for IAGs with multiple PRCs are always charged to the appropriate PRC.

Improvement Needed in Documentation and Approval of Journal Vouchers

Journal and standard vouchers prepared by the Financial Reports and Analysis Branch of the Financial Management Division, OCFO, were not always properly documented and approved. While most of the entries appear to be correct, we are concerned about the vulnerability associated with executing transactions without proper supervisory review and approval. An appropriate review and approval process minimizes the potential for errors to occur, and adequate documentation is needed in order for sufficient reviews to be conducted.

Policy Notes Documentation and Approval Requirements

EPA's Comptroller Policy Announcement No. 93-02 states that all journal voucher entries must be submitted to the Financial Reports and Analysis Branch for approval. Furthermore, the policy requires that all financial transactions recorded in the accounting system be supported by adequate source documentation, and that this documentation be easily accessible.

EPA's Integrated Financial Management System (IFMS) User's Guide, Subsystems Manual, General Ledger, Chapter 2 includes information on the use of journal vouchers and standard voucher documents. Included in that chapter is the prescribed EPA Form 1017-G for the preparation of journal vouchers. The EPA form includes a place for preparer and approval signatures.

Instances of Inadequate Documentation and Approval Noted

During our review, we noted the following documentation and approval weaknesses at the Financial Reports and Analysis Branch:

Weakness	No. of Transaction Documents
Inadequate backup to support entries	74
Vouchers not reviewed and approved by appropriate level of management	44
Missing voucher transaction documents	15
Entries made directly from backup without journal or standard voucher being completed	27

Documentation and approval weaknesses were evident in both Superfund and All Other transactions. Although the specific cause for the noted conditions was not determined during testing, it appears that there was a breakdown in the basic internal control and process.

Recommendations

We recommend that the Chief Financial Officer direct appropriate Financial Reports and Analysis Branch personnel to:

5-1. Review EPA's Comptroller Policy Announcement No. 93-02.

5-2. Review and approve all journal and standard voucher entries prior to entry into IFMS, and assure that all the vouchers are properly documented prior to approval.

Agency Comments and OIG Evaluation

In response to our draft report, the OCFO agreed with our recommendations. We concur with the OCFO's completed and planned corrective actions.

Timely Repayment of Asbestos Loan Debt to Treasury Needed

The Las Vegas Financial Management Center (LVFMC) has not made timely repayments of the Agency's asbestos loan debt to the Department of Treasury. EPA collects payments from loan recipient schools each year but has not made regular repayments to Treasury. The balance, approximately $6.8 million, represents repayments of principal EPA has collected since fiscal 1997 but has yet to repay, less the amounts paid to Treasury for annual interest. While we are not aware of any specific criteria, it is good business practice to repay debts to Treasury.

Further, the borrowing authority, which should be declining, has not. Funds have not been appropriated for the asbestos loan program since fiscal 1993, and the Agency anticipates no new loans. The borrowing authority of $3,941,299 should be reduced.

No Criteria Apparent Regarding Repayment

The Asbestos Grant and Loan program was established in 1984 and is administered under the Asbestos School Hazard Abatement Act of 1986. The program provides financial assistance to financially needy public and private schools with hazardous asbestos abatement projects. LVFMC is the responsible accounting point for transactions associated with non-Federal loans receivable. LVFMC personnel indicated that their operating procedures do not include steps to pay down the debt, but they recognize that it should be done.

Repayment Would Be Good Business Practice

Despite the lack of criteria, we believe it is good business practice to repay debt to Treasury on an annual basis, and Financial Management Division personnel agreed with us that EPA should be paying down its debt. LVFMC made four payments through 1997. LVFMC plans to resume to pay down the debt in fiscal 2001.

Additionally, the Financial Management Division indicated in its quarterly certification to Treasury on FMS Form 2108, Year-end Closing Statement, that the borrowing authority of $3,941,299 needs to be reduced. They plan on reducing this amount during fiscal 2001.

Recommendation

We recommend that the Chief Financial Officer:

6-1. Require the Director, LVFMC to develop a schedule for repaying its asbestos loan debt to the Department of Treasury on an annual basis, and

6-2. Reduce the asbestos loan borrowing authority balance to zero.

Agency Comments and OIG Evaluation

The OCFO agreed with our recommendations, and, in the first quarter fiscal 2001 transmission of the FACTS II report to Treasury, the Agency took steps to reduce the borrowing authority. Also, the Agency plans to develop a schedule for repaying asbestos loan debt by June 2001.

We concur with the Agency's planned and completed actions.

Automated Application Processing Controls for the IFMS Could Not Be Assessed

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Criteria Outlines Requirements

The Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements (JFMIP-SR-99-4)*, dated February 1999, state that it should be used in conjunction with JFMIP's recently established WEB-based electronic repository. This electronic repository knowledge base, at http://memphis.lmi.org/EXT/cfo_fms_r.nsf, expands core system requirements, and lists mandatory and value-added financial system requirements. *Framework for Federal Financial Systems (FFMSR-0)*, dated January 1995, and the knowledge base include mandatory minimum documentation requirements. As a minimum, the Federal guidance identifies three types of system documents as required: (1) systems documentation, (2) operations documentation, and (3) user documentation. Systems documentation must include information necessary for a systems analyst or a programmer not familiar with the system to learn and maintain the system in a timely and efficient manner.

Prior Reports Noted Issues

During past financial statement audits, we attempted to evaluate controls without documentation, but these alternatives proved to be inefficient and impractical. Program level transaction flowcharts or similarly descriptive narrative system documentation were not available. Furthermore, we previously concluded that the IFMS users manuals and other EPA contractor baseline Federal financial systems manuals did not contain the level of detail necessary to construct tests of automated internal controls that would satisfy our field work standards. Since 1995, the following events have occurred:

1995 Agency officials disagreed with the conclusions and recommendations made in the OIG's report on fiscal 1995 financial statements for EPA's trust funds, revolving funds, and commercial activity. Officials maintained that sufficient documentation existed in the Change Management System. Furthermore, management stated that the OIG's opinion was restricted by its definition of acceptable documentation.

1996 In response to the OIG report on fiscal 1996 financial statements, the Agency completed a system documentation analysis, developed updated accounts receivable documentation, and completed an analysis for creating a comprehensive IFMS data dictionary.

1998 As part of our fiscal 1998 financial statement audit, we concluded that the updated accounts receivable documentation was not adequate to establish the reliability of IFMS transaction processing controls, and that management still needed to develop a data dictionary.

1999 In the fiscal 1999 financial statement audit, we did not agree that Treasury's Financial Management Service report conclusions about systems documentation were adequately supported. These issues involved IFMS compliance with overall system documentation requirements, the extent of IFMS customization, and use documentation. Consequently, we could not place reliance on the Treasury's findings for audit purposes.

Progress Made But Improvement Still Needed

Our fiscal 2000 work indicated EPA upgraded its user documentation in 1999, and that it was adequate for users' needs for entering data. However, we determined that the combined upgraded users and technical systems documentation still did not address critical system operational controls, such as access to tables or data, electronic approvals, and use of supervisory overrides. Furthermore, neither the users nor technical systems documentation addressed transaction "processing" edits and data flows. Lastly, the Agency has not developed a data dictionary. OIG is continuing to work with the Agency to develop a cost-effective solution that will adequately address our concerns and ensure the Agency's internal control environment is adequate.

In U.S. Senate Appropriations Committee Report 106-410, the Agency was directed to initiate actions to replace IFMS. The Agency repeatedly has indicated its plans to replace existing financial systems. However, in the absence of tangible actions to do so, we believe the Chief Financial Officer should take positive steps to upgrade IFMS system documentation, including development of a data dictionary. OIG staff continue to work with Agency officials to upgrade or replace various existing financial systems (e.g., EPA's payroll system), but all parties expect that it will be several years before IFMS is replaced.

In conclusion, we continue to believe that IFMS documentation does not adequately describe operational system controls and does not meet JFMIP system requirements. Moreover, we believe that potential cost savings will be addressed when the Agency initiates the replacement of IFMS and completes a cost benefit study. The OCFO continues to maintain that the benefits do not justify the costs to develop and maintain systems documentation or a data dictionary for IFMS. However, to date, OCFO has taken no action to conduct a cost benefit study.

Because our prior audit reports contained recommendations to develop a data dictionary and systems documentation, we will not make further recommendations at this time. Although management disagreed with our past recommendations, we expect Agency actions to address the Senate Appropriations Committee report will lead to tangible action plans to replace or upgrade IFMS, including developing a data dictionary and enhancing system documentation.

Agency Comments and OIG Evaluation

In response to the draft audit report, the OCFO concurred with our description of the current status of this issue. Until management approves an IFMS replacement plan that addresses our issues, we plan to continue working toward a mutually agreeable cost effective interim solution.

Compliance with Laws and Regulations

Table of Contents

Substantial Noncompliance with Federal Financial Management Improvement Act

Other Noncompliance Issues with FFMIA[4]

[4] We are reporting these two noncompliance issues under FFMIA as they are directly related to FFMIA reporting requirements, however, we note that the two issues do not meet the OMB criteria for substantial noncompliances under FFMIA.

This page intentionally left blank

EPA Did Not Comply with the Managerial Cost Accounting Standard

EPA did not comply with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* during fiscal 2000. Specifically, EPA did not comply with the requirements to:

- determine the full cost of its activities,
- accumulate and report costs of activities for each output (subobjective) on a regular basis for management information purposes, and
- always use appropriate costing methodologies to accumulate and assign costs to outputs.

This noncompliance was also reported in our fiscal 1999 financial statement audit, and the OCFO disagreed with our conclusions. The lack of sufficient cost information adversely impacts many facets of EPA's operations, including budget formulation, program execution, and cost recovery.

The OCFO maintained that its cost accounting system substantially complied with SFFAS No. 4 in fiscal 1999 and continued to do so in fiscal 2000. The OCFO believes that cost accounting is primarily a management tool that will continue to improve as needs are better identified. However, we maintain that EPA did not comply with SFFAS No. 4 during fiscal 2000, and its cost accounting needs to be substantively improved.

SFFAS Outlines Need for Cost Information

SFFAS No. 4 specifies that cost information is to be provided for three primary user groups, for the following purposes.

> ***Government managers,*** who need reliable and timely cost information that helps them ensure resources are spent to achieve expected results and outputs, and alerts them to waste and inefficiency.
>
> ***Congress and Federal executives,*** who need cost information to compare alternative courses of action and make program authorization decisions by assessing costs and benefits, and to evaluate program performance.
>
> ***Citizens,*** who need cost information to judge whether resources are allocated to programs rationally, and whether the programs operate efficiently and effectively.

EPA established the Government Performance and Results Act structure (goal, objective, and subobjective), and defined subobjectives as "outputs." Subobjectives reflect subunits within the objectives and strategic goals. EPA identified 124 subobjectives, and planned to fully cost each subobjective. Cost per output (subobjective) information is a key element needed to satisfy the needs of Government managers, Congress and Federal executives, and citizens.

During fiscal 1999 and again during fiscal 2000, EPA did not produce cost per output information as required by the standard. In addition to this concern, we continue to have concerns in the areas described below.[5]

Determining Full Cost of EPA Activities

SFFAS No. 4 requires EPA to measure and report the full cost of its outputs. SFFAS No. 4 states, "the full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities."

EPA did not have an Agency-wide indirect cost rate and policy, which prevents it from being able to report the full cost of objectives and subobjectives. The Agency's cost accounting system should be able to identify and report both the direct and indirect costs of Agency goals, objectives, and subobjectives (outputs), but it was not able to do so. Indirect costs are required for full costing of activities, and without including indirect costs the full cost of outputs cannot be established.

In a recent OIG audit, *Follow-up Audit on Headquarters Interagency Agreements*,[6] we noted that EPA did not bill other agencies for EPA's indirect costs related to performing work or furnishing materials. By not recovering full costs, EPA was, in effect, transferring to other agencies some of EPA's resources that could have instead been used by EPA to accomplish its mission.

Regular Reporting of Costs for Use by Management

SFFAS No. 4 requires each reporting entity to accumulate and report the cost of its activities on a regular basis for management information purposes. In order to perform managerial cost accounting on a "regular basis," entities should establish procedures to accumulate and report cost continuously, routinely, and consistently. Information should be provided to help the user determine the costs of providing specific programs and activities. SFFAS No. 4 further notes that cost information should be reported in a timely manner and on a regular basis

---

[5] Our audit work was designed to determine whether the Statement of Net Cost fairly presented the Agency's costs by goal and whether the Agency complied with SFFAS No. 4. After we determined that the Agency's cost accounting process did not comply with SFFAS No. 4, we did not perform additional audit work. Further audit work could disclose other issues regarding the Agency's compliance with SFFAS No. 4 in addition to those discussed.

[6] Audit Report 2000-P-0029, issued September 29, 2000.

consistent with the needs of users and the requirements of both budgetary and financial reporting.

During fiscal 2000, Agency managers and others did not have accurate and reliable information for the full cost of each of its goals, objectives and outputs (subobjectives). The Agency now accumulates most costs by Program Results Codes (PRC) that mirror the strategic goal structure. However, costs relating to earlier appropriations are accumulated by Program Element (PE) Codes that mirror the budget structure. After year end, the costs that are accumulated by PE codes are cross-walked to a PRC. Because the costs accumulated by PE code and the costs accumulated by PRC were not merged during the year to show total costs for outputs (subjectives), the full cost of these key activities were not available during the year.

EPA planned to produce cost per output information for the first time ever in January 2001. As of the end of our fieldwork, cost per output had not been provided to us. Producing cost per output is a major step in the right direction, if it occurs. Nonetheless, it should be noted that cost by output was not available during fiscal 2000 and the noncompliance therefore existed during that year. In addition, we acknowledge that a debate exists on whether the "timely" reporting standard for providing cost information under SFFAS 4 means daily, monthly, quarterly, or annually. Regardless of the outcome of that debate, we believe timely reporting means that the information must be available for use during the year being audited.

Use of Appropriate Costing Methodologies

SFFAS No. 4 requires EPA to produce cost information in a consistent and reliable manner. However, we determined that inappropriate costing methodologies were sometimes being used for Interagency Agreements and Performance Partnership Grants.

EPA continues to make some disbursements for Interagency Agreements using basically a first-in first-out disbursement method. This resulted in payments being recorded against the oldest PRC rather than the actual code or codes against which the payment should have been charged. The utilized method does not assure that costs are matched to the activities undertaken by goal, objective and subobjectives. Consequently, the information is not reliable.

Performance Partnership Grants fund activities that cover more than one goal, objective, and subobjective. The OCFO established a policy that allows a cost allocation percentage to be established as the grant is awarded. As costs are claimed under the grant, the percentages should be applied to the PRC. However, there has been some inconsistent implementation of the policy. Project Officers have not always made the determinations based on their review of the work plan. Instead, percentages established by Headquarters have sometimes been the basis for the allocation rather than the activities approved in the grant. To make the allocation percentage reasonable, it must be determined on a grant-by-grant basis by someone with intimate knowledge of the particular grant, and it must match cost estimates of grant activities.

Recommendations

We recommend that the Chief Financial Officer:

8-1. Conduct a formal, aggressive education campaign to give key users of EPA accounting information substantive knowledge on what the possibilities are for cost accounting at EPA. This will include formally canvassing a user group to determine their needs and desires; satisfy users where practicable; and define and develop timely, reliable, and accurate cost reports that enable managers to monitor the cost of their programs and outputs on an ongoing basis.

8-2. Develop an Agency-wide indirect cost rate and policy to more accurately determine the full cost of Agency outputs.

8-3. Produce cost for each output (subobjective) at least annually for use during the fiscal year. As part of the education and canvassing effort described in recommendation 8-1, determine whether key users want such information more frequently than annually, and satisfy the key user needs for timing and frequency.

8-4. Eliminate the use of costing methodologies that do not satisfy the requirements of SFFAS No. 4 for consistency and reliability and implement viable alternatives.

Agency Comments and OIG Evaluation

The OCFO believes they are in substantial compliance with the Managerial Cost Accounting Standard and therefore a remediation plan under FFMIA is not required. The OCFO agrees that further improvements in cost accounting are desirable but maintains that implementing managerial cost accounting is an evolutionary process and Agency improvements and enhancements are on-going. Their detailed response is included in Appendix II and summarized below.

<u>Determining Full Cost of EPA Activities</u>

The OCFO believes that it is not necessary to produce full cost per output (subobjective) to satisfy SFFAS No. 4. Further, the OCFO maintains that indirect costs need only be associated with some activities at EPA to be in compliance with the standard, and not with each output. If needed, the OCFO maintains that PE costs and PRC costs can now be combined to provide cost by output. The OCFO quotes the standard as follows: "The standard does not require full cost reporting in federal entities' internal reports or special purpose cost studies."

As for identifying supporting services provided by other agencies, OCFO believes they comply with all requirements.

The OCFO also does not agree that an "Agency-wide indirect cost policy" is necessary. Comptroller Policy Announcement No. 98-10, *Accounting for Resources under the Government Performance and Results Act*, addresses the allocation of costs and the capturing of every new obligation authority dollar at the subobjective level.

The OCFO stated they can agree with the concept of an indirect cost policy, but they firmly believe that any such "policy" must be broad and flexible in consideration of the diverse nature of EPA's component organization and activities. Accordingly, they are planning to develop an "indirect cost policy" that will provide guidance to program offices when they have a specific need for indirect cost rates.

<u>Regular Reporting of Costs for Use by Management</u>

The OCFO maintains there are numerous standard reports and ad hoc reports, available by PRC that program managers can use to manage their programs. Reports are also available to managers for those obligations and expenses still in the PE structure. The OCFO did not produce a combined PE and PRC report in fiscal 2000 because of the intensive effort involved in developing the crosswalk for the Statement of Net Cost. An end-of-year report is being developed detailing disbursements by PRC and PE for fiscal 2000. The OCFO also plans to develop a 6-month report, as well as a year-end disbursements report for fiscal 2001 for combined PRC and PE disbursements.

<u>Use of Appropriate Costing Methodologies</u>

The OCFO believes that their costing methodologies satisfy SFFAS No. 4.

The OCFO stated that CFMC's use of a "First in, First out"-like process to temporarily charge IAG payments generally does not result in changes to multiple PRCs. The OCFO also stated that Performance Partnership Grant implementation issues we identified were incorrect or have now been corrected.

The OCFO intends to conduct additional quality assurance work with PRC accounting during the coming months to ensure that the Agency is following the Comptroller Policy Announcement No. 98-10.

OIG Evaluation

The OIG disagrees with the OCFO's conclusion that the Agency is in substantial compliance with the Managerial Cost Accounting Standard.

Cost per output is required to satisfy the very purpose for SFFAS No. 4. The full cost of outputs, including related indirect costs and inter-entity costs, is required to give the anticipated beneficiaries of cost accounting information (Government managers, Congress and Federal executives, and Citizens) the cost data necessary to improve budget formulation, program execution, and cost recovery. The Agency did not produce cost per output during fiscal 2000. While the OCFO noted that PE costs can be combined with PRC costs, the combination did not occur. Consequently, the users of EPA financial information did not have cost per output during the year, and still do not have it. Expected benefits from utilization of cost per output information have not been achieved. Accordingly, the OIG concludes the Agency has not complied with SFFAS No. 4.

Following are relevant points from SFFAS No. 4 that support our conclusion.

Paragraph 13 states that "Reliable information on the costs of federal programs and activities is crucial for effective management of government operations." It goes on to say that "the objectives of federal financial reporting are to provide useful information to assist internal and external users in assessing the budget integrity, operating performance, stewardship, and systems and control of the federal government."

Paragraph 14 states "Managerial cost accounting is especially important for fulfilling the objective of assessing operating performance."

Paragraph 15 states " The topics of costs and performance measurement are related because it is by associating cost with activities or cost objectives that accounting can make much of its contribution to reporting on performance."

Paragraph 16 indicates that the goal for cost accounting standards is to "provide a method for identifying the unit cost of all government activities."

Paragraph 22 establishes the specific objectives of SFFAS No. 4, as follows. "The managerial cost accounting concepts and standards presented here are intended for all the user groups identified above. These standards are aimed at achieving three general objectives:

- Provide program managers with relevant and reliable information relating costs to outputs and activities. Based on this information, program managers can respond to inquiries about the costs of the activities they manage. The cost information will assist them in improving operational economy and efficiency;
- Provide relevant and reliable cost information to assist the Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance; and
- Ensure consistency in costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology for managerial cost accounting to improve communication among federal organizations and users of cost information."

Paragraph 32 indicates the main purposes of using cost information as follows. “Cost information is essential in the following five areas: (1) budgeting and cost control, (2) performance measurement, (3) determining reimbursements and setting fees and prices, (4) program evaluations, and (5) making economic choice decisions.” Each of these purpose is discussed in further detail in the standard.

Paragraph 79 states that: “Managerial cost accounting should:

1. Define and accumulate outputs, and if feasible, quantify each type of output in units;
2. Accumulate costs and quantitative units of resources consumed in producing the outputs; and
3. Assign costs to outputs, and calculate the cost per unit of each type of output.”

In response to the draft audit report, the OCFO acknowledges that they “are helping develop indirect rates for use in setting user fees and are developing indirect rates for reimbursable program costs.” The OCFO further acknowledges that cost per output was not produced during fiscal 2000 by stating that “This crosswalk provides the total cost of outputs that are in the PE structure and allows us to combine those costs with the PRC costs, if needed.” Both statements are confirmations, in OIG’s view, that the standard has not been complied with. We believe that without indirect costs built into fees and reimbursable program costs, and without cost per output produced and utilized during the year, that SFFAS No. 4 cannot be satisfied.

We believe cost per output is necessary to accomplish the goal, objectives, and purposes of SFFAS No. 4. The Agency has taken a step in the right direction by producing cost per goal. The standard requires cost per output (subobjective). Cost per output is necessary for the above anticipated benefits to be realized and purposes of the standard to be accomplished.

EPA Unable to Reconcile Intra-Governmental Transactions

EPA was unable to reconcile its data on intra-governmental receivables and payables with the records maintained by the other Federal agencies. Although EPA made a concerted effort to correct this problem, it nonetheless occurred, primarily because: (1) some Federal entities did not perform reconciliations, and (2) Federal agencies' financial systems lacked common data elements at the transaction level to identify intra-governmental transactions. The U.S. Treasury needs the information to eliminate intra-governmental transactions when preparing Government-wide financial statements, while EPA needs the information to properly manage resources.

OMB Requires Intra-Governmental Transaction Reconciliations

The January 7, 2000 technical amendments to OMB Bulletin No. 97-01 require Federal agencies to report intra-governmental assets, liabilities, and earned revenue by Federal trading partner. This information is to be presented in financial statements as Required Supplementary Information, and should reconcile with the applicable line items in the financial statements. The Treasury Financial Manual also requires Federal agencies to disclose intra-governmental assets, liabilities, and earned revenue by trading partner in the Federal Agencies Centralized Trial-Balance System transmission. On September 29, 2000, Treasury issued the *Federal Intra-governmental Transactions Accounting Policies and Procedures Guide* to provide a foundation for federal agencies to account for and facilitate the reconciliation of intra-governmental transactions.

EPA Took Proactive Approach to Reconciling

OCFO issued two procedural documents in fiscal 2000 to assist finance offices in properly recording and identifying intra-governmental transactions in the Agency's financial accounting system. OCFO personnel undertook proactive efforts to reconcile EPA's intra-governmental transactions by scheduling multiple meetings with EPA's trading partners, submitting confirmation letters of EPA's asset/liability balances to other Federal agencies, and conducting follow-up communications. However, since the vast majority of EPA's trading partners did not respond, EPA prepared the Required Supplementary Information using data from its own financial accounting system.

OIG acknowledges and commends EPA's efforts to reconcile intra-governmental transactions as required. EPA implemented internal controls to properly account for intra-governmental transactions, as recommended by OIG in its audit of the fiscal 1999 financial statements. At this time, OIG does not have any additional recommendations, since further action is needed at the Federal level.

Agency Comments and OIG Evaluation

In response to our draft report, the OCFO concurred with the findings and conclusions. The OCFO will continue to work with other Federal agencies and to reconcile its intra-governmental transactions.

Despite Improvements, Financial System Security Plans Continue to be Noncompliant

As of September 30, 2000, security plans for EPA's financial and mixed-financial systems continued to be noncompliant with OMB Circular A-130, *Management of Information Resources*, and related National Institute of Science and Technology (NIST) guidance. Despite the progress that had been made, security plans still did not adequately cover financial systems' operational controls and related risks. As a result of our fiscal 2000 audit work and subsequent discussions with Agency personnel, the OCFO, on November 13, 2000, submitted a revised remediation plan that we believe sufficiently addresses the weaknesses identified. OCFO corrective actions should be completed during fiscal 2002. EPA officials agreed the Agency's Security Program was a material weakness under the Federal Managers' Financial Integrity Act.

Security Plan Deficiencies Noted in Prior Reports

The OIG's separate audits of fiscal 1997, 1998, and 1999 financial statements, all reported that EPA's financial management systems did not substantially comply with Federal system security requirements. The 1997 report noted the Agency's Core financial systems did not have completed security plans. The 1998 report indicated the security plans for five Core systems continued to be substantially noncompliant. The 1999 report stated that, despite improvements, the Core financial systems were still noncompliant. In particular, we noted substantial improvements were needed to document the operational security program with known weaknesses and compensating controls to minimize risk, based on OMB Circular A-130 and NIST guidance. We recommended incorporating significant planned security actions into a revised formal remediation plan.

Fiscal 2000 Audits Related to Information Security Controls

During fiscal 2000, the OIG and General Accounting Office (GAO) issued audit reports that impacted on a number of information security issues. Since the reports contained a number of findings and recommendations, and the Agency has agreed to implement corrective actions, we summarize below the major issues related to information security controls resulting from OIG and GAO evaluations.

OIG Report - *Security of Region VIIIs Dial-Up Access*, No. 2000-P-16 dated March 31, 2000 - OIG reported that dial-up access controls were not adequate to properly secure access to the Agency's network. OIG issued recommendations to the Region VIII management and to the Director, Office of Environmental Information (OEI). Region VIII management has reported they implemented corrective actions. In the latest management reply, dated December 18, 2000, OEI stated they had begun implementing firewall technology on all remote access servers throughout the Agency. OEI has committed to installing on each remote access server device an appropriate ISO firewall feature set and implementing the capability within 90 days.

OIG Report - *RACF Security Controls*, No. 2000-1-00330 dated June 30, 2000 - OIG reported that Resource Access Control Facility (RACF) controls over mainframe operating system were inadequate to protect system resources. EPA's National Technology Services Division corrected the mainframe access control weaknesses and established procedures for periodic reviews.

OIG Report - *Contract Payment System RACF Facility Audit* (IGOR no. 2000-805) - OIG completed and closed an audit of the Contract Payment System concluding that the current implementation of Resource Access Control Facility provides sufficient access security to the Contract Payment System application. In addition, the OIG suggested improving the monitoring of security violations on a daily basis and reflecting this in the Contract Payment System security plan and establishing a process to require all users passwords to expire after 90 days.

GAO Report - *Fundamental Weaknesses Place EPA Data and Operations at Risk*, GAO/AIMD-00-215, dated July 6, 2000 (non-sensitive version) - GAO reviewed (1) management of EPA's security program, (2) the adequacy of the Agency's computer-based controls, and (3) the extent and impact of computer security incidents. The sensitive version of GAO's report contained over 100 technical system mainframe and server operational security control recommendations. The Agency has initiated corrective actions to establish Internet firewalls, improve specific Agency network access and correct computer servers operating systems control weaknesses. However, a substantial number of recommended technical controls over the Agency's networks and various servers were scheduled to be completed after September 30, 2000. As of January 8, 2001, OEI was still developing Agency-wide security management program policies and procedures. In September, the OEI completed an Information Security Action Plan that established a schedule for addressing all of GAO's report recommendations. The action plan presented a three-tier approach to implementing corrective measures:

! Phase One should be completed by December 2000. These "short-term fixes" primarily target specific controls, but also include a pilot to establish a risk assessment process that would include general support systems and some financial systems.
! Phase Two should be completed by May 2001. During this phase, EPA will conduct a series of risk assessments and revise security plans for major information systems.
! Phase Three will address all remaining GAO report issues, and should be completed by November 30, 2001.

Revised Remediation Plan Satisfactory

We determined that the remedial plan issued in 1998 was not sufficient. However, after discussions with OIG, on November 13, 2000, the OCFO submitted a revised remediation plan to OMB. We determined that this revised plan now sufficiently addresses prior OIG concerns, as well as concerns expressed in separate reviews by the National Security Agency and the General Accounting Office. The revised plan addresses 13 major security areas, and includes numerous corrective actions and milestones. Four of the 13 areas have already been documented as completed or substantially completed. Risk assessments are scheduled in fiscal 2001, and the remaining corrective milestones are scheduled for completion during fiscal 2002. Attachment 3, Status of Prior Audit Report Recommendations, under fiscal 1999 recommendation 7-1, provides summary information from the remediation plan on the planned corrective actions and completion dates. We note that the Agency reported many actions that had been completed at the time the remediation plan was submitted to OMB. In our opinion, the revised remediation plan, if properly implemented, should resolve our concerns regarding financial and mixed-financial systems security, and we are making no further recommendations at this time.

Agency Comments and OIG Evaluation

In the response to the draft audit report, the OCFO continues to take financial system security very seriously and remains committed to addressing the related security issues through the action steps listed in EPA's November 2000 Remediation Plan. We note that the OCFO continues to make progress in completing planned corrective actions.

Status of Prior Audit Report Recommendations

Table of Contents

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<u>**AUDIT OF EPA'S FISCAL 1999 FINANCIAL STATEMENTS**</u> **(Audit Report 00100231, Issued 02/28/2000)** **EVALUATION OF INTERNAL CONTROLS - MATERIAL WEAKNESSES:**	**OIG Comments**: The following management comments and corrective action plans are based on the OCFO's September 28, 2000 Revised Response to Final Audit Reports, Audit of EPA's Fiscal 1998 Financial Statements and to the Audit of EPA's Fiscal 1999 Financial Statements.		
1 - FURTHER IMPROVEMENTS NEEDED IN THE AGENCY'S PROCESS FOR PREPARING FINANCIAL STATEMENTS **OIG Note: Our fiscal 2000 audit identified a reportable condition in this area. Please refer to Attachment 1 for additional comments and recommendations. This was also a repeat finding from the fiscal 1998 audit.**	**1.** OCFO Comments: The final FY 1999 report made no new recommendations beyond those reported in the FY 1998 audit. Rather, the final report concluded with the statement "We strongly encourage the Acting CFO to undertake immediate corrective action in response to our FY 1998 recommendations." We agree with this statement. Specific corrective actions are discussed below in response to the fiscal 1998 audit recommendations.		
EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS: **2 - FURTHER IMPROVEMENTS NEEDED IN EPA'S PROCESS FOR REVIEWING ITS UNLIQUIDATED OBLIGATIONS** **OIG Note: Our fiscal 2000 audit identified a reportable condition in this area. Please refer to Attachment 1 for additional comments and recommendations. Since some fiscal 1999 findings were similar to our fiscal 1998 reported issues, we did not repeat the respective fiscal 1998 recommendations, as the Agency had not completed its implementation of corrective actions.**			
We recommended the Acting Chief Financial Officer (CFO): **2.1 incorporate the same analysis of individual obligations applied in the "special" year-end review into the annual review in order to perform one, thorough annual review. For example, the Agency should develop reports which emphasize older, open unliquidated obligations; and**	**2.1** We concur with the recommendation to perform one thorough annual review. Currently, OCFO conducts the "special" year-end review to determine the impact of the FMFIA weakness concerning grant closeouts and of the backlog of contract and IAG closeouts. The results of the review are used to ensure that the obligations reported in the financial statements are fairly presented. Once the Agency's closeout weaknesses are resolved, we will eliminate the "special" review.	04/30/01	Open
	The reports used for the annual review of unliquidated obligations were developed in collaboration with the user community, individual components of which identified the types of reports that would best assist them in meeting the deobligation requirements. Further, the Agency has data warehouse reports that emphasize older unliquidated obligations. To strengthen obligation management, OCFO will notify the responsible officials that they can get obligation reports aged by last action date from the data warehouse. Starting with the FY 2001 annual review, we will include information about this reporting tool in the Annual Review guidance.		
	Include information about the data warehouse obligation aging reports in the Annual Review guidance.	4/30/01	Open

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
2.2 require FMD to verify that deobligation requests have been processed in the IFMS and that prescribed annual review and deobligation processes are completed at each location.	**2.2** We concur with the OIG's recommendation. FMD already works with the responsible officials to verify that they completed the prescribed annual review process. In FY 1999, FMD strengthened the process by: 1) verifying that the SFOs completed the deobligation process for all deobligations requested by responsible officials and 2) providing responsible officials with a follow-up report to facilitate monitoring deobligations. To improve our process further, FMD will verify with responsible officials that all deobligations that they requested have been processed. We will begin this additional verification in September 2000 and will incorporate it into the standard procedures for the Annual Review.		
	2.2.a Request Responsible Official verification that all deobligations identified during the annual review have been processed.	09/30/00	Completed 9/28/00
	2.2.b Include information about the Responsible Official deobligation verification requirement in the Annual Review guidance.	09/30/00 04/30/01(rev)	Open
3 - FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE			
Since some findings are similar to our fiscal 1998 reported issues, we are not repeating the respective fiscal 1998 recommendations, as the Agency has not completed its implementation of corrective actions.	We agree that constant vigilance and continued improvements are needed to ensure that responsible offices provide FMOs with all documents establishing accounts receivable within the three day standard. Our emphasis in this area has been unrelenting. However, as stated in the response to the draft report, we do not believe that the findings cited are sufficient to conclude a chronic timeliness problem exists within the Agency.		
We recommend the Acting Chief Financial Officer (CFO): **3.1 revise RMDS 2540 Chapter 10 to include a timeframe for clearing balances held in suspense accounts.**	**3.1** We agree with the recommendation and will amend RMDS 2540 Chapter 10 to include a timeframe for clearing balances in suspense accounts. **OIG Note:** Comptroller Policy Announcement No. 00-12 amended RMDS 2540, Chapter 10, setting 30 days to clear suspense accounts	09/30/00	Completed 9/28/00
4 - ADDITIONAL IMPROVEMENTS NEEDED IN EPA'S INTERAGENCY AGREEMENT INVOICE APPROVAL PROCESS			
Weaknesses in the IAG invoice approval process were also identified in prior financial statement audits. We had no additional recommendations resulting from our 1999 audit. However, our fiscal 2000 audit identified a reportable condition in this area. Please refer to Attachment 1 for additional comments. Since EPA appears to be taking steps to implement its corrective actions, we are not repeating our previous recommendations.	See below for a number of completed corrective actions in response to the fiscal 1998 recommendation 5. However, in a July 24, 2000 memo, the OCFO planned to implement an additional corrective action, to develop a new database for tracking IAGs that will automatically send second notifications. This corrective action is planned to be completed by December 31, 2001.	12/31/01	Open

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
5 - CONTINUED IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITALIZED PROPERTY			
We recommend the Acting Chief Financial Officer (CFO):			
5.1 issue guidance clarifying the criteria for capitalizing an ADP system;	**5.1** We agree with this recommendation. The OCFO is developing WCF guidance which will clarify criteria for capitalizing ADP Systems.	10/31/00 03/31/01(rev)	Open
5.2 revise BOC definitions for capital equipment to be consistent with Agency policy for capitalizing systems; and	**5.2** We agree with this recommendation. On February 28, 2000, the OCFO revised the current budget sub-object class code definition of "ADP Equipment" to make it consistent with Agency guidance on accounting for systems.	2/28/00	Completed 03/07/00
5.3 improve the reconciliation process by: (1) ensuring FAS reconciliations are conducted monthly and at year-end; (2) requiring FMOs to thoroughly research any discrepancies between the general journal and FA tables in FAS; and (3) requiring the FMOs to certify the year-end reconciliations.	**5.3** We agree that the OCFO needs to improve the reconciliation process by ensuring that the Fixed Assets Subsystem (FAS) reconciliations are conducted monthly and at year-end. We require the Financial Management Offices (FMO) to thoroughly research any discrepancies between the general journal and Fixed Assets tables in FAS. We also require the FMOs to certify year-end reconciliations. In addition, in our FY 2000 Quality Assurance Workplan guidance, we instructed the FMOs to include a review of FAS reconciliations in their workplans to ensure they are performed timely and accurately. The following action plan is being implemented to ensure that the above items are carried out:		
We recommend the Acting CFO, in conjunction with the Assistant Administrator for Administration and Resources Management, continue to work to strengthen controls designed to ensure that property is timely and accurately recorded in the Agency's property accountability system, FAS. Specifically, reemphasize to the appropriate Agency personnel their responsibilities to:	Send FMOs reconciliation reports by the 15th of each month requesting them to research discrepancies.	01/15/00	Completed
	Send FMOs Year-End reconciliation reports.	Starting 10/16/00	Completed
	Receive FMOs certification of year end reconciliations.	Starting 11/15/00	Completed
5.4 ensure procurement requests are completed with the correct budget sub-object class code;	**5.4** We agree with the recommendation. On January 12, 2000, OCFO staff provided a course to National Technical Services Division (NTSD) staff on preparing procurement requests for property. NTSD purchases a substantial portion of the Agency's capital equipment. We will provide additional training as needs are identified. Further, as noted above, the OCFO is developing WCF guidance on capitalizing ADP Systems and that guidance will include a reminder of responsibilities for accounting data, including sub-object class codes.	1/12/00	Completed
5.5 report receipt of accountable and capital property to the appropriate PMO in a timely manner when property acquisitions are directly delivered to the ordering official, and forward copies of appropriate documentation to the PMO; and	**5.5** We agree with the recommendation. On January 12, 2000, the Office of Administration and Resources Management (OARM) sent a memorandum to the SROs reminding them of their property management responsibilities. The memorandum also requests their assistance in ensuring that any item of property that their office receives is reported to their respective property management officer timely. The memorandum is also on the FMSD web site.	1/12/00	Completed
5.6 ensure that the appropriate personnel at EPA's offices are trained on their roles and responsibilities when property is delivered.	**5.6** OARM agrees with the importance of informing personnel about their roles and responsibilities when accountable property is received. We believe that the January 12, 2000, memorandum to EPA's SROs, although not formal training, will serve to inform the appropriate personnel of those roles and responsibilities and thereby meets the intent of this recommendation.	1/12/00	Completed
OIG Note: Our fiscal 2000 audit identified a reportable condition in this area. Please refer to Attachment 1 for additional comments and recommendations.			

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
6 - AUTOMATED APPLICATION PROCESSING CONTROLS FOR THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM COULD NOT BE ASSESSED **This issue has been reported since our fiscal 1995 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our fiscal 2000 final report, Attachment 1, Reportable Conditions, for a summary of past audit findings and our current comments on this issue. In conclusion, we continue to believe that IFMS documentation does not adequately describe operational system controls and does not meet JFMIP system requirements. Moreover, we believe that potential cost savings will be addressed when the Agency initiates the replacement of IFMS and completes a cost benefit study. The OCFO continues to maintain that the benefits do not justify the costs to develop and maintain systems documentation or a data dictionary for IFMS. However, to date, OCFO has only taken preliminary actions to replace IFMS.**	In a July 24, 2000 memorandum, Response to Final Audit Reports, Audit of EPA's Fiscal 1998 Financial Statements and to the Audit of EPA's Fiscal 1999 Financial Statements, the OCFO provided the following comments. The OIG continues to state that they cannot evaluate the IFMS input, processing, and output controls without more detailed documentation. The OIG indicated that alternatives were inefficient and impractical because of limited auditing resources. Neither the FY 1999 nor 1998 reports include any new recommendations; the recommendations still outstanding on this issue stem from the FY 1995 financial statement audit. We continue to have concerns about the OIG's position and therefore do not at this time concur with the specific recommendations from the FY 1995 audit, especially the recommendation for systems documentation, which we believe would cost at least $1 million. However, we see a benefit to reassessing our current policies and procedures for systems internal controls in recognition of how the environment has changed in the years since this finding was first reported. Also, we would like to resolve the OIG's concerns rather than continuing a mode of OIG audit finding and OCFO non-concurrence year after year. Accordingly, the OCFO proposes a risk-based review of systems controls and of the need for additional documentation. We would appreciate the OIG's full participation and assistance in this analysis, which will consider the following factors: ! A review of the existing IFMS technical and user documentation, including the module manuals, and whether further systems documentation is available from AMS, subject to their contract terms and proprietary considerations; ! The results of our upcoming risk assessment, which should identify key existing controls and relate them to information system threats; ! The costs and benefits of any investments, including an IFMS data dictionary and other documentation, recognizing that cost beneficial documentation still needs to be prioritized with other system needs and that the decision must consider available resources; ! Consultation with a third party, such as JFMIP or the General Accounting Office accounting systems staff from the Accounting and Information Management Division; ! The retention of a third party CPA or other qualified firm to assess the adequacy of the automated internal control structure, since this issue is the OIG's major concern, as indicated in the audit findings over the years. The OCFO proposes to begin this assessment in July with a kick-off meeting with the OIG to identify specific concerns and to agree on an assessment methodology. For purposes of responding to this audit finding, we propose the corrective actions listed below. Interim detailed milestones will be developed jointly.		
	Kick-off Meeting	09/20/00	Completed
	Final Decision on Results of Risk Assessment and Required Actions	12/31/00	Open

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
COMPLIANCE WITH LAWS AND REGULATIONS **7 - REVISED FINANCIAL SYSTEM SECURITY PLANS CONTINUE TO BE IN SUBSTANTIAL NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS** **We recommended the Acting Chief Financial Officer (CFO):** **7.1 incorporate planned fiscal 2000 security plan actions for financial systems (IFMS, CPARS, MARS and EPAYS) into a formal remediation plan.** **OIG Note: Attachment 2 of our fiscal 2000 audit reported a noncompliance with FFMIA requirements. The noncompliance falls short of the recently revised OMB criteria for defining this noncompliance as substantial.**	On November 13, 2000, the Agency submitted its Fiscal Year 1999 Remediation Plan to OMB to fulfill the statutory requirements of FFMIA. Included in the Remediation Plan, were four major sections discussing various issues resulting from our audits and planned corrective actions.		
	Section 1 discussed the Financial Statements Preparation Process. This discussion included 4 major corrective actions including a data integrity evaluation of the IFMS accounting model, preparation of interim nine month financial statements, a strengthened quality control process, and implementing an automated reporting process for the SF 133, Report on Budget Execution & Federal Agencies Centralized Trial Balance System (FACTS) II. Also refer to Attachment 1 for additional comments on this matter.	Last action date of 06/02	Open
	Section 2 discussed Compliance with the Managerial Cost Accounting Standard. See below for agency corrective actions under finding 8. EPA WAS NOT ABLE TO ACCURATELY ACCOUNT FOR THE COST TO ACHIEVE EACH OF ITS GOALS	Last action date of 06/02	Open
	Section 3 discussed Federal Trading Partner Information. This section discussed a number of corrective actions, all of which have been completed, except for having other Federal agencies confirm EPA's balances. Because the confirmation and reconciliation process involves sharing of information among various federal organizations, the Department of Treasury recently issued its Federal guidance on reconciling trading partners data between agencies. Also refer to Attachment 2 for additional comments on this matter.	Last action date of 06/02	Open
	Section 4 discussed Financial System Security Plan Improvements. This discussion included 13 planned corrective action items and numerous sub-items, with projected completion dates through June 2002. The OCFO acknowledged that efforts to comply with all federal financial system security requirements were, in some respects, incomplete as of September 30, 1999. However, EPA has made significant progress since that time. This progress includes both actions completed and actions planned. The EPA offices responsible for financial and mixed systems, the Office of the Chief Financial Officer (OCFO) and the Office of Administration and Resources Management (OARM), have been working closely with the Agency's Office of Environmental Information (OEI) to address security issues in a coordinated, comprehensive manner. The corrective actions presented reflect this joint effort and include steps to address the findings from the February 2000 GAO audit. In addition, for the financial and mixed systems listed in the Agency's Financial Systems Inventory, EPA is using the GAO model for managing information security through a cycle of risk management activities. The risk management cycle includes the following four key steps: (1) assess risk to determine information security needs, (2) develop and implement policies and controls that meet these needs, (3) promote awareness to ensure that risks and responsibilities are identified. The discussion identified a number of actions that have been completed. **OIG Comments**: As required by FFMIA, we will report on the Agency's progress in implementing corrective actions in the IG's Semi-annual Reports to Congress and in our annual financial statement audits.	Last action date of 06/02	Open

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
8 - EPA WAS NOT ABLE TO ACCURATELY ACCOUNT FOR THE COST TO ACHIEVE EACH OF ITS GOALS **We recommended the Acting Chief Financial Officer (CFO):** **8.1 establish, for both PEs and PRCs, procedures to identify actual costs by goal, objective and subobjective at the time the costs are recorded;**	As stated in previous responses, OCFO believes the flexibility inherent in SFFAS No. 4 must be considered when evaluating compliance and that EPA's actions to date are consistent with the Standard's intentions. Also consistent with SFFAS No. 4, OCFO agrees that improvements are necessary over time to enhance cost accounting capabilities. Based on points raised in the audit report and subsequent discussions with OIG representatives, OCFO agrees to the following courses of action:		
8.2 develop timely, reliable, accurate cost reports to enable managers to monitor, on an ongoing basis, the total costs of their programs, including indirect/support costs; and	! The FY 2000 Statement of Net Costs will be presented by Goal on or before January 10, 2001.	1/10/01	Completed
8.3 develop a Statement of Net Cost with accurate and reliable cost information by goal which can be used for external reporting purposes.	! The crosswalk used as the basis for the Statement of Net Costs will identify Program Element (PE) expenses to the Sub-objective level. OCFO projects that 29% of FY 2000 expenses are funded from PE accounts (down from 59% in FY 1999). Of the cross walked amounts, OCFO has determined that approximately 68% link readily to a single Sub-objective based on the nature of the work, as defined in the Sub-objective Description Book. The remaining PE-funded expenses will be cross walked by the Responsible Program and Implementation Officials in accordance with instructions prescribed by OCFO in a July 28, 2000 memorandum.	7/28/00	Completed
OIG Note: Attachment 2 of our fiscal 2000 audit reported a repeat substantial noncompliance with FFMIA requirements. Please refer to Attachment 2 for additional comments and recommendations.	! An allocation of Goal 10 costs to Goals 1-9 will be shown on the Statement of Net Costs on or before January 10, 2001. The methodology will be disclosed in a footnote to this Statement.	1/10/01	Completed
	! OCFO will establish a web page with a report which will incorporate the results of the Sub-objective level crosswalk along with the costs accounted for in the Planning Results Code (PRC) structure. The web page will show Agency cost per output and be completed by December 31, 2000. This provides a delineation of all Agency FY 2000 costs by Sub-objective and thus offers to any Agency office the means to consider total Sub-objective costs for resource planning and analysis. This information will supplement the plethora of existing Agency financial reporting tools.	12/31/00 03/31/01(rev)	Open
	! For FY 2002, we plan to produce cost per output information at year end and at least once during the course of the year.	Fiscal 2002	Open
	! After the close of FY 2000, OCFO will evaluate the need for future crosswalks and other options depending on the level and nature of remaining PE-funded expenses. This will be completed after the issuance of the financial statements.	4/30/01	Open
	! As part of the iterative improvement process envisioned by SFFAS #4, we will survey Agency managers to determine their views on timeliness needs for this data and usefulness of the cost per output information. The survey, to be completed by March 31, 2001, will also solicit suggestions for improvements to the cost per output information that can be made.	3/31/01 4/30/01(rev)	Open

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
9 - EPA WAS UNABLE TO PRESENT REQUIRED INFORMATION ON ITS TRADING PARTNERS **We recommended the Acting Chief Financial Officer (CFO):**			
9.1 issue an OCFO policy to require all finance offices to expedite the review of trading partner transactions and the input of the trading partner information into IFMS to ensure that the Agency can track and report trading partner information, and	**9.1** We agree with the recommendations. On March 31, 2000, we issued Comptroller Transmittal Notice 00-07, "Recording Intragovernmental Transactions in the Integrated Financial Management System (IFMS)." On June 6, 2000, we issued Comptroller Policy Announcement 00-06, on "Policies and Procedures for Verifying and Correcting Trading Partner Information in EPA's Integrated Financial Management System." Both of these documents establish procedures for timely, accurate and reliable entry of trading partner data in IFMS.	6/6/00	Completed
9.2 establish quality control procedures to ensure the trading partner information is entered into IFMS timely, accurately, and reliably to meet applicable reporting requirements. **OIG Note: Attachment 1 of our fiscal 2000 audit identifies a noncompliance with FFMIA requirements for this issue. The noncompliance falls short of recently revised OMB criteria for defining this noncompliance as substantial. EPA implemented internal controls to properly account for intra-governmental transactions, as recommended by OIG in its audit of the fiscal 1999 financial statements. At this time, OIG does not have any additional recommendations, since further action is needed at the Federal level.**	**9.2** We are also working on another related Policy Announcement, this one on confirming and reconciling balances with trading partners. Because the confirmation and reconciliation process involves sharing of information among various federal organizations, the Department of Treasury recently circulated a draft guidance document for agencies' review. We reviewed the draft guidance and provided comments to the responsible work group. FMD is, incidentally, represented on the federal trading partner workgroups both to participate in the shaping of the federal guidance and to ensure that we have the knowledge necessary to act quickly to finalize our Policy Announcement once the federal parameters are reasonably defined. Issue Policy Announcements on Confirming and Reconciling Balances with Trading Partners (Target Date dependent in part on how quickly Treasury issues final guidance.) **OIG Note**: Policy Announcement on Confirming and Reconciling Balances with Trading Partners not yet issued as of the date of this report.	12/31/00 3/31/01(rev)	Open
10 - ADDITIONAL ACTION IS NEEDED TO BRING EPA INTO COMPLIANCE WITH USER FEE REQUIREMENTS **We recommended that the Acting Chief Financial Officer (CFO):** **Repeat finding from a fiscal 1993 audit on the Pesticides Revolving Funds and the Oil Spill Trust Fund (Audit Report E1AML3-20-7001-4100230, issued March 31, 1994)** **10.1 follow through and either institute, revise, or update all user fees or obtain exceptions from OMB as required by OMB Circular A-25, "User Charges."**	OCFO finalized the *Biennial Review of User Fees*, on January 19, 2001. Also, on January 19, 2001, the Deputy Administrator transmitted EPA's formal request to OMB for the needed exceptions.		
	Biennial Review of Fees - Final Report	10/13/00	Completed 1/19/01
	Update Exceptions sent to OMB	10/31/00	Completed 1/19/01
	Final disposition of Exception Requests	12/29/00	N/A
	Note: OCFO deleted this milestone since it is outside the control of the Agency. The OIG has no objection to the deletion of the milestone.		

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<u>AUDIT OF EPA'S FISCAL 1998 FINANCIAL STATEMENTS</u> **(Audit Report 99B0003, Issued 09/28/99)** **EVALUATION OF INTERNAL CONTROLS - MATERIAL WEAKNESSES:** **1.0 IMPROVEMENTS NEEDED IN THE AGENCY'S PROCESS FOR PREPARING FINANCIAL STATEMENTS** **We recommend the Chief Financial Officer (CFO):**			
1.1 evaluate the OCFO's process for preparing the financial statements, including the OCFO resources assigned, necessary improvements to IFMS, contol processes within the Financial Reports and Analysis Branch, and the Year-End Closing Process,	**1.1** Complete evaluation of the OCFO process for preparing financial statements	08/31/99	Completed
	Complete evaluation of IFMS accounting model	07/31/00	Completed 9/21/00
	Document financial statement preparation process	09/08/00	Completed 9/29/00
	Recommend scope of possibilities for automation	09/18/00 3/31/01(rev)	Open
	Implement the new automated reporting process using the Standard General Ledger for the SF-133 and Statement of Budgetary Resources.	10/30/99 09/30/00(rev)	Completed 10/00
1.2 update the Agency's policies and procedures for preparation of annual financial statements to reflect the new legislative requirement, new accounting standards, and new format and presentation requirements. The procedures should include milestone dates and activities for completion, OCFO and other offices' roles and responsibilities, descriptive processes for preparing the financial statements, and plans for obtaining the needed information and providing reliable supporting documentation, and	**1.2** Issue Final Policies and Procedures on Preparing Financial Statements . . . . **OIG Note:** Comptroller Policy Announcement 00-11 issued 9/29/00	03/31/00 08/31/00(rev)	Completed 9/29/00
1.3 establish a quality review process to ensure that the draft financial statements including the footnotes, supplemental information, and overview are complete and reliable, and the Director, FMD, certifies such documents prior to submittal for audit.	**1.3** Establish Quality Control Group		
	Training on new requirements	08/15/00	Completed
	Reach agreement with OIG on timeline for key milestones in preparing and finalizing the statements	09/30/00	Completed
	Establish formal controls w/OIG in addressing audit questions and adjustments	09/30/00	Completed 10/30/00
OIG Note: We reported a reportable condition in the Agency's process for preparing financial statements in our fiscal 2000 and a material weakness in our fiscal 1999 audit report. Please refer to our fiscal 2000 report, Attachment 1, for additional comments and audit recommendations on this issue.	. . . .	. . . . . .	**OIG Note**

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
2.0 AGENCY ENCOUNTERED SIGNIFICANT DIFFICULTIES IN PREPARING THE STATEMENTS OF BUDGETARY RESOURCES AND FINANCING **We recommend the Chief Financial Officer:**			
2.1 review all fiscal year 1989 and prior unliquidated obligation and authority balances and make any necessary adjustments,	**2.1** In a July 24, 2000, memorandum, the OCFO provided the following comments. We implemented the review of unliquidated obligation balances in April 1999 as part of the FY 1999 Review of Unliquidated Obligations. We completed the review of authority balances in February 2000, and discussed the resulting adjustment to the general ledger with OMB and the OIG. Both agreed to this action as part of the 2000 audit of the Statement of Budgetary Resources. Status should now be "closed."	Feb. 2000	Completed
2.2 develop reports for the annual review of unliquidated obligations which highlight older open unliquidated obligations,	**2.2** We do not agree with this recommendation because OCFO provides the responsible officials with reports listing ***all inactive obligations*** (no activity for 180 days) grants, contracts and IAGs for the annual review of unliquidated obligations. OCFO requires officials to review all inactive obligations including older open unliquidated obligations. Thus, the Agency maximizes its ability to efficiently use resources available and identify, deobligate and reuse these funds. The reports that OCFO provides comply with EPA and GAO review requirements.	None - due to disagreement. OCFO provides reports listing all inactive obligations	
2.3 require responsible officials to justify unliquidated obligation balances whose period of performance has ended, if the balances are not deobligated,	**2.3** We do not agree with this recommendation since FMD has already implemented more stringent requirements. The March 25, 1999, guidance memorandum for the FY 1999, "Review of Unliquidated Obligations," requires responsible Agency officials to maintain documentation in their office's files justifying all unliquidated balances retained on the inactive obligation lists, as defined in the response to 2.2 above, that will be available for audit review.	None - more stringent requirements already implemented	
2.4 follow up on responsible officials' deobligations to verify appropriate actions were taken,	**2.4** While we agree with the thrust of this recommendation, we want to clarify the roles and responsibilities for the verification process. Verification of deobligations requires two action plans: one for those identified during FMD's special analysis and another for deobligations identified by the allowance holders during the annual review of unliquidated obligations.		
	Follow up with the appropriate procurement and/or finance office(s) regarding any unneeded funds that have not been deobligated, ...	Ongoing	Completed 01/16/01
	Monitor the document's fund status in IFMS (or CPS for contracts) until the deobligation has been processed, and	Ongoing	Completed 01/16/01
	Provide FMD at year end with the document number and funding information for any unneeded funds identified during the review that were not deobligated.	10/30/99	
	OIG Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that action was completed for this recommendation. We have not received a written certification from the Action Official, or delegated program manager, that action was complete for this recommendation as is required by EPA Order 2750.	. . . . . .	**OIG Comments**

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
2.5 prepare the SF-133s from the general ledger,	**2.5** We agree with the recommendation because beginning in FY 1999, we began preparing the SF133 report directly from the General Ledger. We are now well underway in automating this process and plan to implement this process by October 30, 1999.	10/30/99	Completed
2.6 prepare and retain support for all journal entries and adjustments made to produce the SF-133s, and	**2.6** We agree with this recommendation as all the above referenced documentation is maintained by FRAB. It is Agency policy to prepare and retain support for all journal entries and adjustments to the SF-133's. Beginning in FY99, we will reflect all SF-133 adjustments in the General Ledger.	Action already implemented	Completed 9/30/99
2.7 require evidence of supervisory approval to help ensure that procedures have been followed.	**2.7** We disagree with this recommendation. Hard copies of the SF-133s are produced after they are electronically transmitted for post review purposes. The present electronic format, unlike previous years, does not provide for the supervisors' signature before transmission. Supervisory certification will be incorporated in the new FACTS II transmission (which will include the SF -133 and year end close-out reports). We will ensure that we annotate hard copies maintained within FRAB.	None - due to disagreement	
OIG Note: For fiscal 2000, we had a reportable condition concerning the Agency's review of unliquidated obligations. Please refer to our audit report, Attachment 1, for additional comments and recommendations.	. . . .	. . . . . .	**OIG Note**
EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS:			
3.0 AGENCY NEEDS TO ESTABLISH PROCEDURES FOR TRACKING UNILATERAL ADMINISTRATIVE ORDERS			
We recommend the Chief Financial Officer:			
3.1 track in IFMS all demands for payment issued under UAOs,	**3.1** We partially agree with this recommendation. We believe that this recommendation should only refer to the tracking of Superfund UAOs, and not all UAOs. Our partial disagreement is due to our understanding of the conclusions reached at the March 9, 1999, meeting between the OIG, OGC, OECA, and OCFO that Agency efforts should be focused on tracking Superfund UAOs only at this time.		
	Issue Final Policy for Tracking UAOs. Comptroller Transmittal 00-05, dated 1/11/2000 outlines procedures for recording and tracking Superfund UAOs.	9/30/99	Completed 1/11/00
	Implement and Monitor Policy	Ongoing	Completed

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
3.2 determine if other demands for payment are issued by the Agency, the respective amounts demanded, and whether a need exists to track the amounts demanded in IFMS, and	**3.2** We partially agree with this recommendation. We believe that this recommendation should refer to other Superfund Demands and not "other Demands" for the same reasons discussed in our response to recommendation 3.1 above. The OCFO will address and determine other Superfund Demands which may or may not require tracking.		
	Determine other Superfund Demands that may or may not require Tracking	4/1/00	Completed
3.3 revise RMDS to clearly differentiate between administrative orders (particularly administrative orders on consent and UAOs), describe when the administrative orders need to be established as an accounts receivable in IFMS or separately tracked as a demand for payment in IFMS, and describe all other demands for payment that need to be tracked in IFMS.	**3.3** We partially agree with this recommendation. We believe that "other Demands" for payments should be deleted from this recommendation for the same reasons discussed under 3.1 above. The OCFO has already taken steps to clearly differentiate between Superfund administrative orders and describe when they need to be tracked in IFMS. This will be addressed after proper coordination with OECA, OSWER, and OGC taking into consideration the varying levels of enforcement tools available to the Agency. A final draft policy is in place which will supplement RMDS and includes: a clarification of the difference between Administrative Orders on Consent and Unilateral Administrative Orders (UAOs), and a discussion if these documents can be used to record accounts receivable; and guidelines for separately recording oversight accounts receivable to enhance the Agency's ability to track oversight amounts for management and reporting purposes.		
	Issue Final Policy. Comptroller Transmittal 00-05, dated 1/11/2000 outlines procedures for recording and tracking Superfund UAOs	9/30/99 1/11/2000	Completed
	Update policy to for tracking other Superfund Demands, if needed	5/31/00	Completed
We recommend the Assistant Administrator for Enforcement and Compliance Assurance:			
3.4 develop guidance for ORCs, program offices and finance offices regarding the types of instruments used in the Superfund enforcement process. For each instrument, describe when to establish an accounts receivable or separately track as a demand for payment, and describe the Agency's basis for legal liability under each instrument, and	**3.4** OSRE/OECA previously responded to these audit recommendations 3.4 and 3.5 in memoranda dated February 17 and February 26, 1999. Comptroller Transmittal 00-05, dated 1/11/2000	1/11/00	Completed
3.5 clarify the model language to be used by ORCs, program offices and finance offices to clearly differentiate between demands for payment and bills for payment used in the Superfund enforcement process.	**3.5** See response to 3.4 above.	....	Completed

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
4.0 FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE			
We recommend the Chief Financial Officer (CFO):			
4.1 continue to provide training on calculating the allowance for doubtful accounts, particularly in the area of developing the percentage portion of the allowance and maintaining proper supporting documentation,	**4.1** Provide Training on Calculating Allowances for Doubtful Accounts	Ongoing	Completed
4.2 review finance offices' management and accounting for accounts receivable during regularly scheduled Quality Assurance Reviews to ensure FMOs understand and are following guidance on accounts receivable, and	**4.2** Determine which regions require quality assurance reviews	Annually	Completed
	Conduct FMO training	As needed	Completed
	Conduct quality assurance reviews to ensure FMOs are properly following accounting guidance.	As needed	Completed
4.3 instruct the FMOs to follow-up with ORCs and program offices when responses to requests for receivable collectability information are not received timely; instruct the FMOs to assess how communication with the ORCs and the program offices can be improved; and reemphasize FMOs' responsibilities in ongoing training sessions.	**4.3** The Agency continuously emphasizes the need for more effective accounts receivable and collections management. We continue to make improvements in this area and believe that we are doing a better job of managing our accounts receivable and collections. Numerous actions taken during fiscal 1999 included discussing policy and procedures during a June 1999 *Superfund Cost Recovery and Financial Management Training Conference*, periodic meetings with DOJ to improve accounts receivable recording and discuss status of collections, issuing a joint OCFO and OECA memorandum dated July 26, 1999, entitled *Superfund Accounts Receivable Collections*, to emphasize collection of outstanding accounts receivable and OECA and OCFO discussions concerning the establishment of a Superfund collections workgroup.		
	Provide periodic training and workshops on the management of accounts receivable and collections	Annually	Completed
We recommend the Assistant Administrator for Enforcement and Compliance Assurance:	Meet with DOJ	Ongoing	Completed
4.4 continue to work to improve the Regional process for meeting guidelines in the July 16,1998, memo to Regional Counsels entitled "Effective Debt Management," and	**4.4** We disagree with this recommendation. OSRE and FMD began this review by issuing a memorandum dated July 26, 1999, to the Regional Comptrollers, Waste Division Directors, and the Office of Regional Counsel Branch Chiefs addressing Superfund Accounts Receivable Collections. The memorandum requires each region to prepare and submit to Headquarters, within a month of the receipt of the memorandum, a plan to address overdue receivables. As a coordinated effort among the financial management offices, offices of regional counsel, program offices and the DOJ, each plan should define the roles and responsibilities of each organization in performing the steps in addressing overdue receivables, the estimated time frames to complete these steps, and a primary regional contact. OSRE and FMD will continue to work with the regions to monitor their progress in addressing the overdue receivables.	None due to disagreement and ongoing activities	

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
4.5 revise the Department of Justice interagency agreement to require DOJ to directly transmit to the ORCs and Regional finance offices copies of final source documents (i.e. Consent decrees, judgments) required to establish the recording of accounts receivable within 7 days of entry by the courts, and notify both the ORC and finance offices of any changes in the status of the collectability of the debt within 30 days of such determinations.	**4.5** We agree with this recommendation and OSRE, FMD, and DOJ have been working to implement an electronic network to satisfy the requirements for establishing the recording of accounts receivables. Data management personnel have acquired the necessary software to implement this electronic system. We believe that this system will be more effective and prompt in transmitting the source documents. After addressing any initial system problems and ensuring the effectiveness of the electronic system, the Department of Justice IAG will be revised.	04/30/01	Open
We recommend the CFO and the Assistant Administrator for Enforcement and Compliance Assurance work together to:			
4.6 assure the roles and responsibilities of offices involved in the oversight billing process are maintained so that the Agency can sustain its emphasis on timely billing and collection of oversight costs, and	**4.6** The roles and responsibilities of the regional offices in carrying out the oversight billing process were documented by each region in April 1998. The roles and responsibilities vary among regions, and the OCFO will continue to emphasize the need to have clear regional roles and responsibilities for this process.		
	Maintain roles and responsibilities for the regional oversight billing process	Ongoing	Completed
4.7 develop and implement performance measures for the Senior Resource Officials to assess how well the regions are managing their oversight cost billings and other cost recovery activities. Tie the performance measures into EPA Goal 10, Effective Management, which calls for EPA to "establish a management infrastructure that will set and implement the highest quality standards for effective internal management and fiscal responsibility."	**4.7** This was completed in July 1999. The OCFO has implemented the recently developed SRO Performance Measure on Superfund oversight billing. The first measurement period will be FY 2000. We also have developed a new Financial Management Core Measure on Oversight billing which automatically ties in to Goal 10, Objective 2, and Subobjective 1. Within Subobjective 1, annual performance goal # 2 requires core finance activities meet OCFO Core Financial Management Performance Measures.		
	Develop and Implement the SRO Measure on Superfund oversight billing	7/28/99	Completed
OIG Note: We also noted a Reportable Condition for accounts receivable in our fiscal 1999 audit. Please refer to our fiscal 1999 recommendation 3.1 and to our fiscal 1997 recommendations 2.1 through 2.5 for additional comments and current status on this issue.	. . . .	. . . . . .	OIG Note

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
5.0 ADDITIONAL CONTROLS NEEDED IN INTERAGENCY AGREEMENT INVOICE APPROVAL PROCESS			
We recommend the Director, Grants Administration Division (GAD):			
5.1 develop a fact sheet for Agency managers explaining the invoice approval requirements to help ensure responses are provided timely,	**5.1** The OCFO did not agree with the initial OIG recommendation and, instead, indicated it would be more beneficial for the Grants Administration Division to develop and issue a GAD Fact Sheet for Agency Managers explaining the requirement and the need for timely responses.		
	OIG Comments: The OIG concurs with the GAD proposal. The fact sheet can also be a useful tool to alert managers to related concerns about timely return of the approval form, completeness and the need for cost details to support the invoice.	. . . . . .	OIG Comments
	Issue GAD Fact Sheet	3/31/00	Completed 2/07/00
5.2 consider expanding the IAG portion of the project officer training/refresher course to place more emphasis on the importance of timely and properly completing the approval form. Consider having an official from CFMC present this portion of the course or prepare the materials to be used, and	**5.2** In a July 24, 2000 memorandum, the OCFO provided the following updates on corrective actions taken. The CFMC has provided the GAD a copy of its guide for project officers. GAD will use this guide in future training courses. In an effort to reach more project officers, CFMC also posted the project officer guide on the OCFO web site. CFMC has also provided training to: Region III project officers, Superfund project officers through a joint course with the Corp of Engineers, and attendees at the annual Reimbursable workshop. The reimbursable workshop included finance staff from all Regions as well as Headquarters. CFMC will continue to work with the GAD to identify opportunities to attend project officer training courses. As of June 22, 2000, for FY 2000, the GAD conducted four basic training sessions and two one-day refresher training sessions. In addition, the following are planned: Basic Course: (07/18-20/00 & 08/22-24/00); and a One Day Refresher course on 07/25/00. Participate in GAD Project Officer Training Course	Ongoing	Completed
5.3 work with the Director, Financial Services Division, to have the Chief, CFMC notify the IAG approving officials when project officers are delinquent or not timely in completing and returning the IAG invoice approval forms.	**5.3** In a July 24, 2000 memorandum, the OCFO provided the following updates on corrective actions taken. GAD has worked with the Chief, CFMC/FSD on notifying the IAG approving officials when project officers are delinquent or not timely in completing and returning the IAG invoice approval forms. Since March 1, 2000, CFMC has been sending by email second notifications to Approving Officials who are responsible for Project Officers that have numerous outstanding approval forms. As a result, the backlog has been significantly reduced. We will continue this practice until the backlog is eliminated. In addition, we will be developing a new database for tracking IAGs that will automatically send second notifications.	12/31/01	Open
We recommend the Director, Financial Services Division direct the Chief, CFMC:			
5.4 to notify IAG approving officials when project officers are delinquent or not timely in completing and returning IAG invoice approval forms, such as by sending the second request to approving officials, and	**5.4** See comments to **5.3** above.		

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
5.5 to compile a list of project officers with outstanding, late or incomplete invoice approval forms and forward to the Senior Resource Officials on a semiannual basis, asking for their assistance in getting project officers to timely and properly complete the forms.	**5.5** In a July 24, 2000 memorandum, the OCFO provided the following update on corrective actions taken. The OCFO sent the Senior Resource Officials a list of "chronically" delinquent project officers on April 20, 2000, in order to elicit their assistance in having the reports completed timely and properly. We will continue to do this on a routine basis. Our next report will be issued in October 2000. This action should now be closed in the tracking system.	Date not provided	Completed
	OIG Comment: We would appreciate receiving a written certification from the Action Official, or delegated program manager, that action was complete for this recommendation as is required by EPA Order 2750.		**OIG comment**
OIG Note: This issue was first reported by us in our FY 94 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity. Please refer to our fiscal 2000 Attachment 1, for additional comments on this issue.	. . . .	. . . . . .	**OIG Note**
6.0 CONTINUED IMPROVEMENTS NEEDED IN ACCOUNTING FOR CAPITALIZED PROPERTY **We recommend the Chief Financial Officer, in conjunction with the Assistant Administrator for Administration and Resources Management:**			
6.1 continue to work to strengthen controls designed to ensure that property is timely and accurately recorded in the Agency's property accountability system, FAS. Specifically, reemphasize to the appropriate Agency personnel their responsibilities to: • **provide descriptive information about an existing parent property item in the procurement request for capital improvements; and** • **report receipt of accountable and capital property to the appropriate PMO in a timely manner when property acquisitions are directly delivered to the ordering official, and forward copies of appropriate documentation to the PMO.**	**6.1** We concur with the above recommendation. We believe it important to emphasize, however, that the appropriate Agency personnel who need to be reminded of their property management responsibilities are not necessarily Property or Financial Management personnel. Users of Agency property, such as custodial officers, project officers, funds certifying officers and managers, and other ordering officials, must be made aware of Agency property management requirements. To correct this problem OARM's role in this effort will be to coordinate with specific organizations when property records indicate they are not complying with Agency property management policy. In addition to site visits performed by OARM's Facilities Management Services Division (FMSD), FMSD in conjunction with FMD, plans to take every opportunity to present briefings, conduct training sessions (such as the Fixed Asset Subsystem training conducted February 2-4, 1999), attend organizational meetings, and participate in any way to disseminate information and guidance concerning accurate documentation and timely processing of required receiving documents. As mentioned in the Audit report, during October 1998, the Financial Management Division (FMD) issued Transmittal Notice (TN) 99-03, "Guidelines on Preparing Requisitions for Property and Related Goods." This guidance provided detailed instruction on preparing purchase requests for capital improvements. The instructions give examples of how to prepare requisitions for capital improvements when descriptive information concerning an existing parent property is required. FMSD will issue a memorandum to Agency Senior Resources Officials: (1) reminding them of their responsibility to follow Agency property management policy along with a copy of the FMD TN 99-03 and (2) requesting that they distribute it to their respective project officers, ordering, and funds certifying officers.		

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
	Finally, ETSD is scheduling a joint review session with RTP FMSD, RTP OAM and FMD to address WCF property accounting problems. At the conclusion of this session, ETSD expects to have a plan of action for correcting problems before the end of this fiscal year.		
	Issue memorandum to Agency Senior Resource Officials	9/30/99	Completed 01/12/00
	Implement an action plan to correct WCF property accounting problems.	9/30/99 07/31/00(rev)	Completed 7/3/00
OIG Note: We again noted a reportable condition for accounting for capitalized property in our fiscal 2000 audit. Please refer to Attachment 1, for additional comments and recommendations. **We have reported property issues since our first financial statement audit of the Superfund in FY 92 and other financial related audits of the Superfund since FY 82. Since that time, we have reported continuing problems with accounting for and controlling property. Management should continue its emphasis in this area.**	. . . .	. . . . . .	**OIG Note**

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
COMPLIANCE WITH LAWS AND REGULATIONS			
9.0 EPA IS NOT IN SUBSTANTIAL COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS	In the CFO's 8/16/99 response to the draft report, she stated: With respect to compliance with the Federal Financial Management Improvement Act, we continue to believe that we are substantially in compliance with the requirements of that law. In those areas where the audit cites deviations from procedural requirements, we have documented the steps we have taken to remedy those findings.		
Because the organizational responsibility for the financial and mixed-financial systems varies, we are directing our recommendations to multiple action officials. The following recommendations intentionally address corrective actions at a high level, because it would be too prescriptive and voluminous to elaborate on corrective actions for each system within the confines of this final report. Furthermore, we believe managers should be responsible for determining minimum security controls, based on the risk associated with system operations. For more specific information, managers should refer to the detailed evaluations which we previously forwarded to system owners.	**9.1** We do not agree with this recommendation. We believe that the Agency financial systems cited above (in FY 98 report) are substantially in compliance with OMB, NIST and Agency requirements. See FY 98 report, Appendix II, pages 14 - 25 for detail discussions supporting the CFO position on this recommendation.		
	OIG Comment: Based on our review of evidence provided to us at the time of the audit, and subsequently, we have not changed our position on the need to develop an overall remediation plan.	. . . . . .	**OIG Comment**
We recommend the Chief Financial Officer:	**Additional Agency Comments:** The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated "The report notes (page 3-1, last paragraph) that the Agency revised its core system security plans during 1999. Thus the "remediation plan corrective actions were completed on schedule." The auditors evaluated the adequacy of the security plans for IFMS, MARS, CPARS, and EPAYS, as approved in 1999. A revised security plan for CPS was approved May 26, 1999, and a new security plan for TM+ was approved on September 13, 1999. Since the auditors report no adverse findings with respect to these security plans, we believe that no further remediation under this recommendation is necessary."	. . . . . .	**Additional Agency Comments**
9.1 develop an overall remediation plan which specifies resources, remedies and intermediate target dates associated with bringing CPARS, CPS, EPAYS, IFMS, MARS, TM+ and BAS systems into substantial compliance with OMB, NIST and Agency requirements, and addresses the critical security controls shown in Table 2.	**Additional OIG Comments:** As also stated in our fiscal 99 report, page 3-1, we performed a follow up review of security plans prepared as a result of our FY 98 recommendations. We found that the security plans were improved, but that they still lacked significant detail to document critical operational security controls, identify audit trails, and implement system-related guidance. For fiscal 1999, we again reported a noncompliance with laws and regulations for federal financial management system requirements in fiscal 1999. In responding to our fiscal 1999 draft audit report, the OCFO agreed to develop a formal remediation plan by March 31, 2000. Please refer to our fiscal 1999 recommendation 7.1, for additional comments and our audit recommendation resulting from our fiscal 19 99 audit.	. . . . . .	**Additional OIG Comments**
	OIG Note: In a February 2, 2000, exit briefing, GAO reported to senior EPA officials that the Agency's financial systems security plans were inadequate. We understand that GAO will be issuing a report by June 2000. Accordingly, additional corrective actions may be needed based on GAO's recommendations. For a summary of the issued GAO audit report findings, please see our fiscal 2000 Attachment 2, Despite Improvements, Financial System Security Plans Continue to be Noncompliant.	. . . . . .	**OIG Note**
	Fiscal 2000 update: On November 13, 2000, management finalized a remediation plan and sent it to OMB. Please refer to our 1999 audit, finding 7.1 for a summary of the remediation plan and planned corrective action plans. The remediation plan included a number of corrective actions and additional planned target dates to revise plans based on risk assessments. The last planned target date was June 2002.		

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
We recommend the Director for Acquisition Management:			
9.2 develop security plans for CDOTS, ICMS, SPEDI, and CIS which address the critical security controls depicted in Table 2 above, and bring these systems into compliance with OMB Circular A-130, NIST and Agency requirements.	**9.2** We do not agree with this recommendation. We believe that the Agency procurement systems cited above are substantially in compliance with OMB, NIST and Agency requirements. Also in support of our position, the facts related to this issue are as follows:		
	-- The Contracts Information System (CIS) has been in operation for a number of years and has had an approved Security Plan in the past. Although security controls for CIS have not changed, security information for this system is being incorporated into the ICMS Security Plan.		**No longer applicable**
	Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that the Contracts Information System (CIS) was retired on December 31, 1999. Therefore, a security plan for CIS is no longer needed.	. . . . . .	**Additional Agency Comments**
	OIG Comment: As this system was retired, we concur that a security plan for CIS is no longer needed. However, we have not received or reviewed documentation from the system manager about the decision to retire this system.	. . . . . .	**OIG Comment**
	-- A Security Plan for the ICMS family of applications, which includes ICMS, SPEDI and CDOTS, was approved by the Security Information Resources Management Officer (SIRMO). The SIRMO has directed OAM to address issues brought up in an extensive critique of the Security Plan by OIRM's IRM Policy and Evaluation Division to add information to specific sections of the plan.		
	Additional Agency Comments: The OCFO's November 13, 2000 remdiation plan indicated that the ICMS Security Plan was revised and will be redone based on a risk assessment.	. . . . . .	**Additional Agency Comments**
	Complete full Security Plan	09/30/00 01/31/01(rev)	**Open**
	OIG Comment: This corrective action meets the intent of our recommendation for ICMS.		**OIG Comment**
We recommend the Director, Grants Administration Division:			
9.3 address the critical security controls, as indicated in Table 2, needed to bring the P2000 security plan into compliance with OMB Circular A-130, NIST and Agency requirements, and	**9.3** The GAD Systems Security Plan was completed in August 2000. Issue P2000/IGMS Security Plan (P2000/IGMS Security Plan was issued/signed October 5, 2000).	6/30/00 07/31/00(rev) 09/30/00(rev)	Completed 10/05/00
9.4 coordinate with GICS data owners and address the critical security controls, shown in Table 2, necessary to bring the GICS security plan into compliance with OMB Circular A-130, NIST and Agency requirements.	**9.4** We disagree with this recommendation. The GAD Systems Security Plan as of September 30, 1998, represents a sufficient level of detail as required by EPA guidelines. GAD agrees to coordinate with the Office of Water, the co-owner of GICS data, and jointly address the additional critical security controls necessary to keep the GICS Security Plan in compliance with OMB, NIST and Agency requirements. The Plan has already been revised as part of our ongoing reviews to incorporate a sufficient level of detail as required by OMB and NIST standards and arrangements are being made to conduct an independent audit of the system.		
	Issue Revised GICS Security Plan (Revised GICS Security Plan was issued/signed August 15, 2000)..	3/31/00	Completed 8/15/00

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
We recommend the Region 5 Assistant Regional Administrator for Resources Management:			
9.5 develop a security plan for the CTS financial system which addresses the critical security controls shown in Table 2 and makes the system compliant with OMB Circular A-130, NIST, and Agency requirements.	**9.5** Issue CTS Security Plan.	3/31/00	Completed 9/30/99
OIG Note: We have reported a substantial noncompliance with FFMIA for federal financial management system requirements since our fiscal 1997 audit. However, for fiscal 2000, the noncompliance falls short of recently revised OMB criteria for defining this noncompliance as substantial. Please refer to our fiscal 2000 audit report, Attachment 1, for additional comments.	**Fiscal 2000 update**: According to the November 13, 2000 remediation plan submitted to OMB, all of the security plans for financial and mixed financial systems are scheduled to be revised after a risk assessment is completed.	. . . . . .	**OIG Note**

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<u>**AUDIT OF EPA'S FISCAL 1997 FINANCIAL STATEMENTS**</u> **(Audit Report E1AML7-20-7008-8100058, Issued 03/2/98)** **EVALUATION OF INTERNAL CONTROLS - REPORTABLE CONDITIONS:** **2.0 FURTHER IMPROVEMENTS NEEDED IN MANAGING EPA'S ACCOUNTS RECEIVABLE** **We recommend that the Acting CFO:**			
2.1. provide detailed training to regional finance personnel on how to calculate an allowance for doubtful accounts,	**2.1** Conduct training at a technical workshop.	06/12/98	Completed
2.2. conduct site visits to regional finance offices and perform quality assurance reviews to ensure FMOs are properly following accounting guidance,	**2.2** In a 9/30/98 memo, the CFO informed us that they performed quality assurance reviews in prior years, and in FY 1998, conducted such reviews in Regions I, IV, and V. The CFO further informed us that, on an as needed basis in future years, the CFO would: 1) determine which regions require quality assurance reviews; 2) conduct FMO training; and 3) conduct quality assurance reviews to ensure FMOs are properly following accounting guidance.	09/30/98	Completed
2.3. develop procedures that require FMOs to follow-up with ORCs and program offices when responses to their requests for receivable collectibility information are not received timely, and	**2.3** In a 9/30/98 memo, the CFO informed us that, based on discussions (with Regional Program Offices and Offices of Regional Counsel), there was a need to clarify the management of oversight bills. Guidance was provided by the Financial Management Division in April 1998. The CFO also recognized a need to continue providing periodic training and workshops on the management of accounts receivable and collections to further improve performance in this area. Accordingly, the OCFO will annually provide training and workshops on the management of accounts receivable and collections and will meet monthly with the Department of Justice (which began in April 1998).	06/12/98	Completed 09/30/98
2.4. work with the Assistant Administrator for Enforcement and Compliance Assurance to implement guidance that will ensure Offices of Regional Counsel and program offices timely provide financial management offices with the supporting documents they need to record and write off accounts receivable.	**2.4** Issue Cross Servicing Policy Announcement on delinquent debts.	03/30/98	Completed 06/09/98
	Issue Revised RMDS 2540, Chapter 9 (11/22/99 update - comments being reviewed) **Additional Agency Comments:** The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that the target publication date was changed to 3/31/00, due to amount of comments and changes that have to be incorporated into the RMDS 2540 Chapter9.. RMDS 2540, Chapter 9, was revised and issued on 6/20/00.	06/30/98 07/30/98 (rev) 12/15/98 (rev) 04/30/99 (rev) 08/30/99 (rev) 01/31/00 (rev) 03/31/00 (rev)	Completed 6/20/00
2.5 We recommend the Assistant Administrator for Enforcement and Compliance Assurance emphasize to ORCs: **2.5.1. the need to forward to FMOs within 3 workdays, copies of all source documents that are required to establish accounts receivable, and** **2.5.2. the need to respond back to FMOs within 30 days concerning receivable collectibility determinations.**	**2.5** In a 9/30/98 memo, the CFO informed us that, on July 26, 1998, the Assistant Administrator for Enforcement and Compliance Assurance issued a memorandum entitled "Effective Debt Management" to the Regional Counsels. The purpose of that memo was to reiterate and reinforce the Agency's policy regarding the Regional Counsels' responsibility in the identification and collection of accounts receivable.	......	Completed 07/26/98
OIG Note: We also noted a Reportable Condition for accounts receivable in our fiscal 1999 and 1998 audits. Please refer to our fiscal 1999 recommendation 3.1 and to fiscal 1998 recommendations 4.1 through 4.7 for additional comments and current status on this issue.		......	**OIG Note**

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
7.0 PROCEDURES NEED TO BE ESTABLISHED FOR IDENTIFYING, TRACKING AND REPORTING EPA'S ENVIRONMENTAL LIABILITY			
7.1 We recommend that the Acting CFO work with the Assistant Administrator for Enforcement and Compliance Assurance, Acting Assistant Administrator for Administration and Resources Management, and the Office of General Counsel to jointly develop policies and procedures for tracking and annually reporting the Agency's environmental liability.	**7.1** Jointly draft policies and procedures for tracking and annually reporting EPA's environmental liability.	04/30/98 07/15/98 (rev)	Completed 07/31/98
	Jointly finalize policies and procedures for tracking and annually reporting EPA's environmental liability. (11/22/99 update - In Comptroller's office for review)	07/31/98 08/31/98 (rev) 10/30/98 (rev) 03/31/99 (rev) 05/31/99 (rev) 08/31/99 (rev) 01/31/00 (rev)	
	Additional Agency Comments: The OCFO's February 24, 2000 response to our draft fiscal 1999 audit report indicated that this action was completed on 1/13/00, with the issuance of Policy Announcement No. 00-02.		Completed 01/13/00
11.0 EPA IS NOT COMPLYING WITH APPROPRIATIONS LAW WHEN DISBURSING GRANTS FUNDED WITH MULTIPLE APPROPRIATIONS	**11.1** In a 9/30/98 memorandum, the CFO provided the following status "The determination of whether our accounting practices violate Appropriations Law remains under OGC review. We will continue to encourage them to issue an OGC decision as soon as possible, so we can resolve this issue."		
11.1 We recommend that the Acting CFO and Acting Assistant Administrator for Administration and Resources Management finalize and implement guidance for awarding and disbursing multiple-funded grants that complies with Title 31 U.S.C. 1301.	OGC opinion requested from OGC.	03/06/96 03/31/01(rev)	Completed
	Obtain OGC opinion.	03/31/01(rev)	Completed 01/13/00
OIG Note: This noncompliance with appropriations law was first reported by us in our fiscal 1994 financial statement audit of EPA's Trust Funds, Revolving Funds and Commercial Activity and was again mentioned in our fiscal 1995, 1998, 1999 and 2000 reports.	Implement accounting changes dependent on OGC opinion. Target date will be established after OGC opinion is received.		Open
	Issue GAD Policy on multiple funded grants		Open
	OIG Comment: On January 17, 2001, GAD representatives advised the OIG that the Policy has been revised based on the OGC decision, but not yet finalized and issued.		OIG Comment
	Fiscal 2000 update: OGD is planning to issue the Split Funding Policy by March 31, 2001. OGD is currently working with OCFO to resolve some implementation issues raised by the Comptroller's office. GAD still expects to issue the policy, but will probably limit the policy to an exception basis grant award for multi funded instruments.		

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
<u>FISCAL 1994 FINANCIAL STATEMENT AUDIT OF EPA's TRUST FUNDS, REVOLVING FUNDS AND COMMERCIAL ACTIVITY</u> **(Audit Report E1SFL4-20-8001-5100192, Issued 2/28/95)**			
4.0 GRANTEE PAYMENT REQUESTS DO NOT PROVIDE NECESSARY ACCOUNTING INFORMATION			
4.1 Chief Financial Officer require a clause in all assistance agreements funded from multiple appropriations that specifies how the payments should be charged to the various appropriations. If, for example, all work can be paid for from any appropriation, the clause should state that the finance office may charge any appropriation. However, if certain work should be paid for from a specific appropriation, the clause should require the recipient to include accounting information with each payment request.	Prepare a draft policy on split funded projects.	08/15/95	Completed 12/96
	Circulate to Grants Customer Relations Counsel for comment.	08/31/95	Completed 12/96
	Enter the policy into the Green Border process.	09/30/95 01/97 (rev)	Completed 2/12/97
	Finalize and issue the policy.	11/30/95 03/31/01(rev)	Open
	OIG Comment: On January 17, 2001,a GAD representatives advised the OIG that the Policy has been revised based on the OGC decision, but not yet finalized and issued.	. . . . . .	OIG Comment
	Fiscal 2000 update: OGD is planning to issue the Split Funding Policy by March 31, 2001. OGD is currently working with OCFO to resolve some implementation issues raised by the Comptroller's office. GAD still expects to issue the policy, but will probably limit the policy to an exception basis grant award for multi funded instruments.		

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
10.0 A COMPREHENSIVE AGENCY-WIDE POLICY ON INDIRECT COSTS SHOULD BE IMPLEMENTED	**10.1** Identify the major tasks and requirements associated with implementing Agency-wide cost accounting based on FASAB managerial cost accounting standard, the provisions of GPRA and other applicable considerations.	06/30/96 03/01/97 (rev)	Open
10.1 Chief Financial Officer develop and implement an Agency-wide policy for identifying and allocating indirect costs.	Commence development of detailed cost accounting policy including financial system requirements analysis.	10/31/96 03/01/97 (rev) 09/30/97 (rev)	Open
	OIG Notes: FMD indicated that the two milestones above were completed on 3/15/97 and 8/28/97 respectively and closed this recommendation in its audit tracking system on 9/4/97. FMD closed this recommendation upon the issuance of a 8/28/97 memorandum to the Office of Site Remediation Enforcement which discussed a preliminary methodology for developing Superfund "full cost" indirect cost rates. FMD also indicated that their goal is to develop and implement the new Superfund indirect methodology by fiscal year 1999. Upon closing this recommendation in its audit tracking data base, FMD officials provided a number of reasons why they believed it is premature at this time to commit to a corrective action plan with specific milestones. In conclusion, FMD officials indicated that ". . . the development and implementation of an EPA-wide comprehensive cost accounting system will require a long term plan that coordinates system development, policy considerations, and user needs. The integration of these requirements are complex, and a simple corrective action plan at this time is insufficient. Therefore, we will address this issue when we update our Five-Year Plan." During FY 98, EPA developed detailed cost accounting procedures for implementation in FY 99. **Fiscal 1999 update:** EPA discussed its Goals and Strategies to Support Federal Financial Management Priorities as part of its FY 2001 OMB A-11 Section 52.2 submission to OMB on November 5, 1999. The goals and strategies included six priorities, two of which discussed Improving Financial Accountability and Improving Financial Management Systems. Neither of these two discussion topics mentioned the development or the implementation of an agency-wide indirect cost policy. We acknowledge that the discussion did mention the accomplishment of implementing the five basic accounting standards and the cost accounting standard issued by the Federal Accounting Standards Advisory Board (FASAB) as well as developing related policy announcements. The CFO should identify additional corrective action plans and milestones to implement our recommendation. We believe an Agency-wide Indirect Cost Policy should identify what costs should be consistently included to recover its "full cost" when determining the appropriate level of user fees for programs that receive fees for services provided by EPA, costs for billing other government agencies for work performed by EPA, and Superfund Indirect Costs to be included in billings to responsible parties for site cleanups, etc. A cost accounting system, by itself, is not sufficient to take the place of an agency-wide indirect cost policy. Such a policy would help ensure costs are consistently identified for inclusion in determining the "full cost" of conducting agency programs and activities. **Fiscal 2000 update.** On May 26, 2000, the Comptroller issued Policy Announcement No. 00-05, *Accounting for Indirect Costs Associated with Superfund Site Specific Activities*. Since the policy does not address Agency- wide indirect costs as part of its managerial cost accounting standard, we are reporting a substantial noncompliance with FFMIA in our fiscal 2000 audit report. See Attachment 2, for additional comments and recommendations.	. . . . . .	OIG Notes

Status of Prior Audit Report Recommendations

Report Findings and Recommendations	Management Comments and Corrective Action Plans	Target Date	Status
FISCAL YEAR 1993 - FINANCIAL AUDIT - PESTICIDES REVOLVING FUNDS AND THE OIL SPILL TRUST FUND **(Audit Report E1AML3-20-7001-4100230, Issued 3/31/94)**			
7.0 HIGHER PRIORITY NEEDS TO BE PLACED ON COMPLETING REQUIRED REVIEWS OF USER FEES	**7.1** Implement financial management performance measures in the program offices.	12/01/94 04/01/95 (rev) 07/31/97 (rev) 9/30/99 (rev)	Open
7.1 CFO include timely review of user fees as one of the financial management performance measures used to evaluate program offices in the future.	**OIG Note:** A related issue was included in the Fiscal 1992 Pesticides Revolving Funds audit (report no. E1EPL2-20-7001-3100065, dated 6/30/93). On 11/5/97, the Acting CFO provided the Administrator with a biennial fee review report. The report showed five current fees, four proposed fees, and eight exceptions. **Fiscal 2000 Update**: The next biennial review of user fees was finalized by the OCFO on January 19, 2001. Also, on January 19, 2001, the Deputy Administrator transmitted EPA's formal request to OMB for the needed exceptions. Additionally, in response to the FY 2000 draft report, the OCFO responded that they will "evaluate the benefits of establishing SRO performance measures for fees."	. . . . . .	OIG Note
	OIG Comment: The OCFO gave no target date for their revised position on this issue, therefore the recommendation will remain open at this time.		OIG Comment
FISCAL YEAR 1992 - FINANCIAL AUDIT - SUPERFUND, LUST AND ASBESTOS LOAN PROGRAM **(Audit Report P1SFL2-20-8001-3100264, Issued 6/30/93)**			
4.0 ACCOUNTING FOR GRANT DRAWDOWNS DOES NOT PROVIDE REQUIRED ACCOUNT INFORMATION	**4.1** Establish QAT to review the procedures, establish milestones, report to process owners, and implement changes.	N/ A	Completed
4.1 CFO review the results of the Quality Action Team's analysis of this issue and determine if additional procedures need to be developed to account for grant drawdowns.	**OIG Note:** Our fiscal 1994 audit report also discussed this issue. For a current status on corrective actions, please refer to our fiscal 1994 audit recommendation 4.1 above.	. . . . . .	OIG Note
	Fiscal 2000 Update: Based on response received and corrective actions planned in response to referenced 1994 recommendation, we are considering action complete on this outstanding recommendation.		
FISCAL YEAR 1991 - FINANCIAL AUDIT - HAZARDOUS SUBSTANCE SUPERFUND **(Audit Report P1SFF1-11-0026-2100660, Issued 9/30/92)**			
3.0 CERTAIN ALLOCABLE COSTS WERE NOT ALLOCATED TO SUPERFUND	**3.1** Request a legal opinion from OGC to reaffirm the legality of charging Superfund expenses to the S&E appropriation.	02/15/93 06/30/95 (rev)	Completed 06/30/00
3.1 Obtain a written opinion from the OGC on the legal basis for charging Superfund administrative expenses to the Salaries and Expenses Appropriation. If the OGC determines that the Agency's current practice of charging the S&E appropriation for Superfund administrative expenses after the Superfund administrative ceiling is reached is improper, then the OGC should provide guidance on appropriate corrective action.	**OIG Note:** OGC issued a memo to the Comptroller on July 11, 1996 reaffirming prior OGC opinions concerning the charging of Superfund administrative expenses to other appropriation accounts. On September 17, 1996, the Comptroller sent us a memo advising us that they are not planning to move S&E charges to the Superfund account for FY91 or subsequent years. The OC and OGC are examining the application of the statute for allocating costs between appropriations. The OC believed that the history behind the administrative expense ceiling in Superfund may permit EPA to appropriately discontinue allocating costs once the ceiling limitation has been reached.	. . . . . .	OIG Note
	Fiscal 2000 update: In a January 13, 2000 meeting, the Director, APBD, advised us that they were discussing this issue with an appropriations committee and were hoping to resolve this issue through legislative action. On June 30, 2000, the Acting CFO provided a proposed final resolution to the charging issues discussed in this recommendation. On July 31, 2000, the OIG agreed with the CFO's proposal and closed the 1991 Superfund Audit.		

Appendix I

EPA's Fiscal 2000 Financial Statements

This page intentionally left blank

February 2001

EPA's FY 2000 CFO AUDITED FINANCIAL STATEMENTS

Produced by the U.S. Environmental Protection Agency
Office of the Chief Financial Officer
Office of the Comptroller
Financial Management Division

TABLE OF CONTENTS

Note: All components of *EPA's FY2000 CFO Audited Financial Statements* are included in ***EPA's FY 2000 Annual Report*** (Publication Number: EPA-190-R-01-0001). The "Overview and Analysis" section of this report serves as ***Section I*** of the Annual Report. The "Principal Financial Statements" section of this report is contained in ***Section IV*** of the Annual Report.

OVERVIEW AND ANALYSIS

OVERVIEW AND ANALYSIS

INTRODUCTION

The U.S. Environmental Protection Agency (EPA) leads the nation's efforts to safeguard the natural environment and protect human health. The Agency is committed to ensuring that the American public has air that is safe to breathe, water that is clean and safe to drink, food that is free from dangerous pesticide residues, and communities that are protected from toxic chemicals. To accomplish this mission EPA set 10 long-term strategic goals that identify the environmental outcomes or results the Agency is working to attain and the sound financial and management practices it intends to employ. Each year, as required under the Government Performance and Results Act (GPRA), EPA prepares an annual plan that translates the Agency's long-term goals and objectives into specific actions to be conducted and resources to be allocated for the fiscal year. EPA is accountable to the American public for achieving these annual performance goals for the protection of the environment and human health and for using taxpayers' dollars efficiently and effectively to do so.

A central purpose of GPRA is to gain better results from government programs by requiring federal agencies to define their performance goals and holding them accountable for achieving these goals. Successfully managing for results depends, in part, on strong links between annual and longer-term planning, budgeting, financial accounting, and performance results. EPA has gone farther than most other federal agencies in structuring its 1997 and 2000 revised Strategic Plans to reflect the full scope of the Agency's resources and workforce and in restructuring its budget to mirror its strategic goals and objectives. Under this approach EPA's strategic goals include both environmentally oriented goals, such as Clean Air and Safe Water, and functional goals, such as Sound Science and Effective Management, that are critical to the achievement of these environmental and human health outcomes.

In a further step to promote accountability, this report includes the Agency's audited financial statements, an independently reviewed accounting of expenditures to demonstrate that EPA has sound financial management practices in place. These financial reports provide not only the assurance that EPA is managing its resources soundly and efficiently, but also information needed to ensure that EPA uses its resources strategically and effectively to achieve environmental goals.

Linking planning, budgeting, financial accounting, and performance assessment helps EPA focus resource allocation decisions on the environmental and human health results to be achieved, provides longer-term perspective and continuity for budgeting, and reinforces the importance of financial stewardship and fiscal integrity in achieving the Agency's mission. As a result EPA can demonstrate to Congress and the public how taxpayers' dollars are applied across the Agency's strategic goals and how they support the achievement of results.

EPA's *Fiscal Year 2000 Annual Report* serves several purposes. First it describes the progress that EPA, working with its federal, state, tribal, and local government partners, made toward the annual performance goals established in the Agency's Fiscal Year (FY) 2000 Annual Plan. Next it presents major management accomplishments and challenges EPA faced during the year and discusses Agency approaches and solutions. Finally it summarizes EPA's financial activities and achievements. As a whole the *Annual Report* provides an opportunity for the Agency to review its performance, highlight particularly noteworthy accomplishments, examine causes for missed goals or targets, and, most importantly, reflect on how EPA's experience in FY 2000 can shape efforts to achieve the Agency's strategic goals and objectives in the coming years.

This "Overview and Analysis" (which addresses requirements for a "Management's Discussion and Analysis" of the audited financial statements component of the *Fiscal Year 2000 Annual Report)*[1] is intended to provide a "big

---

[1] Because the *Fiscal Year 2000 Annual Report* consolidates a number of specific reports, several components of the "Management's Discussion and Analysis" are presented in greater detail elsewhere in

picture" view of EPA's performance and fiscal accountability over the year. In particular it describes the results achieved under the Agency's goals and objectives, reviews EPA's financial accomplishments, and summarizes actions EPA has taken or plans to take to address management problems. In addition it discusses significant factors that might affect future Agency operations. This section is supplemented and supported by the more comprehensive, detailed information provided in the remaining sections of the *Fiscal Year 2000 Annual Report*.

FY 2000 RESULTS

Summary of Performance Results

During FY 2000 EPA and its partners made significant contributions to the establishment of a cleaner, healthier environment. As illustrated by the performance highlights that follow, in FY 2000 at least 91 percent of the American public served by community water systems received water meeting all health-based drinking water standards in effect since 1994. More of the American public breathed cleaner air, the result of significant reductions in harmful air pollutants. Food was safer, due to reduced use of high-risk pesticides and registration of reduced-risk pesticide ingredients. Completed construction at Superfund sites and cleanup and redevelopment of brownfields sites resulted in cleaner, safer, healthier communities.

In FY 2000 EPA met 80 percent (51) of the 64 annual performance goals (APGs) for which data are provided in this report.[2] EPA also made significant progress toward the 13 APGs that were not achieved in FY 2000, and for these APGs the Agency is on track to meet its long-term goals and objectives.

During FY 2000 new performance data also became available for several of the 13 FY 1999 APGs for which there were delayed reporting cycles or targets set beyond FY 1999. For example, an additional 1.3 million people are living in residences with healthier indoor air. EPA also exceeded, by over 20 percent, its goal of documenting that controls are in place at hazardous waste facilities, helping to ensure that communities are protected from harmful pollutants. In summary EPA can now report achievement of 81 percent (50) of the 62 APGs for which the Agency has FY 1999 performance data. Delays in reporting cycles and targets set beyond FY 1999 continue to affect seven FY 1999 APGs.

Tables presenting EPA's detailed FY 2000 APG results are included in Section II at the end of each goal chapter. EPA continues to improve its performance measurement capabilities and will modify some APGs in FY 2001 and FY 2002 to reflect more outcome-oriented measures and better performance data.

Highlights of FY 2000 Performance

EPA's FY 2000 accomplishments reflect a variety of activities and initiatives. They represent progress made toward achieving the Agency's strategic goals; accomplishments that cut across individual goals, programs, or media; and achievements in financial management.

---

this report. In particular EPA's mission statement and long-range goals appear at the front of the report, and an EPA organization chart is included as Appendix A. For a discussion of the Agency's performance goals, objectives, and results, see Section II. Management accomplishments and challenges are discussed in Section III. Financial statements, along with a discussion of systems, controls, and legal compliance, are presented in Section IV.

[2] EPA committed to a total of 73 APGs in its FY 2000 Annual Plan. Data for eight of these APGs will not be available until FY 2001 and beyond, and one APG has a target year that falls beyond FY 2000.

- EPA issued a final rule for passenger vehicles (including sport utility vehicles) that will significantly reduce emissions of nitrogen oxides (NO_x), a primary contributor to urban smog, by nearly 3 million tons per year by 2030. (Goal 1)

- EPA issued three final Maximum Achievable Control Technology (MACT) standards and proposed eight new standards that, when fully implemented, will reduce hazardous air emissions by an estimated 62,000 tons each year. Combined, all the MACT standards issued to date will reduce emissions by more than 1.5 million tons each year. (Goal 1)

- Phase II of the Acid Rain Program, which began in 2000, now requires reductions in sulfur dioxide (SO_2) emissions from more than 2,500 electric utility units (gas-fired, oil-fired, and coal-fired) and reductions in year-round NO_x emissions from approximately 750 coal-fired units. (Goal 1)

- Ninety-one percent of the population served by community drinking water systems received drinking water meeting all health-based standards that were in effect as of 1994, up from 83 percent since that time. (Goal 2)

- For the first time approximately 253 million Americans have access to annual consumer confidence reports on the quality and safety of their drinking water, as a result of the new Consumer Confidence Report rule. More than 100 million Americans are able to read their water quality reports online. (Goal 2)

- Implementation of Clean Water Action Plan activities resulted in the environmental improvement projects now under way in 324 high-priority watersheds. (Goal 2)

- Another 2 million people received the benefits of secondary treatment of wastewater in 2000, bringing the total number of people served by secondary wastewater treatment facilities to 181 million and achieving secondary treatment or better for nearly all of the population served by publicly owned treatment works. (Goal 2)

- EPA registered 16 reduced-risk pesticide active ingredients and reviewed 1,838 new chemical pre-manufacture notices for hazards to human health and the environment. (Goals 3 and 4)

- EPA reassessed 121 pesticide tolerances to ensure they met the Food Quality Protection Act-mandated standard of a “reasonable certainty of no harm.” (Goal 3)

- EPA implemented various risk-reduction steps such as restricting use, lowering or revoking tolerance levels, and phasing out or canceling certain uses for the pesticides azinphos methyl, methyl parathion, and chlorpyrifos. (Goal 3)

- Four hundred sixty-nine companies have committed to make screening-level hazard data on approximately 2,155 chemicals available by 2005. (Goal 4)

- Since the Superfund program began, EPA has completed construction at 757 private and federally owned sites to protect human health and the environment. During FY 2000 the Agency exceeded its target for Superfund constructions completed. (Goal 5)

- Through the third quarter of FY 2000 EPA’s Brownfields Program provided grants to communities and states, leveraging $2.8 billion in cleanup and redevelopment funds, generating an estimated 7,400 jobs benefitting disadvantaged communities, and funding more than 2,000 site assessments of potentially contaminated sites. The Brownfields Program was named one of the 10 winners of the “Innovations in

Government Awards, 2000" granted by Harvard University's John F. Kennedy School of Government, the Ford Foundation, and the Council for Excellence in Government. (Goal 5)

- Availability of water and sewer services in the U.S.-Mexican border area has significantly improved. Thirty-six projects certified by the Border Environment Cooperation Commission are under construction or have been completed. (Goal 6)

- Working in partnership with businesses, schools, state and local governments, and other organizations, EPA is on track to meet its FY 2000 target for reducing greenhouse gas emissions from projected levels by more than 58 million metric tons of carbon equivalent. (Goal 6)

- Reductions in domestic use of ozone-depleting hydrochlorofluorocarbons and domestic production and import of newly produced chlorofluorocarbons and halons are on track to meet targets set by the Clean Air Act Amendments for FY 2000. (Goal 6)

- EPA demonstrated a mid-size-chassis research vehicle that achieved 72 miles per gallon (gasoline equivalent) using a state-of-the-art diesel engine and a patented, EPA-invented hybrid drivetrain. (Goal 8)

- The Mid-Atlantic Integrated Assessment successfully demonstrated the monitoring designs and indicators developed from EPA's Ecological Research Strategy, resulting in the first statistically valid assessments of regional environmental conditions. (Goal 8)

- Enforcement actions brought by EPA reduced or prevented the emission and discharge of 334 million pounds of pollutants and required treatment of an additional 1.3 billion pounds of contaminated soils, sediments, or water; sixty-one percent of these enforcement actions required facilities to improve environmental management practices, which will reduce the likelihood of future violations. EPA's enforcement augments the efforts of states and tribes. Nationally states conduct the large majority of all federally related inspections and formal enforcement actions. (Goal 9)

- During FY 2000 an additional 430 companies made use of EPA's audit and self-disclosure policies, disclosing and correcting violations at 2,200 facilities. (Goal 9)

- EPA drafted its first strategic plan for investing in human resources, "Strategy for Human Capital," to focus management attention on human resource issues facing the Agency. (Goal 10)

Accomplishments Across Goals and Programs

- The Office of Children's Health Protection developed the *Children's Health Valuation Handbook* to assist Agency economists in addressing children's health risks when they conduct cost-benefit analyses of regulatory options.

- EPA joined the Department of Housing and Urban Development, the Department of Health and Human Services, and other federal departments and agencies in an interagency strategy to eliminate childhood lead poisoning as a major public health problem by 2010.

- Two hundred twenty-eight facilities became charter members of the new National Environmental Performance Track Program, created to motivate and reward performance that exceeds federal environmental requirements.

- EPA expanded regulatory flexibility under Project XL to identify areas for improving federal environmental programs and policies and approved an additional 35 proposals, bringing the total number of projects being implemented to 50.

- To advance "smart growth" in communities, EPA provided funding, research, and technical assistance, as well as support for a national information sharing network.

- EPA created new web sites to expand public access to information about environmental permitting reforms and participation in EPA's voluntary partnership programs.

- In spring 2000 the Interagency Working Group on Environmental Justice released the *Integrated Federal Interagency Environmental Justice Action Agenda* to ensure that coordinated federal initiatives and resources are targeted to environmentally and economically distressed communities.

- EPA's National Environmental Justice Advisory Council published *Environmental Justice in the Permitting Process.* The first in a series, this report identifies essential factors to be considered in siting new pollution-generating facilities to ensure protection of all citizens.

FY 2000 Performance Issues

Despite their best efforts, EPA and its partners were not able to meet all planned targets for FY 2000 APGs. In most cases the Agency does not expect the shortfall in meeting these APGs to compromise progress toward achieving the long-range goals and objectives.

For example, EPA changed the focus of underground storage tank compliance from simply having the required equipment to operating that equipment properly. As a result, states' reporting of compliance rates based on operational compliance led to a lower overall compliance figure but a better measure of environmental progress. In another case an extension of the public comment period delayed completion of the Exposure Factors Handbook, designed to provide guidance for assessing risks to children exposed to environmental contaminants, but permitted increased public involvement. Similarly, although EPA fell well short of its target for reassessing pesticide tolerances, the Agency made progress in developing a scientific approach to assessing cumulative risk which involved considerable stakeholder input and scientific peer review. Once implemented this approach will expedite Agency efforts to reassess pesticide tolerances.

In all EPA and its partners did not meet 13 of the 73 FY 2000 APGs. These APGs are associated with seven of EPA's ten strategic goals. The results tables included in Section II provide more complete information and show that the Agency made significant progress toward these goals.

Strengthening Program Integrity Through Improved Management

Over the past decade EPA made substantial progress toward resolving programmatic and administrative issues that had the potential to affect the Agency's ability to achieve its mission. One of the most significant accomplishments is the progress the Agency has made in addressing General Accounting Office (GAO) concerns regarding the Superfund program. In FY 1990 GAO designated Superfund a high-risk area, citing recurring management problems that heightened the risk of fraud, waste, abuse, and mismanagement. After 10 years, in its January 2001 report, *High-Risk Series: An Update*, GAO removed the Superfund program from the high-risk list, indicating that EPA had made significant progress in addressing this long-standing management challenge and demonstrated a continuing commitment to these efforts.

Over the next several years EPA faces a number of management challenges, including two that the GAO January 2001 high-risk update identified as government-wide high-risk areas. The first issue, strategic human capital management, is characterized by what GAO regards as inadequate efforts to meet current and emerging needs in the areas of human capital planning, recruitment, and development. The second issue, information security, was first designated a government-wide high risk area in FY 1997. Despite federal agencies' ongoing efforts to correct security deficiencies, GAO believes that critical government operations and assets continue to be vulnerable.

In its January 2001 report, *Major Management Challenges and Program Risks: Environmental Protection Agency*, GAO identified two additional management challenges specific to EPA: (1) improving environmental and performance information to set priorities and measure results and (2) strengthening EPA's working relationships with the states. EPA's Office of Inspector General (OIG) shares GAO concerns regarding both the high-risk issues and the management challenges. Section II, "GPRA Performance Results," specifically goal chapters 7 and 10, and Section III, "Management Accomplishments and Challenges," present a further discussion of these issues.

EPA's OIG provides Congress with an annual list of EPA's key management challenges based on OIG audits and also identifies candidate weaknesses for consideration during the Agency's annual assessment of management controls under the Federal Managers Financial Integrity Act. Section III includes OIG's statement on the Agency's most serious management and performance challenges and its assessment of Agency progress. OIG identified several additional areas it believes EPA should address in a timely manner to ensure the Agency can accomplish its environmental mission and achieve effective management. These issues include accountability, managerial cost accounting, quality of laboratory data, EPA's use of assistance agreements to accomplish its mission, the backlog of National Pollutant Discharge Elimination System Permits, and results-based information technology project management. Goal chapters 2, 7, and 10 in Section II and Section III provide further discussion of these issues.

Recognizing that one of the most critical challenges facing government today is preserving the public's trust in the integrity of government programs, EPA places a high priority on addressing GAO and OIG issues as well as issues identified by the Office of Management and Budget (OMB) and through internal Agency reviews and assessments. Section III contains a full discussion of the Agency's material weaknesses and major management challenges and provides a summary of corrective action strategies under way to resolve the issues. In addition to goal chapters 2, 7, and 10 identified above, goal chapters 5, 6, and 9 discuss Agency efforts to address major management challenges that may affect the achievement of EPA's goals and objectives.

ADVANCING EPA'S WORK

Strengthening State and Tribal Partnerships

Many of the advances in environmental protection made over the past year, highlighted in the list of accomplishments above and reflected in the chapters that follow, would not have been possible without the participation and support of the states. EPA and the states consulted extensively throughout the development of EPA's revised Strategic Plan, which was issued in September 2000, and the Agency worked closely with members of the Environmental Council of the States (ECOS) to facilitate state input on the goals, objectives, and text of the Plan.

During FY 2000 EPA and the states continued to strengthen their partnership to protect human health and the environment through the National Environmental Performance Partnership System (NEPPS). Under NEPPS EPA and states work together closely on all aspects of planning, priority-setting, and results-based management, including performance measurement, through the use of core performance measures (CPMs) to evaluate progress toward mutual program goals. CPMs are a limited number of program performance measures developed by EPA and ECOS to present a meaningful picture of each state's environmental quality and program effectiveness. CPMs are closely aligned with EPA's GPRA measures and similarly contain a mix of environmental indicator, outcome, and output measures. (Those CPMs associated with the Agency's APGs are noted in the tables for goal chapters 1, 2, and 5 in Section II of this report.) Thirty-four states and their EPA regional offices documented their partnership efforts with Performance Partnership Agreements.

In March 2000 EPA formally reaffirmed its commitment to the NEPPS principles of flexibility, innovation, and partnership. To demonstrate this commitment EPA designated leaders from each region and national program office to provide a broad, Agency-wide perspective on how EPA and states can improve all aspects of NEPPS. EPA also finalized new grant regulations that lay the groundwork for negotiation of Performance Partnership Grants (PPGs). PPGs enable states as well as tribes to use grant funds flexibly to meet their specific environmental needs.

EPA has been working closely with State Environmental Commissioners to determine how EPA might better incorporate state priorities into EPA's planning and budgeting work and improve the Agency's understanding of the particular environmental challenges facing each state. In spring 2000 EPA Regional Administrators were asked to discuss state priorities with the Commissioners so that this information could inform the Agency's planning and budgeting work. EPA is now working with ECOS to develop an ongoing process to facilitate the receipt and consideration of state input into national priority-setting processes.

Over the past 10 years GAO has worked with EPA and the states to identify areas of concern, make recommendations, and track Agency progress in resolving the long-standing challenges associated with the EPA-state relationship. GAO concerns have centered around some fundamental disagreements between EPA and the states over respective roles, priorities among state environmental programs, and the appropriate degree of federal oversight. GAO believes EPA has taken positive steps in some areas that have improved cooperation with the states, resulting in more effective and efficient environmental protection.

EPA has also worked closely with tribal governments to identify priorities for Indian country, to improve management of environmental issues, and to develop tribal capacity to implement environmental programs. EPA's Indian Program involves significant cross-Agency and multimedia activities designed to ensure that our trust responsibility to federally recognized tribes is carried out. The Agency is committed to assuring protection of the environment and human health in Indian country in a manner that is consistent with the government-to-government relationship and that conserves cultural use of natural resources. The new PPG regulations mentioned above will expand the benefits of NEPPS, enabling tribes as well as states to use grant funds flexibly to meet their specific environmental needs. During FY 2000 EPA and tribes also made major advances toward strengthening their government-to-government relationship. For example EPA sponsored the 5th National Tribal Annual Conference on Environmental Management in Lincoln City, Oregon. The meeting brought tribes from across the nation together with a number of federal agencies to address a wide range of environmental issues. The growing partnership between tribes and EPA was further demonstrated this year through the Agency's enhanced and extensive consultation with tribes on water quality standards in Indian country.

EPA has also worked with tribes to address a number of cross-media concerns. For example the Agency initiated training for tribal enforcement officials interested in obtaining or enhancing their federal inspection credentials. The development of accredited staff expands the Agency's ability to address priority issues. In addition FY 2000 saw the creation of the first Tribal Science Council as part of EPA's Science Advisory Board. This new collaborative body will enable tribes and EPA more effectively to address long-standing issues in Indian country, such as the need to further the science surrounding subsistence fishing and other exposure pathways.

<u>Improving Results-Based Management</u>

In FY 2000 EPA completed its first full planning and accountability cycle under GPRA with the March 2000 submission of its first Annual Performance Report, presenting the results of EPA's FY 1999 performance to Congress and the public. In a series of 10 goal meetings, senior Agency managers met with the Deputy Administrator to discuss the FY 1999 results and the lessons they prompted, mid-year performance toward FY 2000 APGs, progress toward long-term strategic goals, and work under way to improve performance measurement. In addition senior managers discussed the broader lessons learned from the Agency's experience with GPRA implementation to date and improvements to be made for the future. The discussion revealed that GPRA has had a positive impact on the culture of the Agency, specifically in helping managers to define success and the results of EPA's work. The focus on priority-setting and results has helped the Agency relate resources to accomplishments, find new ways to meet goals despite resource reductions, and address important data issues and the Agency's ability to measure results.

To further improvements in EPA's performance measurement, the Agency formed a performance measurement improvement team that conducted workshops with program offices to promote development of more outcome-oriented goals and measures. EPA applied many of the lessons learned from this effort in developing the framework for its revised Strategic Plan, which was issued in September 2000. The Agency is committed to developing APGs and performance measures that focus on outcomes; linking performance with resources more closely; using information generated through planning, budgeting, analysis, and accountability activities to inform management decisions; and communicating the results of its efforts clearly to Congress and the public.

Developing Program Evaluation Capabilities

While performance measurement generally describes what a program achieved—outputs or outcomes—during a given period, program evaluation can help explain these results. Program evaluation identifies areas needing improvement, better strategies for achieving established goals, and ways to improve data collection or measurement of program results. Performance measurement alone cannot always answer these questions.

To further improve its ability to assess progress, EPA has taken steps over the past year to increase the number and improve the quality of program evaluation activities within the Agency. EPA's OIG has reorganized and created an Office of Program Evaluation to conduct evaluations of EPA's programs. During FY 2000 EPA's Program Evaluation Network—comprising EPA managers and staff with expertise in and responsibilities for program evaluation—continued to meet and to share information. In spring 2000 EPA presented two 1-day training sessions focusing on the fundamentals of program evaluation. The 77 headquarters and regional staff who participated in the training will continue to help build EPA's ability to conduct evaluations, improving the Agency's ability to assess progress toward its environmental goals. In FY 2000 the Agency also solicited program and regional office proposals for limited central funding of program evaluations. Four studies were selected for funding, including the Assessment of the Water Quality Standards process conducted under Goal 2.

DATA QUALITY

EPA's FY 2000 performance data can be characterized as acceptably reliable and complete. In terms of data reliability, a significant number of APGs are Agency counts of administrative or programmatic outputs and are not subject to wide margins of error. In cases where counts involve major EPA data systems, however, the data are subject to Agency-wide data quality standards and periodically audited for accuracy and completeness. The Resource Conservation and Recovery Act Information System (RCRAInfo), for example, adjusted the baseline number of facilities in the database after receiving new data from authorized states, thereby improving the reliability of the reported performance data. Performance data for several APGs are obtained by voluntary reporting, modeling, or extrapolating. The degree to which the quality of the data is affected by these data gathering techniques has not been quantified in most cases, although the reliability of the data can be estimated at least qualitatively. States and other external sources provide much of the data EPA uses to develop its performance data. For the more significant EPA databases, protocols are in place to check the data for errors. To a large degree, however, EPA must rely on the quality assurance/quality controls in place at the primary data source to ensure data accuracy.

Three EPA databases have been identified as Agency management weaknesses in FY 2000. These are the Permit Compliance System, RCRAInfo, and the Safe Drinking Water Information System. The Agency is implementing specific corrective action strategies for each of these databases and has established milestones for data quality improvements. As a result the quality of the performance data from these databases can be expected to improve significantly in the future.

EPA has taken several important steps to improve its data quality management. The Agency recently reorganized its information management activities into one office. It has adopted six new data standards to promote consistency in reporting and data integration. In addition the Agency is implementing a Central Data Exchange—a single portal for states and the regulated community reporting environmental information to EPA. These steps will help to improve the efficiency and reliability of EPA's data as well as detect and correct errors. In addition, with the goal of significantly improving data quality, EPA is allowing greater public access to Agency data, including enforcement and compliance information.

All of the Agency's 73 FY 2000 APGs are accounted for in the tables of results presented in each goal chapter in Section II. (These 73 APGs were first reported in the FY 2000 Final Annual Plan. They have since been revised to reflect final budget decisions and FY 1999 performance and presented in EPA's FY 2001 budget justification to Congress.) In the case of APGs for which performance data are not yet available, the tables indicate when the Agency will have the data necessary to report performance.

FINANCIAL ANALYSIS

EPA's Financial Statements

EPA's financial statements reflect the range of the Agency's financial activities over the course of a fiscal year and present a snapshot of its financial position at the end of that fiscal year. They are the culmination of many thousands of transactions and financial records, and on their accuracy and reliability EPA bases its assurance to the public that the Agency manages resources efficiently, effectively, and productively. EPA's OIG performs an annual audit of the full set of financial statements to determine whether the picture they present is a fair and accurate one, based on generally accepted accounting principles. When an agency's financial statements receive an unqualified or "clean" opinion from the auditors, this signals to the public the auditors' reasonable assurance of the agency's fiscal health at year's end. When auditors are unable to make a full assessment of financial statements because there are elements they cannot evaluate, they will render a qualified audit opinion. In such a case, auditors report that the statements represent an agency's financial circumstances fairly with the exception of individual elements that cannot be assessed. When auditors are unable to render an opinion on a set of financial statements because they are unable to make any kind of evaluation, they typically issue a disclaimer.

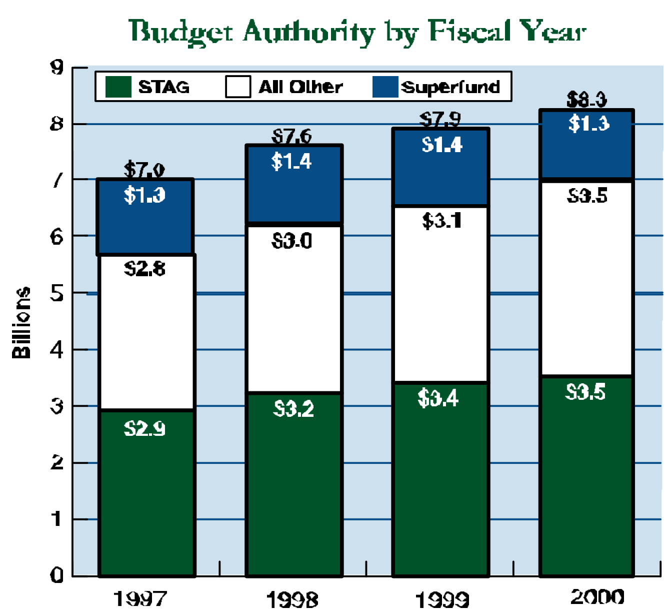
The auditors' annual check on financial management is fundamental to good management, and EPA recognizes it as an important indicator of the Agency's ability to account for taxpayer dollars and manage for results. EPA also values the resource information summarized in its financial statements as a basis for cost-benefit and trends analyses concerning the environmental results envisioned in EPA's strategic goals. For these reasons, no annual report of EPA's accomplishments would be complete without the inclusion of audited financial statements or some equivalent.

In response to process control concerns raised in the audit of EPA's FY 1999 financial statements, the Office of the Chief Financial Officer has worked closely with OIG to strengthen Agency financial management processes and financial statement preparation. EPA has analyzed in greater detail than ever before every element of its financial statements. EPA also framed new policies and instituted new procedures, improved quality control across the entire range of the financial statements, made selective use of automation in new areas, adopted new methodologies, and strengthened information security. EPA is pleased to report that this collaboration has enabled the Agency to achieve a "clean" audit opinion on its FY 2000 financial statements.

Budget Authority for FY 1997–FY 2000

Budget authority is the authority provided by law to incur financial obligations, such as awarding contracts or grants. For FY 2000 EPA received a total of $8.3 billion in budget authority. The "Budget Authority by Fiscal Year" chart provides a comparison of EPA's total budget authority for FY 1997 through FY 2000.

OMB issues EPA's budget authority in many accounts, consistent with appropriation law. The "Budget Authority" chart depicts the Superfund and State and Tribal Assistance Grants (STAG) accounts and characterizes other major accounts—such as the Environmental Programs and Management account and the Science and Technology account—under "All Other." The Superfund category is a net amount in that it reflects transfers of Superfund authority to other accounts as directed by Congress.



FY 2000 Obligations

An obligation is a legal responsibility on the part of the government to make a disbursement at a later date. For example an obligation is recognized when the government awards a contract. The actual costs associated with the contract are recognized when the contractor delivers the requested goods or services.

The "FY 2000 Obligations by Goal" table presents data for each goal by appropriation. Obligations in this table are not the same as "costs," which are reported in Section IV under the Statement of Net Costs. Obligation totals in this table also differ from Agency financial statements because the obligation totals include EPA's Superfund transfer to other federal agencies. Each of the goal chapters that follow in Section II presents the total obligations for that goal in comparison to Agency's total obligations for FY 2000.

FY 2000 Obligations by Goal
(Dollars in Millions)

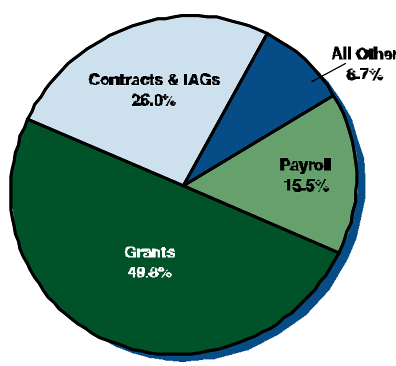
	G-1	G-2	G-3	G-4	G-5	G-6	G-7	G-8	G-9	G-10	Reimbursable	**Other	Total
Appropriation													
*STAG	203	3098	0	94	64	52	0	0	71	0	0	0	3582
All Other	340	526	75	177	296	178	139	261	285	381	270	0	2928
Superfund	0	0	0	0	1563	0	3	3	15	57	123	700	2464
TOTAL	543	3624	75	271	1923	230	142	264	371	438	393	700	8974

*STAG = State and Tribal Assistance Grants
**Other = Payment from General Revenues to the Hazardous Substance Superfund

FY 2000 Expenses

Expenses are EPA's costs for services rendered or activities performed. In FY 2000 EPA spent $7.9 billion using current and prior year appropriation authority. Of this amount 75.8 percent was spent on contracts, inter-agency agreements (IAGs), and grants. FY 2000 expenses are also displayed by strategic goal in the Statement of Net Costs in Section IV.

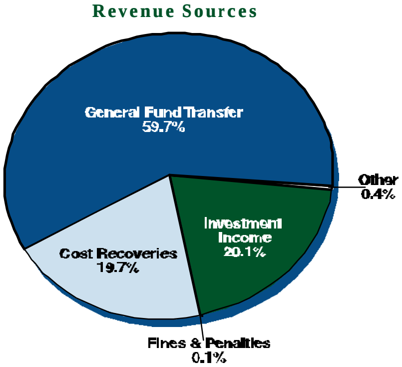
FY 2000 EPA Expenses



Superfund Financial Trends

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), enacted in 1980, formally established the Superfund Program and the Hazardous Substance Response Trust Fund, now known as the Hazardous Substance Superfund (Trust Fund). Although CERCLA has not been reauthorized since 1995, the Superfund Program continues to operate each year by way of annual Congressional appropriations from general fund transfer.

FY 2000 Superfund Trust Fund Revenue Sources



The Trust Fund, administered by the Bureau of Public Debt, U.S. Department of the Treasury (Treasury), is the primary financing source for the Superfund Program. For FY 2000 Treasury reports that the Trust Fund received approximately $1.2 billion in receipts from the revenue sources shown in the accompanying chart.

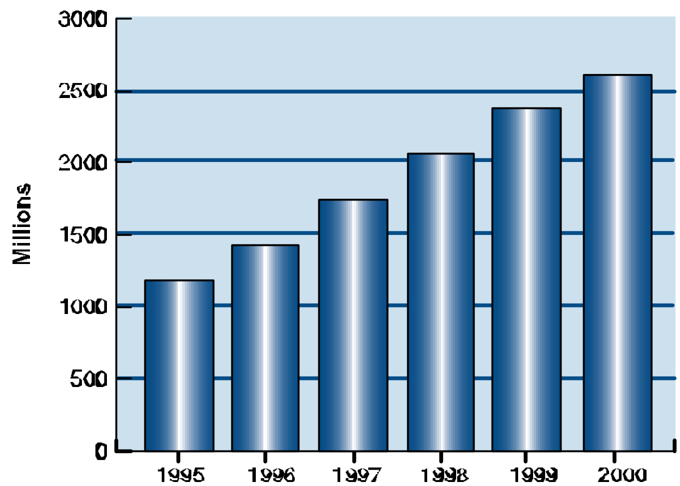
The Superfund Program's authority to tax expired on December 31, 1995. Consequently the major revenue sources for the Trust Fund are cost recoveries; interest, fines, and penalties; income from Trust Fund investments; and general fund transfer. Due to diminishing revenues EPA has increased its efforts to conserve existing Trust Fund balances and replenish the Trust Fund with all eligible revenues. To accomplish these goals EPA has:

- Revised the indirect cost rate methodology for Superfund cost recovery to reflect the full costs of Superfund cleanup.

- Recovered $230.4 million during FY 2000 as a result of accelerated efforts to pursue collection of cost recovery settlements and judgments.

- Reemphasized its "enforcement first" philosophy to compel Potentially Responsible Parties (PRPs) to clean up contaminated sites. By having PRPs perform cleanups, EPA can reduce related response and legal enforcement costs, resulting in cost savings to both taxpayers and the Trust Fund.

Cumulative Superfund Costs Recovered
FY 1995 - FY 2000



- With direction from Treasury, diversified the Trust Fund's investment portfolio and returned a higher rate of interest to the Trust Fund.

FUTURE TRENDS

A number of current trends will have implications for the future success of EPA's programs. Should climate-change-driven weather extremes such as more frequent hot, dry summers increase, attainment of air quality standards might be more difficult despite the full implementation of emission control plans. High temperatures and bright sunlight, for example, could increase the formation of ozone. Droughts and floods, also more likely to increase with a warmer climate, could significantly affect the success of the Agency's water and waste programs. Floodwaters could disrupt hazardous waste sites and spread animal and other wastes. Drought conditions could preclude reliance on dilution to improve water quality and thus threaten the nation's water supply. EPA and its partners have established some pollution control strategies predicated on fairly typical temperature and precipitation regimes; unfortunately, those control strategies might be less likely to succeed in the face of increased climate and weather extremes.

Population growth, along with the attendant development of suburban and exurban areas, also has implications for environmental protection programs. Sprawl increases demands on transportation and can result in more people relying more heavily on private vehicles. Increases in vehicle miles traveled, coupled with the trend toward larger vehicles such as sport utility vehicles, can contribute to increased emissions of conventional pollutants and greenhouse gases like carbon dioxide and might affect EPA's air program. Apart from adding to air quality concerns, population growth also places increased pressure on the nation's infrastructure for providing clean and safe water. This concern is becoming especially apparent as the U.S. population grows in the southern and southwestern states, which have fewer water resources and often less highly developed water and wastewater treatment infrastructures than other states.

In conjunction with the growth of the overall population, America's population is aging. This change will inevitably lead to new and unexpected patterns of consumption and, therefore, to new patterns of pollution. For example, greater use of medications and other biologically active substances might affect the environment.

The current trend of general economic growth and increased consumer demands will also affect the success of EPA's programs across all media. If domestic manufacturing and production rise, waste streams might continue to change and require responses from EPA solid and hazardous waste programs. In the absence of cleaner processes and better controls, air and water emissions would tend to increase in response to this growth. Larger homes increase energy demands and can lead to growth in greenhouse gas emissions. Changes in producer and consumer behavior are also likely to influence the Agency's ability to achieve its objectives, for example, in the area of food safety.

Several technology changes might have significant impacts, both positive and negative, on the environment. Development and adoption of clean technology, such as hydrogen fuel cells, could reduce energy consumption and greenhouse gas emissions. Biotechnology, including the development of genetically modified organisms, might yield crops that can thrive without the use of fertilizers and pesticides. However, researchers continue to investigate the interaction of genetic engineering and other technologies with environmental factors. EPA's pesticide and industrial chemical programs may need to respond to advances in biotechnology.

The Internet and information technology are transforming public sector processes and the ways that agencies interact with their constituents and relate to one another. Government agencies at all levels are using technology to be more accessible, efficient, and responsive to their constituents. Prompted by the expectations of a citizenry that is growing accustomed to conducting business online, businesses seeking to reduce costs in a technology-driven marketplace, and Congressional efforts to reduce reporting burden, agencies are using the Internet and information technology to streamline processes, improve services, and integrate information. As e-commerce becomes fully entrenched in the everyday lives of the public, EPA will need to deliver customer services that will require integration across multiple departments and levels of government.

Clearly these and other social, economic, and technological trends and developments will influence the Agency's ability to achieve its goals and objectives.

LOOKING AHEAD

EPA learned from its FY 1999 experience—through both the work it accomplished and the challenges it faced—and has made significant progress during FY 2000 in applying the principles of results-based management. The Agency advanced its efforts to set quantifiable, attainable goals and targets; to forecast external factors that might have an impact on program planning; to measure performance results more precisely; and to analyze more accurately the relationships among costs, activities, and results.

In setting future goals and targets EPA will focus on delivering environmental and human health outcomes and developing meaningful performance measures where possible. The Agency will strive to develop APGs that reflect progress made toward meeting long-term goals and that are more closely linked to environmental outcomes. For example APGs currently in place under the air pollution control program for ozone, particulate matter, and other pollutants enable EPA and states to measure actual improvements in air quality, rather than progress in program activities such as permits issued. EPA is making similar progress in the area of compliance and enforcement. For example during FY 2000 EPA established a baseline to measure the average length of time it takes for significant violators to return to compliance or enter into enforceable plans and agreements. Building on this effort, in FY 2001 the Agency will be able to assess its progress in decreasing the percentage of facilities that remain in significant noncompliance after 2 years.

As part of its performance assessment improvement effort, the Agency will continue to work with states to improve the CPMs that have been negotiated through NEPPS, both to realize improvements in its ability to measure outcomes and to maintain the close alignment of NEPPS and GPRA performance measures. EPA and states are particularly committed to increasing significantly the ratio of environmental outcome to output CPMs.

To measure environmental improvements and assess progress accurately, EPA and its partners need quality environmental information and the analytical tools to understand it. The Agency is working to ensure that it keeps pace with the rapid advances in information technology and can meet the growing demand for reliable environmental information. EPA is developing an Information Plan that assesses the Agency's environmental direction, establishes a framework for identifying and addressing information needs, and matches information and technology resources to those needs. In addition the Plan will establish processes for addressing data needs and identify potential data collection efficiencies and opportunities to leverage information resources. These initiatives will also support EPA's efforts to improve its trend data, so that the Agency may better assess progress toward long-term goals and provide a context for assessing annual results.

Collaboration with the Agency's federal, state, and tribal partners and with interested stakeholders will be critical to the success of these efforts. EPA will continue to depend on strong, effective partnerships to ensure progress toward the Agency's goals for protection of the environment and human health.

The chapters that follow in Section II present EPA's FY 2000 progress toward each of the Agency's 10 long-term goals. Each chapter discusses the Agency's accomplishments, research contributions, and program evaluations, as well as the impact of FY 2000 results on the FY 2001 Annual Plan. As appropriate, chapters also discuss the Agency's progress in addressing significant management problems. Tables provided at the end of each chapter present information on the APGs that support each long-term goal. The chapters and tables together help to describe the results EPA and its federal, state, tribal, and local agency partners achieved during FY 2000 and to explain how these results will shape the Agency's future planning and performance.

PRINCIPAL FINANCIAL STATEMENTS

CONTENTS

Financial Statements

Notes to Financial Statements

Supplemental Information Requested by OMB

Required Supplemental Information

Required Supplemental Stewardship Information

Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	$ 37,397	$ 11,059,256	$ 11,096,653	$ 0	$ 11,096,653
Investments (Note 4)	3,960,313	1,593,357	5,553,670	0	5,553,670
Accounts Receivable, Net (Note 5)	40,671	34,371	75,042	(4,191)	70,851
Other (Note 6)	21,789	7,452	29,241	(6,510)	22,731
Total Intragovernmental	4,060,170	12,694,436	16,754,606	(10,701)	16,743,905
Accounts Receivable, Net (Note 5)	617,039	87,895	704,934	0	704,934
Loans Receivables, Net - Non Federal (Note 7)	0	89,128	89,128	0	89,128
Cash (Note 3)	0	48	48	0	48
Inventory and Property Received in Settlement, Net (Note 8)	5,086	347	5,433	0	5,433
General Property, Plant and Equipment, Net (Note 9)	13,581	473,028	486,609	0	486,609
Other (Note 6)	750	1,712	2,462	0	2,462
Total Assets	$ 4,696,626	$ 13,346,594	$ 18,043,220	$ (10,701)	$ 18,032,519
LIABILITIES					
Intragovernmental:					
Accounts Payable	$ 75,467	$ 1,506	$ 76,973	$ 0	$ 76,973
Debt (Note 10)	0	37,922	37,922	0	37,922
Accrued Liabilities	51,748	50,580	102,328	(4,191)	98,137
Custodial Liability (Note 11)	0	102,469	102,469	0	102,469
Other (Note 12)	8,848	28,849	37,697	(6,510)	31,187
Total Intragovernmental	136,063	221,326	357,389	(10,701)	346,688
Accounts Payable	46,066	84,956	131,022	0	131,022
Pensions and Other Actuarial Liabilities (Note 14)	6,637	27,036	33,673	0	33,673
Environmental Cleanup Costs (Note 20)	0	15,499	15,499	0	15,499
Accrued Liabilities	145,358	631,909	777,267	0	777,267
Cashout Advances and Deferrals, Superfund (Note 15)	372,586	0	372,586	0	372,586
Commitments and Contingencies (Note 18)	5,000	2,950	7,950	0	7,950
Other (Note 12)	63,024	200,510	263,534	0	263,534
Total Liabilities	774,734	1,184,186	1,958,920	(10,701)	1,948,219
NET POSITION					
Unexpended Appropriations (Note 16)	0	10,119,838	10,119,838	0	10,119,838
Cumulative Results of Operations	3,921,892	2,042,570	5,964,462	0	5,964,462
Total Net Position	3,921,892	12,162,408	16,084,300	0	16,084,300
Total Liabilities and Net Position	$ 4,696,626	$ 13,346,594	$ 18,043,220	$ (10,701)	$ 18,032,519

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS:						
Intragovernmental	$ 74,193	$ 153,480	$ 23,286	$ 37,685	$ 414,860	$ 34,480
With the Public	462,922	3,209,971	80,003	231,151	1,478,910	179,880
Total Costs	537,115	3,363,451	103,289	268,836	1,893,770	214,360
Less:						
Earned Revenues	219	5,794	21,247	4,180	336,253	6,939
Total Revenue	219	5,794	21,247	4,180	336,253	6,939
Management Cost Allocation	55,155	75,785	22,444	35,815	139,392	16,236
NET COST OF OPERATIONS	$ 592,051	$ 3,433,442	$ 104,486	$ 300,471	$ 1,696,909	$ 223,657

Detailed descriptions of the above Goals are provided in *EPA's FY 2000 Annual Report, Section II – GPRA Performance Results by Strategic Goal*.

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Right to Know	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals*	Consolidated Totals
COSTS:						
Intragovernmental	$ 27,229	$ 49,203	$ 69,713	$ 139,354	$ 120,149	$ 1,143,632
With the Public	114,439	286,882	317,423	339,874	25,346	6,726,801
Total Costs	141,668	336,085	387,136	479,228	145,495	7,870,433
Less:						
Earned Revenues	338	1,490	495	1,694	3,335	381,984
Total Revenue	338	1,490	495	1,694	3,335	381,984
Management Cost Allocation	23,447	31,613	77,647	(477,534)	0	0
NET COST OF OPERATIONS	$ 164,777	$ 366,208	$ 464,288	0	$ 142,160	$ 7,488,449

**** See Note 33.***

Detailed descriptions of the above Goals are provided in *EPA's FY 2000 Annual Report, Section II – GPRA Performance Results by Strategic Goal*.

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Net Cost
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
COSTS:					
Intragovernmental	$ 373,311	$ 787,415	$ 1,160,726	$ (17,094)	$ 1,143,632
With the Public	1,259,464	5,467,337	6,726,801	0	6,726,801
Expenses from Other Appropriations (Note 23)	31,270	(31,270)	0	0	0
Total Costs	1,664,045	6,223,482	7,887,527	(17,094)	7,870,433
Less:					
Earned Revenues	307,200	91,878	399,078	(17,094)	381,984
Total Revenue	307,200	91,878	399,078	(17,094)	381,984
NET COST OF OPERATIONS	$ 1,356,845	$ 6,131,604	$ 7,488,449	$ 0	$ 7,488,449

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Net Cost of Operations	$ 1,356,845	$ 6,131,604	$ 7,488,449	$ 0	$ 7,488,449
Financing Sources (Other Than Exchange Revenues):					
Appropriations Used	0	6,632,631	6,632,631	0	6,632,631
Taxes and Non-Exchange Interest (Note 17)	240,808	260,272	501,080	0	501,080
Other Non-Exchange Revenue	1,192	12,958	14,150	0	14,150
Imputed Financing (Note 35)	32,063	168,659	200,722	0	200,722
Trust Fund Appropriations Received (Note 17)	700,000	(700,000)	0	0	0
Income from Other Appropriations (Note 23)	31,270	(31,270)	0	0	0
Transfers-In (Note 34)	9,707	63,730	73,437	(48,725)	24,712
Transfers-Out (Note 34)	(122,935)	(990)	(123,925)	48,725	(75,200)
Net Results of Operations before Trust Fund and Cashout Interest Accounting Changes	(464,740)	274,386	(190,354)	0	(190,354)
Cumulative Effect of Trust Fund Accounting Change on Prior Years' Net Results of Operations (Note 32)	2,656,831	91,596	2,748,427	0	2,748,427
Cumulative Effect of Accounting Change for Cashout Interest on Prior Years' Net Results of Operations (Note 36)	85,382	0	85,382	0	85,382
Net Results of Operations	2,277,473	365,982	2,643,455	0	2,643,455
Increases/(Decreases) in Unexpended Appropriations	(2,656,831)	42,874	(2,613,957)	0	(2,613,957)
Change in Net Position	(379,358)	408,856	29,498	0	29,498
Net Position - Beginning of Period	4,301,250	11,753,552	16,054,802	0	16,054,802
Net Position - End of Period	$ 3,921,892	$ 12,162,408	$ 16,084,300	$ 0	$ 16,084,300

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals
Budgetary Resources			
Budget Authority	$ 1,346,470	$ 6,920,006	$ 8,266,476
Unobligated Balances, Beginning of Period (Note 31)	482,872	1,674,675	2,157,547
Net Transfers, Prior Period Balances	0	(977)	(977)
Spending Authority from Offsetting Collections	123,161	311,272	434,433
Adjustments (Note 26)	199,372	27,847	227,219
Total Budgetary Resources	$ 2,151,875	$ 8,932,823	$ 11,084,698
Status of Budgetary Resources			
Obligations Incurred	$ 1,701,337	$ 7,158,665	$ 8,860,002
Unobligated Balances Available - Apportioned (Note 27)	449,538	1,644,998	2,094,536
Unobligated Balances Not Available (Note 27)	1,000	129,160	130,160
Total, Status of Budgetary Resources	$ 2,151,875	$ 8,932,823	$ 11,084,698
Outlays			
Obligations Incurred	$ 1,701,337	$ 7,158,665	$ 8,860,002
Less: Spending Authority from Offsetting Collections and Adjustments	(324,821)	(420,189)	(745,010)
Subtotal	1,376,516	6,738,476	8,114,992
Obligated Balance, Net - Beginning of Period	2,433,861	9,153,233	11,587,094
Less: Obligated Balance, Net - End of Period (Note 28)	(2,283,790)	(9,289,444)	(11,573,234)
Total Outlays	$ 1,526,587	$ 6,602,265	$ 8,128,852

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Financing
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals
Obligations and Nonbudgetary Resources			
Obligations Incurred	$ 1,701,337	$ 7,158,665	$ 8,860,002
Less: Spending Authority for Offsetting Collections and Adjustments			
Earned Reimbursements			
Collected	(108,997)	(230,981)	(339,978)
Receivable from Federal Sources	13,324	20,720	34,044
Change in Unfilled Customer Orders (Decreases)/Increases	(17,846)	(54,653)	(72,499)
Transfers from Trust Funds	(9,642)	(46,358)	(56,000)
Recoveries of Prior Year Obligations	(201,660)	(111,767)	(313,427)
Financing Imputed for Cost Subsidies (Note 35)	32,063	168,659	200,722
Income from Other Appropriations (Note 23)	31,270	(31,270)	0
Transfers-In/(Out) of Nonmonetary Assets	39	0	39
Exchange Revenue Not in the Entity's Budget	(215,449)	(3,088)	(218,537)
Total Obligations as Adjusted and Nonbudgetary Resources	1,224,439	6,869,927	8,094,366
Resources that Do Not Fund Net Cost of Operations			
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Provided - (Increases)/Decreases	143,536	(74,345)	69,191
Change in Unfilled Customer Orders, etc.	17,846	53,227	71,073
Costs Capitalized on the Balance Sheet - (Increases)/Decreases			
General Plant, Property and Equipment	(3,827)	(107,711)	(111,538)
Purchases of Inventory	0	(68)	(68)
Adjustments to Costs Capitalized on the Balance Sheet	0	153	153
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	5,014	5,014
Adjustment for Trust Fund Outlays that Do Not Affect Net Cost	(38,090)	(652,268)	(690,358)
Total Resources that Do Not Fund Net Costs of Operations	119,465	(775,998)	(656,533)
Components of Costs that Do Not Require or Generate Resources			
Depreciation and Amortization	3,654	20,651	24,305
Bad Debt Related to Uncollectible Non-Credit Reform Receivables	3,075	1,518	4,593
Revaluation of Assets and Liabilities	0	(165)	(165)
Loss on Disposition of Assets	(813)	0	(813)
Other Expenses Not Requiring Budgetary Resources	45	3,409	3,454
Total Costs That Do Not Require Resources	5,961	25,413	31,374
Financing Sources Yet to be Provided (Note 30)	6,980	12,262	19,242
Net Costs of Operations	$ 1,356,845	$ 6,131,604	$ 7,488,449

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Custodial Activity
For the Year Ended September 30, 2000
(Dollars in Thousands)

Revenue Activity:	
Sources of Collections:	
Fines and Penalties	76,850
Other	$ 18,418
Total Cash Collections	95,268
Accrual Adjustment	(8,678)
Total Custodial Revenue	86,590
Disposition of Collections:	
Transferred to Others (General Fund)	97,730
Increases/(Decreases) in Amounts To Be Transferred	(11,140)
Total Disposition of Collections	86,590
Net Custodial Revenue Activity	$ 0

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Notes to Financial Statements
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, 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 books and records of the Agency in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 97-01, and the Agency's accounting policies which are summarized in this note. In addition to the guidance in Bulletin 97-01, the Statement of Net Cost has been prepared by the EPA strategic goals. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency's use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate Federal pollution control efforts. The Agency is generally organized around the media and substances it regulates -- air, water, land, hazardous waste, pesticides and toxic substances. For FY 2000, the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by Federal and state governments as well as industry. The Agency allocates funds from its appropriation to other Federal agencies to carry out the Act. 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. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other Federal agencies. Superfund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

All Other Funds include Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other Federal agencies as authorized by the Economy Act of 1932. Trust Fund appropriations are to the Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund. General Fund appropriations are to State and Tribal Assistance Grants (STAG), Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector General (IG), Buildings and Facilities (B&F), and Payment to the Hazardous Substance Superfund. General Fund appropriations that no longer receive current appropriations but have unexpended authority are the Program and

Research Operations (PRO), and Energy, Research and Development. Revolving Funds include the FIFRA Revolving Fund and Tolerance Revolving Fund, which receive no direct appropriations; however, they do collect fees from public industry as a source of reimbursement for the services provided. In addition to FIFRA and Tolerance, a Working Capital Fund (WCF) was established and designated as a franchise fund to provide computer operations support and postage service for the Agency. A Special Fund was established to collect the Exxon Valdez settlement as a result of the Exxon Valdez oil spill. All Other Funds are as follows:

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 environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a 0.1 cent a gallon tax on motor fuels, which will expire in 2005, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act (OPA) of 1990. The Oil Spill Response Trust Fund was established in FY 1993 and monies were appropriated to the Oil Spill Response Trust Fund. 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 of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The State and Tribal Assistance Grants (STAG) appropriation provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2000, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans’ Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The Science and Technology appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) includes funds for salaries; travel; contracts; grants and cooperative agreements for pollution abatement, control and compliance activities; and administrative activities of the operating programs. Areas supported from this appropriation include Clean Air; Clean and Safe Water; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans’ Right to Know About Their Environment; Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems; a

Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The Environmental Programs and Management appropriation is accounted for under Treasury symbol 0108.

The Office of Inspector General appropriation provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund Trust Fund and the Leaking Underground Storage Tank Trust Fund are appropriated under those Trust Fund accounts and are transferred to the Office of Inspector General account. The audit function provides contract audit, internal and performance audit, and financial and grant audit services. The Office of Inspector General appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds being accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the Environmental Protection Agency. The Buildings and Facilities appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations from the General Fund of the Treasury to finance activities conducted through Hazardous Substance Superfund. Payment to the Hazardous Substance Superfund is accounted for under Treasury symbol 0250.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program fund disbursed the subsidy to the Financing fund as loans were made, and disbursed administrative expenses to the providers. The Financing fund received the subsidy payment, borrowed from Treasury and disbursed loans and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 4322 for loans receivable and loan collections on post FY 1991 loans; and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The Program and Research Operations appropriation provides salaries and travel associated with administering the operating programs within the Environmental Protection Agency. It incorporated personnel, compensation and benefit costs and travel, exclusive of the Hazardous Substance Response Trust Fund, the Leaking Underground Storage Tank Trust Fund, the Office of Inspector General and the Oil Spill Response Trust Fund. In fiscal year 1996, Congress restructured the Agency's accounts. The Program and Research Operations appropriation was eliminated. Activity remaining from prior fiscal year appropriations is accounted for under Treasury symbol 0200. Unexpended authority for the Program and Research Operations appropriation was canceled at the end of the fiscal year.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act Amendments of 1998, as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for EPA to establish tolerances of pesticide chemicals in or on food and animal feed. Effective January 2, 1997, fees collected are now being deposited in the Reregistration and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The Working Capital Fund (WCF) includes two activities: computer support services and postage. WCF derives revenue from these activities based upon fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenue generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund 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 the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Appropriations transferred to the Agency from other Federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce, which provide economic assistance to state and local developmental activities; the Agency for International Development which provides assistance on environmental matters at international levels; and from the General Services Administration, which provides funds for rental of buildings, and operations, repairs, and maintenance of rental space. The transfers appropriations are accounted for under Treasury symbols 0200, 1010, 1021, 2050, and 4542.

Clearing Accounts include the Budgetary suspense account, Deposit in Transit differences, Unavailable Check Cancellations and Overpayments, and Undistributed and Letter of Credit differences. Clearing accounts are accounted for under Treasury symbols 3875 and 3880.

Deposit funds include Fees for Ocean Dumping, Nonconformance Penalties, Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6266, 6275, 6500, and 6875.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 2410, 3200, and 3220.

The Environmental Services Receipt account was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T appropriation and to the EPM appropriation to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund includes gifts for pollution control programs that are usually designated for a specific use by the donor and deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds was $56.3 million for FY 2000.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund 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 Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the 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 LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriation for S&T, EPM and for the Office of Inspector General 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 by a combination from two sources: one for the long term cost of the loan and another for the remaining non-subsidized portion of the loan. 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 does not represent long term cost is financed under a permanent indefinite borrowing authority established with the Treasury. The annual appropriation bill limits the amount of obligations that can be made for direct loans. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan is disbursed. No appropriation was adopted by Congress for FY 2000; therefore, there was no new financing available to the Asbestos Loan Program for FY 2000.

Funding of the FIFRA and the Tolerance Revolving Funds 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 WCF is provided by fees collected from other Agency appropriations collected to offset costs incurred for providing the Agency administrative support for computer support services and postage.

Funds transferred from other Federal agencies is funded by a non expenditure transfer of funds from the other Federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the transfer appropriation is reduced at Treasury.

Clearing accounts, Deposit accounts, and Receipt accounts receive no budget. The amounts are recorded to the Clearing and Deposit accounts pending further disposition. Amounts recorded to the Receipt accounts capture amounts receivable to or collected for the General Fund of the U.S. Treasury.

D. Basis of Accounting

Superfund and All Other Funds

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. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

Superfund

The Superfund receives most funding needed to support the program through appropriations that may be used within statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund Trust Fund is obtained through reimbursements from other Federal agencies, from States for State Cost Share, and from potentially responsible parties (PRPs) for future costs. Revenues collected through cost recovery are deposited with the Trust fund at Treasury.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the loan disbursements through collections from the Program fund for the subsidized portion of the loan and through borrowing from Treasury for the non-subsidized portion. The last year Congress provided appropriations for this fund was 1993, accordingly, no new funding has been available for this program. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as Other Financing Sources when earned, i.e., 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

Superfund and All Other Funds

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments.

G. Investments in U.S. Government Securities

Superfund and All Other Funds

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. Investments are held to maturity, unless they are needed to finance operations of the fund.

H. Securities Received in Settlement

Superfund

During FY 1993 and FY 1996, the Agency received marketable equity securities, valued at a total $5,146 thousand of which $5,127 thousand are still held, from a company in settlement of Superfund cost recovery actions. 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.

I. Accounts Receivable and Interest Receivable

Superfund

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), as amended by the Superfund Amendments and Reauthorization Act (SARA), provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record 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 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 Superfund State Contracts (SSCs), cost sharing arrangements under SSCs 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% or 50% of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA and both accounts receivable and interest receivable to the General Fund of the Treasury.

J. Loans Receivable

All Other Funds

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.

K. Appropriated Amounts Held by Treasury

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. At the end of FY 2000 approximately $2.7 billion remained in the Treasury managed Superfund Trust Fund and approximately $86.2 million remained in the LUST Trust Fund to meet the Agency's disbursement needs.

L. Advances and Prepayments

Superfund and All Other Funds

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.

M. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS) implemented in FY 1997 maintains EPA-held personal and real property records. The FAS automatically generates depreciation entries monthly based upon the acquisition date. Purchases of EPA-held and contractor-held personal equipment are capitalized if the equipment is valued at $25 thousand or more and has an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth year, and 20% in years two through five. All EPA-held personal equipment purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal equipment are depreciated using the straight-line method over the specific assets' useful lives, ranging from two to 15 years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is $75 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. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. In addition to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

N. Liabilities

Superfund and All Other Funds

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

O. Borrowing Payable to the Treasury

All Other Funds

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

P. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2000, there was no outstanding interest payable to Treasury since payment was made through

September 30.

Q. Accrued Unfunded Annual Leave

Superfund and All Other Funds

Annual, sick and other leave is expensed as taken during the fiscal year. Sick and other leave earned but not taken is not accrued as a liability. Annual leave and compensation time in lieu of overtime earned but not taken as of the end of the fiscal year are accrued as an unfunded liability. Accrued unfunded leave is included in the Statement of Financial Position as a component of "Other Liabilities-Governmental." As of September 30, 2000, the unfunded leave liability for the Superfund Trust Fund was $19.6 million and for All Other Funds was $93.2 million.

R. Retirement Plan

Superfund and All Other Funds

The majority of the Agency's employees participate in the Civil Service Retirement System (CSRS), to which the Agency contributes 8.51% and employees contribute 7.40% (as of January 1, 2000) of base pay.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to the Agency employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS-5), which was effective for the FY 1997 financial statements, accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS-5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provides EPA with the "Cost Factors" to compute EPA's liability for each program.

S. Cost Accounting

Superfund and All Other Funds

EPA has designated the Goals, Objectives and Sub-objectives of the Agency's Strategic Plan prepared under the Government Performance and Results Act (GPRA) as the Agency's "products and services." Under the GPRA structure, each expenditure from obligations made using new obligational authority (NOA) in FY 1999 forward is made at the Goal, Objective, Sub-objective level that is part of the Program Results Code (PRC). EPA's senior management made the decision not to "recast" resources under the old Program Element (PE) structure to the GPRA structure. However, the program offices where these PEs were obligated and disbursed cross walked the expenses to the appropriate Goal(s). Most of the PEs can be traced directly to a Goal and in those cases where PEs crossed Goals, the allocation of expenses was done on a reasonable and consistent basis.

Program Performance Grants (PPGs) allow state and interstate agencies to combine two or more environmental program grants into one grant. PPGs are performance based and the States are accountable for performance but not for detailed accounting as to how funds are spent. These grants may cover several Goals. EPA grant project officers in discussion with States align the grant work plan with the GPRA structure. Accounting at the Goal level is based on expected performance as outlined in the work plan. Adjustments are made to the accounting only if the actual performance varies materially from the grant work plan.

Activities occurring in Goal 10 are for the administrative functions necessary for a federal agency to support its complex and wide reaching programs. These activities are not directly charged to the Agency's environmental programs. For the Statement of Net Cost by Goal, the costs in Goal 10 are allocated to Goals 1 thru 9 based on the total Full Time Equivalents (FTE) within each Goal. The Goal 10 agency-wide costs are allocated based on the total FTE in each of the Goals; costs associated with regional support are allocated based on Regional FTE in each Goal.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2000, consists of the following (in thousands):

	Entity Assets	Non-Entity Assets	Total
Trust Funds:			
Superfund	$ 37,397	$ 0	$ 37,397
LUST	1,300	0	1,300
Oil Spill	3,106	0	3,106
Revolving Funds:			
FIFRA	5,442	0	5,442
Tolerance	22	0	22
Working Capital	52,509	0	52,509
Appropriated Funds	10,913,47	0	10,913,471
Other Fund Types	76,338	7,068	83,406
Total	$ 11,089,58	$ 7,068	$ 11,096,653

Entity fund balances include balances that are available to pay current liabilities and to finance authorized purchase commitments. Also, entity assets, Other Fund Types consist of the Environmental Services Receipt account. The Environmental Services Receipt account is a special fund receipt account. Upon Congress appropriating the funds, EPA will use the receipts in the Science and Technology appropriation and the Environmental Programs and Management appropriation.

The non-entity Other Fund Type consist of deposit funds. The deposit funds are awaiting documentation for the determination of proper accounting disposition.

Note 3. Cash

In All Others, as of September 30, 2000, Cash consisted of imprest funds totaling $48 thousand.

Note 4. Investments

As of September 30, 2000, investments consisted of the following:

Amounts for Balance

	Cost	Unamortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Superfund					
Intragovernmental Securities:					
Non-Marketable	$ 4,126,450	$ 166,180	$ 43	$ 3,960,313	$ 3,960,313
All Others					
Intragovernmental Securities:					
Non-Marketable	$ 1,669,665	$ 76,334	$ 26	$ 1,593,357	$ 1,593,357

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). 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 marketable securities in the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert these securities to cash as soon as practicable.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2000, consist of the following:

	Superfund	All Others
Intragovernmental Assets:		
Accounts & Interest Receivable	$ 40,671	$ 34,371
Total	$ 40,671	$ 34,371
Governmental Assets:		
Unbilled Accounts Receivable	$ 88,209	$ 0
Accounts & Interest Receivable	883,938	155,581
Less: Allowance for Doubtful	(355,108)	(67,686)
Total	$ 617,039	$ 87,895

Accounts receivable due from other Federal agencies are considered fully collectible.

The Allowance for Doubtful Accounts is determined on a specific identification basis as a result of a case-by-case review of receivables at the regional level, and a reserve on a percentage basis for those not specifically identified.

The Accounts Receivable amount above includes a Superfund penalty amount of $638.6 thousand that was applied and posted late in FY 2000. The agency believes that collection of this amount is not likely. Had the penalty been applied earlier in the year, the Allowance for Doubtful Accounts would have been adjusted upward by $479 thousand to account for the low likelihood of collection.

Note 6. Other Assets

Other Assets for September 30, 2000, consist of the following

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Intragovernmental Assets:					
Advances to Federal Agencies	$ 15,279	$ 7,409	$ 22,688	$ 0	$ 22,688
Advances to Working Capital Fund	6,510	0	6,510	(6,510)	0
Advances for Postage	0	43	43	0	43
Total Intragovernmental Assets	**$ 21,789**	**$ 7,452**	**$ 29,241**	**$ (6,510)**	**$ 22,731**
Governmental Assets:					
Travel Advances	$ (18)	$ (916)	$ (934)	$ 0	$ (934)
Letter of Credit Advances	0	599	599	0	599
Grant Advances	0	1,945	1,945	0	1,945
Other Advances	767	75	842		842
Bank Card Payments	1	0	1		1
Deposit on Returnable Containers	0	(2)	(2)	0	(2)
Prepaid Rent	0	11	11	0	11
Total Governmental Assets	**$ 750**	**$ 1,712**	**$ 2,462**	**$ 0**	**$ 2,462**

Note 7. Loans Receivable, Net - Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance 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. The Act 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 present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 2000, is provided in the following sections.

	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	$ 58,114	$ 0	$ 58,114
Direct Loans Obligated After FY 1991	46,909	(15,895)	31,014
Total	$ 105,023	$ (15,895)	$ 89,128

* 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).

Subsidy Expenses for Post Credit Reform Loans:

	Interest Differential	Expected Defaults	Fee Offsets	Total
Direct Loan Subsidy Expense	$ 2,640	$ 0	$ 0	$ 2,640

Note 8. Inventory and Property Received in Settlement, Net

The Inventory and Related Property at September 30, 2000, consisted of the following:

	Superfund	All Other
Operating Materials and Supplies Held for Use in Normal Operations	$ 0	$ 306
Securities Received in Settlement	5,086	41
Total	$ 5,086	$ 347

The securities represent assets received during a bankruptcy proceeding. The Agency does not intend to exercise ownership rights related to these securities, and instead will convert these securities to cash as soon as practicable.

Note 9. General Plant, Property and Equipment

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under "All Others" and consists of real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

Purchases of EPA-Held and Contractor-Held personal property are capitalized if the equipment is valued at $25 thousand or more and has an estimated useful life of at least two years. Software is capitalized if the purchase price is $100 thousand or more for a revenue generating activity, such as the Working Capital Fund, and has an estimated useful life of at least two years. The Agency depreciates EPA-Held personal property using a straight-line method over the asset's useful life ranging from two to 15 years. Contractor-Held personal property is depreciated over five years using a modified straight-line method. Real property, other than land, is capitalized when the value is $75 thousand or more and is depreciated using the straight-line method over the specific asset's useful life ranging from 10 to 102 years. Land is capitalized regardless of cost. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease term.

As of September 30, 2000, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	**Accumulated Depreciation**	**Net Book Value**	**Acquisition Value**	**Accumulated Depreciation**	**Net Book Value**
EPA-Held Equipment	$ 24,733	$ (16,313)	$ 8,420	$ 134,893	$ (86,883)	$ 48,010
Software	0	0	0	550	0	550
Contractor-Held Equipment	8,814	(3,653)	5,161	34,103	(27,551)	6,552
Land and Buildings	0	0	0	461,817	(73,430)	388,387
Capital Leases	0	0	0	40,992	(11,463)	29,529
Total	$ 33,547	$ (19,966)	$ 13,581	$ 672,355	$ (199,327)	$ 473,028

Note 10. Debt

The Debt consisted of the following as of September 30, 2000:

All Others	Beginning Balance	Net Borrowing	Ending Balance
Other Debt:			
Debt to Treasury	$ 37,922	$ 0	$ 37,922
Classification of Debt:			
Intra-governmental Debt			$ 37,922
Total			$ 37,922

Note 11. Custodial Liability

Custodial Liability represent the amount of net accounts receivable that, when collected, will be deposited to the General Fund of the Treasury. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

The Other Liabilities, both intragovernmental and non-Federal, for September 30, 2000, are as follows:

Other Liabilities - Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Employer Contributions & Payroll Taxes	$ 2,900	$ 0	$ 2,900
Other Advances	1,681	0	1,681
Advances, HRSTF Cashout	2,414	0	2,414
Deferred HRSTF Cashout	437	0	437
Resources Payable to Treasury	61	0	61
Superfund - Non-Current			
Unfunded FECA Liability	0	1,355	1,355
Total Superfund	$ 7,493	$ 1,355	$ 8,848
All Other - Current			
Employer Contributions & Payroll Taxes	$ 12,690	$ 0	$ 12,690
WCF Advances	6,510	0	6,510
Other Advances	3,638	0	3,638
Liability for Deposit Funds	(20)	0	(20)
Resources Payable to Treasury	(33)	0	(33)
All Other - Non-Current			
Unfunded FECA Liability	0	6,064	6,064
Total All Other	$ 22,785	$ 6,064	$ 28,849

Other Liabilities - Non-Federal	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Superfund - Current			
Accrued Funded Payroll and Benefits	$ 7,499	$ 0	$ 7,499
Accrued Funded Annual Leave	5,777	0	5,777
Payroll Check Cancellation Liability	3	0	3
Unearned Advances, Non- Federal	30,192	0	30,192
Accrued Unfunded Annual Leave	0	19,553	19,553
Total Superfund	$ 43,471	$ 19,553	$ 63,024

Other Liabilities - Non-Federal	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
All Other - Current			
Accrued Funded Payroll and Benefits	$ 32,570	$ 0	$ 32,570
Withholdings Payable	25,278	0	25,278
Accrued Funded Annual Leave	320	0	320
Payroll Check Cancellation Liability	44	0	44
Unearned Advances, Non- Federal	4,729	0	4,729
Liability for Deposit Funds	6,833	0	6,833
Accrued Unfunded Annual Leave	0	93,151	93,151
All Other - Non-Current			
Capital Lease Liability	0	37,585	37,585
Total All Other	$ 69,774	$ 130,736	$ 200,510

Note 13. Leases

The Capital Leases as of September 30, 2000, consist of the following:

Capital Leases:

Summary of Assets Under Capital Lease:	**All Others**
Land, Buildings and Personal Property	$ 40,992
Accumulated Amortization	$ 11,463

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator 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). EPA has one capital lease for a xerox copier, at a net present value of $78 thousand, that expires in FY 2002. The three real property leases terminate in fiscal years 2010, 2013 and 2025. The charges are expended out of the Environmental Programs and Management (EPM) appropriation. The total future minimum lease payments of the capital leases are listed below.

Future Payments Due:	All Others
Fiscal Year	
2001	$ 6,314
2002	6,303
2003	6,295
2004	6,295
2005	6,295
After 5 Years	96,194
Total Future Minimum Lease Payments	127,696
Less: Imputed Interest	(90,111)
Net Capital Lease Liability	$ 37,585
Liabilities not Covered by Budgetary Resources (See Note 10)	$ 37,585

Operating Leases:

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

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2000. In FY 2000 EPA also entered into a one year lease for the dockage of EPA's research vessel "Peter W. Anderson" and warehouse storage of equipment that expires May 31, 2001. Most of these leases include a base rental charge and escalator 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 of these leases, which expired on September 30, 2000, was succeeded by a GSA lease agreement for the same space. Two of these leases, which were to terminate during FY 2000, were extended to fiscal years 2002 and 2020. In fiscal year 1997 and 1998, EPA entered into two leases, which terminate in fiscal 2017 and 2003 respectively. The charges are expended out of the EPM appropriation. The total minimum future costs of operating leases are listed below.

Fiscal Year	Superfund	All Others	Total Land & Buildings
2001	$ 0	$ 5,427	$ 5,427
2002	0	2,082	2,082
2003	0	84	84
2004	0	74	74
2005	0	74	74
Beyond 2006	0	994	994
Total Future Minimum Lease Payments	$ 0	$ 8,735	$ 8,735

Note 14. Pension and Other Actuarial Liabilities

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 DOL.

The FECA Actuarial Liability at September 30, 2000, consisted of the following:

	Superfund	All Other
FECA Actuarial Liability	$ 6,637	$ 27,036

The FY 2000 present value of these estimates was calculated using a discount rate of 5.5 percent in years 1 and 2, 5.55 percent in year 3 and 5.6 percent in year 4 and thereafter. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances and Deferrals, Superfund

Cashouts are funds received by EPA, a state, or another Potentially Responsible Party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations

As of September 30, 2000, the Unexpended Appropriations consisted of the following:

Unexpended Appropriations:	Superfund	All Others	Total
Unobligated			
Available	$ 0	$ 1,518,675	$ 1,518,675
Unavailable	0	83,396	83,396
Undelivered Orders	0	8,517,767	8,517,767
Total	$ 0	$ 10,119,838	$ 10,119,838

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the "Hazardous Substance Superfund Trust Fund" (Superfund) and the "Leaking Underground Storage Tank Trust Fund" (LUST).

Superfund (Audited)

Superfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2000. The amounts contained in these statements have been provided by the Treasury and are audited. Outlays represent amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 1,986	$ 1,986
Unavailable for Investment	0	0	0
Total Undisbursed Balance	0	1,986	1,986
Interest Receivables	0	43	43
Investments, Net of Discounts	2,770,969	1,189,301	3,960,270
Total Assets	$ 2,770,969	$ 1,191,330	$ 3,962,299
Liabilities & Equity			
Debt	$ 0	$ 0	$ 0
Equity	2,770,969	1,191,330	3,962,299
Total Liability and Equity	$ 2,770,969	$ 1,191,330	$ 3,962,299
Receipts			
Petroleum-Imported	$ 0	$ 176	$ 176
Petroleum-Domestic	0	2	2
Crude and Petroleum	0	(561)	(561)
Certain Chemicals	0	2,166	2,166
Imported Substances	0	606	606
Corporate Environmental	0	2,679	2,679
Cost Recoveries	0	230,508	230,508
Fines & Penalties	0	725	725
Total Revenue	0	236,301	236,301
Appropriations Received	0	700,000	700,000
Interest Income	0	235,740	235,740
Total Receipts	0	1,172,041	1,172,041
Outlays			
Transfers to EPA	1,628,891	(1,628,891)	0
Total Outlays	1,628,891	(1,628,891)	0
Net Income	$ 1,628,891	$ (456,850)	$ 1,172,041

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in these statements have been provided by Treasury and are audited. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ (725)	$ (725)
Unavailable for Investment	0	0	0
Total Undisbursed Balance	0	(725)	(725)
Taxes Receivable	0	221	221
Interest Receivables	0	26	26
Investments, Net of Discounts	86,283	1,506,348	1,592,631
Total Assets	$ 86,283	$ 1,505,870	$ 1,592,153
Liabilities & Equity			
Accrued Liabilities	$ 0	$ 2,892	$ 2,892
Equity	86,283	1,502,978	1,589,261
Total Liability and Equity	$ 86,283	$ 1,505,870	$ 1,592,153
Receipts			
Highway TF Tax	$ 0	$ 172,659	$ 172,659
Airport TF Tax	0	16,380	16,380
Inland TF Tax	0	612	612
Audit Adjustment	0	(1,710)	(1,710)
Gross Revenue	0	187,941	187,941
Less: Reimbursement to General Fund	0	(6,625)	(6,625)
Net Revenue	0	181,316	181,316
Interest Income	0	78,956	78,956
Net Receipts	0	260,272	260,272
Outlays			
Transfers to EPA	65,718	(65,718)	0
Total Outlays	65,718	(65,718)	0
Net Income	$ 65,718	$ 194,554	$ 260,272

Note 18. Commitments and Contingencies

EPA is a party in various administrative proceedings, legal 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.

Superfund

Under CERCLA §106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA §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 §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.

There are currently nine CERCLA §106(b) administrative claims and four pending lawsuits. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately $32.6 million and $5.7 million, respectively. The Environmental Appeals Board has not yet issued final decisions on the administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success in all nine of these outstanding claims is characterized as reasonably possible. The claimants' chance of success in three of the four pending lawsuits is also reasonably possible. The outcome of the remaining lawsuit is considered remote.

There are a number of outstanding CERCLA §106(a) cleanup orders where the recipients of the orders have not yet completed the ordered response actions. Each such recipient could potentially file a claim with EPA for reimbursements under CERCLA §106(b) of its costs of responding to the order once it has completed the ordered actions.

EPA is responsible to indemnify response action contractors (CERCLA §119) for legal costs that will eventually exceed, or have exceeded, the deductible specified in the current indemnification agreements. Such payments by the United States would be recoverable government response costs. EPA has only one claim, which is considered remote.

EPA contractors have submitted response action contractor claims. No claims were material.

All Other

There were no material litigation, asserted or unasserted claims or assessments involving all other appropriated funds of the Agency.

Judgement Fund

In cases that are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgement is assessed and the Judgement 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 judgement, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions.

As of September 30, 2000, $5 million of Superfund related claims and $2.9 million of All Other funds' claims were accrued as contingent liabilities under these criteria.

In addition, EPA is party to certain pending litigation upon which EPA believes it has a reasonable legal position. $336.1 million of Judgement Fund claims in addition to the above accrued amounts are pending.

In the opinion of EPA's management and General Counsel, the ultimate resolution of any legal actions still pending will not materially affect EPA's operations or financial position.

Note 19. Grant Accrual

The EPA has revised the methodology for calculating the accrued grant expense for the fiscal year 2000 financial statements. The methodology uses a model based upon historical grant obligations and the related payment incurred the succeeding years. The model calculates a "what should be disbursed amount" vs. the actual disbursements made in the year. The accrual amount is derived from the results of this model combined with an additive factor which considers the ratio of accruals to disbursements for the last two fiscal years. The accrual for Superfund is $43.0 million and the All Other grant accrual is $507.6 million. In the Statement of Net Cost by Goal, the grant accrual amounts are included in "Not Assigned to Goals."

Note 20. Environmental Cleanup Costs

EPA has four sites that require clean up stemming from its activities. Three of these sites will be paid from the Treasury Judgement fund amounting to $32 thousand. EPA estimates that clean up on the remaining site will be approximately $10 thousand. EPA also holds title to a site in Edison, New Jersey, which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs. However, it is expected that the Department of Defense and the General Services Administration will bear all or most of the cost of remediation.

Accrued Cleanup Cost

EPA has fourteen sites that will require future clean up associated with permanent closure. The estimated cost will be approximately $15.5 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability upon implementation and record changes to the estimate in subsequent years. The FY 2000 estimate for unfunded cleanup costs decreased by $128 thousand from the FY 1999 estimate. There was an increase of approximately $1.3 million for funded cleanup costs for FY 2000. EPA also could be potentially liable for cleanup costs at a GSA-leased site; however, the amounts are not known. Of the $15.5 million in estimated cleanup costs, approximately $10.9 million represents the estimated expense to close the current RTP research facility. These costs will be incurred within the next three years. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities.

Note 21. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (SSCs) 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 they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, States will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty 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. 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, 2000, total remaining State credits have been estimated at $12.6 million.

Note 22. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, potentially responsible parties (PRPs) agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and

Reauthorization Act (SARA) of 1986, a PRP 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, 2000, EPA had 12 outstanding preauthorized mixed funding agreements with obligations totaling $40.2 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 23. Income and Expenses from other Appropriations

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During Fiscal Year 2000, EPA had three appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The Environmental Programs and Management (EPM) appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Two prior year appropriations, Program and Research Operations (PRO) and Abatement Control and Compliance (AC&C) generated expenses. PRO funded travel, personnel compensation and benefits. AC&C funded procurement and contract activities.

All of the expenses from EPM, PRO and AC&C were distributed among EPA's two Reporting Entities: Superfund and All Others. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses.

As illustrated below, this estimate does not impact the net effect of the Statement of Net Costs.

	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect
Superfund	$ 31,270	$ (31,270)	$ 0
All Others	(31,270)	31,270	0
Total	$ 0	$ 0	$ 0

Note 24. Custodial Non-Exchange Revenues

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

Fines, Penalties and Other Misc Revenue (EPA)	$ 86,590

Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts

Accounts Receivable	$ 154,803
Less: Allowance for Doubtful Accounts	52,336
Total	$ 102,467

Note 25. Statement of Budgetary Resources

A reconciliation of budgetary resources, obligations incurred, and outlays, as presented in the audited Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2000, is as follows:

	Budgetary Resources	Obligations Incurred	Outlays
Superfund			
Statement of Budgetary Resources	$ 2,151,875	$ 1,701,337	$ 1,526,587
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(328)	(1,744)	1,000
Budget of the United States Government	$ 2,151,547	$ 1,699,593	$ 1,527,587
All Other			
Statement of Budgetary Resources	$ 8,932,823	$ 7,158,665	$ 6,602,265
Less: Funds Reported by Other Federal Entities	(24,778)	(23,835)	(24,545)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	66,618	67,907	57
Budget of the United States Government	$ 8,974,663	$ 7,202,737	$ 6,577,777

Note 26. Adjustments

For the Superfund Trust Fund this amount represents recoveries of prior year obligations of $201,660 thousand less $2,288 thousand in canceled authority. For All Others, this amount represents recoveries of prior year obligations of $111,767 thousand and $615 thousand of other adjustments to beginning unobligated balances, less rescinded authority of $28,848 thousand, and $55,687 thousand in canceled authority.

Note 27. Unobligated Balances Available

The Superfund Trust Fund has an unobligated balance of $449,538 thousand in unexpired authority and $1 million in expired authority. All Others has an unobligated balance of $1,644,998 thousand in unexpired authority and $129,160 thousand in expired authority. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2001. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

Note 28. Obligated Balance, Net - End of Period

Undelivered Orders, unpaid, at the end of the period are $2,091,767 thousand for the Superfund Trust Fund and $8,657,913 thousand for All Others.

Note 29. Difference in Outlays Between Statement of Budgetary Resources and SF-133

Outlays between the Statement of Budgetary Resources and the SF-133 differ by $1 million for Superfund, due to an advance that was refunded and reported on the SF-133 last year but not recorded and reported on the Statement of Budgetary Resources until this year.

Note 30. Statement of Financing

Increases in Unfunded Liabilities relate to changes in unfunded annual leave, environmental liabilities, contingent liabilities and the Federal Employees Compensation Act (FECA) special benefit fund. For Superfund and All Others, the changes totaled $7.0 million and $12.3 million, respectively and are reflected in Financing Sources Yet to Be Provided.

Note 31. Beginning Unobligated Balances - All Other Statement of Budgetary Resources

All Others in the Statement of Budgetary Resource contained some previously canceled funds in the beginning unobligated balance brought forward from FY 1999. The amounts from canceled funds were approximately $16.2 million. These balances have been eliminated this year in the Adjustments on the Statement of Budgetary Resources.

Note 32. Change in Accounting for Trust Funds

During FY 2000, in compliance with Statement of Federal Financial Accounting Standard No. 7 (Accounting for Revenue and Other Financing Sources), the U. S. Standard General Ledger Board issued definitive guidance for trust fund accounting and added new Standard General Ledger accounts to further distinguish trust fund transactions from other funds. The EPA implemented these changes for all trust funds. These changes eliminate the use of Unexpended Appropriations and Appropriations Used for trust funds, and indicate the inclusion of only the Cumulative Results of Operations account in Net Position for trust funds.

The changes affect transactions in this manner: In lieu of increases to Unexpended Appropriations, amounts appropriated or transferred to the trust funds are recorded in new accounts as Trust Fund Financing Sources-Transfers In. Amounts transferred out no longer decrease Unexpended Appropriations, but are recorded in new accounts as Trust Fund Financing Sources -Transfers Out. These new accounts are reported on the Statement of Changes in Net Position as Other Financing Sources, and are closed out at year end to Cumulative Results of Operations. Expenditures from trust funds are still reported as expenses or purchases of capital assets and reflected in budgetary expenditures, but are no longer reported as increases to Appropriations Used and decreases to Unexpended Appropriations.

The cumulative effect of these changes on the accounts was to move all prior year's balances in Unexpended Appropriations for trust funds into Cumulative Results of Operations. This cumulative effect is reported on a separate line on the Statement of Changes in Net Position this fiscal year. The decreases to Unexpended Appropriations for trust funds are detailed below:

	Superfund	All Other
Hazardous Substance Superfund No-Year Trust Fund	$ 2,607,783	$ 0
Superfund Annual Funds	49,048	0
Leaking Underground Storage Tank Trust Fund	0	81,830
Oil Spill Response Trust Fund	0	9,690
Miscellaneous Contributed Funds Trust Fund	0	76
Totals	$2,656,831	$91,596

Note 33. Costs Not Assigned to Goals

On the Statement of Net Cost by Goal, $145.5 million in gross costs were not assigned to goals. This amount was comprised of a $106.4 million increase to the year-end grant accruals, $15.2 million in unfunded expenses, $19.9 million in depreciation expenses that were not assigned, $3.0 million in bad debt expense, and $1 million in miscellaneous expenses.

Note 34. Transfers-in and out, Statement of Changes in Net Position

The consolidated amounts shown as transfers-in on the Statement of Changes in Net Position are comprised of transfers from other Federal agencies in accordance with applicable legislation. The consolidated amounts shown as transfers-out are nonexpenditure transfers to other Hazardous Substance Superfund allocation agency funds, such as HHS and Labor.

Note 35. Imputed Financing

In accordance with Statement of Federal Financial Accounting Standard No. 5 (Liabilities of the Federal Government), Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the Office of Personnel Management (OPM) trust funds. Theses amounts are recorded as imputed costs and imputed financing for the 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.

Note 36. Change in Accounting for Cashout Interest, Superfund

Per an agreement dated October 3, 1996 between the Office of Management and Budget (OMB) and the EPA, the EPA is allowed additional budget authority for interest earnings on Cashout (Special Account) collections for Superfund. The authority for interest earnings had previously been classified as Cashout Advances and Deferrals, Superfund, on the Consolidating Balance Sheet and as Spending Authority from Offsetting Collections on the Combined Statement of Budgetary Resources . In FY 2000, the beginning balance for interest earnings on Special Accounts was reclassified from Cashout Advances and Deferrals, Superfund to Net Position on the Consolidating Balance Sheet for Superfund. The change is consistent with guidance from OMB to treat the interest as permanently appropriated and is consistent with definitive guidance for trust fund accounting issued by the U. S. Standard General Ledger Board. This change is also in compliance with Statement of Federal Financial Accounting Standard No. 7 (Accounting for Revenue and Other Financing Sources).

For FY 2000, interest earnings that became available during the fiscal year are recorded in Trust Fund Financing Sources - Transfers In for EPA, and are then eliminated against Treasury's Transfers-Out in the consolidation of the Treasury and EPA funds. The current year's earnings are included as Budget Authority on the Combined Statement of Budgetary Resources for Superfund.

The amount available as of September 30, 2000 for Cashout Interest authority is as follows:

		Superfund
Cashout Interest reclassified from Cashout Advances and Deferrals, Superfund, October 1, 1999	**$**	85,382
Cashout Interest Authority Accrued FY 2000		21,670
Less: FY 2000 Drawdown of Authority		(780)
Total	**$**	106,272

Environmental Protection Agency
Required Supplemental Information
As of September 30, 2000
(Dollars in Thousands)
(Unaudited)

Deferred Maintenance

The EPA classifies 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. No deferred maintenance was reported for any of the four categories.

Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2000).

EPA confirmed its investment balances with the Bureau of the Public Debt, the Department of the Treasury. In addition, EPA sent out requests to trading partners to reconcile and confirm intragovernmental receivables and advances. Data was received from the Department of Defense, Department of Energy, and Tennessee Valley Authority. (The Department of Defense includes the Navy, Army, and Air Force.) The U.S. Army Corps of Engineers was not able to give us detailed data to be able to reconcile asset balances.

Trading Partner Code	Agency	Investments		AccountsReceivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
04	Government Printing Office	$ 0	$ 0	$ 0	$ 43	$ 65	$ 7,409
12	Department of Agriculture			355	146		
13	Department of Commerce				48		
14	Department of Interior			13,521			
15	Department of Justice			80			
17	Department of the Navy				248		
18	U. S. Postal Service						43
19	Department of State				70		
20	Department of the Treasury	3,960,313	1,593,357		222		
21	Department of the Army			7,798			
31	US Nuclear Regulatory Commission				20		
47	General Services Administration			12			
57	Department of the Air Force				223		
58	Federal Emergency Management Agency				1,205		
61	Consumer Product Safety Commission				8		
64	Tennessee Valley Authority				607		

Trading Partner Code	Agency	Investments		AccountsReceivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
68	EPA (between Superfund and All Other)				4,191	6,510	
69	Department of Transportation				10,378		
75	Department of Health and Human Services				415		
86	Department of Housing and Urban Development				943		
93	Federal Mediation and Conciliation Service				19		
96	US Army Corps of Engineer				1,022	15,850	
97	US Department of Defense			10,769	1,217		
00	Unassigned	0	0	8,136	13,346	(636)	0
Total		$3,960,313	$1,593,357	$40,671	$34,371	$21,789	$7,452

Intragovernmental Liabilities

EPA received a few requests for intragovernmental liabilities reconciliation from trading partners. EPA was able to confirm balances with the National Science Foundation (49), the Office of Personnel Management (24), the Department of the Treasury (20), and the Department of Labor (16). However, some agencies' requests did not have the data (such as interagency agreement numbers) that EPA needed to do the research.

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
03	Library of Congress	$ 0	$ 0	$ 11	$ 181	$ 0	$ 0
04	Government Printing Office	4	16	61	988		
11	Executive Office of the President				40		
12	Department of Agriculture			39	876	711	1,615
13	Department of Commerce	1,021		393	2,286		152
14	Department of Interior	901		3,440	2,711		36
15	Department of Justice	617		5,896	186	578	
16	Department of Labor	2,258		73	24	1,355	6,064
17	Department of the Navy					355	
18	United States Postal Service			9			
19	Department of State			5	1,152		
20	Department of the Treasury			13	3,014	742	2,945
21	Department of the Army				2	503	
24	Office of Personnel Management			56	488	1,865	8,162
31	US Nuclear Regulatory Commission			1	9		20
33	Smithsonian Institution				33		

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
47	General Services Administration			4,618	23,935		
49	National Science Foundation			10	234		
56	Central Intelligence Agency				37		
57	Department of the Air Force					1,256	
58	Federal Emergency Management Agency	15,395		6			
59	National Foundation on the Arts and the Humanities			5			
63	National Labor Relations Board				1		
64	Tennessee Valley Authority			1	112		50
68	EPA (between Superfund and All Others)			4,191			6,510
69	Department of Transportation			1,558	364		
72	Agency for International Development						
73	Small Business Administration				34		
75	Department of Health and Human Services	51,841		8,791	6,440		
80	National Aeronautics and Space Administration				231		
86	Department of Housing and Urban Development						2,922
88	National Archives & Records Administration				1		
89	Department of Energy			490	4,032		14
91	Department of Education				3		
95	Independent Agencies			28	11		
96	US Army Corps of Engineers	1,202	694	21,357	1,136		314
97	Office of the Secretary of Defense	339	140	715	830		52
00	Unassigned	1,889	656	(19)	1,189	1,483	(7)
Total		$75,467	$1,506	$51,748	$50,580	$8,848	$28,849

For other intragovernmental liabilities, $37,922 thousand in Debt and $102,469 thousand in Custodial Liability is assigned to the Department of the Treasury (trading partner Code 20).

Intragovernmental Revenues and Costs

EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of $500 million.

	Superfund	All Others
Intragovernmental Earned Revenue	($2,249)	$63,240
Associated Costs to generate Above Revenue (Budget Functional Classification 300)	(2,249)	63,240

Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources
As of September 30, 2000
(Dollars in Thousands)

Unaudited

	STAG	Environmental Programs & Management	Science & Technology	FIFRA	LUST Trust Fund	Miscellaneous All Others	Consolidated All Others
Budgetary Resources:							
Budget Authority	$ 3,469,250	$ 1,899,021	$ 647,500	$ 0	$ 70,000	$ 834,235	$ 6,920,006
Unobligated Balances - Beginning of the Period	1,265,880	219,803	159,175	11,552	3,570	14,695	1,674,675
Net Transfers, Prior Year Balance	0	0	0	0	0	(977)	(977)
Spending Authority from Offsetting Collections	13,489	48,345	45,490	18,593	42	185,313	311,272
Adjustments	52,088	(1,730)	(4,434)	(2,228)	1,472	(17,321)	27,847
Total Budgetary Resources	$ 4,800,707	$ 2,165,439	$ 847,731	$ 27,917	$ 75,084	$ 1,015,945	$ 8,932,823
Status of Budgetary Resources:							
Obligations Incurred	$ 3,582,074	$ 1,894,522	$ 667,581	$ 23,321	$ 70,753	$ 920,414	$ 7,158,665
Unobligated Balances - Available	1,218,633	171,276	154,864	4,596	4,245	91,384	1,644,998
Unobligated Balances-Not Available	0	99,641	25,286	0	86	4,147	129,160
Total Status of Budgetary Resources	$ 4,800,707	$ 2,165,439	$ 847,731	$ 27,917	$ 75,084	$ 1,015,945	$ 8,932,823
Outlays:							
Obligations Incurred	$ 3,582,074	$ 1,894,522	$ 667,581	$ 23,321	$ 70,753	$ 920,414	$ 7,158,665
Less: Spending Authority from Offsetting Collections and	86,462	75,206	49,444	16,366	2,108	190,603	420,189
Obligated Balance, Net - Beginning of the Period	7,570,173	796,486	511,949	(926)	79,306	196,245	9,153,233
Less: Obligated Balance, Net - End of the Period	7,874,156	750,109	500,950	1,544	83,976	78,709	9,289,444
Total Outlays	$ 3,191,629	$ 1,865,693	$ 629,136	$ 4,485	$ 63,975	$ 847,347	$ 6,602,265

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Balance Sheet
As of September 30, 2000
(Dollars in Thousands)

	Unaudited
ASSETS	
Intragovernmental:	
Fund Balance With Treasury	$ 52,509
Accounts Receivable, Net	28,702
Other	47
Total Intragovernmental	81,258
Inventory and Related Property, Net	46
General Property, Plant and Equipment, Net	9,646
Other	1
Total Assets	**$** 90,951
LIABILITIES	
Intragovernmental:	
Other	$ 47,555
Total Intragovernmental	47,555
Accounts Payable	2,578
Other	19,034
Total Liabilities	69,167
NET POSITION	
Cumulative Results of Operations	21,784
Total Net Position	21,784
Total Liabilities and Net Position	$ 90,951

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Net Cost
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Unaudited
COSTS:	
Intragovernmental	$ 8,154
With the Public	114,718
Total Costs	122,872
Less:	
Earned Revenues	(117,079)
Net Cost of Operations	$ 5,793

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Changes in Net Position
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Unaudited
Net Cost of Operations	$ 5,793
Financing Sources (Other Than Exchange Revenues):	
Imputed Financing	5,397
Transfers-In	439
Transfers-Out	(439)
Net Results of Operations	(396)
Prior-Period Adjustments	(8,961)
Net Change in Cumulative Results of Operations	(9,357)
Net Position - Beginning of the Period	31,141
Net Position - End of the Period	$ 21,784

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Budgetary Resources
For the Year Ended September 30, 2000
(Dollars in Thousands)

Budgetary Resources	**Unaudited**
Unobligated Balances, Beginning of the Period	$ 6,941
Spending Authority from Offsetting Collections	136,065
Total Budgetary Resources	$ 143,006
Status of Budgetary Resources	
Obligations Incurred	$ 121,186
Unobligated Balances Available	21,820
Total, Status of Budgetary Resources	$ 143,006
Outlays	
Obligations Incurred	$ 121,186
Less: Spending Authority from Offsetting Collections and Adjustments	(136,065)
Subtotal	(14,879)
Obligated Balance, Net - Beginning of the Period	30,124
Less: Obligated Balance, Net - End of the Period	(30,688)
Total Outlays	$ (15,443)

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Financing
For the Year Ended September 30, 2000
(Dollars in Thousands)

Obligations and Nonbudgetary Resources	**Unaudited**
Obligations Incurred	$ 121,186
Less: Spending Authority for Offsetting Collections and Adjustments	
Earned Reimbursements	
Collected	(116,923)
Receivable from Federal Sources	(236)
Change in Unfilled Orders - (Decreases)/Increases	(18,906)
Financing Imputed for Cost Subsidies	5,397
Exchange Revenue not in the Entity's Budget	66
Total Obligations as Adjusted and Nonbudgetary Resources	(9,416)
Resources that Do Not Fund Net Cost of Operations	
Change in Amount of Goods, Services and Benefits Ordered but Yet Received or Provided - (Increases)/Decreases	(2,488)
Change in Unfilled Customers Orders, etc. - Increases/(Decreases)	18,907
Costs Capitalized on the Balance Sheet	
General Plant, Property and Equipment	(9,102)
Purchases of Inventory	(93)
Prior Period Adjustments of Capitalized Assets	3,127
Total Resources that Do Not Fund Net Costs of Operations	10,351
Components of Costs of Operations that Do Not Require or Generate Resources	
Depreciation and Amortization	4,767
Total Costs That Do Not Require Resources	4,767
Financing Sources Yet to be Provided	91
Net Costs of Operations	**$ 5,793**

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2000
(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. EPA's Office of Research and Development, 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 both risk assessment and risk management. Science 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 and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, more efficient, and more effective approaches to reducing environmental risks.

Among the Agency's highest research priorities is a program to expand the understanding of near- and long-term effects of the environment on children. Another priority is the Particulate Matter (PM) research program, which focuses on review, implementation, and eventual attainment of the National Ambient Air Quality Standards (NAAQS). For FY 2000, the full cost of the Agency's Research and Development activities totaled almost $601 million. Below is a breakout of the expenses (dollars in thousands):

	FY 1998	FY 1999	FY 2000
Programmatic Expenses	507,828	543,777	541,117
Allocated Expenses	53,322	58,728	59,523

INVESTMENT IN THE NATION'S INFRASTRUCTURE:

The Agency makes significant investments in the Nations's drinking water and clean water infrastructure. The investments are the result of three programs: The Construction Grant 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 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. Beyond 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

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

The Agency's expenses related to investments in the Nation's Water Infrastructure are outlined below (dollars in thousands):

	FY 1998	FY 1999	FY 2000
Construction Grants	444,817	414,528	55,766
Clean Water SRF	1,109,017	925,744	1,564,894
Safe Drinking Water SRF	94,936	387,429	588,116
Other Infrastructure Grants	138,363	245,606	212,124
Allocated Expenses	187,649	213,117	266,299

STEWARDSHIP LAND

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (J) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of clean-up.

As of September 30, 2000, the Agency possesses the following land and land rights:

Superfund Sites with Easements	
Beginning Balance	24
Additions	1
Withdrawals	0
Ending Balance	25
Superfund Sites with Land acquired	
Beginning Balance	20
Additions	3
Withdrawals	0
Ending Balance	23

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):

	FY 1998	FY 1999	FY 2000
Training and Awareness Grants	39,131	46,630	49,265
Fellowships	11,084	10,239	9,570
Allocated Expenses	5,273	6,142	6,472

Appendix II

Agency's Response to the Draft Report

February 15, 2001

<u>MEMORANDUM</u>

SUBJECT: Response to Draft Audit Report on EPA's Fiscal 2000 Financial Statements

FROM: Joseph L. Dillon /s/
Acting Comptroller

TO: Edward Gekosky
Divisional Inspector General
Financial Audit Division

Thank you for providing us the opportunity to comment on and provide our response to the findings and recommendations made in the "Draft Audit Report on EPA's Fiscal 2000 Financial Statements." Attached is our response to specific audit findings and recommendations. We will forward you our updates to your Attachment 4, "Status of Prior Audit Report Recommendations," under separate cover.

One of the key issues in the draft audit report is, of course, grant accruals. Following recent discussions with your office about the methodology used in calculating the accruals, we provided revised accrual estimates and supporting documentation to your staff for review. We are hopeful that we can resolve the issues concerning the estimates of grant accruals before the final audit report is issued, which would necessitate a change to all related report language, including the opinion. Consequently, we defer commenting until after a final determination has been made.

We appreciate your consideration of our comments on your position papers, which preceded the draft report. We also appreciate the cooperation of you and your staff in resolving outstanding issues during the financial statement audit.

If you have any questions regarding our response, please contact Juliette McNeil, Acting Director of the Financial Management Division, at 202-564-4905.

Attachment

cc: Deputy Chief Financial Officer
Acting Assistant Administrator for
Administration and Resources Management (3101A)
Acting Assistant Administrator for
Enforcement and Compliance Assurance (3204A)

RESPONSE TO DRAFT AUDIT OF EPA'S FISCAL 2000 FINANCIAL STATEMENTS

EXECUTIVE SUMMARY

***Agency General Comments*:**

On Page iii of the Executive Summary, the report states:

"We also identified . . . . two other significant noncompliances . . . .

- **Reconciliation of intra-governmental transactions and financial system security were reported as significant noncompliances that fall short of the OMB criteria for defining noncompliances as substantial."**

We believe that most readers will not understand the difference between "significant" and "substantial noncompliance." As a result, we suggest that the wording in the Executive Summary be amended to delete the word "significant" within the context of FFMIA. The revised wording could read:

"We also identified . . . . two other noncompliances . . . . . .

- Reconciliation of intra-governmental transactions and financial system security were reported as noncompliances, but they do not meet the OMB criteria for substantial noncompliances."

We recommend that the OIG make similar wording changes in the "Inspector General's Report on EPA's Fiscal 2000 Financial Statements" section of the report and in Attachment 3. In addition, we believe that the discussion of both financial system security and intra-governmental transactions should be moved under a separate heading, entitled "Other Noncompliance Issues," in the Executive Summary, in the main body of the report and in Attachment 3.

We agree that these are important issues that merit inclusion in the audit report. We believe that these suggested changes would not diminish the auditor's findings or conclusions in these areas but rather would make it easier for the reader to understand and differentiate FFMIA substantial noncompliances from other noncompliances.

We continue to take financial system security very seriously and remain committed to addressing the related security issues through the action steps listed in our November 2000 Remediation Plan.

MATERIAL WEAKNESS

1 - Process For Preparing Financial Statements Did Not Produce An Unqualified Opinion

Agency General Comments:

We appreciate the OIG's recognition of the significant improvements the Agency has made in our process for preparing financial statements. OCFO believes strongly in the principle of continuous improvement and we look forward to a close working relationship with the OIG again in the future. Together we can build on our collective achievements in improving the financial statements and can address evolving federal requirements for financial statements.

The draft audit report contains a section entitled "A Routine Process is Needed." We share in the OIG's view that ultimately the production and audit of financial statements should be considered a "routine" process. However, the specific examples depicted are few in number and, in some cases, reflect differences of professional judgement on presentation rather than errors. We don't believe that these occurrences are numerous enough or serious enough to warrant a Reportable Condition on the preparation process. Rather, this discussion is more appropriate for inclusion in the management letter.

RECOMMENDATIONS

1.1 We recommend the OCFO continue its aggressive efforts to improve the preparation and presentation of the Agency's financial statements, in particular to evaluate and make process improvements to the year-end closing process, and system improvements to assist in the preparation of the financial statements.

Agency Comments:

We agree. We are pleased with the substantial progress made this year in preparing quality financial statements in a timely manner. The improvements made this year are the result of our completing the first phase of a two phase plan for improving the Agency's financial statement process. During FY 2001, we plan to improve the accounting model developed in FY 2000 and to evaluate automated options to speed up the preparation of the financial statements. As part of our continuing effort to revise and improve our process, we will also make additional revisions to the grant accrual process. We look forward to OIG participation in this endeavor.

Corrective Action	**Target Date**
Contractor to present scope of possibilities for automation of financial statements	**March 2001**
Finish evaluation of recommendations for automation of financial statements and develop implementation plan, if appropriate	**April 2001**
Initiate review of accounting model to determine where improvements are needed	**March 2001**
Review recommended improvements to accounting model and develop plan for implementation, if appropriate	**May 2001**
Initiate joint OCFO/OIG review of grant accrual process to determine needed revisions and improvements	**April 2001**

1-2. We also recommend that time frames for preparing the fiscal 2001 financial statements be advanced substantively, with equivalent or better quality control efforts, so there is more of a chance to resolve any problems that may be identified late in the financial statement preparation process.

Agency Comments:

We agree with the goal of advancing the times frames for preparing the financial statements as long as quality is not adversely affected. Our primary goal is to deliver quality financial statements according to the milestones developed jointly with the OIG. We will revisit the time frames in FY 2001 once the proposed improvements discussed in the response to Recommendation 1-1 are in place.

Corrective Action	**Target Date**
Reach agreement with the OIG on time line for key milestones for preparing and finalizing the statements.	**September 2001**

REPORTABLE CONDITIONS

2 - Continued Improvements Needed In Accounting for Capitalized Property

Agency General Comments:

Page 2-2, Third Paragraph

The Audit Report stated: **"We determined that year-end balances in FAS and the IFMS general journal did not reconcile. For example, we found property that was included in the IFMS but not in FAS, thus causing an imbalance in some instances. FMD personnel adjusted some property items in the IFMS general journal to match FAS because they believe the FAS is the best source of Agency's property accountability. However, the FAS ending balances did not match the 16th month IFMS general journal ending balance amount that was used for the fiscal 2000 financial statements. This was done to ensure IFMS general journal properly reflected the amount of capitalized. . . ."**

EPA response: The statement above that FMD personnel adjusted the IFMS general journal to match FAS is not accurate. FMD did not make adjustments to the general journal to match FAS during fiscal year 2000. This fact is also evidenced by OIG's first sentence above that the year-end balance in FAS and the IFMS general journal did not reconcile.

The audit report should also document the fact that FMOs also obtain supporting documentation for and make adjustments to the IFMS general ledger for property found in FAS, but not in the general ledger. This two-way reconciliation process ensures that EPA's general journal accurately reflects balances for property that the Agency owns and maintains. The reconciliation process provides the greatest internal controls to limit the risk of fraud, waste and abuse by identifying those assets that the Agency purchased but that were not recorded in FAS and vice versa. Although PMOs do not always enter the property in FAS timely, the general journal and the documentation maintained by FMOs can fully account for annual Agency property transactions reflected on the Agency's financial statements. Also, FMOs continuously monitor and follow up with PMOs regarding entering items not in FAS that were disclosed during the reconciliation process.

However, we agree there are problems with property being recorded in the system timely as evidenced by the large number of "found-on-station" and others items not entered by PMOs, which were disclosed during FMOs' reconciliations. FMD and FMSD will work diligently together to resolve this issue.

Page 2-3, Fifth Paragraph

The Audit Report stated: **"The Agency accurately removed the cost of capital improvements made since fiscal 1997; but, the fiscal 1996 net book value of the initial property recorded in FAS was removed, even though notations were made to the FAS records of the real property's original values. The on-top adjustment did not consider the effects of the disposal on the property balance. As a result, the disposal of real property was understated, which resulted in an overstatement of the fiscal 1999 property balance."**

EPA Response: The transaction noted above, which involved $200,000, was corrected in FY 2000. However, it had no effect on the balance sheet and did not result in an overstatement of equity in fiscal year 1999 as the item disposed had a net book value of zero.

RECOMMENDATIONS

2-1 Strengthen controls over FMO and PMO accountability to ensure that property is timely and accurately recorded in FAS.

Agency Comments:

We agree in part with this recommendation. There are problems with property being recorded in the system timely as evidenced by the large number of items not entered by PMOs timely. FMD and FMSD will work diligently together to resolve this issue as indicated by the action plans provided under recommendations 2-2 and 2-8 below.

However, we believe that adequate FMO controls and accountability currently do exist as the result of the implementation of FAS, policies, procedures, the reconciliation process and numerous training sessions in the past three years. Accountability over the financial property accounting process is evidenced by FMOs' monthly reconciliations and annual certifications that the reconciliations were complete and accurate. Moreover, we were advised by Agency finance offices whose reconciliation process was audited by EPA field auditors that no issues were disclosed during these reviews.

2-2 Continue to conduct monthly FMO reconciliations of IFMS and FAS, and ensure all property is entered into FAS within 1 month of the last reconciliation.

Agency Comments:

We agree with this recommendation. FMD and FMSD will develop procedures to strengthen controls to ensure that property management officers enter property in FAS within 1 month of the last reconciliation and will continuously monitor the new process.

Corrective Action	Target Date
Issue Joint PMO/FMO Property Reconciliation Guidance	**June 2001**
Joint PMO/FMO Quarterly Teleconferences to Monitor Reconciliation Process	**Ongoing**

2-3 Resolve the differences between the fiscal 1999 ending balance and the fiscal 2000 beginning balance for Contractor-held Property.

Agency Comments:

We agree with this recommendation. We reviewed the auditor's work papers, which listed 28 contracts that showed an FY 1999 ending balance different from the FY 2000 beginning balance. Essentially, there were four reasons for the differences:

- Clerical errors such as items in wrong columns, mis-entered amounts, mis-entered contract numbers. (An incorrectly entered contract number accounted for the single largest difference.)
- Failure of contractors with expired contracts to submit reports.
- Follow-on contractors listing property as a beginning balance instead of as an addition.
- Incorrect reporting of previously reported items that were reclassified, such as special test equipment or Superfund site-specific property.

To prevent this from happening in the future, OAM will have three checkpoints to ensure that the information provided to OCFO is accurate:

- Contracting Officers (who receive the contract property reports from the contractor) will verify beginning and ending balances and resolve differences.
- Operating Division property contact points (who summarize property reports by operating Division) will test for accuracy.
- The OAM Headquarters property staff will develop an automated program to perform a final check of accuracy.

These steps will ensure that there will not be a recurrence of this problem.

Corrective Action	Target Date
Develop a program to automatically verify beginning and ending balances before submitting data to OCFO.	**March 2001**
Send a memo to all contracting officers and property contact points reminding them of their responsibility to verify beginning and ending balances of property reports due from contractors at October 31, 2001.	**August 2001**
Verify data provided by contractors before submitting final report to OCFO.	**November 2001**

2-4 Revise the FMO year-end certification to include ending property balance amount in FAS and IFMS reconciled as of September 30.

Agency Comments:

We agree with this recommendation and will incorporate it in our year-end property reconciliation instructions.

Corrective Action	**Target Date**
Revise Year end guidance	**August 2001**

2-5 **Reclassify the contractor-held property to general ledger account 1770, and include it on the financial statements with the acquisition value for contractor-held property.**

Agency Comments:

We agree with this recommendation.

Corrective Action	**Target Date**
Reclassify above referenced transaction	**February 2001**

2-6 **Work diligently with Research Triangle Park's PMO to reconcile the $4 million difference for the fiscal 2000 transfer of contractor-held property.**

Agency Comments:

We agree with this recommendation. We will work with the RTP PMO and Office of Acquisition Management (OAM) to obtain and provide to the OIG the documentation to support the differences related to the transfer of property records from Lockheed Martin to EPA. However, we disagree that this property is unaccounted for, as the audit report asserts. The documentation to support the difference is maintained by the respective contracting and property management officers in accordance with Agency procedures.

Corrective Action	**Target Date**
OCFO will assist in arranging to provide for the OIG documentation to support the $4 million difference	**April 2001**

2-7 **Reestablish in FAS the balances for each real property item at the original cost estimate or acquisition value instead of its recorded fiscal 1996 net book value.**

Agency Comments:

We believe that recording our real property at its net book value is an acceptable Federal accounting practice. The Agency's real property costs at the time it was recorded were based on cost estimates provided by an appraiser. Thus, the Agency recorded this activity in accordance with the implementation guidance provided in the Statement of Federal Financial Accounting Standards Number (SFFAS) Six, "Accounting for Property, Plant and Equipment." Paragraphs 40 and 41 of the SFFAS state:

> **" 40 For existing general PP&E, if historical cost information necessary to comply with the above recognition and measurement provisions has not been maintained, estimates are required. Estimates shall be based on . . . .**
>
> **41 Accumulated depreciation/amortization shall be recorded based on the estimated cost and the number of years the PP&E has been in use relative to its estimated useful life. Alternatively, the PP&E may be recorded at its estimated net remaining cost and depreciation/amortization charged over the remaining life based on the net remaining cost."**

We selected the option provided in the second sentence of paragraph 41 above as it better accommodates our Agency's Fixed Asset Subsystem's functionalities. In addition, we conferred with FASAB staff to confirm that our interpretation and application of the standard to our real property balances were correct as original cost documentation on the actual costs was not available. To provide you reasonable assurance of this issue, we will write a letter to FASAB requesting a formal opinion.

Corrective Action	Target Date
Forward Request for Clarification of FASAB Standard	**March 2001**

2-8 Undertake a comprehensive property study to review, make recommendations, and propose corrective actions on:

- **the Agency's monthly and year-end reconciliation process of FAS and IFMS,**
- **the accountability and recording of personal and real property,**
- **transferring and recording of contractor-held property,**
- **financial statement preparation, and**
- **other areas as warranted to improve the accountability of the Agency's property.**

Agency Comments:

We partially agree with your recommendation and will initiate a study to rectify the major issue of recording property timely. We believe that the other areas that you recommend for study will be fully addressed by the corrective actions cited above. As agreed to in response to earlier OIG audit recommendations, we have issued advisory notices to property management officers to be more diligent in recording property in FAS and in reconciling with the Agency's accounting system. Unfortunately, these efforts have not been completely successful.

Given the persistent nature of the weaknesses regarding capitalized property, we believe that your recommendation to perform a comprehensive property study to develop practical corrective actions is an appropriate strategy. Such a study will allow us to fully investigate the problems with entering property timely and to develop effective measures to improve accountability of the Agency's property. We would like the OIG to participate in this effort.

Corrective Actions	**Target Date**
FMSD and FMD will initiate a study on timely recording of Agency property	**May 2001**
Complete study	**September 2001**

3 - Further Improvements Needed In EPA's Process For Reviewing Unliquidated Obligations

Agency Comments:

The "Draft Audit Report on EPA's Fiscal 2000 Financial Statements" made no new recommendations. We concur with the draft report's summary of our position and of the Agency's corrective actions.

4 - Additional Improvements Needed In EPA's Interagency Agreement Invoice Approval Process

Agency Comments:

The "Draft Audit Report on EPA's Fiscal 2000 Financial Statements" made no new recommendations. We appreciate the Report's recognition of Agency progress in implementing corrective actions from earlier audit reports.

Please see response to recommendation 8 below, specifically on "Use of Appropriate Costing Methodologies," for our comments on the use of the "first in first out" accounting basis for charging costs.

5 - Improvement Needed In Documentation And Approval Of Journal Vouchers

5-1. [Appropriate Financial Reports and Analysis Branch personnel] Review EPA's Comptroller Policy Announcement No. 93-02.

Agency Comments:

We agree with this recommendation. All FRAB staff have been directed to review the Policy Announcement and to confirm with Branch management that they have complied.

Corrective Action	**Target Date**
Provide copies of PA 93-02 to FRAB Staff	**Completed**
FRAB Staff certifies that they have reviewed PA 93-02	**February 2001**

5-2. [Appropriate Financial Reports and Analysis Branch personnel] Review and approve all journal and standard voucher entries prior to entry into IFMS, and assure that all the vouchers are properly documented prior to approval.

Agency Comments:

We agree with this recommendation.

6 - Timely Repayment Of Asbestos Loan Debt To Treasury Needed

6-1. Require the Director, LVFMC to develop a schedule for repaying its asbestos loan debt to the Department of Treasury on an annual basis;

Agency Comments:

We agree with this recommendation.

Corrective Action	**Target Date**
Develop a schedule for repaying the asbestos debt.	**June 2001**

6-2. Reduce the asbestos loan borrowing authority balance to zero.

Agency Comments:

We completed this action on February 8, 2001, with the first quarter transmission of the FACTS II report to Treasury

7 - Automated Application Processing Controls For The Integrated Financial Management System Could Not Be Assessed

Agency Comments:

We concur with the audit report's description of the current status of this issue.

SUBSTANTIAL NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

8 - EPA Does Not Comply With The Managerial Cost Accounting Standard

8-1. Conduct a formal, aggressive education campaign to give key users of EPA accounting information substantive knowledge on what the possibilities are for cost accounting at EPA. This will include formally canvassing a user group to determine their needs and desires; satisfy users where practicable; and define and develop timely, reliable, and accurate cost reports that enable managers to monitor the cost of their programs and outputs on an ongoing basis.

8-2. Develop an Agency-wide indirect cost rate and policy to more accurately determine the full cost of Agency outputs.

8-3. Produce cost for each output (subobjective) at least annually for use during the fiscal year. As part of the education and canvassing effort described in Recommendation 1, determine whether key users want such information more frequently than annually, and satisfy the key user needs for timing and frequency.

8-4. Eliminate the use of costing methodologies that do not satisfy the requirements of SFFAS No. 4 for consistency and reliability and implement viable alternatives.

Agency Comments:

OCFO believes we are in substantial compliance with the Managerial Cost Accounting Standards and therefore a remediation plan under FFMIA is not required. The detailed response below is organized into the same sections as presented in the draft report.

Determining Full Cost of EPA Activities. Since FY 1999, EPA has used a Program Results Code (PRC) to account for all new obligation authority (NOA). The PRC includes the Goal, Objective, Sub-objective, National Program Manager (NPM) and, as appropriate, Major Program. The PRC provides the structure whereby all the costs that benefit the activities in a particular Goal, Objective and Sub-objective, regardless of the NPM or program office involved, are accumulated to show the cost of the Agency's outputs. Most costs are charged directly to the PRC, but some "indirect costs" are accumulated in distribution accounts and allocated to the appropriate PRCs.

EPA's Strategic Plan Structure has ten Goals, one of which, with its Objectives and Sub-objectives, accumulates costs for "Effective Management." These accumulated costs can be allocated to the Agency's outputs, if there is a need for this information. However, as stated in SFFAS No. 4, "The standard does not require full cost reporting in federal entities' internal reports or special purpose cost studies. Entity management can decide on a case-by-case basis whether full cost is appropriate and should be used for internal reporting and special purpose cost studies." (page 36, 89) In addition, the costs that remain in the Program Element (PE) Structure have been cross walked to the PRC. This crosswalk provides the total cost of outputs that are in the PE structure and allows us to combine those costs with the PRC costs, if needed.

As for identifying supporting services provided by other agencies, currently we are only required to account for specific inter-entity costs such as Office of Personnel Management (OPM) costs, which we provide in our external reporting. The Office of Management and Budget (OMB) will be issuing further guidance on identifying other types of inter-entity costs and how they should be handled by reporting entities.

With respect to the allocation of costs to PRCs, we do not agree that an "Agency-wide indirect cost policy" is necessary. Our existing policy document PA 98-10, "Accounting for Resources under the Government Performance and Results Act (GPRA)," addresses the allocation of costs and the capturing of every NOA dollar, including both direct and indirect costs, at the Sub-objective level.

In many instances where indirect costs are needed for specific purposes, we have either completed or are developing indirect cost policy and accompanying rates. We have already developed indirect costs rates for Superfund cost recovery and for the Working Capital Fund. We are also helping develop indirect rates for use in setting user fees and are developing indirect rates for reimbursable program costs.

We can agree with the concept of an indirect cost policy, but we firmly believe that any such "policy" must be broad and flexible in consideration of the diverse nature of EPA's component organization and activities. Accordingly, we are planning to develop an "indirect cost policy" that will provide guidance to program offices when they have a specific need for indirect cost rates.

Regular Reporting of Costs for Use by Management. There are numerous standard reports, as well as ad hoc reports, available by PRC that program managers can use to manage their programs. Reports are also available to managers for those obligations and expenses still in the PE Structure. We did not produce a combined PE and PRC report earlier in FY 2000 because of the intensive effort involved in developing the crosswalk for the financial information for the Net Cost Statement in the Financial Statements. Now that we have developed this PE crosswalk, OC is developing an end-of-year report detailing disbursements by PRC that includes the PE disbursements for FY 2000. We will also develop a combined PRC and PE 6-month report, as well as an end-of-year disbursements report for FY 2001.

Use of Appropriate Costing Methodologies. We believe that our costing methodologies satisfy SFFAS No. 4. Our Policy Announcement No. 98-10 identifies the appropriate costing methodologies to use. The Cincinnati Financial Management Center (CFMC) pays all Disbursement and Reimbursable IAGs. CFMC does use a "First in, First out"-**like** process to temporarily charge payments pending confirmation of appropriate charging by the project officer; however, there are valid reasons for using this method.

The reasons relate to an audit finding from approximately 1993 in which the auditors stated that CFMC had an excessively large balance in its suspense account (where OPAC bills are placed until the related IAG is identified). To remedy this, CFMC began charging the IAG's on a FIFO-like basis initially, rather than placing them in the suspense account. Project Officer Approval Forms are then sent to the project officer for certification. If the returned Project Officer Approval Forms indicate that the FIFO-like accounting was incorrect, CFMC backs out the entry it originally made and changes it to match what the project officer reported.

The majority of the IAGs do not charge multiple PRCs so that CFMC’s original charging generally does not need to be changed when the Project Officer Approval Form is received. Further, in the last two years when the OIG has audited to the PRC level, testing of the disbursement transaction samples have not disclosed a single occurrence of incorrect PRC charging.

The second area of discussion addresses Performance Partnership Grants (PPGs). The draft audit report states that EPA has implemented PPG policy inconsistently. The auditors believe that Project Officers have not always made the determinations based on their close review of the work and that percentages established in Headquarters have sometimes been the basis for the allocation.

In response, we followed up with the two regions where the OIG reported a problem with the implementation of the PPG accounting policy. We understand that one of the regions was able to satisfy the Regional auditors concerning how the Grant was cross walked. The other Region only had problems related to certain Sub-objectives in the Air Program, but these Sub-objectives did not cross Goals and therefor do not affect the financial statements. The Region did an analysis of the grant in question and provided this information to the regional auditors. The region will make changes if appropriate.

Further, in FY 2000, staff from both the OCFO and OIG visited Regions 1 and 7 to review the PPG process in those Regions. Both offices were satisfied that the process in these Regions was acceptable. We intend to conduct additional quality assurance work with PRC accounting during the coming months to ensure that the Agency is following the Office of the Comptroller Policy Announcement No. 98-10.

Conclusion. Neither the draft audit report nor any other communication from OIG presents us with audit evidence to support the statement made in the opening paragraph, “The lack of sufficient cost information adversely impacts many facets of EPA’s operations, including budget formulation, program execution and cost recovery.” We agree that further improvements in cost accounting are desirable but implementing managerial cost accounting is an evolutionary process that will continue to change and improvements and enhancements are on-going. We believe such improvements can best be attained by OCFO and OIG working together in a cooperative relationship.

OTHER NONCOMPLIANCE ISSUES WITH FFMIA

Agency Comments:

We recommend that this section be moved to a section entitled "Other Noncompliance Issues," since the following two issues are not "substantial" noncompliance issues. Please see our comments in the executive summary section.

9 - EPA Unable To Reconcile Intra-Governmental Transactions

Agency Comments:

We concur with the audit report's findings and conclusions. As indicated in the draft report, OCFO continues to work with other federal agencies and to reconcile its intragovernmental transactions.

10 - Despite Improvements, Financial System Security Plans Continue To Be Noncompliant

Agency Comments:

As the audit report notes, OCFO continues to make progress in completing planned corrective actions.

OTHER ISSUES

11 - User Fees

Agency Comments:

We understand that the discussion of user fees will be removed from the audit report (see Roland Cyr's February 6, 2001, email to Joe Dillon, "User Fee Issue in Draft fiscal 2000 financial statement audit report") as a result of the Deputy Administrator's January 19, 2001, memorandum to OMB requesting fee exceptions. We concur, of course, with this action and have no further comment.

Appendix III

Abbreviations

CFMC	Cincinnati Financial Management Center
EPA	Environmental Protection Agency
FAS	Fixed Assets Subsystem
FFMIA	Federal Financial Management Improvement Act
FMD	Financial Management Division
FMFIA	Federal Managers' Financial Integrity Act
FMOs	Financial Management Offices or Officers
GAD	Grants Administration Division
GAO	General Accounting Office
GMRA	Government Management Reform Act
IAGs	Interagency Agreements
IFMS	Integrated Financial Management System
JFMIP	Joint Financial Management Improvement Project
LVFMC	Las Vegas Financial Management Center
NIST	National Institute of Science and Technology
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMO	Property Management Officer
RACF	Resource Access Controls Facility
RSSI	Required Supplemental Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards

This page intentionally left blank

Appendix IV

Report Distribution List

Administrator (1101A)
Deputy Administrator (1101A)
Chief Financial Officer (2710A)
Inspector General (2410)
Assistant Inspectors General
Assistant Administrator for Administration and Resources Management (3101A)
Assistant Administrator for Solid Waste and Emergency Response (5101)
Assistant Administrator for Enforcement and Compliance Assurance (2201A)
General Counsel (2310A)
Comptroller (2731A)
Associate Administrator for Congressional and Intergovernmental Relations (1301A)
Associate Administrator for Communications, Education, and Media Relations (1703A)
Deputy Assistant Administrator for Environmental Information (2810A)
Director, Office of Policy and Resources Management, OARM (3102A)
Director, Office of Administration (3201A)
Director, Office of Acquisition Management (3801R)
Director, Office of Grants and Debarment (3901R)
Director, Office of Administration and Resources Management, Cincinnati, OH
Director, Office of Administration and Resources Management, RTP, NC
Director, Office of Technology Operations and Planning (2810A)
Director, Office of Site Remediation Enforcement (2271A)
Director, Office of Emergency and Remedial Response (5201G)
Director, Annual Planning and Budget Division (2732A)
Director, Grants Administration Division (3903R)
Director, HQ and Desktop Services Division, OTOP (2832)
Director, Facilities Management and Services Division (3204R)
Director, Financial Management Division (2733R)
Director, Financial Services Division (2734R)
Director, National Technology and Services Division, OTOP, RTP, NC
Financial Management Officers at Regions 1 through 10, Cincinnati, Las Vegas, and Research Triangle Park
Divisional Inspectors General for Audit
Chief, Financial Reports and Analysis Branch (2733R)
Chief, Program and Cost Accounting Branch (2733R)
Chief, Financial Systems Branch (2733R)
Chief, Financial Policies, Procedures and Compliance Branch (2733R)
Chief, Washington Financial Management Center (2734R)
Acting Chief, Security and Property Management Branch (3204R)

Kathy Sedlak O'Brien, Agency Audit Follow-up Coordinator (2724A)
Agency Followup Official (2710A)
Brigid Rapp, Audit Liaison for the Office of the Chief Financial Officer (2710A)
Sandra Womack-Butler, Audit Liaison for the Office of Administration and Resources Management (3102A)
Elizabeth Harris, Audit Liaison for the Office of Solid Waste and Emergency Response (5103)
Tom Pastore, Audit Liaison for the Office of Administration (3201A)
Jeff Worthington, Audit Liaison for the Office of Environmental Information (2812A)
Greg Marion, Audit Liaison for the Office of Enforcement and Compliance Assurance (2201A)
John Showman, Audit Liaison for the Grants Administration Division (3901R)
Pat Gilchriest, Audit Liaison for the Administrator's Office (1104A)
Al Demarcki, Audit Liaison for the Financial Management Division and the Financial Services Division (2733R)
William Stewart, Audit Liaison for the Office of General Counsel (2311A)
Roland Cyr, Audit Liaison for the Financial Audit Division (2422)

Please visit our web site to view and download this audit report at:

http://www.epa.gov/oigearth

To obtain a copy of this report, please contact:

U.S. Environmental Protection Agency
Office of Inspector General
Financial Audit Division
Mail Code 2422
1200 Pennsylvania Avenue, NW
Washington, DC 20460

Telephone: 202-260-1397
FAX: 202-260-1398