OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Audit of EPA's Fiscal 2003 and 2002 Financial Statements

Report No. 2004-1-00021

November 21, 2003

Abbreviations

EPA	Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act
FMD	Financial Management Division
FMFIA	Federal Managers' Financial Integrity Act
IAG	Interagency Agreement
IFMS	Integrated Financial Management System
JFMIP	Joint Financial Management Improvement Program
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSSI	Required Supplemental Stewardship Information
SSC	State Superfund Contracts

Cover photo: Provided by Christine Baughman, OIG
(Jefferson Memorial and Tidal Basin, Washington, D.C.)

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

OFFICE OF
INSPECTOR GENERAL

November 21, 2003

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal 2003 and 2002 Financial Statements
Report No. 2004-1-00021

FROM: Paul C. Curtis, Director
Financial Audits (2422T)

TO: Linda M. Combs
Chief Financial Officer (2710A)

Morris X. Winn
Assistant Administrator for
Administration and Resources Management (3101A)

Howard F. Corcoran
Director, Office of Grants and Debarment (3901R)

Attached is our audit report on the Agency's fiscal 2003 and 2002 financial statements. The report reflects our view that the Agency is not in full compliance with the managerial cost accounting standard; however, the level of compliance does not meet Office of Management and Budget's definition of substantial noncompliance. We also recognize that the Agency has made significant improvements and has started a process that will, when fully implemented, provide managers with the type of cost information they need to effectively manage their programs. The audit report also addresses the deficit in the Superfund Trust Fund. During Fiscal 2003, the Superfund Trust Fund, managed by the U.S. Treasury Bureau of Public Debt, transferred funds to the U.S. Environmental Protection Agency (EPA) in excess of assets available to be transferred by $82.7 million. The audit report also contains other findings that describe issues the Office of Inspector General (OIG) 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. EPA managers in accordance with established EPA audit resolution procedures will make final determinations on matters in this audit report. 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 accordance with EPA Manual 2750, *Audit Management Process*, the primary action official is required to provide us with a written response to the final audit report within 90 days of the final audit report date. Since this report deals primarily with financial management issues, we are requesting the Chief Financial Officer, as the primary action official, to 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 (202) 566-2523, or Melissa Heist, Assistant Inspector General, Office of Audit, at (202) 566-0899.

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 internal controls over financial reporting related to the financial statements were in place; and statements were fairly presented in all material respects in conformity with generally accepted accounting principles; 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 2003 and 2002 Financial Statements

In our opinion, the consolidating financial statements present fairly, in all material respects, 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 years ended September 30, 2003 and 2002, in accordance with accounting principles generally accepted in the United States of America.

As more fully described in the notes to the financial statements, the Superfund Trust Fund, managed by the U.S. Treasury Bureau of Public Debt, transferred funds to EPA in excess of the assets available to be transferred by $82.7 million in fiscal 2003. In our opinion, because recoveries have declined and the investment principal upon which interest is earned has steadily decreased, the current deficit of $82.7 million and future Superfund Trust Fund financing would have to be covered by appropriations from the Treasury's general fund in order for the Superfund Trust Fund to continue operations.

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 for preparing 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. Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intragovernmental assets and liabilities by Federal trading partner. We did find EPA continues to experience difficulties in reconciling some of its intragovernmental transactions due to some Federal entities not providing information for reconciliations. 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 and, 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 eight reportable conditions in the following areas, which are detailed further in Attachment 1:

- Documentation of standard vouchers needs improvements.
- Continued improvement is needed in EPA's interagency agreement invoice approval process.
- Improvement is needed in reconciling State Superfund Contracts.
- EPA did not promptly record marketable securities received in fiscal 2003.
- Automated application processing controls for the Integrated Financial Management System (IFMS) could not be assessed.
- The IFMS suspense file used for input of financial transactions needs to be reconciled to the general ledger.
- Further improvements are needed in managing EPA's accounts receivable.
- Internal controls for correcting errors in IFMS need improvement.

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 compliance with certain provisions of laws and regulations for which noncompliance could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with all laws and regulations applicable to the Agency 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, which are discussed further in Attachment 2.

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 did not identify any instances of substantial (as defined by OMB) noncompliance with FFMIA requirements. We recognize improvements the Office of the Chief Financial Officer (OCFO) has made in cost accounting and believe that while there are still noncompliance issues with cost accounting, those noncompliances no longer meet OMB's definition of substantial noncompliance.

We also identified the following two additional instances of FFMIA noncompliance:

- Reconciliation of intragovernmental transactions was not in compliance with OMB and Treasury Financial Manual requirements. However, it does not meet the OMB criteria for substantial noncompliance.

- The fiscal 1999 Remediation Plan to correct some FFMIA issues has not been completed.

Compliance with the Treasury Financial Manual. The Agency is not in compliance with the Treasury Financial Manual for preparation of the SF 224.

Agency Comments and OIG Evaluation

In a memorandum received November 10, 2003, OCFO responded to our draft report. OCFO generally agreed to take sufficient corrective actions.

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Inspector General's Report on EPA's Fiscal 2003 and 2002 Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidating balance sheets of the U.S. Environmental Protection Agency (EPA, or the Agency) and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other), as of September 30, 2003 and 2002, and the related consolidating statements of net cost, changes in net position and financing, and consolidated statements of net cost by goal, custodial activity, and combined statements of budgetary resources for the years 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 auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) 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 expenses 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 amount undeterminable 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.

As more fully described in Note 36 to the financial statements, the Superfund Trust Fund, managed by the U.S. Treasury Bureau of Public Debt, transferred funds to EPA in excess of the assets available to be transferred by $82.7 million in fiscal 2003. EPA's view is that the shortfall for fiscal 2003 will be covered by the collection of cost recoveries and receipt of interest income over time. In our opinion, because cost recoveries have declined and the investment principal

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

upon which the interest is earned has steadily decreased, the current deficit of $82.7 million and future Superfund Trust Fund appropriations would have to be covered by appropriations from the Treasury's general fund in order for the Superfund Trust Fund to continue operations.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for the OIG are not material to 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, in all material respects, 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 years ended September 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

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 for preparing Required Supplemental Stewardship Information (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. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intragovernmental assets and liabilities by Federal trading partner. We did find EPA continues to experience difficulties in reconciling some of its intragovernmental transactions due to some Federal entities not providing information for reconciliations. (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 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. We noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions, although 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 controls related to performance measures presented in *EPA's Fiscal Year 2003 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 eight reportable conditions, as follows:

Documentation and Approval of Standard Vouchers

EPA's Financial Reports and Analysis Branch did not always adequately document standard vouchers for transfer requests from Treasury to EPA Trust Fund accounts (Superfund and Leaking Underground Storage Tank Trust Funds) prior to the transactions being entered into the Integrated Financial Management System (IFMS). The Branch uses a formula to determine the amount of the monthly transfer, but occasionally requests additional funds to be transferred along with the calculated amount. Specifically, the Agency requested additional funds in 10 transfers with no documentation to support the request. Establishing written procedures to calculate the monthly transfer process would reduce the potential for errors occurring.

Improvement Needed in EPA's Interagency Agreement Invoice Approval Process

EPA project officers did not always fulfill their oversight duties related to reviewing and approving interagency agreement invoices. We continued to find instances where project officers at EPA did not receive supporting cost documentation to substantiate invoice amounts and approve invoices for payment. We found instances in five program offices where project officers regularly approved invoices without the detailed documentation to support costs. Without proper identification of accounting information and a review of the cost documentation, transactions may be recorded in the accounting system with limited assurance that invoices are valid, appropriate, and allowable under the terms and conditions of the interagency agreement, and that costs are charged to the appropriate goal/objective. We recommend that the Agency determine the root cause of the problem and develop effective procedures to ensure that project officers properly manage the entire process.

Improvement Needed in Reconciling State Superfund Contracts Unearned Revenue

EPA did not reconcile the unearned revenue from State Superfund Contracts (SSC). When EPA assumes the lead for a Superfund site remedial action in a State, the SSC clarifies EPA's and the State's responsibilities to complete the remedial action. EPA records a liability (unearned revenue), when billing a State for its share of the estimated site costs. EPA recognizes earned revenue as costs are incurred on the site. We found that EPA did not reconcile the unearned revenue from SSCs to the general ledger. Financial Management Division did not prepare a reconciliation because they relied on an analysis of current year account activity. As a result, EPA could not ensure the accuracy of the SSC unearned revenue accounts, which totaled approximately $29 million.

EPA Did Not Promptly Record Marketable Securities Received in Fiscal 2003

EPA did not promptly record marketable securities received in fiscal 2003 from companies in settlement of debts. As of September 30, 2003, stocks and warrants with an aggregate value of $1,922,512 were not recorded in EPA's accounting system. The securities were not recorded because the regional financial management offices receiving the securities either were waiting on guidance from headquarters, or were awaiting receipt of a settlement agreement.

IFMS Suspense File Needs to Be Reconciled to General Ledger

For fiscal 2003, the IFMS suspense file was not in compliance with Joint Financial Management Improvement Program (JFMIP) requirement TD-04 -- that the Application Program Interface provide internal controls, such as control totals and record counts, to ensure integrity. Specifically, no formal process or written procedures existed for reconciling financial data processed from the suspense file to the general ledger accounts. The suspense file is important because it receives input of financial transactions from IFMS users and many other financial and mixed systems, which are to be posted to the general ledger accounts. The IFMS contractor created custom reports for analysis purposes, which represented the best available data, although the contractor would not confirm that either the status or dollar amount were accurate. Our subsequent analysis of the account did not indicate that the suspense file contained transactions that were not posted to the proper accounting period. However, we are still concerned about the number of uncleared transactions that could remain in the suspense file due to the current lack of automated controls. These incomplete, rejected, and held transactions could be incorrectly processed in the wrong fiscal period, creating the potential to affect the Agency's financial data.

Automated Application Processing Controls for 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. During past financial statement audits, we attempted to evaluate controls without systems documentation, but these alternatives proved to be inefficient and impractical.

Further Improvements Needed in Managing EPA's Accounts Receivable

We noted two issues that negatively impact EPA's accounting for accounts receivable. First, we noted numerous instances where the financial management offices did not timely record receivables due to late submission of supporting documentation from Department of Justice, Regional Counsel, or the program offices. Failure to record receivables promptly could result in EPA not collecting monies due timely. Second, one regional financial management office did not properly calculate its allowance for doubtful accounts as the region did not prepare quarterly allowance calculations and update its percentage analysis formulas. As a result, the allowance was overstated $35,772,165 and $8,052,967 for "Superfund" and "All Other," respectively. The Agency subsequently properly adjusted the accounts.

Internal Controls for Correcting Errors in IFMS Need Improvement

EPA's Financial Systems Branch bypassed IFMS manual online data entry controls when making a systemic correction of erroneous transactions. Rather than using the journal voucher process to correct the errors, the Branch had a programmer reverse the transactions by processing negative debits and positive credits. The correction resulted in 7,336 negative debit and positive credit transactions totaling $222 million. As a result, the audit trail for these transactions was hidden and basic evidence requirements for the transactions were circumvented.

Attachment 1 describes each of the above reportable conditions in more detail, and contains our recommendations on actions that should be taken to correct these conditions. We have also reported other less significant matters involving the internal control structure and its operation in separate position papers during the course of our audit. We will not be issuing 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. EPA reported on Integrity Act decisions in EPA's *Fiscal Year 2003 Annual Report*. For a discussion on Agency-reported Integrity Act management issues, please refer to EPA's *Fiscal Year 2003 Annual Report*, Section I, Overview and Analysis.

For reporting under FMFIA, material weaknesses are defined differently than they are 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.

The Agency did not report any material weaknesses for fiscal 2003 as part of the Integrity Act process. Our financial statement audit did not detect any material weaknesses that should have been reported as part of the Integrity Act process.

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 Federal Financial Management Improvement Act (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 disclose 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 did not disclose any instances where the Agency's financial management systems did not substantially comply with the applicable Federal accounting standard, the United States Standard General Ledger at the transaction level, or the Federal financial management system requirements.

We recognize improvements the Office of the Chief Financial Officer (OCFO) has made in cost accounting and believe that while there are still noncompliance issues with cost accounting, those noncompliances no longer meet OMB's definition of substantial noncompliance. However, the Agency was not in compliance with Statement of Federal Financial Accounting Standards No. 4 that requires EPA to provide full costs per output to management in a timely fashion.

We identified two other FFMIA noncompliances, related to reconciliation of intragovernmental transactions and completion of the fiscal 1999 FFMIA remediation plan. However, these noncompliances do not meet the definition of substantial noncompliance as described in OMB guidance.

Our tests also noted one other instance of noncompliance with laws and regulations, related to the Treasury Financial Manual for preparation of SF 224 "Statement of Transactions."

Attachment 2 provides additional details, as well as our recommendations on actions that should be taken on these matters. We have reported other less significant matters involving compliance with laws and regulations in position papers during our audit. We will not be issuing a separate management letter.

Prior Audit Coverage

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

- Reconciliation and reporting intragovernmental transactions, assets and liabilities by Federal trading partner.
- Complying with Statement of Federal Financial Accounting Standards No. 4, including accounting for the cost to achieve goals and identifying and allocating indirect costs.

- Accounting for capitalized property.
- Recording accrued liabilities for grants.
- Interagency Agreement invoice approval process.
- Documenting EPA's IFMS.
- Complying with Federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Preparation and Reconciliation of Statements of Transactions
- Documentation and approval of journal vouchers.
- Timely repayment of Asbestos Loan Debt to Treasury.
- Assessing automated application processing controls for IFMS.
- Reconciling Unearned Revenue for State Superfund Contracts.

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

The Chief Financial Officer, as the Agency's Audit Follow-up Official, oversees EPA's followup 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 few issues have been unresolved for many years. The OIG will continue to work with the Office of Chief Financial Officer in helping to resolve all audit issues resulting from our financial statement audits.

Agency Comments and OIG Evaluation

In a memorandum received November 10, 2003, OCFO responded to our draft report. OCFO noted that it is continuing to make progress in enhancing managerial cost accounting. Regarding our concerns related to the Superfund Trust Fund shortfall and the decline in cost recoveries, OCFO indicated the Superfund program will continue to operate as long as Congress continues to appropriate funds for it, and noted EPA's fiscal 2003 appropriation came from Trust Fund assets and the general fund. Further, OCFO indicated it would like to work with the OIG to allay concerns about suspense fund records.

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

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

Paul C. Curtis, Director
Financial Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 16, 2003

Attachment 1

Reportable Conditions

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1 - Documentation of Standard Vouchers Needs Improvement

EPA's Financial Reports and Analysis Branch did not always adequately document standard vouchers for transfer requests from Treasury to EPA Trust Fund accounts (Superfund and Leaking Underground Storage Tank Trust Funds) prior to transactions being entered into IFMS. The Branch uses a formula to determine the amount of the monthly transfer, but we noted instances in which they requested additional funds to be transferred along with the calculated amount. Specifically, the Agency requested additional funds (between $4 and $39 million) in 10 transfers with no documentation to support the requests.

The General Accounting Office's Standards for Internal Control in the Federal Government (November 1999) requires that all transactions be documented and readily available for examination. OMB's Statement of Federal Financial Accounting Concepts Number 1, Objectives of Federal Financial Reporting (September 1993), emphasizes sound controls over internal processes. EPA's Comptroller Policy Announcement No. 93-02, Policies for Documenting Agency Financial Transactions, generally echoes the need for adequate source documentation. The policy further provides that the lack of adequate supporting documentation raises questions about the validity and integrity of the Agency's financial information contained in IFMS and increases the risk of fraud, waste, and abuse by increasing the possibility that unauthorized or inaccurate information is entered into the accounting system.

While we detected no effect on the financial statements, we are concerned about the vulnerability associated with executing transactions without adequate supporting documentation. EPA also prevents these dollars from earning interest with the Treasury by requesting transfers into EPA Trust Fund accounts and maintaining month-to-month balances containing excess money.

Recommendations

We recommend that the Office of the Chief Financial Officer:

1. Establish written procedures to calculate the amount of the monthly transfer from Treasury to EPA Trust Fund accounts.

2. Require that all transfers and requests have supporting documentation attached to the standard voucher that shows how the amount requested from Treasury was derived.

Agency Comment

OCFO indicated it has developed a plan of action to address the recommendation and will establish written procedures for calculating the amount of monthly transfers from Treasury to EPA Trust Fund accounts, and will provide complete documentation to support the amount of the transfers.

2 - Continued Improvement Needed In EPA's Interagency Agreement Invoice Approval Process

EPA project officers did not always fulfill their oversight duties related to reviewing and approving interagency agreement (IAG) invoices. We noted this problem in prior audit reports, and we continued to find instances where project officers at EPA did not receive supporting cost documentation to substantiate invoice amounts and approve the invoices for payment.

Specifically, we found instances in five program offices where project officers regularly approved invoices without the detailed documentation to support costs. We also found one instance where a project officer was delinquent in approving several IAG invoices, did not track costs and remaining dollars, and relied on the work of assignment managers to monitor the IAGs. It is a project officer's responsibility to approve IAG vouchers and billings after first determining that performance is in accordance with the agreement. Further, without proper identification of accounting information and a review of the cost documentation, transactions may be recorded in the accounting system with limited assurance that invoices are valid, appropriate, and allowable under the terms and conditions of the IAG, and that costs are charged to the appropriate goal/objective.

Project officers play a key role in the Agency's management of IAGs. Working with the Grants Management Office, they have both technical and administrative responsibilities, which include: initiating and negotiating terms and conditions; monitoring the project to make sure the other agency is performing the services at an acceptable level; and monitoring costs by reviewing, approving, or disapproving all bills based on the terms of the IAG. Their responsibilities are outlined in the Project Officer Training Manual.

Prior to serving as a project officer, Agency policy requires employees who manage IAGs to successfully complete basic certification training (*Managing Your Financial Assistance Agreement – Project Officer Responsibilities*) to ensure they know how to manage the entire process, and a refresher course every 3 years.

Recommendation

3. We recommend that the Director, Office of Grants and Debarment determine the root cause of the problem and develop effective procedures to ensure that project officers properly manage the entire process.

Agency Comment

The response indicated the Office of Grants and Debarment agrees with the recommendation and will issue a long-term training plan that calls for developing a stand-alone IAG project officer training course. Until that course is in place, the Office will further emphasize in its current training courses the importance of collecting and reviewing invoice documentation. The office will also issue guidance on the need to strengthen the IAG invoice approval process, and will incorporate IAG program reviews as part of its Grants Management Reviews.

3 - Improvement Needed in Reconciling State Superfund Contracts Unearned Revenue

EPA did not reconcile the unearned revenue from State Superfund Contracts (SSC) to the general ledger. When EPA assumes the lead for a Superfund site remedial action, EPA records a liability (unearned revenue) when billing a State for their share of the estimated site costs. EPA recognizes earned revenue as costs are incurred on the site. Financial Management Division (FMD) did not prepare a reconciliation because they relied on an analysis of current year account activity. As a result, EPA could not ensure the accuracy of the SSC unearned revenue accounts, which totaled approximately $29 million.

The Chief Financial Officers Act requires the Agency's Chief Financial Officer to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, that provides for complete, reliable, consistent, and timely information. EPA should have adequate internal controls to ensure that it performs annual reconciliations of the SSC unearned revenue accounts.

We reported this issue in our report on the fiscal 2002 financial statement audit. At that time, FMD agreed with our recommendations to: (1) calculate annually the combined unearned revenue from SSCs for all accounting points and reconcile the amount to the general ledger, and (2) improve the reliability of Regional SSC spreadsheet calculations for the year-end unearned revenue adjustments by providing Regional finance offices with additional training and conducting a review of the completed spreadsheets. FMD completed the additional training and spreadsheet review, but has not yet reconciled the calculated unearned revenue to the general ledger. FMD issued "Process for Monitoring Unearned Advance Activity, Hazardous Substance Superfund, General Ledger Account 2312," which provided a process for analyzing the component activities within account 2312. However, the guidance did not provide for reconciling the spreadsheet with account 2312. Due to the complexity of the accounting for unearned revenue, we believe a proper reconciliation is needed to ensure the reliability.

For fiscal 2003, we calculated unearned revenue from SSCs for the 10 regions and attempted to reconcile it to account 2312. We found a variance of $20,667,897 between the calculated unearned revenue of $49,562,423 and the adjusted[1] general ledger balance of $28,894,526.

Recommendation

4. We recommend that the Office of the Chief Financial Officer have FMD calculate annually the combined unearned revenue from SSCs for all accounting points and reconcile the amount to the consolidated balance of general ledger account 2312.

Agency Comment

OCFO agreed with our finding and indicated FMD will calculate and analyze SSC expenditures and reconcile IFMS balances annually, and make adjustments as needed.

[1] The September 30, 2003 general ledger balance in account 2312 was $24,030,329. We removed the non-SSC related balance of $246,903 and added FMD's on-top adjustment of $5,111,100 to arrive at an adjusted balance of $28,894,526.

4 - EPA Did Not Promptly Record Marketable Securities Received in Fiscal 2003

EPA did not promptly record marketable securities received in fiscal 2003 from companies in settlement of debts. As of September 30, 2003, stocks and warrants with an aggregate value of $1,922,512 were not recorded in EPA's accounting system. The securities were not recorded because the regional financial management offices receiving the securities either were waiting on guidance from headquarters or were awaiting receipt of a settlement agreement.

- On May 22 and June 16, 2003, Sterling Chemical, Inc., issued stocks and warrants, and the securities were recorded in Washington Finance Center's securities logbook as received on August 12, 2003. They were subsequently sent to Region 6 for recording in the system. However, Region 6 did not record the securities in the accounting system as of September 30, 2003, because they did not have the proper settlement agreement from the Department of Justice.

- On January 15, 2003, Metal Management, Inc., issued stocks, and the securities were received in the Region 5 finance office on July 31, 2003. However, the securities were not recorded in the accounting system as of September 30, 2003, because the Region was waiting on guidance from Headquarters.

The Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," states that monetary instruments should be recognized as an asset upon receipt at its fair market value. Office of the Comptroller Transmittal No. 97-01, dated October 9, 1996, also requires the recording of marketable securities at their fair market value at the time of receipt.

Recommendations

We recommend that the Office of the Chief Financial Officer have the Director, Financial Management Division:

5. Develop stricter guidelines governing the recording of marketable securities and ensure that Finance Offices record financial instruments at fair market value when received.

6. (a) Develop procedures for financial management offices for sending securities between offices to ensure that the receiving financial management office has sufficient information to record the securities; or (b) record marketable securities in IFMS when received directly from Department of Justice and prepare an Intragovernmental Payment and Collection System entry to the appropriate regional finance office.

Agency Comment

OCFO agreed with our finding and indicated the Financial Management Division will develop and issue policy and procedures for timely recording of marketable securities.

5 – Automated Application Processing Controls for IMFS Could Not Be Assessed

We continue to be unable to assess the adequacy of the automated application 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. During past financial statement audits, we attempted to evaluate controls without systems documentation, but these alternatives proved to be inefficient and impractical.

Since 1995, Agency officials have maintained that the current level of documentation is sufficient for operations and will address systems documentation when the core system is replaced. Nevertheless, Agency officials have taken actions on a number of our recommendations, including completing a system documentation analysis, developing updated accounts receivable documentation, and completing an analysis for creating a comprehensive IFMS data dictionary.

As part of our fiscal 2003 financial statement audit, we evaluated the Agency's IFMS replacement activities and found that EPA has continued to take steps to replace its core financial systems. As part of the Financial Replacement System project, the Agency performed the following activities in fiscal 2003:

- Met with five other Federal agencies in various stages of replacing their financial system(s) to receive information on their approaches and best practices.
- Surveyed nine Federal agencies on their core financial systems acquisition processes.
- Performed a formal work force assessment of other Federal agencies (how many civilians, contractors, etc.).
- Contracted to do an Application Integration Software tool study; subsequently, OCFO decided to address integration and normalize data.

Although planning for replacing IFMS was started in fiscal 1997, OCFO has not progressed beyond the planning stage. OCFO states they have a planned target date of 2006 for replacing the core system and that a commercial off- the-shelf software package will be delivered with systems documentation (business logic, data dictionaries, entity relationships, etc.). However, until the new system is in place and we have had a chance to audit it, we cannot assess the adequacy of the automated internal control structure.

Agency Comment

The Agency agreed with our findings.

6 – IFMS Suspense File Needs to Be Reconciled to General Ledger

The IFMS suspense file was not in compliance with JFMIP requirement TD-04, which requires that the Application Program Interface provide internal controls, such as control totals and record counts, to ensure integrity. Specifically, no formal process or written procedures existed for reconciling financial data processed from the suspense file to the general ledger accounts. The suspense file is important because it receives input of financial transactions from IFMS users and many other financial and mixed systems, which are to be posted to the general ledger accounts. The *IFMS Nightly Cycle Comments Report*, generated from IFMS, only provides a count of the number of transaction lines processed; it does not provide a control total of dollars received and processed by IFMS. The routine reconciliation by control totals is important to maintain the completeness, accuracy, and reliability of general ledger data and EPA's financial statements.

Although the Financial Systems Branch certified IFMS in its fiscal 2003 FMFIA Certification memorandum, management provided no evidence it conducted an adequate checklist review to determine the current state of compliance with all applicable JFMIP core system requirements. In addition, OCFO management had not assessed applicable JFMIP requirements for systems' interfaces in its previous FMFIA evaluations and certifications.

The JFMIP Core Financial System Requirements, dated November 2001, state that interfaces, where one system feeds data to another system following normal business and transaction cycles (such as recording payroll data in general ledger control accounts at specific time intervals) may be acceptable as long as the supporting detail is maintained and accessible to managers. Additionally, for determining compliance with FFMIA, the implementation guidance issued by OMB requires that reconciliation between systems, where interfaces are appropriate, be maintained to ensure data accuracy. In particular, these requirements state, "To ensure that data can move effectively between the Core financial system and other financial applications operated by the agency, the Core system <u>must</u> provide internal controls with the API [Application Program Interface] (e.g., control totals, record counts) to ensure the integrity of received and processed transactions. (TD-04)."

However, we found that no process or report existed to reconcile both the total number of dollars and transactions processed from the suspense file to the general ledger accounts. Under such conditions, the IFMS staff have been assuming the following:

- All transactions transmitted into IFMS and not shown as 'rejected' in the IFMS suspense file are posted correctly and completely within the IFMS general ledger.

- All rejected transactions that subsequently are corrected and resubmitted, and no longer list as 'rejected' in the IFMS suspense file, have been posted correctly and completely to the IFMS general ledger.

- Feeder systems' staffs are properly identifying and correcting rejected transactions.

Consequently, OCFO does not have adequate assurance that data from users or subsystems is accurately or completely posted into the IFMS general ledger. Due to the lack of automated controls, incomplete, rejected, and held transactions could be processed to the wrong fiscal period.

The IFMS suspense file contained 117,456 transaction records on October 10, 2003, the date when the fiscal 2003 General Ledger closed its books. The IFMS suspense file serves as the pass through for all financial transactions entered into IFMS. The table below indicates the status of transactions in the file, based on a custom report generated by the IFMS contractor:

System Status	No. of Transactions	Dollars
ACCPT	83,531	$4,771,498,565.63
BHOLD	319	2,954,224.29
BRJCT	253	2,073,816.62
BSCHD	14	7,537.64
DELET	22	40,450,229.18
HELD	6,711	122,160,901.57
PEND1	585	8,216,249.90
PEND2	15	999,068.00
REJCT	25,935	1,042,816,014.72
SCHED	71	5,332,526.06
Total	**117,456**	**$5,996,509,133.61**

Due to the absence of an automated reconciliation process, the IFMS contractor invested significant time manually determining the status of these transactions and creating custom reports for analysis purposes. The custom reports represented the best available data, although the contractor would not confirm that either the status or dollar amounts were totally accurate. Subsequently, the contractor and OCFO staff manually analyzed the data line by line and discovered many rejected and incomplete transactions. OCFO also asked regional staff to perform additional manual reviews of the suspense fund data in order to clarify the status, appropriate posting periods, and materiality of these transactions. All of the manual effort and risk could have been minimized if management had implemented automated internal controls to reconcile control totals and record counts for financial data processed from the suspense file to the IFMS general ledger accounts.

To ensure that the general ledger contained complete and accurate data for preparing the financial statements, we tested statistically sampled transactions to determine whether any should have been posted during the fiscal 2003 period. We did not find any errors. We found that transactions were either properly posted in fiscal 2003, were properly rejected by IFMS, or had other valid reasons for not being posted.

The Agency has merged the requirements of OMB Circulars A-123 and A-127 to assess and certify financial system requirements under FMFIA. However, the Financial Systems Branch's annual FMFIA certification did not formally identify a requirement to review financial systems for compliance with all applicable JFMIP Federal system requirements or provide a quality assurance process to ensure IFMS was in compliance with the JFMIP standards. While the Agency formally reminded financial managers to complete the fiscal 2003 FMFIA Certification and also issued guidance regarding the content of Quality Assurance Workplans, in neither instance did the Agency direct users to review financial systems against current JFMIP requirements. During fiscal 2003, the IFMS manager did not conduct an adequate review of JFMIP compliance and, instead, submitted a list of the JFMIP noncompliance items identified during the April 2002 review. Therefore, management has no assurance that IFMS meets the current JFMIP functional and technical requirements for Federal financial systems. Without this assurance, management carries a greater risk that financial data may not contain complete and accurate information.

Recommendations

We recommend that the Office of the Chief Financial Officer:

7. Establish and test a formal reconciliation process that includes total dollar and record counts for the data processed from the IFMS suspense file to the general ledger accounts.

8. Update the formal quality assurance process to ensure IFMS is evaluated annually regarding its compliance with all applicable JFMIP Federal system requirements and certified as part of the FMFIA review. Also, complete the checklist review of IFMS for compliance with all current applicable JFMIP core systems requirements.

Agency Comment and OIG Evaluation

In responding to this finding, the Director for Financial Management concurred with our recommendations and indicated that the Financial Systems Branch is in the process of developing a reconciliation process. Additionally, in response to our discussions, OCFO subsequently issued Comptroller Policy Announcement No. 03-09, which establishes policies and procedures for reconciling the IFMS suspense table to the general ledger. OCFO's response also emphasized that IFMS is evaluated annually as a part of OCFO's FMFIA certification process and stated that JFMIP checklist reviews were completed for IFMS in both 2002 and 2003. We noted that the 2002 evaluation did not address compliance with system interface requirements. In response, the Agency stated it was not cost beneficial to invest in incorporating these new JFMIP financial system requirements into a legacy system. Furthermore, the referenced 2003 checklist review did not exist at the time of OCFO's FMFIA certification and was performed as a result of our audit inquiries.

7 – Further Improvements Needed in Managing EPA's Accounts Receivable

We noted two issues that negatively impacted EPA's accounting for accounts receivable:

- We noted numerous instances where the financial management offices did not record receivables timely due to late submission of supporting documentation from Department of Justice, Regional Counsel, or program offices. Failure to record receivables promptly could result in EPA not timely collecting monies due.

- One regional financial management office did not properly calculate its allowance for doubtful accounts, because the region did not prepare quarterly allowance calculations and update its percentage analysis formulas. As a result, the allowance was overstated $35,772,165 and $8,052,967 for "Superfund" and "All Other," respectively.

EPA's Resource Management Directive System guidelines require financial management offices to ensure accounts receivable are recorded timely. However, there are no guidelines requiring these offices to periodically follow up with the Department of Justice, Regional Counsel, and program offices to determine the status of pending transactions. Further, EPA's Resource Management Directive System guidelines require financial management offices to assess the collectibility of accounts receivable quarterly. However, the Financial Management Division has not established followup procedures to verify that the financial management offices follow these Resource Management Directive System guidelines.

Recommendations

We recommend the Director, Financial Management Division:

9. Periodically request written verification of recent judgments and claims from the Department of Justice, Directors of Office of Regional Counsel, and other program offices to ensure legal documents on such judgments and claims are being promptly forwarded to the financial management offices.

10. Establish procedures to verify that year-end and period-end transactions are processed by the financial management offices.

11. Establish procedures to verify that financial management offices are conducting quarterly reviews of the allowance for doubtful accounts and updating the percentages based on the collection rate in accordance with OCFO policies.

Agency Comment and OIG Evaluation

OCFO indicated it will develop necessary policies and procedures to ensure legal documents are promptly forwarded. OCFO also stated it has implemented procedures to: (1) verify that year-end or period-end transactions are processed, and (2) review the allowance for doubtful accounts and update percentages based on collection experience from prior years. We recognize that the Agency has established procedures to verify year-end transactions and to review the allowance for doubtful accounts; however, our findings indicate that such procedures are either not being properly implemented or are only partially effective. In addition, the allowance for doubtful accounts was originally materially misstated and was corrected only after our analysis, therefore, additional controls are needed.

8 – Internal Controls for Correcting Errors in IFMS Need Improvement

EPA's Financial Systems Branch bypassed IFMS manual online data entry controls when making a systemic correction of erroneous transactions. Rather than using the journal voucher process to correct the errors, the Branch had a programmer reverse the transactions by processing negative debits and positive credits. The correction resulted in 7,336 negative debit and positive credit transactions totaling $222 million. As a result, the audit trail for these transactions was hidden and basic evidence requirements for the transactions were circumvented.

OMB Circular No. A-127 (Revised), *Financial Management Systems*, requires that internal controls over data entry and transaction processing shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources. EPA's Comptroller Policy Announcement No. 93-02 requires that all financial transactions recorded in the accounting system be supported by adequate source documentation because lack of adequate supporting documentation raises questions about the validity and integrity of the financial information contained in IFMS. The policy further notes that failure to require adequate source documentation before recording transactions in the Agency's accounting system increases the risk of fraud, waste, and abuse by increasing the possibility that unauthorized or inaccurate information is entered into the accounting system.

We performed an additional review of IFMS, specifically analyzing the 7,336 negative transactions, and determined that none of the transactions had a material impact on the financial statements. However, we are concerned that posting negative debits and positive credits increases the possibility of unauthorized, inaccurate, or fraudulent information being entered into the accounting system.

Recommendations

We recommend that the Office of the Chief Financial Officer:

12. Establish policies and procedures to ensure that negative transactions are not entered into IFMS and that standard double entry bookkeeping be followed.

13. Reduce IFMS's vulnerability to fraud and abuse by allowing only designated system operators, instead of programmers, to post accounting entries.

Agency Comment and OIG Evaluation

OCFO indicated it believes that Comptroller Policy 93-02 documents the Agency's procedures for processing financial transactions, and the Financial Systems Branch is in the process of updating related Standard Operating Procedures to ensure transactions are processed using standard accounting protocol.

We believe the negative debits and positive credits posted to IFMS are evidence that procedures are not working properly and need to be addressed.

Compliance with Laws and Regulations

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

9 - EPA Continues to Make Efforts to Improve Its Cost Accounting Processes

Since fiscal 1999, we have reported that EPA has not fully complied with the requirements of Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government.* We have taken this position largely because EPA has not produced general purpose financial reports that show the full cost of its outputs as required by the Standard. During fiscal 2003, EPA created enhanced reporting capabilities that allow EPA to determine the direct cost of outputs using the Financial Data Warehouse. Because of this new capability and continued efforts by EPA, we believe that EPA is no longer in substantial noncompliance with the standard. However, the reporting capability does not allow for full costs, such as grant accruals. We believe the Agency still needs to go further to produce full cost reports that are useful to managers.

Noteworthy Improvements Made

While we believe EPA is not preparing reports that show full costs, the Agency has made noteworthy progress in its efforts to improve cost accounting within EPA. For example:

- Beginning in January 2003, by using the Financial Data Warehouse, any EPA employee can determine most of the direct costs assigned to any EPA output.

- OCFO completed a managerial cost information assessment project and published numerous "fact sheets" on various aspects of EPA's accounting system. The fact sheets are available to all EPA employees through the OCFO intranet site.

We are especially pleased that OCFO completed the managerial cost information assessment project. This project was begun in December 2002 with the final report being issued in September 2003. The first goal of the assessment was to identify the cost information needs of budget and program managers and then, based on the data collected, consider changes to the Agency's cost information systems that would further enhance their usability. The second goal was to assess trends in the use of cost information and, based on the findings, optimize the OCFO Reporting and Business Intelligence Tool ("ORBIT") to best meet the reporting needs of EPA managers.

The managerial cost information assessment project resulted in six key findings and numerous recommendations to address the findings, and it also identified the next steps OCFO plans to take to improve the cost information available to Agency managers. The assessment report stated: "OCFO will work with EPA managers to both meet the cost information needs highlighted by the needs assessment, and ensure managers are provided with timely, reliable, and consistent cost information." We look forward to monitoring the OCFO's continued progress toward fully implementing an effective cost accounting system.

EPA Should Develop Better Formal Outputs

In our fiscal 2002 financial statement audit report, we stated that one of the factors that hinders the quality of EPA's cost accounting information is how OCFO has chosen to define its cost accounting "outputs." Statement of Federal Financial Accounting Standards No. 4 defines an output as a discrete product or service, but we believe that many of the Agency's subobjectives are too general to fit this definition. We recommended that the OCFO promote change of the Agency's cost accounting outputs, so they will represent discrete products or services produced by the Agency. OCFO did not agree with this recommendation and has stated that under the new five-goal accounting structure, the official EPA cost accounting output will still be the Program Results Code subobjective. We believe that in light of the results of the managerial cost information assessment project and the changes that will occur in the Agency's accounting structure in fiscal 2004, OCFO should reconsider this decision.

The managerial cost information assessment project report states: "The EPA appreciates that in order to effectively manage for results it needs to know the full costs of programs, projects, and activities." The assessment project report also suggests that Agency managers believe there is a need for all kinds of cost information, but the assessment report does not say that managers are interested in subobjective cost information. Since managers are more interested in knowing the costs of programs, projects, and activities than the cost of a subobjective, OCFO should reconsider its decision to retain the subobjective as the official Agency cost accounting output.

Late in fiscal 1998, when it initiated its 10-goal accounting structure, OCFO decided that the subobjective would be the official Agency cost accounting output. Much has changed since then. The Agency will be using a new five-goal accounting structure beginning in fiscal 2004. OCFO is much more knowledgeable of the cost information needs of Agency managers than it was in fiscal 1998. Changing the official Agency cost accounting output from the Program Results Code subobjective to a different output that reflects the costs of programs, projects, and activities will be more useful to Agency managers.

Recommendations

We recommend that the Office of the Chief Financial Officer:

14. Continue its efforts to improve Agency financial and cost accounting systems, including its strategy to further educate users on the types of cost information available from the OCFO systems, and how to use the systems to obtain the information they need to effectively manage their programs.

15. Reconsider its decision to retain the Program Results Code subobjective as the official Agency cost accounting output, and change the Agency's outputs to something more meaningful and useful to Agency managers.

Agency Comments and OIG Evaluation

OCFO will continue to work with Agency managers and staff to identify their cost information needs and incorporate those requirements into the Agency's accounting processes. The subobjective will continue to be the Agency's cost accounting output. Having the Agency output at the subobjective level does not preclude the Agency from accounting for discrete programs or projects below the subobjective level. The revised accounting structure for the new strategic plan will allow the Agency to do just that.

We recognize that OCFO is continuing to take steps to improve the quality of cost information available to EPA managers, but we continue to believe that full compliance with Statement of Federal Financial Accounting Standards No. 4 will not be achieved until OCFO produces reports that show the full costs of Agency outputs. We believe the OCFO should strive to provide timely reports that show the full cost of an output that is meaningful to Agency managers.

10 - EPA Continues to Experience Difficulties in Reconciling Intragovernmental Transactions

EPA continues to experience difficulties in reconciling some of its intragovernmental transactions due to some Federal entities not providing information for reconciliations. Without the proper confirmations from its trading partners, EPA has limited assurance that intragovernmental balances are accurate. EPA has experienced similar occurrences the past 2 years that prohibited the Agency from fully complying with the applicable requirements.

OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, dated September 25, 2001, requires Federal agencies to reconcile and confirm intragovernmental assets, liabilities, and revenue with their trading partners quarterly. This information is to be presented in the financial statements as Required Supplementary Information and should agree with line items reported on the balance sheet. However, intragovernmental transactions have been classified by GAO as a government-wide material weakness due to the lack of standardization in recording and processing intragovernmental activities. To resolve the issue, OMB established standard business rules (Memorandum M-03-01, October 4, 2002) to be used in intragovernmental exchange activities. The *Federal Intragovernmental Transactions Accounting Policies Guide* was updated in fiscal 2003 to provide procedures for the confirmation process and tools to facilitate quarterly reconciliation. Agencies now submit quarterly intragovernmental balances to Treasury's Financial Management Services to consolidate the financial data and provide each agency with reports to facilitate reconciliation.

EPA's OCFO issued policies and procedures in December 2002 requiring collection of data on intragovernmental transactions based on the standard business rules OMB developed in October 2002. The Agency sent confirmation worksheets to its trading partners, and we were told they received 2 responses out of 14 sent. The OIG acknowledges and commends EPA's efforts to reconcile intragovernmental transactions as required by Federal financial reporting requirements. OIG suggests that EPA continue its efforts in reconciling the Agency's intragovernmental transactions to comply with Federal financial reporting requirements.

Agency Comment

The Agency agreed with our findings.

11 – EPA Needs to Revise and Resubmit FFMIA Remediation Plan

In last year's financial statement audit report, we concluded that EPA's 2002 report to OMB had incorrectly reported the successful completion of its 1999 FFMIA Remediation Plan for financial management systems. For this year, we found that EPA had taken all necessary actions to correct significant weaknesses in the 1999 Remediation Plan, except for establishing a personnel certification program for granting access to non-Federal personnel, such as contractors. EPA's Office of Administration was continuing to work with the Office of Acquisition Management to develop an appropriate Agency program for certifying non-Federal workers. The FFMIA requires the OIG to report on the Agency's progress to remediate significant weaknesses in financial management systems.

As part of our followup work, we assessed OCFO actions to ensure both Federal and non-Federal employees received appropriate screening before being granted sensitive access rights to major financial or mixed-financial systems. We reviewed OCFO Policy 98-08, Amendment 1 (dated March 29, 2002), which established personnel security policy by requiring a National Agency Check with Inquiries for both employees and non-employees before granting access to EPA's IFMS. This policy describes the type of screening that is appropriate for non-Federal personnel, such as contractor personnel, but it is only applicable to the IFMS contractors. We did not receive a copy of Policy 98-08 until after we had concluded our audit fieldwork and, therefore, did not have time to verify the implementation of OCFO's personnel access policy for IFMS non-Federal personnel. We plan to evaluate the Policy's implementation during the fiscal 2004 financial statement audit.

Several other financial or mixed systems are material to the presentation of financial statements (such as the Integrated Grants Management System, Contract Payment System, and the payroll system). We believe contractors (and other non-Federal, high access users) should be subjected to the same scrutiny as required for access to IFMS. Memorandums of Understanding between the IFMS system manager and subsystems managers appear to cite Office of Environmental Information policies and make general statements that require following "both Federal and agency guidelines regarding systems." However, neither the Memorandum of Understanding language nor any of the referenced Federal and Agency policies/guidelines stipulate clear baseline security requirements for screening contractor personnel with access to financial data. Thus, it is not clear what is required of non-Federal personnel for access to financial and mixed-financial systems.

Recommendations

We continue to recommend that the Office of the Chief Financial Officer revise its 1999 Remediation Plan to state when EPA will establish a security certification process for all its major financial and mixed-financial systems. Specifically, we recommend that the Office of the Chief Financial Officer:

16. Identify the party responsible for establishing a security certification process.

17. Indicate an *estimated* milestone date as to when the certification process will be applied to persons with sensitive access rights to major financial and mixed systems. OCFO also needs to submit the revised Remediation Plan to OMB.

Agency Comment and OIG Evaluation

OCFO stated EPA's 1999 Remediation Plan already has been updated and submitted to OMB. The plan includes responsibilities for establishing a security certification process for non-Federal workers, and established milestones for issuing the certification policy. The milestones for issuing the policy are July 2004 for contractor personnel and July 2005 for grantee personnel. We will evaluate the adequacy of grant and personnel security procedures in Fiscal 2004 for all financial and mixed financial system.

12 - EPA Not in Compliance Regarding Preparation and Reconciliation of SF 224

EPA continues to experience difficulties in completing the required SF 224 "Statement of Transactions" and reconciling transactions on the Statement of Differences (FMS 6652). Such actions are required by Comptroller Policy and Treasury Financial Manual. During fiscal 2003, EPA reported adjusted rather than actual amounts on the SF 224. Most outstanding items or differences are researched and cleared within 60 days, although some differences have remained longer than a year. By reporting adjusted amounts on the SF 224, the Agency prevented differences from being reported by Treasury on the FMS 6652.

EPA's new Comptroller Policy No. 03-04, "Accelerated Monthly Standard Form 224 (SF 224), 'Statement of Transactions,' Process – Revised Policies and Procedures," states EPA will:

- Prepare its SF 224 report in accordance with Volume One of the Treasury Financial Manual, Part 2-3300 (1-TFM 2-3300).
- Reconcile cash differences between Treasury and EPA records allowing no more than one current month and one prior month cash reconciliation differences each reporting period.

The Treasury Financial Manual states, "Each reporting office will prepare the [SF 224] directly from its accounts promptly at the close of each accounting month."

EPA had already taken steps to re-engineer its financial processes relating to SF 224 reporting. Most Agency locations we audited are now reporting SF 224 properly, but we still found instances in which differences are being manually adjusted in the suspense account. Subsequent reconciling and clearing of the differences can take a great deal of time and effort, in some cases up to a year, to research due to supporting documentation not being readily available. We found: (1) instances where the *Monthly Statement of Difference Reconciliation Report* was not prepared timely and accurately; (2) instances where written justifications in some of EPA's monthly cash reconciliations were not provided; and (3) a reconciliation spreadsheet was prepared agreeing to the adjusted amount in suspense (Treasury Symbol 68F3875) instead of a reconciliation to the Statement of Differences (FMS 6652) being completed in accordance with the Comptroller's policy.

Recommendations

We recommend that the Office of the Chief Financial Officer:

18. Discontinue including the adjusted amount on the SF 224, thus enabling Treasury to report these amounts through the Statement of Differences (FMS 6652).

19. Make source documentation readily available to improve timely clearing of reconciling items included in the suspense account and on the Statement of Differences (FMS 6652).

Agency Comment and OIG Evaluation

OCFO noted that it believes the characterization of the entire Agency as not being in compliance with Treasury regulations does not fairly represent EPA's status given that the majority of the finance offices comply with Treasury regulations. OCFO asserts only 4 of its 26 Agency locations have differences, with only 1 of those locations still adjusting current unrecorded transactions to suspense accounts on the SF 224. OCFO indicated it has provided OIG with an analysis of the suspense differences between the IFMS reports on cash transactions and the SF 224. The OIG recognizes the improvements the Agency has made in preparing the SF 224; however, we believe that all Agency locations should be in compliance with Treasury regulations for preparation of the SF 224.

Status of Prior Audit Report Recommendations

EPA's position is that "audit follow-up is an integral part of good management," and "corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations." The Chief Financial Officer is the Agency Audit Follow-Up Official and is responsible for ensuring that corrective actions are implemented. To resolve long-standing audit recommendations, the Deputy Chief Financial Officer formed an Audit Follow-Up Council in July 2000. The Council reviews the progress on audit findings, discusses approaches to resolving audit issues, and provides coordination and support across OCFO on audit-related matters. Council membership consists of the Deputy Chief Financial Officer, the OCFO Audit Follow-Up Coordinator, the Comptroller, Comptroller Division Directors, and the Director of the Office of Planning, Analysis, and Accountability.

The Agency has continued to make substantial progress in completing corrective actions from prior years. These seven issue areas from prior financial statement audits, with corrective actions in process, are listed in the following table.

Audit Issue Areas with Corrective Actions in Process
• **Automated Application Processing Controls for IFMS:** While the Agency continues to make progress, until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a reportable condition concerning the current accounting system and its automated application processing controls. Please see Attachment 1 for additional information.
• **Financial System Security Plans:** The Agency has established a personnel security policy for access to its IFMS. However, it is not clear what is required of non-Federal personnel for access to other financial and mixed-financial systems. Therefore, EPA still needs to revise its 1999 FFMIA Remediation Plan, establish a milestone for completion, and submit the revised Plan to OMB. Please see Attachment 2 for additional information.

Audit Issue Areas with Corrective Actions in Process
• **Managerial Cost Accounting Standards:** In the audits of the fiscal 1999, 2000, 2001, and 2002 financial statements, we reported that EPA did not comply with the managerial cost accounting standard. The Chief Financial Officer, while acknowledging the desirability for continuing improvements as envisioned by the standard, has disagreed with our conclusion that EPA did not comply with the standard. Because of Agency actions taken during fiscal 2003 to enhance reporting capabilities and ongoing efforts to improve cost accounting processes, we believe EPA is no longer in substantial noncompliance with the standard. However, we believe the Agency still needs to go further to produce full cost reports that are useful to managers. Please refer to Attachment 2 for details on this issue.
• **Reconciling Unearned Revenue for State Superfund Contracts:** The Agency reported that all planned corrective actions from this fiscal 2002 finding had been completed. However, we found that EPA still did not reconcile the unearned revenue from State Superfund Contracts to the general ledger. While it issued guidance on monitoring unearned advance activity, the guidance did not provide for the needed reconciliation. Please see Attachment 1 for additional information.
• **Integrated Grants Management System Security Plan:** In our audit of the 2002 financial statements, we recommended that the Integrated Grants Management System Security Plan be revised to include all applicable elements of Federally-accepted security plans for major financial computer applications. The Agency agreed to complete this revision by December 31, 2003, and is on target to meet this commitment.
• **Preparation and Reconciliation of Statements of Transactions:** The Agency reported that all planned corrective actions from this fiscal 2002 finding had been completed. However, we found that EPA continued to experience difficulties in completing the required Statements of Transactions (SF 224) and reconciling the Treasury Statements of Difference (Form 6652). The required process was not always followed. Please see Attachment 2 for additional information.
• **Documentation of Standard Vouchers Need Improvement:** The Agency issued a memo on Documentation and Approval of Journal and Standard Vouchers. However, we found that documentation for some standard vouchers was still inadequate. Please see Attachment 1 for additional details.

EPA's Fiscal 2003 and 2002 Financial Statements

November 2003

EPA's FY 2003 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

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Note: All components of *EPA's FY2003 CFO Audited Financial Statements* are included in ***EPA's FY 2003 Annual Report*** (Publication Number: EPA-190-R-03-002). 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 III*** of the Annual Report.

OVERVIEW AND ANALYSIS

OVERVIEW AND ANALYSIS

INTRODUCTION

The U.S. Environmental Protection Agency (EPA) has a clear mission: to protect human health and the environment. Under this mission, the Agency is responsible for ensuring that the nation's air is safe to breathe, the water is clean and safe to drink, and the land is restored and protected. In FY 2000, under the Government Performance and Results Act (GPRA), EPA issued its second *Strategic Plan*, with 10 long-term strategic goals identifying the environmental results that the Agency would work to achieve and reflecting the sound financial and management practices it would employ. Since then, the Agency has been working to sharpen its focus on achieving measurable environmental results, and has revised its *Strategic Plan*, as well as EPA's supporting financial architecture.

With the release of EPA's revised *2003 Strategic Plan* in September 2003, the Agency moved from 10 strategic goals–including both outcome-oriented goals, such as Clean Air, and functional or support goals, such as Effective Management–to five goals centered on environmental and human health results. By directing attention to fewer outcome-oriented goals, EPA hopes to develop effective strategies that achieve better environmental results and use taxpayer dollars more wisely and effectively. EPA regional offices, for example, working with their state and tribal partners, will be better able to conduct regional strategic planning activities and address regional or geographic priorities under the Agency's five national goals.[1]

With this Annual Report, the Agency begins framing its performance and results under its *2003 Strategic Plan*. Discussion of fiscal year (FY) 2003 performance in terms of the more outcome-oriented, five-goal structure enables the Agency to present a stronger focus on achieving mission results of protecting human health and the environment. EPA has cross-walked its FY 2003 Annual Performance Goals, established in the *FY 2003 Annual Plan* under the 10-goal architecture of

EPA CHANGED ITS STRATEGIC GOALS IN FY 2003

2000 Strategic Plan	*2003 Strategic Plan*
1. Clean Air	1. Clean Air & Global Climate Change
2. Clean & Safe Water	2. Clean & Safe Water
3. Safe Food	3. Land Preservation & Restoration
4. Preventing Pollution	4. Healthy Communities & Ecosystems
5. Better Waste Management	5. Compliance & Environmental Stewardship
6. Reduced Global & Cross Border Environmental Risks	
7. Quality Environmental Information	
8. Sound Science	
9. A Credible Deterrent to Pollution	
10. Effective Management	

EPA's *2000 Strategic Plan*, to the new five-goal framework of the *2003 Strategic Plan*. The Agency also included a sixth chapter to discuss annual results for supporting programs.

The Agency is submitting this year's report on an accelerated schedule of November 17, 2003, sooner than the statutory deadline of January 31, 2004. Operating under this new schedule will position the Agency to meet the statutory deadline of November 15, 2004, for FY 2004 reporting. A significant implication of the accelerated schedule is that final performance data for several key programs were not available in time for this report's release. As allowed by GPRA, performance data not available at the time of this document's publication will be reported in EPA's FY 2004 and future Annual Reports.

This Annual Report provides an assessment of the Agency's environmental, programmatic, and financial performance. Building on the previous year's results, EPA made progress during FY 2003 toward protecting human health and the environment by using a mix of tools and approaches, and by working closely with its valued partners whose contributions were critical to many of the results achieved.

This report contains three sections. Section I, Overview and Analysis, provides a broad picture of EPA's environmental and fiscal performance during FY 2003.* It also summarizes EPA's accomplishments in financial management and in addressing programmatic management challenges and audit management activities for FY 2003, as well as progress toward enhancing the Agency's capacity for achieving results. Section II, Performance Results, describes in greater detail the results that EPA–working with its federal, state, tribal, and local government partners–achieved under each of the Agency's five new goals. It also presents progress toward meeting the Annual Performance Goals established in EPA's *FY 2003 Annual Plan*. Section III, FY 2003 Audited Financial Statements, summarizes EPA's financial activities and achievements and presents the Agency's annual financial statements, which have been independently audited by EPA's Inspector General.

PERFORMANCE RESULTS

Building on FY 2002 accomplishments, EPA and its partners made significant progress during FY 2003 toward protecting the nation's air, water, and land. The section below describes key environmental and program results, summarizes the Agency's performance in meeting its FY 2003 annual performance goals, and discusses some of EPA's current performance issues and concerns.

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* The Overview and Analysis also addresses requirements for a "Management's Discussion and Analysis" of the annual financial statements included in EPA's *FY 2003 Annual Report*. Because the *FY 2003 Annual Report* consolidates a number of specific reports, some required components of the "Management's Discussion and Analysis" are presented in greater detail elsewhere in this report. In particular, EPA's mission statement and organization chart appear at the front of the report. For a discussion of the Agency's performance goals and results, refer to Section II. Financial statements, along with a discussion of systems, controls, and legal compliance, are presented in Section III.

Environmental Accomplishments

Clean Air and Global Climate Change. In FY 2003, an additional 6.8 million people in the United States are now breathing healthier air. Work by EPA and its partners through FY 2003 led to decreased emissions of the six principal air pollutants for which EPA has established National Ambient Air Quality Standards under the Clean Air Act: carbon monoxide, ground-level ozone, particulate matter, nitrogen dioxide, sulfur dioxide, and lead. For example, 92 percent of the geographic areas in the country that were not meeting the clean air standard for carbon monoxide are now measuring clean air. The same is true for 49 percent of those areas that were not previously meeting the 1-hour ozone standard and 81 percent of the areas that were not attaining the particulate matter (PM_{10}) standard.

EPA's New FY 2003 Emission Standards for Non-road Diesel Engines:

Will Annually Reduce
- 825,000 tons of nitrogen dioxide.
- 125,00 tons of particulate matter.

And Annually Prevent
- More than 9,600 premature deaths.
- 8,300 hospitalizations.
- 16,000 heart attacks.
- 5,700 children's asthma-related emergency room visits.
- 260,000 respiratory problems in children.

In FY 2003, EPA proposed new emission standards for non-road diesel engines used in construction, agricultural, and industrial operations. This proposal will reduce emission levels for particulate matter and nitrogen oxide by more than 90 percent, and eliminate 99 percent of the sulfur content in fuel used by these engines, resulting in significant health benefits.[2]

In addition to the six common air pollutants, the Clean Air Act identifies 188 toxic air pollutants to be regulated. In FY 2003, EPA issued rules regulating 29 major sources of toxic air pollutants. The Agency estimates that when fully implemented, these rules will prevent more than 140,000 tons of toxic air emissions each year.

Clean and Safe Water. In FY 2003, the nation maintained the quality of its drinking water, sustaining gains made in the past decade. EPA estimates that as a result of its support for state and tribal drinking water programs in FY 2003, the percentage of the population served by community water systems receiving drinking water that meets existing health-based standards remained high. The nation also increased its knowledge of the quality of fresh waters in new biennial reporting from states and tribes.

During FY 2003, for the first time, 13 states were able to identify specific water where all fish are safe to eat. This was due in part to increased monitoring of the health of the nation's surface waters. In calendar year 2002, 15 percent of river miles (representing 544,036 miles) and 33 percent of lake acres (representing 13,413,763 acres) were under one or more advisories not only for risks to the general population, but also to recreational and subsistence fishers, and sensitive sub-populations such as pregnant women, nursing mothers, and children. State and local agencies also reported that beaches were open 95 percent of the beach days (the number of days in a specific beach's recreational season) during calendar year 2002.

Land Preservation and Restoration. EPA continues to make substantial progress toward cleaning up contaminated lands and safely managing hazardous waste. In FY 2003, the Agency achieved its performance goal of completing the cleanup ("construction completes") of and reducing the risks posed to human health at 40 sites on the Superfund National Priorities List (NPL). Since the program's inception, the Agency has completed all remedial cleanup construction activities at 886 Superfund sites, or 58 percent of the sites on the NPL. This work, and that at non-NPL sites, has included providing alternative drinking water supplies to nearly 613,000 people to protect them from contaminated groundwater and surface water, and relocating more than 33,000 people in instances where contamination posed the most severe immediate risk.

Superfund: Protecting People from Environmental Contamination

Since its inception in 1980, EPA's Superfund Program has:

- Provided alternative drinking water supplies to nearly 613,000 people at NPL and non-NPL sites to protect them from contaminated ground and surface water.
- Treated or removed 951 million cubic yards of hazardous solid waste.
- Addressed (treated, contained, or disposed of) 379 billion gallons of hazardous liquid waste (including contaminated groundwater).
- Relocated more than 33,000 people at NPL and non-NPL sites in instances where contamination posed the most severe immediate threats.

In FY 2003, EPA met its targets of 197 and 158 for achieving intermediate environmental indicators for the Resource Conservation and Recovery Act's (RCRA's) Corrective Action Program. Adequate controls were put in place to prevent human exposures to hazardous waste at an additional 230 facilities, and migration of contaminated groundwater is under control at 175 facilities. As a result, actual or potential threats from releases of hazardous wastes have been reduced at nearly 73 percent of the 1,174 high priority RCRA corrective action facilities and migration of contaminated groundwater has been controlled at 61 percent of those facilities.

The Agency surpassed its annual performance goal for the number of hazardous waste management facilities operating with approved permits. These permits require that controls be put in place to prevent dangerous releases to air, soil, and groundwater at facilities. Based on preliminary results for FY 2003, 83.2 percent of the nation's management facilities have approved controls in place, or 6 percent more facilities than the Agency's FY 2003 annual goal.

Healthy Communities and Ecosystems. Throughout FY 2003, EPA achieved significant results toward preventing or reducing risks in communities from chemicals, microorganisms, and pesticides. For example, in FY 2003, EPA continued to make progress toward its goal of evaluating the potential risk of 20 chemicals to which children have a high likelihood of exposure.[3] EPA and other federal partner actions have also made significant progress toward the national goal of eliminating childhood lead poisoning by 2010. Specifically, the incidence of children 1 to 5 years of age with elevated blood lead levels has been reduced approximately by half in the last decade.[4] Newly released Centers for Disease Control data from 1999 and 2000 show the number of children younger than 6 years old with elevated blood lead levels has fallen to approximately 400,000, a decrease from an estimated 900,000 for the period 1991 through 1994. Through reviewing risks posed by older pesticides, EPA has eliminated or restricted many uses of organophosphate pesticides in and around the home, thus reducing exposure to children of chemicals that affect the functioning of the nervous system by 60 percent.[5]

In FY 2003, EPA also worked to build community capabilities to make sound environmental and human health decisions. Under its Brownfields Program, the Agency provided $118.6 million in grants to states, tribes, local governments, and stakeholders to assess, clean up, and redevelop brownfield properties. Since 1995, EPA has assessed a total of 4,300 brownfield properties. Property assessment and cleanup completed under the Brownfields Program are the first steps towards reuse and redevelopment. The cleanup and redevelopment of these properties enables the leveraging of $5.1 billion in public and private investments, as well as the leveraging of 25,000 jobs.[6]

EPA continues to make progress towards its goal of protecting and restoring 250,000 acres of estuarine habitat by 2008, with more than 118,000 acres protected and/or restored in FY 2003.[7] EPA has also made progress in protecting and restoring ecosystems in the Gulf of Mexico, the Great Lakes, and Chesapeake Bay. A cumulative total of 6,662 acres of coastal and marine habitat has been restored or protected in the Gulf of Mexico, exceeding the target for FY 2003 and contributing toward a 10-year goal of 20,000 acres. Levels of the most critical, persistent pollutants around the Great Lakes (including mercury, polychlorinated biphenyls (PCBs), dioxin, benzo(a)pyrene, and hexachlorobenzene) continue to decrease, as part of a downward trend in toxic substances in the Great Lakes over the last 15 years. By FY 2003, more than 89,500 acres of submerged aquatic vegetation (SAV) have been measured, which is an indicator of the health of the Chesapeake Bay. This represents a strong recovery of SAV in the middle bay, and significant progress towards the goal of 185,000 acres by 2010.[8]

During FY 2003, EPA made progress in addressing cross-border and global environmental issues as well. For example, the number of residents along the U.S. Mexico border who were protected against health risks, beach pollution, and damaged ecosystems as a result of improved water and wastewater sanitation systems has increased by 152,000 for a cumulative total of approximately 872,000 residents. Also, in cooperation with the New Independent States (NIS) of the former USSR, EPA and its partners have eliminated Russia's production of ozone-depleting substances and have helped prevent the deterioration of drinking water supplies for 700,000 people in the NIS.

Sound science must be the basis of standard-setting and guide EPA in identifying and addressing emerging issues, as well as updating and advancing its understanding of long-standing human health and environmental challenges. In FY 2003, EPA completed a draft report on the condition of the nation's estuaries that provides the first scientifically defensible baseline from which to measure trends in the health and status of these vital ecosystems.[9] In addition, in FY 2003 EPA reported on the performance and cost of control technologies to reduce emissions from coal-fired utility boilers, identified as one of the most significant contributors of mercury to the air. This information will support the development of regulations that will cost-effectively reduce human health and environmental risks from mercury.[10]

Compliance and Environmental Stewardship. In FY 2003, EPA prevented or eliminated the release of millions of pounds of pollutants through programs that promote and monitor compliance with environmental laws, pollution prevention efforts, and environmental stewardship. EPA also finalized several enforcement actions that significantly advanced environmental and human health protection by reducing 633 million pounds of pollutants. Further, in FY 2003, 848 facilities disclosed and corrected violations of environmental regulations, due to EPA's compliance incentive policies.

In FY 2003, EPA's Green Chemistry Challenge Awards Program continued to make significant progress toward reducing the amount of toxic substances and waste released into the environment. From the program's creation in 1996 through the end of FY 2003, 326 million pounds and 7 million gallons of hazardous chemicals and solvents have been eliminated from the environment, including chlorofluorocarbons; volatile organic solvents; persistent, toxic, and bioaccumulative chemicals and solvents; and very corrosive, and toxic chemical substances. For example, in FY 2003 under the Agency's Hospitals for a Healthy Environment Program, 1,062 hospitals voluntarily eliminated mercury use and reduced hospital waste containing hazardous substances by 50 percent.

Based on the most recent available Toxics Release Inventory data, industry is releasing 42 percent less priority chemicals in hazardous waste than in 1991. There are 30 priority chemicals contained in hazardous waste that EPA's National Waste Minimization Partnership Program focuses on reducing or eliminating through waste minimization. They include 27 persistent, bioaccumulative, and toxic organics and cadmium, lead, and mercury.[11] The reduction represents substantial progress toward meeting EPA's longer-term goal of reducing priority chemical releases by 50 percent by FY 2008. Further, in FY 2003, EPA obtained final commitments from industry for the voluntary elimination of nearly 13,000 pounds of priority chemicals in wastes annually, through the Agency's Waste Minimization Partnership Program. EPA has also obtained commitments for an additional 151,000 pounds of priority chemicals and 114 grams of dioxin annually, pending final approval.

The President's Management Agenda

EPA recognizes that managing its organization and its resources effectively is a critical part of achieving long-term environmental results. In FY 2003, the Agency made significant progress in implementing the President's Management Agenda (PMA) reforms for Strategic Management of Human Capital, Competitive Sourcing, Expanding E-Government, Improved Financial Performance, and Budget and Performance Integration.[12]

EPA CONTINUES STEADY PROGRESS TOWARD PMA GOALS
(As of September 30, 2003)

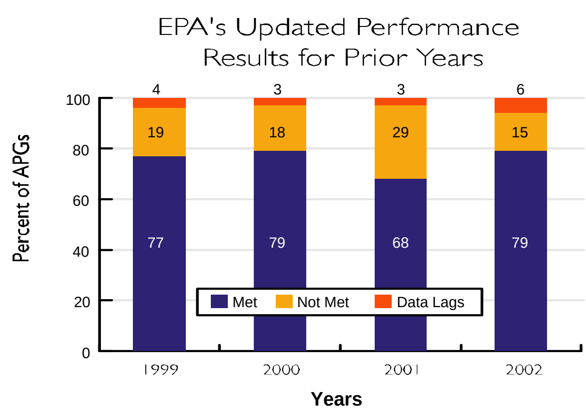
INITIATIVE	STATUS	PROGRESS	HIGHLIGHTS
Human Capital	! Red	! Green	Made progress in aligning Agency human capital activities with Agency strategic planning and budgeting processes. Completed draft of *Investing in Our People II, EPA's Strategy for Human Capital, 2003-2008*. Included Human Capital Cross-Goal Strategy in *EPA's 2003 Strategic Plan*. Pilot tested National Strategic Workforce Planning System. Continued implementing EPA's comprehensive Workforce Development Strategy. Developed draft human capital accountability plan.
Competitive Sourcing	! Red	! Green	Created EPA Competitive Sourcing Council to set course for Agency effort. Established Agency Competitive Sourcing Office to implement the initiative, reporting directly to the Agency's Competitive Sourcing Official. Completed three competitions with other cost comparisons underway. Received "green" progress scores for each quarter in FY 2003.
Expanded E-Government	! Yellow	! Green	As federal agency lead, established the project management office and launched Regulations.gov, providing online access to federal rulemakings for public comment. Active participant in 14 of 25 federal e-Gov projects. These 14 projects cover 3 of the 4 project categories. Completed two significant components of EPA's Modernization Blueprint, which created the necessary infrastructure for the Agency's target architecture. Secured and verified 94 percent of EPA's operational IT systems.
Improved Financial Performance	! Green	! Green	Earned "green" status score, one of only three agencies to do so. Achieved greater financial accountability by resolving all material weaknesses and maintained less than 1 percent erroneous payments rate. Tripled grants awarded under competition policy from 24 percent in 2002 to 75.4 percent in 2003. Developed new reporting tool to increase real-time access to financial and performance data to support day-to-day decision making.
Budget and Performance Integration	! Yellow	! Green	Issued revised *2003 Strategic Plan* with five outcome-oriented goals focused on results and included social costs and benefits. Developed new financial architecture to plan and track resources and performance data across the goals in the *2003 Strategic Plan*, and further integrate planning, budgeting, and accountability. Received "green" progress scores for each quarter of FY 2003.

EPA also continued to strengthen its oversight of Agency grants, which comprise slightly less than half of EPA's budget, to ensure achievement of the highest fiduciary standards. In FY 2003, the Agency developed its first long-term Grants Management Plan, which provides the framework for more effective and efficient management, including improving competition and linking grant work plans to the Agency's mission results of protecting human health and the environment. Of particular note, EPA increased the percentage of grants awarded to nonprofit recipients subject to the Agency's grants competition policy by threefold in FY 2003–75.4 percent, as compared to 24 percent during FY 2002.

Effectively managing its information resources is important not only to EPA, but also to the Agency's federal, state, local, and tribal partners. EPA made significant progress during FY 2003 toward achieving its goal of an information exchange network that will make environmental information held at all levels of government accessible to all users. Through the exchange network program, EPA, the states, and tribes are migrating from old, inaccessible information systems to digital, high-quality, integrated air, water, and waste information systems. These new systems have "network portals" through which data can be exchanged over the Internet, among EPA, states, tribes, the regulated community, and the public. As a result of the progress made on the network this year, 49 states are now reporting electronically through EPA's network portal, and the number of users (states, tribes, industry) of the portal increased by 113 percent (from 7,647 at the end of FY 2002 to 16,335 in FY 2003).

Summary of Performance Data

In FY 2003, EPA met 73 percent of the annual performance goals (APGs) for which data are provided in this report. (EPA had committed to a total of 64 APGs in its *FY 2003 Annual Plan*; however, because data for 23 of these APGs will not be available until later in FY 2004 or beyond, they are not included in these tallies.) EPA also made significant progress toward the 11 APGs that were not achieved in FY 2003. Charts presenting EPA's performance results for each of the Agency's FY 2003 APGs are provided with each chapter in Section II.



During FY 2003 final performance results data became available for a number of APGs from prior years: nine for FY 2002, seven for FY 2001, seven for FY 2000, and four for FY 1999 APGs. The information above includes these additional results. Delays in reporting cycles and targets set beyond the fiscal year continue to affect four FY 2002 APGs, two FY 2001 APGs, two FY 2000 APGs, and three FY 1999 APGs.

Performance Issues and Concerns

Despite the best efforts of EPA and its partners, the Agency was not able to meet all planned targets for FY 2003. EPA did not meet 11 of the 41 FY 2003 APGs for which performance data are currently available. However, the Agency does not expect the shortfall in meeting these APGs to compromise progress toward achieving its long-range goals and strategic objectives. The Agency is considering the various causes of these shortfalls as it adjusts APGs and program strategies for FY 2004 and beyond. The performance data charts in Section II provide more complete information on missed targets. Below are several examples of performance goals EPA did not meet, and what the Agency is doing to meet the target in the future.

Under the Agency's Clean Air and Global Climate Change Goal, EPA had anticipated that seven areas would be redesignated to attainment of the ozone standard in FY 2003, but due to delays in the redesignation process for many areas, the Agency fell short of its target and achieved only five. Many areas are awaiting the 8-hour designation decisions to develop clean air plans to meet attainment. In FY 2004, EPA will have information to determine how many areas are monitoring clean air under the 1-hour ozone standard. EPA and states continue to work together to ensure progress in meeting the present ozone standards.

Under the Agency's Clean Water Goal, EPA missed its targets for issuing National Pollutant Discharge Elimination System (NPDES) permits for major point sources as well as pollutant loading reductions. NPDES permits help reduce or eliminate discharges into the nation's waters of inadequately treated wastewater from municipal and industrial facilities and of pollutants from urban stormwater, combined sewer overflows, and concentrated animal feeding operations. In FY 2003, permits issued covered 84 percent of the targeted 90 percent for major point sources. While EPA and states met the goal for issuing minor permits, the continuing challenge for issuing major permits is due to competing priorities and the increasing complexity of permitting in a watershed context. This challenge is being addressed by the Permitting for Environmental Results initiative, designed to address the permit backlog and focus resources on attaining the most significant environmental results. In FY 2003, 2,200 million pounds of industrial discharges of pollutants to the nation's waters were eliminated, which failed to meet the target of 2,500 million pounds. The pollutant loadings reduction target was not met due to a delay in issuing a key permit in FY 2003, which will be issued in FY 2004.

In FY 2003, EPA anticipated that the Great Lakes ecosystem components would improve, including progress on fish contaminants, beach closures, air toxics, and trophic status. Although EPA and state partners have made progress in removing contaminants from the Great Lakes ecosystem, concentrations of certain contaminants in Lake Erie and Lake Superior fish are no longer decreasing. Other significant challenges to the Great Lakes that EPA and partners are attempting to address include an apparent increase of phosphorus levels in Lake Erie in FY 2003 of 18.3 Ug/l from a targeted 10 Ug/l and continuing entry of non-native species (e.g. zebra mussels). EPA is developing positive working relationships with the environmental community to establish effective programs, coordinate authorities and resources, report on progress, and hold forums for information exchange and collective decision making. This will ensure the protection of the Great Lakes and the achievement of the objectives of the Great Lakes Water Quality Agreement.

IMPROVING RESULTS

With the release of its revised *Strategic Plan* in FY 2003, the Agency accomplished an important and far-reaching milestone. The *Strategic Plan* contains five outcome-oriented strategic goals and supporting objectives and sub-objectives that focus on environmental results and reflect the work of the EPA regional offices, the states, and tribes. In FY 2003, the Agency also established a new financial architecture under the goal/objective framework of the new *Strategic Plan*.

In FY 2003, EPA improved its capacity for managing for results in other key ways as well. Agency program and regional offices worked with the Environmental Council of the States (ECOS) on strengthening the alignment between Agency and state planning, budgeting, and accountability processes. EPA also improved its ability to conduct and apply the results of program evaluations, track and measure performance, address environmental data issues, and anticipate future trends and issues.

Strengthening Partnerships

Many of the Agency's FY 2003 performance results discussed in Section II would not have been accomplished without strong participation by and support from the Agency's federal, state, and tribal partners. Over the past 3 decades, EPA has delegated or authorized primary responsibility to states for implementing many day-to-day program activities, such as issuing permits, conducting compliance and enforcement programs, and monitoring environmental conditions. As in previous years, EPA continued to collaborate closely with states and tribes and is committed to strengthening vital partnerships with such organizations as ECOS and the Tribal Caucus. For example, to increase the role states and tribes play in the Agency's annual planning and budgeting, ECOS and tribal representatives attended EPA's FY 2005 Annual Planning Meeting and presented their respective recommendations for the Agency's FY 2005 budget priorities. Similarly, during FY 2003, EPA regional offices consulted with states and tribes in developing the regional strategies that will contribute to achieving national objectives in the *2003 Strategic Plan*.

In addition to soliciting state input and participation in its annual planning processes, EPA worked closely with ECOS and other partner organizations in FY 2003 in finalizing the *2003 Strategic Plan*. EPA requested and carefully considered all of the comments it received at each stage of developing the plan, from discussion on the strategic goals and objectives to comments on the full-text draft. For example, in FY 2003, ECOS and other stakeholders participated in a meeting to discuss the goals and desired environmental results the Agency wants to achieve in the coming years. EPA's regional offices also conducted outreach with states and tribes to obtain their views on their unique issues and problems, which were considered by the Agency in drafting the final document. Additional input was sought in two formal rounds of review of the draft strategic plan, in December 2002 and March 2003.

In FY 2003, EPA and ECOS convened a joint workgroup to identify and implement improvements to EPA's planning, budgeting, and accountability processes. The workgroup has focused on improvements in two primary areas: better alignment of EPA's planning and budgeting process with state processes, and refinement of the Performance Partnership Agreement process. The input from this joint workgroup has already lead to improvements in EPA processes, and has significantly enhanced the Agency's FY 2005 planning and budgeting process by fostering increased state involvement.

During FY 2003, EPA also collaborated with its partners in many programmatic areas. Agency support ranged from providing important environmental information to key decision makers, to designing and implementing environmental programs. For example, in FY 2003, EPA, the National Oceanographic and Atmospheric Administration, the U.S. Geological Survey, and the Delaware River Basin Commission developed partnerships with 24 coastal states to monitor the health of their coastal resources. In addition, in April 2003, EPA announced the creation of the "Clean School Bus USA Program"–a new national partnership with industry, communities, and local governments designed to minimize air pollution caused by school buses. The program encourages local efforts to eliminate unnecessary school bus idling, install effective emission control systems on new buses, and replace the oldest school buses in a fleet. Also, in FY 2003, EPA worked with the City of Chicago and several locomotive companies to implement a voluntary program to reduce locomotive idling emissions. This project examined both the actual emission reductions (estimated at 90 percent) for pollutants such as nitrogen oxides, particulate matter, hydrocarbons, and carbon monoxide, as well as the market potential of the locomotive idle reduction technology. EPA will use this information to develop guidance on how states can take credit for these programs as part of their air quality planning process.

In addition, tribes continued to work with EPA to develop their own regulatory infrastructure and implement their own regulatory programs. In FY 2003, the St. Regis Mohawk Tribe submitted its Tribal Air Implementation Plan to the Agency for review so the tribe could establish a minor source permit program; the Nez Perce Tribe developed, and is implementing, a smoke management plan to address and manage grass burning on their reservation; and the Navajo Nation and the Southern Ute Tribe are both developing permitting programs under the Clean Air Act to enable them to regulate major sources of air pollution on their reservations.

Using Program Evaluation

EPA uses program evaluations and analyses to inform management decisions, enhance organizational learning, promote effective strategies, and improve environmental results. In FY 2003, the Agency continued to build its capacity to conduct program evaluations in anticipation of the use of the Administration's Program Assessment Rating Tool (PART) to evaluate, for FY 2004 and 2005, 20 key programs that account for almost half of the Agency's budget. The PART is an evaluation and accountability tool that the Office of Management and Budget (OMB) and federal agencies use to determine the strengths and weaknesses of federal programs, with a particular focus on program effectiveness.[13] In FY 2003, EPA used the results of these program assessments to set priorities and make funding decisions that were reflected in the Agency's FY 2005 budget request. EPA is continuing to prepare more focused and outcome-oriented performance measures, as identified in the PART assessments. For example, as a result of the PART assessments, the Agency has developed multi-year Performance Measurement Development Plans for air toxics risk reduction, wetlands, safe drinking water in tribal lands, surface water quality standards in the Mexico Border region, site cleanup, and land reuse.

To complement its outcome-based environmental performance measures, EPA also focused on developing efficiency measures for programs that have undergone PART assessments. In FY 2003, the Agency began developing efficiency measures to better assess how program results relate to the resources invested or time spent to achieve those results. For example, EPA developed an efficiency measure in its Enforcement Program to track the pounds of pollutants reduced against the time EPA staff spend in enforcement activities. Under the Pesticides Program, EPA will be tracking the average number of days that it takes to make registration decisions for conventional and new reduced-risk pesticide ingredients.

Other types of program evaluations were conducted as well. In FY 2003, EPA completed an evaluation of the partnership between EPA Region 8 and the National Park Service, which found that the preliminary goals of the partnership have been met. The report recommended that the partnership map its goals to performance measures and enlist broader institutional support for a scaled-up effort. In the human resources area, an evaluation found that the EPA Intern Program is effectively hiring a diverse group of high-potential employees. The evaluation provided findings and recommendations on all phases of the program, including recruitment and hiring; activities during the 2-year development program (training, rotations, development); and retention after the program is complete.[14]

Improving Environmental Indicators, Performance Measurement, and Data Quality

In FY 2003, to help assess the current state of the environment and provide a baseline of environmental information for measuring future performance, EPA issued its first *Draft Report on the Environment*. The report describes what EPA does and does not know about the current state of the environment at the national level. The report also describes draft measures–or environmental indicators–that can be used to track the status of the environment and human health over time. This information and the Agency's continued efforts to refine it will be critical to EPA's strategic planning efforts. Information on key environmental indicators will inform priority setting and help EPA to focus its resources on the areas of greatest concern, manage its work more effectively to achieve measurable results, and report more clearly on progress in achieving environmental and human health goals to the American people.

Also in FY 2003, EPA continued to set annual performance goals and measures that are increasingly focused on environmental outcomes, instead of activity-based outputs. The Agency increased the percentage of annual performance goals that are classified as environmental or intermediate outcomes to approximately 39 percent of the total in the FY 2004 Annual Performance Plan (published in FY 2003)–up from 35 percent in the previous year's plan. Likewise, the percentage of annual performance measures classified as outcomes grew to approximately 51 percent, up from 40 percent the previous year.

Finally, during FY 2003 the Agency continued to improve its ability to ensure that the performance and financial data it collects and uses are reliable and complete. EPA worked to detect and correct errors in environmental data, standardize reporting, and exchange and integrate electronic data and data quality information among its federal, state, and local data-sharing partners.[15]

Considering Future Trends and Looking Ahead to FY 2004

EPA realizes that today's environmental issues are far more complex than those of 20 or 30 years ago, and that new areas of focus will challenge its ability to assess and measure its performance. The environmental problems the Agency faces today are difficult to define, and possible solutions are more difficult to identify than before. Population growth, and the resources that are consumed to sustain this growth, are altering the Earth in new ways, and rapid scientific advances and technological developments pose new issues as well as important opportunities for human health and the environment.

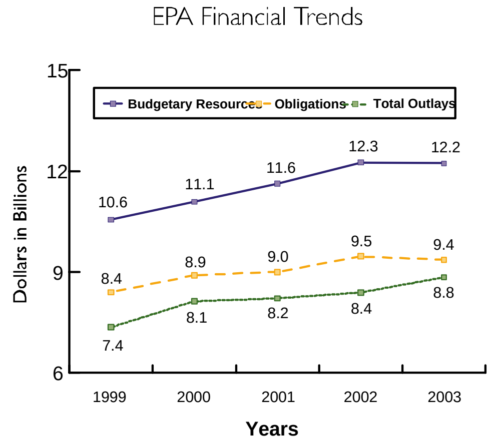
In FY 2003, the Agency held its first competition to promote the development and use of futures analysis at EPA. Futures analysis represents an effort to think years ahead–to examine how to better accommodate emerging driving forces that are likely to transform how and what we do. The purpose of the competition is to build a knowledge base and skill level that will enable EPA and its partners to incorporate futures analysis into the Agency's annual, strategic, and long-term planning processes. This competition was initiated, in part, in response to numerous recommendations from the National Advisory Council for Environmental Policy and Technology, the EPA Scenario Project, and the Agency's senior-level Managing for Improved Results Steering Group, among others, to develop and improve environmental foresight capacity at EPA. Six Agency program offices and 7 regional offices, either by themselves or in teams, submitted 20 high-caliber proposals to compete for support in undertaking futures analysis projects. While the proposals addressed a wide range of ideas and issues that the Agency will face in the future, the two selected for support will be identifying environmental impacts of and regulatory issues regarding hydrogen fuel cells, and analyzing the potential impacts of different land-use forms on agriculture.

In looking ahead to FY 2004, the Agency expects to improve further the use of performance information in its planning and budgeting activities. In FY 2004, the Agency will operate under the five-goal *2003 Strategic Plan* and account for its resources at a finer level of detail, by programs and projects. The environmental indicator information contained in the *Draft Report on the Environment* will inform Agency planning and budgeting decisions, and PART will be used to assess the effectiveness of an additional 20 percent of the Agency's resources and programs in the development of EPA's FY 2006 budget. EPA will continue its work with its state partners on improving the alignment of state and EPA planning and budgeting processes, and EPA regions and states will finalize strategies in regional plans and use them as the basis for setting annual performance commitments to achieve Agency environmental goals and objectives. This streamlined approach is expected to reduce transaction costs for the EPA and states and to enhance performance.

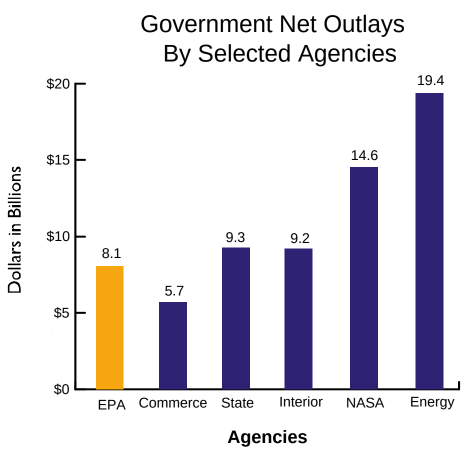
FINANCIAL ANALYSIS

EPA is proud to be one of only three federal agencies to earn a status score of "green" for Improved Financial Performance on the President's Management Agenda. Agency efforts to achieve greater financial accountability included resolving all previously reported material weaknesses, maintaining a less than 1 percent erroneous payments rate, and improving access to timely cost accounting information for program management. The financial statements provided in Section III, a snapshot of EPA's financial position at the end of FY 2003, are another important aspect of Agency accountability. These financial statements are prepared in accordance with established federal accounting standards and are audited by EPA's Inspector General. In addition to the financial statements, other views of how the Agency spends its resources are depicted in the following discussion.

EPA Resources: 1999 to 2003



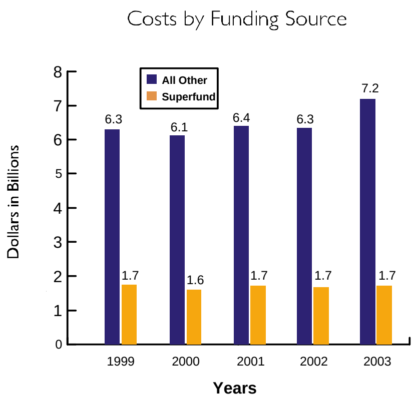
The *EPA Financial Trends* chart[16] depicts EPA's aggregate budgetary resources (congressional appropriations and some Agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last 5 fiscal years. The Statement of Budgetary Resources in Section III provides more detail on the makeup of the Agency's resources.



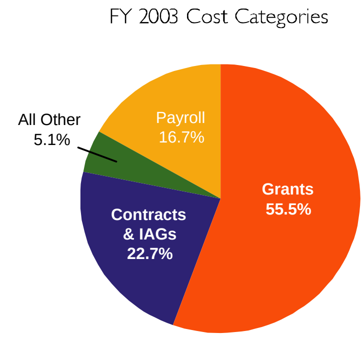
EPA FY 2003 Spending

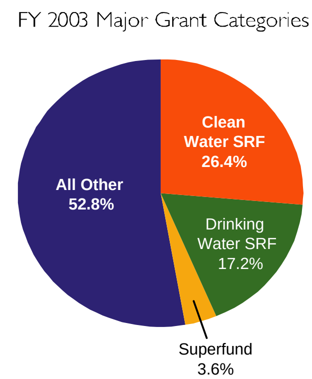
As published in the Treasury Department's annual Statement of Receipts and Outlays, EPA's net outlays are relatively small compared to those of other federal agencies and the entire federal government. A comparison of EPA with selected cabinet-level departments is displayed.

FY 2003 OBLIGATIONS BY APPROPRIATION (Dollars in Thousands)	
APPROPRIATION	OBLIGATIONS
State & Tribal Assistance Grants	$3,902,081 (41.7%)
All Other	$3,909,840 (41.8%)
Superfund	$1,550,401 (16.5%)
TOTAL	$9,362,322 (100.0%)



FY 2003 obligations incurred in connection with EPA's activities are presented by appropriation. Also presented are charts for EPA's costs (expenses for services rendered or activities performed) by funding source and by spending category.[17] The difference between the costs depicted in these graphs and the Statement of Net Costs in Section III is that net costs reflect a reduction for any related offsetting income, such as Superfund cost recovery receipts.



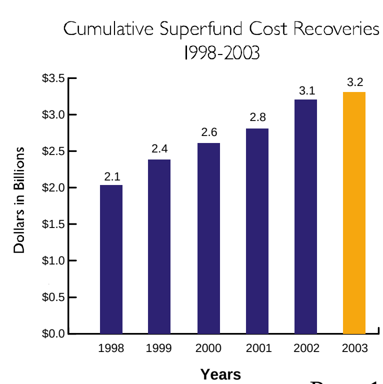


Grant programs comprise more than 55 percent of EPA's costs. As depicted in the *Major Grant Categories* chart, nearly half of the Agency's grants are awarded under two state revolving funds that support the Agency's Clean and Safe Water Goal. Other major EPA environmental grant programs include assistance to states and tribes, consistent with EPA's authorizing statutes, and research grants to universities and nonprofit institutions.

Homeland Security Spending

EPA's actions regarding homeland security are described in Goal Chapters 2, 3 and 4 in Section II of this report. During FY 2003, the Agency obligated a total of \$118 million[18] for homeland security activities–preparedness, response, mitigation, and recovery. Most of these resources have been devoted to preparedness (\$100.1 million), which addresses many potential kinds of terrorism incidents. Response covers the immediate actions taken in response to terrorist attacks. Mitigation is action taken to reduce the risk and potential damage caused by future events, and recovery constitutes actions to rebuild and otherwise return to normal *(refer to Sustained Progress in Addressing Management Issues available at http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm for further discussion).*

Superfund Cost Recovery



The Superfund Program was enacted under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 to address public health and environmental threats from abandoned toxic waste dumps and releases of hazardous substances. CERCLA also established the

Hazardous Substance Response Trust Fund, now known as the Hazardous Substance Superfund (Trust Fund), to finance the remediation of abandoned hazardous waste sites and emergency responses to chemical spills and other incidents.

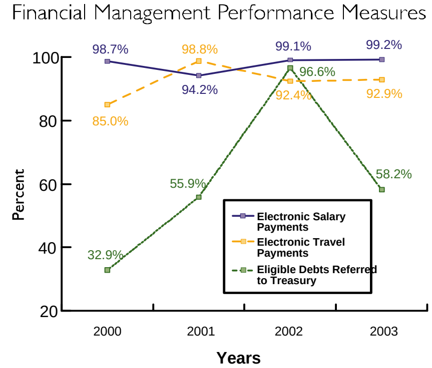
The Trust Fund was largely funded by excise taxes charged on crude oil and petroleum and on the sale or use of certain chemicals, and a corporate environmental tax levied on corporations having a taxable annual income in excess of $2 million. The authority to tax expired on December 31, 1995. Consequently, Trust Fund revenues have declined over the years. Cost recoveries, fines and penalties, interest, and transfers from the general fund currently finance the Trust Fund. For FY 2003, Congress appropriated the Superfund Program $1.3 billion, of which $632 million came from the general fund.

Under CERCLA Section 122(b)(3), EPA may retain and use the proceeds received under settlement agreements to conduct response actions at Superfund sites. Funds received under these settlements are placed in interest-bearing, site-specific special accounts. Having the authority to combine both past and future cost settlement amounts has increased the amount of resources available in special accounts to fund EPA-lead site responses and to reimburse responsible parties for response work performed at sites pursuant to a settlement agreement with EPA. As of September 30, 2003, EPA had established 343 special accounts with $1.1 billion in receipts. These accounts earned an additional $175.6 million in interest.[19]

Financial Management Performance

Internally EPA continues to track finance office and Senior Resource Officials' (SROs') performance in key financial management areas. Semiannually, EPA measures finance office performance for processing payments, reconciling cash, and managing accounts receivable. Annually, the Agency measures the SROs' performance for management of budgets, contracts, Superfund billings, and property. In FY 2003, the finance offices and SROs generally met or exceeded their performance goals for these measures. Where targets were missed, corrective actions to improve performance were implemented. Additionally, EPA reports to OMB a required set of monthly and quarterly financial indicators that measure Agency cash reconciliation, accounts receivable, and vendor payment performance.

Financial Management Performance Measures



More than 99 percent of EPA's vendor payments were made on time; interest penalties totaled less than a ½ percent of all vendor disbursements. The chart depicts EPA's performance in several financial management areas. Although only 58.2 percent of eligible debts were referred to Treasury, almost 99.7 percent of eligible dollars were referred.

EPA made significant progress in FY 2003 in improving its financial performance by reviewing internal controls to assess the potential for making erroneous payments under the State Revolving Funds managed by the Water Program. EPA completed its review of the State Revolving Funds in October 2002, and continued monitoring of the funds during FY 2003. The review identified a very low incidence rate of erroneous payments; specifically, less than ¼ percent for both funds. The review will be expanded in FY 2004 to assess the potential for significant erroneous payments in all Agency funds and to comply with the Improper Payments Act requirements.

<u>Innovative Environmental Financing: The Advantage of Public-Private Partnerships</u>

EPA leverages federal funds through several innovative environmental financing efforts that are mutually beneficial public–private partnerships, such as the Clean Water and Drinking Water State Revolving Funds, the Brownfields Program, and the Environmental Finance Program.

<u>State Revolving Funds (SRFs)</u>. The Clean Water SRF (CWSRF) provides assistance for the implementation of wastewater and nonpoint-source pollution control and estuaries projects. The Drinking Water SRF (DWSRF) helps finance improvements to water systems to sustain their technical capacity to provide safe, affordable drinking water to consumers. The DWSRF also funds other state activities that support their drinking water programs *(refer to Section II, Goal 2, for more information on the SRFs).*

EPA awards capitalization grants to states, which then make loans to municipalities and other entities for construction of infrastructure projects and implementation of other water quality activities. State matching funds and leveraged bond proceeds expand the capital available in the SRFs to address priority water quality and public health needs. Loan repayments and earnings ensure funding for these activities far into the future. The flexibility and revolving nature of the SRFs provide states with a powerful tool to apply needed funding toward their clean water and drinking water infrastructure needs. These top-priority needs are estimated in two EPA documents: the new *Clean Watersheds Needs Survey 2000 Report to Congress*[20] (reporting clean water needs at $182.2 billion, an increase of $26.6 billion from the last Survey) and the *Drinking Water Infrastructure Needs Survey Second Report to Congress*[21] (reporting $150.9 billion for drinking water).

As of early FY 2003, CWSRFs have converted nearly $21 billion in federal capitalization grants into more than $43.4 billion in assistance to municipalities and other entities for wastewater projects. In recent years, CWSRFs have directed approximately $4 billion in annual loan assistance to wastewater projects. On average, $115 million of these funds are used each year to manage polluted runoff, making the CWSRF an effective tool in addressing nonpoint-source problems.[22]

The newer DWSRFs have converted $5 billion in federal capitalization grants into more than $8.1 billion available for drinking water assistance, of which $6.4 billion cumulative has been provided. Assistance totaling $1.3 billion was provided in FY 2003.[23] In addition to loans,

$796 million DWSRF grants have been set aside by states to fund a variety of programs and activities that enhance water system management and protect sources of drinking water.

Brownfields Program. Since 1995, the Brownfields Program has been one of EPA's most successful public–private partnerships, leveraging public and private investments and creating jobs in cleanup, construction, and redevelopment. Brownfields are abandoned, idle, or underused industrial and commercial properties where redevelopment or expansion is complicated by real or perceived contamination. The Small Business Liability Relief and Brownfields Revitalization Act, implemented in FY 2003, further promotes brownfields redevelopment by providing financial assistance for assessment and cleanup, reforming Superfund liability, and enhancing state response programs. In addition to the activities that have been carried out in the past, the new legislation has expanded EPA's ability to address sites contaminated with petroleum and permits EPA to establish grants for brownfields cleanups.

Environmental Finance Program. The Environmental Finance Program assists the public and private sectors in finding creative approaches to funding environmental programs, projects, and activities. The program seeks to lower costs, increase investment, and build capacity by creating strong partnerships with state and local governments and the private sector. It leverages its resources through support of three distinct, but related, components that provide financial outreach services to these partners: the federally chartered Environmental Financial Advisory Board (EFAB), the university-based Environmental Finance Center Network (EFCN), and the online data base, Environmental Financing Information Network (EFIN).[24] A good example of how these components work together to leverage results is represented by the EFIN document *Paying for Sustainable Environmental Systems: A Guidebook of Financial Tools*. EFAB and the EFCN, working with EPA staff, developed this working tool, which helps environmental practitioners in the public and private sectors find the appropriate methods to pay for environmental protection efforts. The *Guidebook* destination on the EFIN website is accessed, on average, more than 6,000 times a month. In addition, hundreds of hard copies and more than 5,000 CD-ROM copies of the *Guidebook* have been provided in response to specific requests.

New Financial Management Initiatives

Cost Accounting. To assess how well EPA's financial systems and information meet the cost accounting requirements of program managers, the Agency reviewed the needs and capabilities in all offices. Based on the results of this effort, the Agency created additional coding structures within IFMS to capture and report cost information. These efforts contributed to the EPA achieving the President's Management Agenda criterion for integrated financial and performance management. EPA has shown that real-time use of financial and performance data improves environmental performance and supports the Agency's goals for achieving cleaner air, water, and land.

Financial information is integral to program management, as managers review costs and outcomes and seek ways to deliver better environmental results with greater efficiency. For example, EPA offices can now track information technology expenses, including related maintenance, development, and security costs. EPA's Office of Prevention, Pesticides and Toxic Substances uses a separate feature of IFMS to obtain detailed information about resource use in certain program areas (e.g., asbestos and mercury). In numerous briefings for OMB, EPA program managers have demonstrated how they access integrated financial and performance information, generate reports, analyze data, and make day-to-day decisions based on their findings. Currently the Agency is assessing the viability of establishing links between Agency-wide cost systems and programmatic systems for several program offices.

Brownfields Site Codes. Under the new Brownfields Law, grants awarded in FY 2003 and beyond have new funding limitations. Legal financial maximum limits now apply to funding used at properties with petroleum-only contamination, health monitoring funding, institutional controls monitoring and enforcement funding, insurance funding, and revolving loan fund subgrant funding. In FY 2003, EPA established new site codes in its financial systems to track each of these activities and better control funding.

Financial Replacement System (FinRS). FinRS will replace legacy systems that are inefficient by today's standards. It will improve integration among systems, as well as EPA's ability to perform core financial management functions, and provide additional functionality. EPA structured development of the FinRS suite of applications to deliver both short-term and long-term results.

With the FY 2004 implementation of the Payroll Time and Labor system, which fully supports the e-Payroll initiative, the Agency will realize substantial on-going cost savings. In addition, EPA will realize benefits from standardizing interfaces through use of an Enterprise Application Integration tool. The Agency will improve ad-hoc financial reporting by re-engineering the Financial Data Warehouse to include enhanced business activity monitoring capabilities (e.g., expanded integration with environmental indicators and administrative areas) and implementing BusinessObjects, a modern web-based reporting software. Finally, the cornerstone of the FinRS suite of applications will include the implementation of a new Joint Financial Management Improvement Program (JFMIP) certified core financial system that complies with recently established federal financial management system requirements.

FedTrip. This year EPA implemented the on-line reservation booking engine known as FedTrip as the first component of government-wide e-Travel services. When all components are fully implemented, e-Travel service will offer end-to-end travel services from planning to voucher reimbursement. This effort is part of the expansion of electronic government, a key area in the President's Management Agenda.

SUSTAINED PROGRESS IN ADDRESSING MANAGEMENT ISSUES

The Reports Consolidation Act of 2000[25] authorizes agencies to consolidate various management reports and submit them as part of their annual reports. This section provides a comprehensive discussion of EPA's progress in strengthening its management practices to achieve program results. It includes the strategies implemented and progress made in addressing management concerns identified under the Federal Managers Financial Integrity Act (FMFIA);[26] the Agency's efforts to carry out corrective actions on audits issued by EPA's Office of Inspector General (OIG); and the OIG's list of top management challenges facing the Agency.

FY 2003 Integrity Act Report

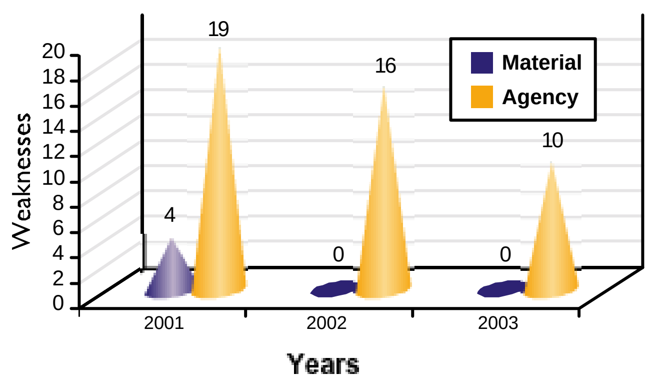
Fiscal Year 2003
Annual Assurance Statement

I am pleased to give an unqualified statement of assurance that the Agency's programs and resources are protected from fraud, waste, and mismanagement, based on EPA's annual self-assessment of its internal management and financial control systems.

Marianne L. Horinko — Acting Administrator
October 23, 2003 — Date

In FY 2003, for the 2nd year, EPA reported no material weaknesses under FMFIA and resolved almost one third of its less severe, internal Agency weaknesses tracked by the Administrator (see chart). To identify management issues and monitor progress in addressing them, Agency senior leaders use a system of internal and independent reviews and program evaluations, audits by the General Accounting Office (GAO) and EPA's OIG, and performance measurement. These efforts ensure that program activities are effectively carried out in accordance with applicable laws and sound management policy, and provide reasonable assurance that Agency resources are protected against fraud, waste, abuse, and mismanagement. In FY 2003, the Office of Management and Budget (OMB) recognized EPA's success in correcting material weaknesses, which contributed to the Agency achievement of a "green" status score in Improved Financial Performance, a key initiative of the President's Management Agenda.[27]

3 Year Trend of Material and Agency-Level Weaknesses



In FY 2003, EPA addressed a wide range of major management challenges, thereby strengthening its ability to achieve environmental and human health results. EPA's advancements in establishing and implementing effective management controls in environmental programs include:

- Using a comprehensive, integrated strategy to address risks from all sources of air toxics—major, area, mobile, and indoor sources[28]. EPA is on target to complete all of its 10-year Maximum Achievable Control Technology (MACT) standards by February 27, 2004.[29]

- Improving water quality by reducing the backlog of National Pollutant Discharge Elimination System (NPDES) permits[30] and increasing the focus on water permit prioritization for environmental results.

- Enhancing EPA's program to prevent risks to human health and/or the environment from land application of sewage sludge by increasing public involvement, expanding biosolids-related research, and actively enforcing safe land-application.[31]

The Agency also addressed a number of management challenges in administrative and management program areas, which provide the infrastructure supporting EPA's efforts to achieve results. Following are examples of FY 2003 accomplishments toward continued improvement in effective management of resources:

- EPA is aggressively implementing a comprehensive approach to managing its grants awards, which make slightly less than half of the Agency's budget.[32] To improve oversight for the award and administration of assistance agreements, EPA established a competition policy that in FY 2003 more than tripled the percentage of competitive awards to nonprofit organizations covered by the policy. The Agency also established a new post-award monitoring policy that will significantly increase oversight and strengthen accountability for grants management.

- EPA strengthened its data management and information technology systems. During FY 2003 the Agency developed new management controls to ensure consistent quality management practices throughout EPA; launched a modernized RCRAInfo system[33] that reduces burden and provides better data; and enhanced its comprehensive information technology investment review process, which is integrated with EPA planning and budgeting.

- EPA completed a draft of its new *Strategy for Human Capital, Investing in Our People II, 2003 through 2008*, and included a human capital cross-goal strategy in the Agency's *2003 Strategic Plan*. These efforts reflect progress in aligning workforce planning, recruitment, and staff development efforts with the Agency's environmental goals.

For more information, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

FY 2003 Management's Report on Audits

The Inspector General Act of 1978, as amended,[34] requires federal agencies to report to Congress on the status of their progress in carrying out audit recommendations. Audit management serves as a tool in assessing the Agency's ability to meet its strategic objectives. EPA continues to strengthen its audit management practices and has improved its ability to address and complete corrective actions in a timely manner.

In FY 2003, EPA was responsible for addressing OIG recommendations and tracking follow-up activities on 211 audits. The Agency achieved final action on 115 audits, which include Program Evaluation/Program Performance Audits, Assistance Agreements Audits, Contracts Audits, and Single Audits. Results achieved during FY 2003 for the Agency's audit management activities are summarized below:

Final Corrective Action Taken. EPA completed final corrective actions on 18 performance and 97 financial audits. Of the 97 financial audits, the OIG questioned costs of more than $90.7 million. After careful review, the OIG and the Agency agreed to disallow approximately $45.3 million of these questioned costs. In the performance audit arena, EPA management and the OIG did not identify funds that could be put to better use.

Final Corrective Action Not Taken. As of the end of FY 2003, 91 audits were without final action and have not been fully resolved (excluding those audits with management decisions under administrative appeal by the grantee).

Final Corrective Action Not Taken Beyond 1 Year. Of the 91 audits listed above, EPA officials had not completed final action on 26 audits within 1 year after the management decision. Because of the complexity of the issues, it often takes Agency management more than 1 year after management decisions are reached with the OIG to complete the agreed-upon corrective actions.

Audits Awaiting Decision on Appeal. EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. In FY 2003, 61 audits were in administrative appeal.

DISALLOWED COSTS & FUNDS PUT TO BETTER USE
October 1, 2002 - September 30, 2003

	Disallowed Costs (Financial Audits)		Better Use (Performance Audits)	
Category	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of FY 2003.	91	$ 149,435,120	25	$ 0
B. Audits for which management decisions were made during FY 2003. (i) Management decisions with disallowed costs. (14) (ii) Management decisions with no disallowed costs. (83)	97	$ 8,718,387	20	$ 0
C. Total audits pending final action during FY 2003. {A + B}	188	$ 158,153,507	45	$ 0
D. Final action taken during FY 2003: (i) Recoveries a) Offsets b) Collection c) Value of Property d) Other (ii) Write-Offs (iii) Reinstated Through Grantee Appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed.	97	$ 43,683,647 $ 8,806,994 $ 1,963,726 $ 0 $ 1,240,050 $ 526,821 $ 31,146,056	18	$ 0 $ 0 $ 0
E. Audit reports needing final action at the end of FY 2003. {C - D}	91	$ 114,469,860	27	$ 0

For more information, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

OIG KEY MANAGEMENT CHALLENGES REQUIRING SUSTAINED AGENCY ATTENTION *(Prepared by EPA's Office of the Inspector General)*

EPA made progress in addressing the top 10 management challenges identified by the that OIG over the past 3 years. These efforts included issuing new standards and policies, providing training, and beginning the implementation of cross-cutting strategies in the Agency's *2003 Strategic Plan*. Nonetheless, EPA has not taken all actions necessary to address the challenges and ensure that the actions taken have been effective. If EPA does not take sufficient actions, the challenges will continue to impede the Agency's ability to meet its goals. For example, despite the Agency issuing new standards and policies to improve its management of assistance agreements, the OIG continues to find instances where EPA is not adequately overseeing these agreements. To address the issue, EPA needs to allocate sufficient resources, hold management and staff accountable for complying with policies, establish success measures, and monitor progress.

EPA's 10 management challenges identified by the OIG for FY 2001–FY 2003 are presented in the following table. Many of these issues are long-standing problems that existed for many years. The table shows the year in which the OIG noted the problems and describes the relationship to EPA's strategic goals and the President's Management Agenda. For more information, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

EPA's Top Management Challenges Reported by the Office of Inspector General	FY 2001[35]	FY 2002[36]	FY 2003[37]	Link to EPA's Strategic Goal	Link to President's Management Agenda
Linking Mission and Management: Developing more outcome-based targets.	!	!	!	Cross-Goal	Budget and Performance Integration
Information Resources Management and Data Quality: Improving the quality of data used.	!	!	!	Cross-Goal	Expanded E-Government
Human Capital Management: Implementing a strategy to develop staff.	!	!	!	Cross-Goal	Human Capital
EPA's Use of Assistance Agreements to Accomplish Its Mission: Improving management of the billions of dollars of grants awarded by EPA.	!	!	!	Cross-Goal	Improved Financial Performance
Protecting Critical Infrastructure from Non-Traditional Attacks: Protecting physical and cyber-based infrastructures, such as in water sector.	!	!	!	Cross-Goal	
Challenges in Addressing Air Toxics Program Phase 1 & Phase 2 Goals: Reducing air toxic emissions by improving approach and measures.		!	!	Goal 1	
EPA's Working Relationships with States: Improving structure for working with States.	!	!	!	Cross-Goal	
Information Security: Protecting information systems by preventing intrusion and abuse.	!	!	!	Cross-Goal	Expanded E-Government
Backlog of National Pollutant Discharge Elimination System Permits: Addressing permit renewal backlog for water discharges.	!	!	!	Goal 2	
Management of Biosolids: Improving sewage sludge management to sufficiently protect the public.		!	!	Goal 2	

Endnotes

1. EPA's *2003 Strategic Plan* available at http://www.epa.gov/ocfopage.

2. Information available at http://www.epa.gov/otaq/equip-hd.htm, http://www.epa.gov/otaq/diesel.htm, and http://www.epa.gov/otaq/nonroad.htm.

3. US EPA, Office of Pollution Prevention and Toxics, Voluntary Children's Chemicals Evaluation Program (VCCEP) Commitment Tracking System.

4. Centers for Disease Control, National Center for Health Statistics, *National Health and Nutrition Examination Survey: 1999-2002.* Available at http://www.cdc.gov/nchs/nhanes.htm.

5. Organophosphates are a class of widely used, older pesticides of concern for adverse effects.

6. Due to the grantee reporting cycle, the Brownfields Program can only report data on the first two quarters of FY 2003. Data are from the Brownfields Management System. More information at http://www.epa.gov/brownfields/.

7. The specific language for this strategic target reads as follows: "By 2008, working with National Estuary Program (NEP) partners, protect or restore an additional 250,000 acres of habitat within the study areas for the 28 estuaries that are part of the NEP."

8. Information on the Submerged Aquatic Vegetation measure available at http://www.chesapeakebay.net/status.

9. Information about EPA's National Coastal Assessment available at http://www.epa.gov/emap/nca/index.html.

10. *Performance and Cost of Mercury and Multipollutant Emission Control Technology Applications on Electric Utility Boilers* (EPA-600/R-03/110).

11. Additional information is available at http://www.epa.gov/epaoswer/hazwaste/minimize/chemlist.htm.

12. Additional information about the President's Management Agenda can be found in Chapter 6 and at http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf.

13. EPA's PART evaluation information available at http://www.whitehouse.gov/omb/budget/fy2004/pma.html.

14. Appendix A contains a complete list of program evaluations conducted in FY 2003.

15. For complete information on the quality of the data contained in the Performance Data Charts in Section II – Performance Results, please see EPA's FY 2004 Final Annual Plan at the following website: http://www.epa.gov/ocfopage/budget/budget.htm. See also http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

16. Section III, FY 2003 Statement of Budgetary Resources.

17. Section III, FY 2003 Statement of Net Costs.

18. US EPA, Office of the Chief Financial Officer, EPA's FY 2003 Budget Automation System.

19. US Department of the Treasury, FY 2003 Superfund Trust Fund Financial Statements.

20. US EPA Office of Water, *The Clean Watersheds Needs Survey 2000 Report to Congress*, EPA-832-R-03-001, Washington, D.C., September, 2003, http://www.epa.gov/owm/mtb/cwns/index.htm.

21. US EPA Office of Water, *Drinking Water Infrastructure Needs Survey Second Report to Congress*, EPA816-R-01-004, Washington, D.C., February, 2001, http://www.epa.gov/safewater/needs.html.

22. US EPA, Office of Water, Clean Water State Revolving Fund National Information Management System, http://www.epa.gov/r5water/cwsrf.

23. US EPA, Office of Ground Water and Drinking Water's Drinking Water National Information Management System, http://www.epa.gov/OGWDW/dwsrf/dwnims.html.

24. EFIN is available at http://www.epa.gov/efinpage.

25. Reports Consolidation Act of 2000, Public Law 106-531 (January 24, 2000).

26. Federal Managers Financial Integrity Act of 1982, Public Law 97-255 (September 8, 1982).

27. Executive Office of the President, Office of Management and Budget, *Federal Management: The President's Management Agenda* available at http://www.whitehouse.gov/omb/budintegration/pma.

28. US EPA, *National Ambient Air Quality Standards* available at http://www.epa.gov/airs/criteria.html.

29. Ibid.

30. US EPA, Office of Water, *National Pollutant Discharge Elimination System (NPDES), Backlog Reduction* available at http://cfpub.epa.gov/npdes/permitissuance/backlog.cfm.

31. *Federal Register*, April 9, 2003, at 68 *FR* 17379–17395.

32. US EPA, EPA Grants Information and Control System (GICS) database.

33. Available at http://www.epa.gov/epaoswer/hazwaste/data/index.htm#rcra-info.

34. Inspector General Act of 1978, as amended, Public Law 95-452, October 12, 1978.

35. OIG Memorandum of December 17, 2001 to EPA Administrator, "EPA's Key Management Challenges".

36. OIG Memorandum of September 6, 2002 to EPA Administrator, "EPA's Key Management Challenges".

37. OIG Memorandum of May 22, 2003 to EPA Administrator, "EPA's Key Management Challenges".

PRINCIPAL FINANCIAL STATEMENTS

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Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 2003 and 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2003	Superfund Trust Fund FY 2002	All Others FY 2003	All Others FY 2002	Combined Totals FY 2003
ASSETS					
Intragovernmental					
Fund Balance With Treasury (Note 2)	$ 26,448	$ 32,229	$ 11,758,357	$ 11,688,934	$ 11,784,805
Investments (Notes 4 and 17)	2,516,147	3,309,975	2,114,684	1,952,052	4,630,831
Accounts Receivable, Net (Note 5)	34,665	33,309	119,941	72,298	154,606
Other (Note 6)	7,414	4,520	3,827	4,578	11,241
Total Intragovernmental	$ 2,584,674	$ 3,380,033	$ 13,996,809	$ 13,717,862	$ 16,581,483
Cash and Other Monetary Assets (Note 3)	0	0	10	10	10
Accounts Receivable, Net (Note 5)	428,486	411,437	65,296	49,398	493,782
Loans Receivable, Net - Non-Federal (Note 7)	0	0	53,506	64,646	53,506
Property, Plant and Equipment, Net (Note 9)	45,855	38,746	579,471	551,336	625,326
Other (Note 6)	680	780	3,502	4,937	4,182
Total Assets	$ 3,059,695	$ 3,830,996	$ 14,698,594	$ 14,388,189	$ 17,758,289
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	$ 145,631	$ 116,239	$ 70,156	$ 43,983	$ 215,787
Debt Due to Treasury (Note 10)	0	0	21,189	24,290	21,189
Custodial Liability (Note 11)	0	0	78,776	69,706	78,776
Other (Note 12)	30,600	23,727	21,611	26,381	52,211
Total Intragovernmental	$ 176,231	$ 139,966	$ 191,732	$ 164,360	$ 367,963
Accounts Payable and Accrued Liabilities (Note 8)	165,550	145,805	722,784	511,236	888,334
Pensions and Other Actuarial Liabilities (Note 14)	7,937	7,698	36,159	31,759	44,096
Environmental Cleanup Costs (Note 20)	0	0	8,880	13,309	8,880
Cashout Advances, Superfund (Note 15)	279,092	337,139	0	0	279,092
Commitments and Contingencies (Note 18)	0	0	18	20	18
Payroll and Benefits Payable (Note 33)	31,039	39,136	142,791	177,432	173,830
Other (Notes 12 and 13)	49,809	45,515	53,105	47,479	102,914
Total Liabilities	$ 709,658	$ 715,259	$ 1,155,469	$ 945,595	$ 1,865,127
NET POSITION					
Unexpended Appropriations (Note 16)	$ 0	$ 0	$ 10,768,236	$ 10,923,889	$ 10,768,236
Cumulative Results of Operations (Notes 17 and 36)	2,350,037	3,115,737	2,774,889	2,518,705	5,124,926
Total Net Position	2,350,037	3,115,737	13,543,125	13,442,594	15,893,162
Total Liabilities and Net Position	$ 3,059,695	$ 3,830,996	$ 14,698,594	$ 14,388,189	$ 17,758,289

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 2003 and 2002
(Dollars in Thousands)

	Combined Totals FY 2002	Intra-agency Elimination FY 2003	Intra-agency Elimination FY 2002	Consolidated Totals FY 2003	Consolidated Totals FY 2002
ASSETS					
Intragovernmental					
Fund Balance With Treasury (Note 2)	$ 11,721,163	$ 0	$ 0	$ 11,784,805	$ 11,721,163
Investments (Notes 4 and 17)	5,262,027	0	0	4,630,831	5,262,027
Accounts Receivable, Net (Note 5)	105,607	(89,789)	(47,412)	64,817	58,195
Other (Note 6)	9,098	(7,269)	(4,447)	3,972	4,651
Total Intragovernmental	$ 17,097,895	$ (97,058)	$ (51,859)	$ 16,484,425	$ 17,046,036
Cash and Other Monetary Assets (Note 3)	10	0	0	10	10
Accounts Receivable, Net (Note 5)	460,835	0	0	493,782	460,835
Loans Receivable, Net - Non-Federal (Note 7)	64,646	0	0	53,506	64,646
Property, Plant and Equipment, Net (Note 9)	590,082	0	0	625,326	590,082
Other (Note 6)	5,717	0	0	4,182	5,717
Total Assets	$ 18,219,185	$ (97,058)	$ (51,859)	$ 17,661,231	$ 18,167,326
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	$ 160,222	$ (89,789)	$ (47,480)	$ 125,998	$ 112,742
Debt Due to Treasury (Note 10)	24,290	0	0	21,189	24,290
Custodial Liability (Note 11)	69,706	0	0	78,776	69,706
Other (Note 12)	50,108	(7,269)	(4,379)	44,942	45,729
Total Intragovernmental	$ 304,326	$ (97,058)	$ (51,859)	$ 270,905	$ 252,467
Accounts Payable and Accrued Liabilities (Note 8)	657,041	0	0	888,334	657,041
Pensions and Other Actuarial Liabilities (Note 14)	39,457	0	0	44,096	39,457
Environmental Cleanup Costs (Note 20)	13,309	0	0	8,880	13,309
Cashout Advances, Superfund (Note 15)	337,139	0	0	279,092	337,139
Commitments and Contingencies (Note 18)	20	0	0	18	20
Payroll and Benefits Payable (Note 33)	216,568	0	0	173,830	216,568
Other (Notes 12 and 13)	92,994	0	0	102,914	92,994
Total Liabilities	$ 1,660,854	$ (97,058)	$ (51,859)	$ 1,768,069	$ 1,608,995
NET POSITION					
Unexpended Appropriations (Note 16)	$ 10,923,889	$ 0	$ 0	$ 10,768,236	$ 10,923,889
Cumulative Results of Operations (Notes 17 and 36)	5,634,442	0	0	5,124,926	5,634,442
Total Net Position	16,558,331	0	0	15,893,162	16,558,331
Total Liabilities and Net Position	$ 18,219,185	$ (97,058)	$ (51,859)	$ 17,661,231	$ 18,167,326

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Net Cost
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2003	Superfund Trust Fund FY 2002	All Others FY 2003	All Others FY 2002	Combined Totals FY 2003
COSTS					
Intragovernmental	$ 341,817	$ 348,980	$ 816,624	$ 782,110	$ 1,158,441
With the Public	1,246,427	1,209,338	6,427,497	5,678,789	7,673,924
Expenses from Other Appropriations (Note 23)	75,597	114,297	(75,597)	(114,297)	0
Total Costs	$ 1,663,841	$ 1,672,615	$ 7,168,524	$ 6,346,602	$ 8,832,365
Less:					
Earned Revenues, Federal (Note 19)	16,682	22,932	124,233	104,318	140,915
Earned Revenues, Non-Federal (Note 19)	394,295	477,768	31,304	24,927	425,599
Total Earned Revenues (Note 19)	$ 410,977	500,700	$ 155,537	129,245	$ 566,514
NET COST OF OPERATIONS	$ 1,252,864	$ 1,171,915	$ 7,012,987	$ 6,217,357	$ 8,265,851

Environmental Protection Agency
Consolidating Statement of Net Cost
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Combined Totals FY 2002	Intra-agency Eliminations FY 2003	Intra-agency Eliminations FY 2002	Consolidated Totals FY 2003	Consolidated Totals FY 2002
COSTS					
Intragovernmental	$ 1,131,090	$ (20,240)	$ (20,795)	$ 1,138,201	$ 1,110,295
With the Public	6,888,127	0	0	7,673,924	6,888,127
Expenses from Other Appropriations (Note 23)	0		0	0	0
Total Costs	$ 8,019,217	$ (20,240)	$ (20,795)	$ 8,812,125	$ 7,998,422
Less:					
Earned Revenues, Federal (Note 19)	127,250	(20,240)	(20,795)	120,675	106,455
Earned Revenues, Non-Federal (Note 19)	502,695	0	0	425,599	502,695
Total Earned Revenues (Note 19)	629,945	$ (20,240)	(20,795)	$ 546,274	609,150
NET COST OF OPERATIONS	$ 7,389,272	$ 0	$ 0	$ 8,265,851	$ 7,389,272

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, 2003
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS						
Intragovernmental	$ 84,961	$ 139,303	$ 31,028	$ 54,492	$ 409,312	$ 35,643
With the Public	532,480	3,817,701	97,848	281,634	1,581,550	219,692
Total Costs	$ 617,441	$ 3,957,004	$ 128,876	$ 336,126	$ 1,990,862	$ 255,335
Less:						
Earned Revenue, Federal	3,234	5,394	37	1,197	80,029	3,911
Earned Revenue, Non-Federal	71	1,876	20,729	300	396,738	1,652
Total Earned Revenue	$ 3,305	7,270	$ 20,766	1,497	$ 476,767	$ 5,563
Management Cost Allocation	55,231	83,892	24,379	36,784	136,240	15,031
NET COST OF OPERATIONS	$ 669,367	$ 4,033,626	$ 132,489	$ 371,413	$ 1,650,335	$ 264,803

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS						
Intragovernmental	$ 101,347	$ 183,063	$ 37,022	$ 55,734	$ 440,640	$ 36,020
With the Public	487,461	3,264,051	91,795	253,462	1,488,511	206,938
Total Costs	$ 588,808	$ 3,447,114	$ 128,817	$ 309,196	$ 1,929,151	$ 242,958
Less:						
Earned Revenue, Federal	266	3,744	109	1,497	92,691	4,081
Earned Revenue, Non-Federal	25	2,290	14,960	1,193	473,739	586
Total Earned Revenue	$ 291	6,034	$ 15,069	2,690	$ 566,430	$ 4,667
Management Cost Allocation	59,337	87,575	26,585	37,863	143,513	16,636
NET COST OF OPERATIONS	$ 647,854	$ 3,528,655	$ 140,333	$ 344,369	$ 1,506,234	$ 254,927

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, 2003
(Dollars in Thousands)

	Environ. Information	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals*	Consolidated Total
COSTS						
Intragovernmental	$ 174,224	$ 51,118	$ 93,695	$ 40,751	$ 23,674	$ 1,138,201
With the Public	191,351	293,552	325,968	343,036	(10,888)	7,673,924
Total Costs	$ 365,575	$ 344,670	$ 419,663	$ 383,787	$ 12,786	$ 8,812,125
Less:						
Earned Revenue, Federal	126,261	1,198	272	(100,428)	(430)	120,675
Earned Revenue, Non-Federal	121	364	1,220	1,367	1,161	425,599
Total Earned Revenue	$ 126,382	1,562	$ 1,492	(99,061)	$ 731	$ 546,274
Management Cost Allocation	26,018	28,766	76,507	(482,848)	0	0
NET COST OF OPERATIONS	$ 265,211	$ 371,874	$ 494,678	$ 0	$ 12,055	$ 8,265,851

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Environ. Information	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals*	Consolidated Total
COSTS						
Intragovernmental	$ 60,624	$ 62,030	$ 106,374	$ 23,393	$ 4,048	$ 1,110,295
With the Public	193,241	263,592	281,171	366,798	(8,893)	6,888,127
Total Costs	$ 253,865	$ 325,622	$ 387,545	$ 390,191	$ (4,845)	$ 7,998,422
Less:						
Earned Revenue, Federal	130,237	800	234	(125,025)	(2,179)	106,455
Earned Revenue, Non-Federal	154	84	914	3,300	5,450	502,695
Total Earned Revenue	$ 130,391	884	$ 1,148	(121,725)	$ 3,271	$ 609,150
Management Cost Allocation	28,089	30,408	81,910	(511,916)	0	0
NET COST OF OPERATIONS	$ 151,563	$ 355,146	$ 468,307	$ 0	$ (8,116)	$ 7,389,272

* *See Note 30.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Cumulative Results of Operations Superfund Trust Fund FY 2003	Cumulative Results of Operations Superfund Trust Fund FY 2002	Cumulative Results of Operations All Others FY 2003	Cumulative Results of Operations All Others FY 2002	Cumulative Results of Operations Consolidated Totals FY 2003*
Net Position - Beginning of Period	$ 3,115,737	$ 3,477,720	$ 2,518,705	$ 2,335,136	$ 5,634,442
Prior Period Adjustments	0	0	0	0	0
Beginning Balances, as Adjusted	$ 3,115,737	$ 3,477,720	$ 2,518,705	$ 2,335,136	$ 5,634,442
Budgetary Financing Sources:					
Appropriations Received	0	0	0	0	0
Appropriations Transferred In/Out (Note 31)	0	0	0	0	0
Other Adjustments (Note 34)	0	0	0	0	0
Appropriations Used	0	0	7,496,463	6,784,295	7,496,463
Nonexchange Revenue (Note 35)	(49,692)	108,038	260,515	260,111	210,823
Transfers In/Out (Note 31)	(191,131)	(103,448)	111,614	63,672	(79,517)
Trust Fund Appropriations	632,307	676,292	(632,307)	(676,292)	0
Income from Other Appropriations (Note 23)	75,597	114,297	(75,597)	(114,297)	0
Total Budgetary Financing Sources	$ 467,081	$ 795,179	$ 7,160,688	$ 6,317,489	$ 7,627,769
Other Financing Sources:					
Transfers In/Out (Note 31)	84	47	287	398	371
Imputed Financing Sources (Note 32)	19,999	14,706	108,196	83,039	128,195
Total Other Financing Sources	$ 20,083	$ 14,753	$ 108,483	$ 83,437	$ 128,566
Net Cost of Operations	(1,252,864)	(1,171,915)	(7,012,987)	(6,217,357)	(8,265,851)
Net Position - End of Period	$ 2,350,037	$ 3,115,737	$ 2,774,889	$ 2,518,705	$ 5,124,926

** This statement does not have any intra-agency eliminations for FY 2003 or 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Cumulative Results of Operations Consolidated Totals FY 2002*	Unexpended Appropriations All Others FY 2003	Unexpended Appropriations All Others FY 2002	Consolidated Totals FY 2003*	Consolidated Totals FY 2002*
Net Position - Beginning of Period	$ 5,812,856	$ 10,923,889	$ 10,358,961	$ 16,558,331	$ 16,171,817
Prior Period Adjustments	0	0	0	0	0
Beginning Balances, as Adjusted	$ 5,812,856	$ 10,923,889	$ 10,358,961	$ 16,558,331	$ 16,171,817
Budgetary Financing Sources:					
Appropriations Received	0	7,408,126	7,356,085	7,408,126	7,356,085
Appropriations Transferred In/Out (Note 31)	0	4,550	28,598	4,550	28,598
Other Adjustments (Note 34)	0	(71,866)	(35,460)	(71,866)	(35,460)
Appropriations Used	6,784,295	(7,496,463)	(6,784,295)	0	0
Nonexchange Revenue (Note 35)	368,149	0	0	210,823	368,149
Transfers In/Out (Note 31)	(39,776)	0	0	(79,517)	(39,776)
Trust Fund Appropriations	0	0	0	0	0
Income from Other Appropriations (Note 23)	0	0	0	0	0
Total Budgetary Financing Sources	$ 7,112,668	$ (155,653)	$ 564,928	$ 7,472,116	$ 7,677,596
Other Financing Sources:					
Transfers In/Out (Note 31)	445	0	0	371	445
Imputed Financing Sources (Note 32)	97,745	0	0	128,195	97,745
Total Other Financing Sources	$ 98,190	$ 0	$ 0	$ 128,566	$ 98,190
Net Cost of Operations	(7,389,272)	0	0	(8,265,851)	(7,389,272)
Net Position - End of Period	$ 5,634,442	$ 10,768,236	$ 10,923,889	$ 15,893,162	$ 16,558,331

** This statement does not have any intra-agency eliminations for FY 2003 or 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2003	Superfund Trust Fund FY 2002	All Others FY 2003
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations Received	$ 0	$ 0	$ 7,424,350
Borrowing Authority	0	0	0
Net Transfers	1,286,342	1,329,490	76,863
Other	0	0	0
Unobligated Balances:			
Beginning of Period	750,994	714,321	2,045,248
Net Transfers, Actual	0	0	0
Anticipated Transfers Balance	0	0	0
Spending Authority from Offsetting Collections:			
Earned and Collected	211,066	193,835	273,703
Receivable from Federal Sources	(1,728)	3,523	5,074
Change in Unfilled Customer Orders			
Advance Received	(41,608)	(22,548)	(20,362)
Without Advance from Federal Sources	5,259	1,749	(28,473)
Anticipated for Rest of Year	0	0	0
Transfers from Trust Funds	(9,642)	0	96,135
Total Spending Authority from Collections	$ 163,347	$ 176,559	$ 326,077
Recoveries of Prior Year Obligations (Note 26)	124,797	230,628	114,437
Permanently Not Available (Note 26)	(8,274)	(2,000)	(76,182)
Total Budgetary Resources (Note 25)	$ 2,317,206	$ 2,448,998	$ 9,910,793
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	$ 1,373,144	$ 1,548,650	$ 7,539,595
Reimbursable	177,257	149,354	272,326
Total Obligations Incurred (Note 25)	$ 1,550,401	$ 1,698,004	$ 7,811,921
Unobligated Balances:			
Apportioned (Note 27)	766,786	726,589	2,011,471
Exempt from Apportionment	0	0	0
Unobligated Balances Not Available (Note 27)	19	24,405	87,401
Total Status of Budgetary Resources	$ 2,317,206	$ 2,448,998	$ 9,910,793
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligations Incurred, Net	$ 1,262,257	$ 1,290,817	$ 7,371,407
Obligated Balances, Net - Beginning of Period	2,021,759	2,108,696	9,608,652
Accounts Receivable	1,965	3,694	118,037
Unfilled Customer Orders from Federal Sources	71,707	66,448	224,874
Undelivered Orders, Unpaid	(1,612,994)	(1,831,268)	(9,077,583)
Accounts Payable	(299,181)	(260,633)	(847,544)
Total Outlays (Note 25)	$ 1,445,513	$ 1,377,754	$ 7,397,843
Disbursements	$ 1,605,329	$ 1,549,041	$ 7,706,933
Collections	(159,816)	(171,287)	(309,090)
Less: Offsetting Receipts (Note 28)	(146,502)	(248,252)	(643,956)
Net Outlays	$ 1,299,011	$ 1,129,502	$ 6,753,887

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	All Others FY 2002	Combined Totals FY 2003	Combined Totals FY 2002
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations Received	$ 7,371,085	$ 7,424,350	$ 7,371,085
Borrowing Authority	0	0	0
Net Transfers	101,010	1,363,205	1,430,500
Other	0	0	0
Unobligated Balances:			
Beginning of Period	1,911,304	2,796,242	2,625,625
Net Transfers, Actual	500	0	500
Anticipated Transfers Balance	0	0	0
Spending Authority from Offsetting Collections:			
Earned and Collected	262,102	484,769	455,937
Receivable from Federal Sources	1,410	3,346	4,933
Change in Unfilled Customer Orders			0
Advance Received	2,133	(61,970)	(20,415)
Without Advance from Federal Sources	62,549	(23,214)	64,298
Anticipated for Rest of Year	0	0	0
Transfers from Trust Funds	48,671	86,493	48,671
Total Spending Authority from Collections	$ 376,865	$ 489,424	$ 553,424
Recoveries of Prior Year Obligations (Note 26)	89,440	239,234	320,068
Permanently Not Available (Note 26)	(42,292)	(84,456)	(44,292)
Total Budgetary Resources (Note 25)	$ 9,807,912	$ 12,227,999	$ 12,256,910
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	$ 7,514,054	$ 8,912,739	$ 9,062,704
Reimbursable	248,610	449,583	397,964
Total Obligations Incurred (Note 25)	$ 7,762,664	$ 9,362,322	$ 9,460,668
Unobligated Balances:			
Apportioned (Note 27)	1,917,637	2,778,257	2,644,226
Exempt from Apportionment	0	0	0
Unobligated Balances Not Available (Note 27)	127,611	87,420	152,016
Total Status of Budgetary Resources	$ 9,807,912	$ 12,227,999	$ 12,256,910
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligations Incurred, Net	$ 7,296,359	$ 8,633,664	$ 8,587,176
Obligated Balances, Net - Beginning of Period	9,324,855	11,630,411	11,433,551
Accounts Receivable	72,577	120,002	76,271
Unfilled Customer Orders from Federal Sources	253,348	296,581	319,796
Undelivered Orders, Unpaid	(9,277,925)	(10,690,577)	(11,109,193)
Accounts Payable	(656,652)	(1,146,725)	(917,285)
Total Outlays (Note 25)	$ 7,012,562	$ 8,843,356	$ 8,390,316
Disbursements	$ 7,323,740	$ 9,312,262	$ 8,872,781
Collections	(311,178)	(468,906)	(482,465)
Less: Offsetting Receipts (Note 28)	(687,650)	(790,458)	(935,902)
Net Outlays	$ 6,324,912	$ 8,052,898	$ 7,454,414

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2003	Superfund Trust Fund FY 2002	All Others FY 2003
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	$ 1,550,401	$ 1,698,004	$ 7,811,921
Less: Spending Authority from Offsetting Collections and Recoveries	(288,144)	(407,187)	(440,514)
Obligations, Net of Offsetting Collections	$ 1,262,257	$ 1,290,817	$ 7,371,407
Less: Offsetting Receipts (Note 28)	(146,502)	(248,252)	(643,956)
Net Obligations	$ 1,115,755	$ 1,042,565	$ 6,727,451
Other Resources			
Transfers In/Out without Reimbursement, Property (Note 31)	$ 84	$ 47	$ (84)
Imputed Financing Sources (Note 32)	19,999	14,706	108,196
Income from Other Appropriations (Note 23)	75,597	114,297	(75,597)
Net Other Resources Used to Finance Activities	$ 95,680	$ 129,050	$ 32,515
Total Resources Used To Finance Activities	$ 1,211,435	$ 1,171,615	$ 6,759,966
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS			
Change in Budgetary Resources Obligated	$ 179,096	$ 64,738	$ 165,667
Resources that Fund Prior Period Expenses (Note 29)	0	(1,590)	0
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations			
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	0	0	4,980
Offsetting Receipts Not Affecting Net Cost	146,502	248,252	11,649
Resources that Finance Asset Acquisition	(16,287)	(6,587)	(66,321)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	(105,777)	(48,758)	96,135
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 203,534	$ 256,055	$ 212,110
Total Resources Used to Finance the Net Cost of Operations	$ 1,414,969	$ 1,427,670	$ 6,972,076

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2003	Superfund Trust Fund FY 2002	All Others FY 2003
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD			
Components Requiring or Generating Resources in Future Periods			
Increase in Annual Leave Liability (Note 29)	$ 1,088	$ 0	$ 5,647
Increase in Environmental and Disposal Liability (Note 29)	0	0	(3,276)
Up/Downward Reestimates of Subsidy Expense	0	0	170
Increase in Public Exchange Revenue Receivable	(205,844)	(305,035)	(1,706)
Increase in Workers Compensation Costs (Note 29)	246	0	4,591
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	$ (204,510)	$ (305,035)	$ 5,426
Components Not Requiring/Generating Resources			
Depreciation and Amortization	8,915	7,854	36,289
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	33,490	41,426	(804)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$ 42,405	$ 49,280	$ 35,485
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	(162,105)	(255,755)	40,911
Net Cost of Operations	$ 1,252,864	$ 1,171,915	$ 7,012,987

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	All Others FY 2002	Consolidated Totals* FY 2003	Consolidated Totals* FY 2002
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	$ 7,762,664	$ 9,362,322	$ 9,460,668
Less: Spending Authority from Offsetting		0	0
Collections and Recoveries	(466,305)	(728,658)	(873,492)
Obligations, Net of Offsetting Collections	$ 7,296,359	$ 8,633,664	$ 8,587,176
Less: Offsetting Receipts (Note 28)	(687,650)	(790,458)	(935,902)
Net Obligations	$ 6,608,709	$ 7,843,206	$ 7,651,274
Other Resources			
Transfers In/Out without Reimbursement,			
Property (Note 31)	$ (47)	$ 0	$ 0
Imputed Financing Sources (Note 32)	83,039	128,195	97,745
Income from Other Appropriations (Note 23)	(114,297)	0	0
Net Other Resources Used to Finance Activities	$ (31,305)	$ 128,195	$ 97,745
Total Resources Used To Finance Activities	$ 6,577,404	$ 7,971,401	$ 7,749,019
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS			
Change in Budgetary Resources Obligated	$ (422,293)	$ 344,763	$ (357,555)
Resources that Fund Prior Period Expenses (Note 29)	(399)	0	(1,989)
Budgetary Offsetting Collections and Receipts			
that Do Not Affect Net Cost of Operations			
Credit Program Collections Increasing Loan			
Liabilities for Guarantees of Subsidy Allowances	4,394	4,980	4,394
Offsetting Receipts Not Affecting Net Cost	11,358	158,151	259,610
Resources that Finance Asset Acquisition	(53,692)	(82,608)	(60,279)
Adjustments to Expenditure Transfers			
that Do Not Affect Net Cost	48,670	(9,642)	(88)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (411,962)	$ 415,644	$ (155,907)
Total Resources Used to Finance the Net Cost of Operations	$ 6,165,442	$ 8,387,045	$ 7,593,112

** This statement did not have any intra-agency eliminations for FY 2003 or 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	All Others FY 2002	Consolidated Totals* FY 2003	Consolidated Totals* FY 2002
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD			
Components Requiring or Generating Resources in Future Periods			
Increase in Annual Leave Liability (Note 29)	$ 0	$ 6,735	$ 0
Increase in Environmental and Disposal Liability (Note 29)	578	(3,276)	578
Up/Downward Reestimates of Subsidy Expense	(371)	170	(371)
Increase in Public Exchange Revenue Receivable	(2,422)	(207,550)	(307,457)
Increase in Workers Compensation Costs (Note 29)	0	4,837	0
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	$ (2,215)	$ (199,084)	$ (307,250)
Components Not Requiring/Generating Resources			
Depreciation and Amortization	27,022	45,204	34,876
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	27,108	32,686	68,534
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$ 54,130	$ 77,890	$ 103,410
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	51,915	(121,194)	(203,840)
Net Cost of Operations	$ 6,217,357	$ 8,265,851	$ 7,389,272

** This statement did not have any intra-agency eliminations for FY 2003 or 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Custodial Activity
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	FY 2003	FY 2002
Revenue Activity:		
Sources of Collections		
Fines and Penalties	$ 161,544	$ 94,237
Other	5,793	9,322
Total Cash Collections	$ 167,337	$ 103,559
Accrual Adjustment	7,172	(8,070)
Total Custodial Revenue (Note 24)	$ 174,509	$ 95,489
Disposition of Collections:		
Transferred to Others (General Fund)	$ 165,440	$ 103,818
Increases/Decreases in Amounts to be Transferred	9,069	(8,329)
Total Disposition of Collections	$ 174,509	$ 95,489
Net Custodial Revenue Activity (Note 24)	$ 0	$ 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 financial system 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 01-09, and the Agency's accounting policies which are summarized in this note. In addition to preparing the reports required by Bulletin 01-09, Statement of Net Cost has been prepared by the Agency's strategic goals.

B. Reporting Entities

The Environmental Protection Agency (EPA) 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 2003 the reporting entities are grouped as the Superfund Trust Fund and All Other Funds.

Superfund Trust Fund

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 CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis, and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other federal agencies. The Superfund Trust Fund includes the Department of the Treasury (Treasury) collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

The accompanying financial statements include the accounts of all funds described in this note. EPA uses an expense allocation methodology as a financial statement estimate to present EPA programs' full cost. This methodology is used because Superfund programs may charge some costs directly to the Superfund Trust Fund and charge the remainder of their costs to 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 to general support services costs (e.g., rent, communications, utilities, and mail operations) that were initially charged to the Agency's Science and Technology (S&T) and Environment Programs and Management (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 Superfund direct labor hours to the Agency total of all direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in its appropriation. The related general support services costs charged to the Superfund Trust Funds were $49.1 million for FY 2002 and $11.9 million for FY 2003.

All Other Funds

All Other Funds include other 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. General Fund appropriation activities that no longer receive current definite appropriations but have unexpended authority are the Asbestos Loan Program and Energy, Research and Development. Detailed descriptions of All Other Funds are as follows:

The Leaking Underground Storage Tank (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 one 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 of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for 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 2003, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Environmental scientific and technological activities and programs 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 S&T appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) appropriation includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the Agency's 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; Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The EPM 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 and the LUST Trust Funds are appropriated under those Trust Fund accounts and transferred to the Office of Inspector General account. The audit function provides contract, internal controls and performance, 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 accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities (B&F) appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA. The B&F 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 the Hazardous Substance Superfund Program. Payment to the Hazardous Substance Superfund appropriation 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 disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Fund receives the subsidy payment, borrows from Treasury and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 0118 for the subsidy and administrative support; under Treasury symbol 4322 for loan disbursements, 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 FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) of 1972 as amended in 1988 and 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 federal services to set pesticide chemical residue limits in or on food and animal feed. Effective January 2, 1997, fees collected are now being collected and deposited in the Reregistration and Expedited Processing Revolving (FIFRA) 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. The WCF derives revenue from these activities based upon a fee for services. WCF’s customers currently consist solely of Agency program offices. Accordingly, revenues 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 an oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Allocations and appropriations transferred to the Agency from other federal agencies include funds from: (1) the Appalachian Regional Commission and the Department of Commerce, which provide economic assistance to state and local developmental activities; (2) the Agency for International Development, which provides assistance on environmental matters at international levels; and (3) the General Services Administration which provides funds for rental of buildings and operations, repairs, and maintenance of rental space. The transfer allocations are accounted for under Treasury symbols

0200, 1010, and 4542; and the appropriation transfers are accounted for under 0108.

The EPA Department of the Treasury Clearing Accounts include: (1) the Budgetary Suspense Account; (2) the Unavailable Check Cancellations and Overpayments Account; and (3) the Undistributed Intraagency Payments and Collections (IPAC) Account. These are accounted for under Treasury symbols 3875, 3880 and 3885, respectively

Deposit funds include: Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. These funds are accounted for under Treasury symbols 6050, 6264, 6265, 6266, 6275 and 6500, respectively.

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. These accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 3200 and 3220, respectively.

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 and the EPM appropriations 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 donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. The Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

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 and the Oil Spill Response Trust Funds 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, B&F, and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for S&T, EPM and for the Office of the 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 costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adapted a one year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost was financed under a permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan was disbursed.

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 to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other federal agencies are 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 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 Treasury General Fund.

D. Basis of Accounting

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 are eliminated.

E. Revenues and Other Financing Sources.

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards Number Seven (SFFAS No. 7), “Accounting for Revenues and Other Financing Sources,” which was effective for accounting periods after September 30, 1997.

Superfund

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies under Inter-Agency Agreements (IAGs), state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties, under CERCLA Section 122(b)(3), placed in special accounts. Special accounts were previously limited to settlement amounts for future costs. However, beginning in FY 2001, cost recovery amounts received under CERCLA Section 122(b)(3) settlements could be placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

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. However, 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 outstanding loans through collections from the Program fund for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993. 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 upon consolidation of the Agency’s financial statements. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriated funds 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

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. (See Note 2)

G. Investments in U.S. Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold. (See Note 6)

J. Accounts Receivable and Interest Receivable (See Note 5)

Superfund

CERCLA as amended by 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 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 activities.

K. Advances and Prepayments

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred. (See Note 6)

L. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. The amounts of Asbestos Loan Program loans obligated but not disbursed is disclosed in Note 7. 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. (See Note 7)

M. Appropriated Amounts Held by Treasury

For the Superfund and LUST Trust Funds, and for amounts appropriated from these Trust Funds to the Office of Inspector General, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. (See Note 17)

N. Property, Plant, and Equipment

EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment." For EPA-held property, the Fixed Assets Subsystem (FAS) automatically generates depreciation entries monthly based on acquisition dates. (See Note 9)

Purchases of EPA-held and contractor-held personal property are capitalized if it 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. This modified straight-line method is still used for contractor-held property; detailed records are maintained and accounted for in contractor systems, not in FAS. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

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 were valued at an estimated original cost basis, and land was valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 are valued at actual costs. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from ten to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

In FY 1997, EPA's Working Capital Fund, a revenue generating activity, implemented requirements to capitalize software if the purchase price was $100 thousand or more with an estimated useful life of two years or more. In FY 2001 the Agency began capitalizing software for All Other Funds whose acquisition value is $500 thousand or more in accordance with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Software is depreciated using the straight-line method over the specific asset's useful life ranging from two to ten years.

O. Liabilities

Liabilities represent the amount of monies or other resources that are 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.

P. Borrowing Payable to the Treasury

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.

Q. Interest Payable to Treasury

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2002 and FY 2003, there was no outstanding interest payable to Treasury since payment was made through September 30.

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Statement of Financial Position as a component of "Payroll and Benefits Payable." (See Note 33)

S. Retirement Plan

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

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," 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 No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management, 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, provide the Agency with the 'Cost Factors' to compute EPA's liability for each program.

T. Prior Period Adjustments

Prior period adjustments will be made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles," which was effective for FY 2002. EPA will make prior period adjustments for material errors as follows in accordance with SFFAS No. 21. Prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2003 and 2002, consist of the following:

	FY 2003 Entity Assets	FY 2003 Non-Entity Assets	FY 2003 Total	FY 2002 Entity Assets	FY 2002 Non-Entity Assets	FY 2002 Total
Trust Funds:						
Superfund	$ 26,448	$ 0	$ 26,448	$ 32,229	$ 0	$ 32,229
LUST	34,008	0	34,008	16,405	0	16,405
Oil Spill	5,505	0	5,505	3,796	0	3,796
Revolving Funds:						
FIFRA/Tolerance	1,826	0	1,826	3,028	0	3,028
Working Capital	57,780	0	57,780	57,380	0	57,380
Appropriated	11,527,765	0	11,527,765	11,504,638	0	11,504,638
Other Fund Types	111,225	20,248	131,473	99,575	4,112	103,687
Total	$ 11,764,557	$ 20,248	$ 11,784,805	11,717,051	$ 4,112	$ 11,721,163

Entity fund balances, except for Other Fund Types, include balances that are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Other Fund Types are not presently subject to obligation.

Entity Assets for Other Fund Types consist of the Environmental Services Receipt account, which is a special fund receipt account. Upon Congress appropriating the funds, EPA will use these special fund receipts in the S&T and EPM appropriations. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper accounting disposition or being held by EPA for other entities.

Status of Fund Balances:

	FY 2003 Superfund	FY 2003 All Others	FY 2002 Superfund	FY 2002 All Others
Unobligated Amounts in Fund Balances:				
Available for Obligation	$ 766,786	$ 2,011,471	$ 726,589	$ 1,917,637
Unavailable for Obligation	19	87,404	24,417	127,611
Net Receivables from Invested Balances	(2,579,726)	(66,574)	(2,742,412)	(80,875)
Balances in Treasury Trust Fund (Note 17)	866	12,377	1,876	12,232
Obligated Balance not yet Disbursed	1,838,503	9,582,206	2,021,759	9,608,642
Balances not subject to Obligation	0	131,473	0	103,687
Totals	$ 26,448	$ 11,758,357	$ 32,229	$ 11,688,934

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following FY. Funds unavailable for obligation are mostly balances in expired funds, which are available only for upward adjustments of existing obligations.

For FY 2003, no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury. For FY 2002, the amounts on the agency financial statements were $2,828 thousand less than the balances on Treasury's records. These differences consist mainly of unrecorded transactions from the last two months of FY 2002 that were recorded by the agency in FY 2003. The FY 2002 differences for Superfund and All Other Funds are $1,301 thousand and $1,527 thousand, respectively.

Note 3. Cash

In All Others, as of September 30, 2003 and 2002, cash consisted of imprest funds totaling $10 thousand.

Note 4. Investments

As of September 30, 2003 and 2002, investments consisted of the following:

		Cost	Unamortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Superfund						
Intragovernmental Securities:						
Non-Marketable	FY 2003	$ 2,507,927	$ (8,183)	$ 37	$ 2,516,147	$ 2,516,147
	FY 2002	$ 3,234,352	$ (62,650)	$ 12,973	$ 3,309,975	$ 3,309,975
All Others						
Intragovernmental Securities:						
Non-Marketable	FY 2003	$ 2,037,560	$ (51,290)	$ 25,834	$ 2,114,684	$ 2,114,684
	FY 2002	$ 1,892,769	$ (36,752)	$ 22,531	$ 1,952,052	$ 1,952,052

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 securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2003 and 2002, consist of the following:

	FY 2003		FY 2002	
	Superfund	**All Others**	**Superfund**	**All Others**
Intragovernmental Assets:				
Accounts & Interest Receivable	$ 34,665	$ 119,941	$ 33,309	$ 72,298
Non-Federal Assets:				
Unbilled Accounts Receivable	$ 109,272	$ 1,668	$ 87,443	$ 2,210
Accounts & Interest Receivable	815,119	113,130	783,279	101,392
Less: Allowance for Uncollectibles	(495,905)	(49,502)	(459,285)	(54,204)
Total	$ 428,486	$ 65,296	$ 411,437	$ 49,398

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

Note 6. Other Assets

Other Assets for September 30, 2003, consist of the following:

Intragovernmental Assets:	**Superfund Trust Fund**	**All Others**	**Combined Totals**
Advances to Federal Agencies	$ 146	$ 3,233	$ 3,379
Advances to Working Capital Fund	7,268	0	7,268
Advances for Postage	0	594	594
Total Intragovernmental Assets	**$ 7,414**	**$ 3,827**	**$ 11,241**
Non-Federal Assets:			
Travel Advances	$ (51)	$ (918)	$ (969)
Letter of Credit Advances	0	601	601
Grant Advances	0	1,544	1,544
Other Advances	731	95	826
Operating Materials and Supplies	0	217	217
Inventory for Sale	0	51	51
Securities Received in Settlement for Debt	0	1,912	1,912
Total Non-Federal Assets	**$ 680**	**$ 3,502**	**$ 4,182**

Other Assets for September 30, 2002, consist of the following:

	Superfund Trust Fund	All Others	Combined Totals
Intragovernmental Assets:			
Advances to Federal Agencies	$ 141	$ 4,163	$ 4,304
Advances to Working Capital Fund	4,379	0	4,379
Advances for Postage	0	415	415
Total Intragovernmental Assets	**$ 4,520**	**$ 4,578**	**$ 9,098**
Non-Federal Assets:			
Travel Advances	$ (13)	$ (911)	$ (924)
Letter of Credit Advances	0	2,388	2,388
Grant Advances	0	3,054	3,054
Other Advances	793	148	941
Operating Materials and Supplies	0	216	216
Inventory for Sale	0	42	42
Total Non-Federal Assets	**$ 780**	**$ 4,937**	**$ 5,717**

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, 2003 and 2002, is provided in the following sections.

	FY 2003			**FY 2002**		
	Loans Receivable, Gross	**Allowance***	**Value of Assets Related to Direct Loans**	**Loans Receivable, Gross**	**Allowance***	**Value of Assets Related to Direct Loans**
Direct Loans Obligated Prior to FY 1992	$ 33,245	$ 0	$ 33,245	$ 41,181	$ 0	$ 41,181
Direct Loans Obligated After FY 1991	34,597	(14,336)	20,261	38,664	(15,199)	23,465
Total	**$ 67,842**	**$ (14,336)**	**$ 53,506**	**$ 79,845**	**$ (15,199)**	**$ 64,646**

* 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 (reported on a cash basis):

	Interest Rate Re-estimate	Technical Re-estimate	Fee Offsets	Total
Direct Loan Subsidy Expense - FY 2003	$ 377	$ 528	$ 0	$ 905
Downward Subsidy Reestimate - FY 2003	(170)	(201)	0	(371)
FY 2003 Totals	$ 207	$ 327	$ 0	$ 534
Direct Loan Subsidy Expense - FY 2002	$ 115	$ 157	$ 0	$ 272
Downward Subsidy Reestimate - FY 2002	(496)	(816)	0	(1,312)
FY 2002 Totals	$ (381)	$ (659)	$ 0	$ (1,040)

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities, both Federal and Non-Federal, are current liabilities consisting of the following amounts as of September 30, 2003:

	Superfund Trust Fund	All Other Funds	Combined Total
Federal:			
Accounts Payable to other Federal Agencies	$ 593	$ 618	$ 1,211
Liability for Allocation Transfers	20,017		20,017
Expenditure Transfers Payable to other EPA Funds	86,087		86,087
Accrued Liabilities, Federal	38,934	69,538	108,472
Total	$ 145,631	$ 70,156	$ 215,787
Non-Federal:			
Accounts Payable, Non-Federal	$ 45,880	$ 71,160	$ 117,040
Advances Payable, Non-Federal	3	13	16
Interest Payable	553	2	555
Grant Liabilities	21,714	545,872	567,586
Other Accrued Liabilities, Non-Federal	97,400	105,737	203,137
Total	$ 165,550	$ 722,784	$ 888,334

The Accounts Payable and Accrued Liabilities, both Federal and Non-Federal, consisted of the following amounts as of September 30, 2002:

	Superfund Trust Fund	All Other Funds	Combined Total
Federal:			
Accounts Payable to other Federal Agencies	$ 4,964	$ 620	$ 5,584
Liability for Allocation Transfers	20,017		20,017
Expenditure Transfers Payable to other EPA Funds	45,701		45,701
Accrued Liabilities, Federal	45,557	43,363	88,920
Total	$ 116,239	$ 43,983	$ 160,222
Non-Federal:			
Accounts Payable, Non-Federal	$ 43,344	$ 74,260	$ 117,604
Advances Payable, Non-Federal	14	3	17
Interest Payable	333	1	334
Grant Liabilities	14,590	348,474	363,064
Other Accrued Liabilities, Non-Federal	87,524	88,498	176,022
Total	$ 145,805	$ 511,236	$ 657,041

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 software; real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

As of September 30, 2003, 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	$ 28,990	$ (15,664)	$ 13,326	$ 158,199	$ (97,785)	$ 60,414
Software	3,649	(138)	3,511	53,888	(4,397)	49,491
Contractor-Held Property:						
Superfund Site-Specific	40,505	(16,642)	23,863			
General	7,607	(2,452)	5,155	15,679	(6,429)	9,250
Land and Buildings				536,212	(100,826)	435,386
Capital Leases				41,535	(16,605)	24,930
Total	$ 80,751	$ (34,896)	$ 45,855	$ 805,513	$ (226,042)	$ 579,471

As of September 30, 2002, 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	$ 25,968	$ (15,245)	$ 10,723	$ 148,693	$ (92,920)	$ 55,773
Software	961	(85)	876	26,358	(2,520)	23,838
Contractor-Held Property:						
Superfund Site-Specific	32,472	(12,065)	20,407	0	0	0
General	10,407	(3,667)	6,740	18,412	(9,689)	8,723
Land and Buildings				521,515	(85,238)	436,277
Capital Leases				41,614	(14,889)	26,725
Total	$ 69,808	$ (31,062)	$ 38,746	$ 756,592	$ (205,256)	$ 551,336

Note 10. Debt

The Debt consisted of the following as of September 30, 2003 and 2002:

	FY 2003			FY 2002		
All Others	**Beginning Balance**	**Net Borrowing**	**Ending Balance**	**Beginning Balance**	**Net Borrowing**	**Ending Balance**
Other Debt:						
Debt to Treasury	$ 24,290	$ (3,101)	$ 21,189	$ 31,124	$ (6,834)	$ 24,290
Classification of Debt:						
Intragovernmental Debt			$ 21,189			$ 24,290

Note 11. Custodial Liability

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

Note 12. Other Liabilities

The Other Liabilities, both intragovernmental and Non-Federal, for September 30, 2003 are as follows:

Other Liabilities - Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Employer Contributions & Payroll Taxes	$ 1,379	0	$ 1,379
Other Advances	1,811	0	1,811
Advances, HRSTF Cashout	25,016	0	25,016
Deferred HRSTF Cashout	947	0	947
Superfund - Non-Current			
Unfunded FECA Liability	0	1,447	1,447
Total Superfund	$ 29,153	$ 1,447	$ 30,600
All Other - Current			
Employer Contributions & Payroll Taxes	$ 6,589	$ 0	$ 6,589
WCF Advances	7,269	0	7,269
Other Advances	1,674	0	1,674
Liability for Deposit Funds	(515)	0	(515)
Resources Payable to Treasury	1	0	1
Subsidy Payable to Treasury	0	0	0
All Other - Non-Current			
Unfunded FECA Liability	0	6,593	6,593
Total All Other	$ 15,018	$ 6,593	$ 21,611
Other Liabilities - Non-Federal			
Superfund - Current			
Unearned Advances, Non- Federal	$ 49,809	$ 0	$ 49,809
All Other - Current			
Unearned Advances, Non- Federal	$ 5,044	$ 0	$ 5,044
Liability for Deposit Funds, Non-Federal	12,261	0	12,261
All Other - Non-Current			
Capital Lease Liability	0	35,800	35,800
Total All Other	$ 17,305	$ 35,800	$ 53,105

The Other Liabilities, both intragovernmental and Non-Federal, for September 30, 2002, are as follows:

Other Liabilities - Intragovernmental	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Superfund - Current			
Employer Contributions & Payroll Taxes	$ 3,169	0	$ 3,169
Other Advances	2,470	0	2,470
Advances, HRSTF Cashout	16,618	0	16,618
Deferred HRSTF Cashout	30	0	30
Superfund - Non-Current			
Unfunded FECA Liability	0	1,440	1,440
Total Superfund	$ 22,287	$ 1,440	$ 23,727
All Other - Current			
Employer Contributions & Payroll Taxes	$ 13,883	$ 0	$ 13,883
WCF Advances	4,379	0	4,379
Other Advances	1,435	0	1,435
Liability for Deposit Funds	(91)	0	(91)
Resources Payable to Treasury	2	0	2
Subsidy Payable to Treasury	371	0	371
All Other - Non-Current			
Unfunded FECA Liability	0	6,402	6,402
Total All Other	$ 19,979	$ 6,402	$ 26,381
Other Liabilities - Non-Federal			
Superfund - Current			
Unearned Advances, Non-Federal	$ 45,515	0	45,515
All Other - Current			
Unearned Advances, Non-Federal	$ 6,569	$ 0	$ 6,569
Liability for Deposit Funds, Non-Federal	4,181	0	4,181
All Other - Non-Current			
Capital Lease Liability	0	36,729	36,729
Total All Other	$ 10,750	$ 36,729	$ 47,479

Note 13. Leases

The Capital Leases as of September 30, 2003 and 2002, consist of the following:

Capital Leases, All Other Funds:

Summary of Assets Under Capital Lease:	**FY 2003**	**FY 2002**
Real Property	$ 40,913	$ 40,913
Personal Property	622	701
Total	$ 41,535	$ 41,614
Accumulated Amortization	$ 16,605	$ 14,889

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 capital leases for seven shuttle buses terminating in FY 2007. The 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	
2004	$ 6,439
2005	6,439
2006	6,439
2007	6,331
2008	6,295
After 5 Years	77,309
Total Future Minimum Lease Payments	109,252
Less: Imputed Interest	(73,452)
Net Capital Lease Liability	$ 35,800
Liabilities not Covered by Budgetary Resources (See Note 12)	$ 35,800

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 2003. 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). Two of these operating leases that were due to expire in FY 2002 were extended: one until FY 2003 and the other on a monthly basis. Two others expire in fiscal years 2017 and 2020. The fifth lease that expired in FY 2001 was extended until FY 2007. The charges are expended from the EPM appropriation. The total minimum future costs of operating leases are listed below.

Fiscal Year	Superfund	All Others	Total Land & Buildings
2004	$ 0	$ 108	$ 108
2005	0	87	87
2006	0	87	87
2007	0	81	81
2008	0	74	74
Beyond 2008	0	772	772
Total Future Minimum Lease Payments	$ 0	$ 1,209	$ 1,209

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 the Department of Labor.

The FECA Actuarial Liability at September 30, 2003 and 2002, consisted of the following:

	FY 2003		FY 2002	
	Superfund	All Other	Superfund	All Other
FECA Actuarial Liability	$ 7,937	$ 36,159	$ 7,698	$ 31,759

The FY 2003 present value of these estimated outflows are calculated using a discount rate of 3.84 percent in the first year, and 4.35 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances, 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, All Other Funds

As of September 30, 2003 and 2002, the Unexpended Appropriations consisted of the following for All Other Funds:

Unexpended Appropriations:	**FY 2003**	**FY 2002**
Unobligated		
Available	$ 1,797,410	$ 1,725,016
Unavailable	41,667	52,896
Undelivered Orders	8,929,159	9,145,977
Total	$ 10,768,236	$ 10,923,889

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by Treasury in the Superfund Trust Fund and the LUST Trust Fund.

Superfund (Audited)

Superfund is supported primarily by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, 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. (See Note 36 for more information on the status of this trust fund.)

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2003 and 2002. 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.

SUPERFUND FY 2003

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 866	$ 866
Total Undisbursed Balance	0	866	866
Interest Receivable	0	37	37
Investments, Net of Discounts	2,599,744	(83,634)	2,516,110
Total Assets	$ 2,599,744	$ (82,731)	$ 2,517,013
Liabilities & Equity			
Equity (Note 36)	$ 2,599,744	$ (82,731)	$ 2,517,013
Total Liabilities and Equity	$ 2,599,744	$ (82,731)	$ 2,517,013
Receipts			
Corporate Environmental	$ 0	$ (99,355)	$ (99,355)
Cost Recoveries	0	146,502	146,502
Fines & Penalties	0	2,873	2,873
Total Revenue	0	50,020	50,020
Appropriations Received	0	632,307	632,307
Interest Income	0	48,945	48,945
Total Receipts	0	731,272	731,272
Outlays			
Transfers to/from EPA, Net	1,278,068	(1,278,068)	0
Transfers to CDC	0	(80,200)	(80,200)
Total Outlays	1,278,068	(1,358,268)	(80,200)
Net Income	$ 1,278,068	$ (626,996)	$ 651,072

SUPERFUND FY 2002

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 1,876	$ 1,876
Total Undisbursed Balance	0	1,876	1,876
Interest Receivable	0	12,973	12,973
Investments, Net of Discounts	2,762,430	534,572	3,297,002
Total Assets	$ 2,762,430	$ 549,421	$ 3,311,851
Liabilities & Equity			
Equity (Note 36)	$ 2,762,430	$ 549,421	$ 3,311,851
Total Liabilities and Equity	$ 2,762,430	$ 549,421	$ 3,311,851
Receipts			
Corporate Environmental	$ 0	$ 7,466	$ 7,466
Cost Recoveries	0	248,252	248,252
Fines & Penalties	0	1,444	1,444
Total Revenue	0	257,162	257,162
Appropriations Received	0	676,292	676,292
Interest Income	0	110,577	110,577
Total Receipts	0	1,044,031	1,044,031
Outlays			
Transfers to EPA	1,329,490	(1,329,490)	0
Transfers to CDC	0	(49,502)	(49,502)
Total Outlays	1,329,490	(1,378,992)	(49,502)
Net Income	$ 1,329,490	$ (334,961)	$ 994,529

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2003 and 2002 there were no fund receipts from cost recoveries. The following represents LUST Trust Fund as maintained by 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.

LUST FY 2003

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 12,377	$ 12,377
Total Undisbursed Balance	0	12,377	12,377
Interest Receivable	0	25,834	25,834
Investments, Net of Discounts	66,574	2,022,279	2,088,853
Total Assets	$ 66,574	$ 2,060,490	$ 2,127,064
Liabilities & Equity			
Equity	$ 66,574	$ 2,060,490	$ 2,127,064
Total Liabilities and Equity	$ 66,574	$ 2,060,490	$ 2,127,064
Receipts			
Highway TF Tax	$ 0	$ 177,340	$ 177,340
Airport TF Tax	0	12,241	12,241
Inland TF Tax	0	448	448
Refund Gasoline Tax	0	(2,064)	(2,064)
Refund Diesel Tax	0	(3,214)	(3,214)
Refund Aviation Tax	0	(274)	(274)
Total Revenue	0	184,477	184,477
Interest Income	0	64,447	64,447
Total Receipts	0	248,924	248,924
Outlays			
Transfers to/from EPA, Net	71,843	(71,843)	0
Total Outlays	71,843	(71,843)	0
Net Income	$ 71,843	$ 177,081	$ 248,924

LUST FY 2002

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 12,232	$ 12,232
Total Undisbursed Balance	0	12,232	12,232
Interest Receivable	0	22,531	22,531
Investments, Net of Discounts	80,875	1,848,646	1,929,521
Total Assets	$ 80,875	$ 1,883,409	$ 1,964,284
Liabilities & Equity			
Equity	$ 80,875	$ 1,883,409	$ 1,964,284
Total Liabilities and Equity	$ 80,875	$ 1,883,409	$ 1,964,284
Receipts			
Highway TF Tax	$ 0	$ 173,351	$ 173,351
Airport TF Tax	0	13,199	13,199
Inland TF Tax	0	474	474
Refund Gasoline Tax	0	(2,167)	(2,167)
Refund Diesel Tax	0	(3,357)	(3,357)
Refund Aviation Tax	0	(310)	(310)
Total Revenue	0	181,190	181,190
Interest Income	0	67,563	67,563
Total Receipts	0	248,753	248,753
Outlays			
Transfers to/from EPA, Net	72,912	(72,912)	0
Total Outlays	72,912	(72,912)	0
Net Income	$ 72,912	$ 175,841	$ 248,753

Note 18. Commitments and Contingencies

EPA may be 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 four CERCLA §106(b) administrative claims. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately $55.4 million. The Environmental Appeals Board has not yet issued final decisions on any of these administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success overall is characterized as reasonably possible.

All Other

There are four claims which may be considered threatened litigation involving all other appropriated funds of the Agency. If the claimants are successful, the total losses of the claim could amount to $89.5 million. The largest claim (maximum amount $73.1 million) was filed with GSA and the parties currently are in discovery. EPA is contesting the Federal Tort Claims Act action ($15.36 million) and awaiting final Department of Labor decisions on two related claims (totaling $1.05 million). The claimants' chance of success overall is characterized as reasonably possible.

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, 2003, there are no material claims pending in the Treasury Judgement Fund.

Note 19. Exchange Revenues, Statement of Net Cost

Exchange revenues on the Statement of Net Cost include income from services provided, non-custodial interest revenue (with the exception of interest earned on trust fund investments), and non-custodial miscellaneous earned revenue.

Note 20. Environmental Cleanup Costs

As of September 30, 2003, the EPA has two sites that require clean up stemming from its activities. Costs amounting to $18 thousand may be paid out of the Treasury Judgement Fund. (The $18 thousand represents the lower end of a range estimate, of which the maximum of the range will total $30 thousand.) The claimants' chances of success are characterized as reasonably possible. As of September 30, 2002, EPA had one site requiring clean up with costs amounting to $20 thousand that may have been paid out of the Treasury Judgement Fund. (The $20 thousand represents the lower end of the range estimate, of which the maximum was $200 thousand.) The claimant's chance of success was characterized as probable. 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 General Services Administration will bear all or most of the cost of remediation.

Accrued Cleanup Cost

The EPA has 12 sites that will require future clean up associated with permanent closure and three sites with clean up presently underway. The estimated costs will be approximately $9 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 and record changes to the estimate in subsequent years.

The FY 2003 estimate for unfunded cleanup costs decreased by $3.3 million from the FY 2002 estimate. This decrease is due in large part to the funding of the cleanup at several facilities in Denver and Research Triangle Park (RTP) associated with the ongoing consolidation at the Denver Federal Center and RTP Campus, respectively. Of the $9 million in estimated cleanup costs, approximately $2.7 million represents the estimated expense to close the current RTP facility. These costs will be incurred within the next year. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities. There was a net decrease of approximately $1.2 million in funded cleanup costs from FY 2002 to FY 2003. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

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, 2003, the total remaining state credits have been estimated at $9.6 million. The estimated ending credit balance on September 30, 2002, was $11.2 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 CERCLA. Under Section 122(b)(1) of CERCLA, as amended by SARA, 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, 2003, EPA had 13 outstanding preauthorized mixed funding agreements with obligations totaling $32.1 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 FY 2003 and 2002, EPA had one appropriation which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

All of the expenses from EPM 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.

	FY 2003			FY 2002		
	Income From Other Appropriations	**Expenses From Other Appropriations**	**Net Effect**	**Income From Other Appropriations**	**Expenses From Other Appropriations**	**Net Effect**
Superfund	$ 75,597	$ (75,597)	$ 0	$ 114,297	$ (114,297)	$ 0
All Others	(75,597)	75,597	0	(114,297)	114,297	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Note 24. Custodial Revenues and Accounts Receivable

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.

	FY 2003	FY 2002
Fines, Penalties and Other Misc Revenue (EPA)	$ 174,509	$ 95,489
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts		
Accounts Receivable	$ 117,191	$ 107,779
Less: Allowance for Doubtful Accounts	(40,311)	(39,383)
Total	$ 76,880	$ 68,396

Note 25. Statement of Budgetary Resources

Reconciliations of budgetary resources, obligations incurred, and outlays, as presented in the audited Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the years ended September 30, 2003 and 2002, are as follows:

FY 2003	**Budgetary Resources**	**Obligations Incurred**	**Outlays**
Superfund			
Statement of Budgetary Resources	$ 2,317,206	$ 1,550,401	$ 1,445,513
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	0	0	1,313
Budget of the United States Government	$ 2,317,206	$ 1,550,401	$ 1,446,826
All Other			
Statement of Budgetary Resources	$ 9,910,793	$ 7,811,921	$ 7,397,843
Less: Funds Reported by Other Federal Entities	(353)	0	(36)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	622	0	26
Budget of the United States Government	$ 9,911,062	$ 7,811,921	$ 7,397,833

FY 2002	Budgetary Resources	Obligations Incurred	Outlays
Superfund			
Statement of Budgetary Resources	$ 2,448,998	$ 1,698,004	$ 1,377,754
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(17,463)	(17,463)	(1,313)
Budget of the United States Government	$ 2,431,535	$ 1,680,541	$ 1,376,441
All Other			
Statement of Budgetary Resources	$ 9,807,912	$ 7,762,664	$ 7,012,562
Less: Funds Reported by Other Federal Entities	(24,419)	(24,066)	(24,582)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	0	(622)	(26)
Budget of the United States Government	$ 9,783,493	$ 7,737,976	$ 6,987,954

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

Details of Recoveries of Prior Year Obligations and Permanently Not Available on the Statement of Budgetary Resources are represented by the following categories:

Superfund	**FY 2003**	**FY 2002**
Recoveries of Prior Year Obligations	$ 124,797	$ 230,628
Less: Rescinded Authority	(8,274)	(2,000)
Total	$ 116,523	$ 228,628

All Others	**FY 2003**	**FY 2002**
Recoveries of Prior Year Obligations	$ 114,437	$ 89,440
Less: Payments to Treasury	(3,101)	(6,834)
Rescinded Authority	(49,362)	(1,588)
Canceled Authority	(23,719)	(33,870)
Total	$ 38,255	$ 47,148

Note 27. Unobligated Balances Available

Availability of unobligated balances are shown comparatively for FY 2003 and FY 2002. The unexpired authority is available to be apportioned by the OMB for new obligations at the beginning of FY 2004. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

Superfund	**FY 2003**	**FY 2002**
Unexpired Unobligated Balance	$ 766,786	$ 726,589
Authority Not Available for Apportionment	0	24,386
Expired Unobligated Balance	19	19
Total	$ 766,805	$ 750,994

All Others		FY 2003		FY 2002
Unexpired Unobligated Balance	$	2,011,471	$	1,917,637
Authority Not Available for Apportionment		0		1,150
Expired Unobligated Balance		87,401		126,461
Total	$	2,098,872	$	2,045,248

Note 28. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund or trust fund receipt accounts offset gross outlays. For FY 2003 and 2002, the following receipts were generated from these activities:

	FY 2003		FY 2002
Superfund			
Trust Fund Recoveries	146,502	$	248,252
Total	146,502	$	248,252
All Others			
Special Fund Environmental Service	11,649	$	11,358
Trust Fund Appropriation	632,307		676,292
Total	643,956	$	687,650

Note 29. Statement of Financing

Specific components requiring or generating resources in future periods and resources that fund expenses recognized in prior periods are related to changes in liabilities not covered by budgetary resources. For FY 2003 and 2002, the following line items are reconciled to the increases or decreases in those liabilities.

Statement of Financing lines FY 2003:		**Superfund Trust Fund**		**All Other Funds**		**Combined Total**
Components requiring or generating resources in future periods:						
Increase in annual leave liability	$	1,088	$	5,647	$	6,735
Increases in environmental liabilities		0		(3,276)		(3,276)
Increase in workers compensation costs		246		4,591		4,837
Total	$	1,334	$	6,962	$	8,296
Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items						
Unfunded Annual Leave Liability	$	1,088	$	5,888	$	6,976
Unfunded Contingent Liability		0		(2)		(2)
Unfunded Workers Compensation Liability		7		191		198
Actuarial Workers Compensation Liability		239		4,400		4,639
Subsidy Payable to Treasury		0		(371)		(371)
Unfunded Clean-up Costs Liability		0		(3,274)		(3,274)
Negative subsidy entries		0		201		201
Subsidy re-estimate entries		0		(71)		(71)
Total	$	1,334	$	6,962	$	8,296

Statement of Financing lines FY 2002:		Superfund Trust Fund		All Other Funds		Combined Total
Resources that fund expenses recognized in prior periods	$	(1,590)	$	(399)	$	(1,989)
Increases in environmental liabilities		0		578		578
Total	$	(1,590)	$	179	$	(1,411)
Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items						
Unfunded Annual Leave Liability	$	2,206	$	5,375	$	7,581
Unfunded Contingent Liability		(3,778)		(6,000)		(9,778)
Unfunded Workers Compensation Liability		14		61		75
Actuarial Workers Compensation Liability		(32)		(143)		(175)
Subsidy Payable to Treasury		0		(942)		(942)
Unfunded Clean-up Costs Liability		0		578		578
Negative subsidy entries		0		616		616
Subsidy re-estimate entries		0		634		634
Total	$	(1,590)	$	179	$	(1,411)

Note 30. Costs Not Assigned to Goals

FY 2003's Statement of Net Cost by Goal has $12.8 million in gross costs not assigned to goals. This amount is comprised of decreases of $3.3 million in environmental cleanup costs, $1.4 million in bad debt expenses, and $1.2 million in capitalized overhead charges; offset by increases of $0.4 million in undistributed Federal payroll-related costs, $3.8 million in depreciation expenses not assigned, $0.2 million in imputed costs, $0.3 million in other unfunded expenses, and $14 million in operating program expenses.

For FY 2002's Statement of Net Cost by Goal, -$4.8 million in gross costs were not assigned to goals. This amount was comprised of decreases of $6 million in unfunded contingent liabilities and $2.5 million in bad debt expenses; offset by increases of $2 million interest on borrowing, $0.6 million in environmental cleanup costs, $0.6 million in undistributed Federal payroll-related costs, and $0.5 million in other interest costs.

Note 31. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For FY 2003 and 2002, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers which affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and a reconciliation with the Statement of Budgetary Resources follow:

Fund/Type of Account		Super-fund FY 2003		Super-fund FY 2002	All Other Funds FY 2003		All Other Funds FY 2002
GSA Building Fund	$	0	$	0	0	$	23,948
EPM (from current year balances)		0		0	4,550		3,750
EPM (from prior year balances)		0		0	0		500
STAG		0		0	0		400
Total Appropriation Transfers	$	0		0	4,550		28,598
Net Transfers from Invested Funds*		1,278,068		1,329,490	71,843		72,912
Allocations Rescinded*		8,274		0	470		0
Total of Net Transfers on Statement of Budgetary Resources	$	1,286,342		1,329,490	76,863	$	101,510

* *Portion of transfers on Statement of Budgetary Resources that are not part of Appropriation Transfers on Statement of Changes in Net Position*

Transfers In/Out Without Reimbursement, Budgetary:

For FY 2003 and 2002, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. A breakdown of the transfers-in and transfers-out, expenditure and nonexpenditure, follows:

Type of Transfer/Funds		Superfund FY 2003		Superfund FY 2002		All Others FY 2003		All Others FY 2002
Transfers-in(out), expenditure, Superfund to S&T fund	$	(85,608)	$	(36,891)	$	85,608	$	36,891
Transfers-in(out), expenditure, Superfund to OIG fund		(12,659)		(11,867)		12,659		11,867
Transfers-out, nonexpenditure, from Superfund to other Federal agencies		(5,155)		(5,188)				
Transfer-out, expenditure, to Superfund Special Accounts		(9,642)						
Transfers-out, nonexpenditure, from Treasury trust fund to CDC		(80,200)		(49,502)				
Transfers-in, nonexpenditure, Oil Spill						15,480		15,000
Transfer-in(out), cancelled funds		2,133				(2,133)		(86)
Total Transfers in(out) without Reimbursement, Budgetary	$	(191,131)	$	(103,448)	$	111,614	$	63,672

Transfers In/Out without Reimbursement, Other Financing Sources:

For FY 2003 and 2002, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of 1) transfers of property, plant and equipment between EPA funds and 2) transfers of negative subsidy to a special receipt fund for the credit reform funds. The amounts reported on the Statement of Changes in Net Position are as follows:

Type of Transfer/Funds	Superfund FY2003	Superfund FY 2002	All Others FY2003	All Others FY 2002
Transfer-in(out) of property, between Superfund and EPM	$ 84	$ 47	$ (84)	$ (47)
Transfer-out of prior year negative subsidy, to be paid in following year			371	(371)
Adjustment to transfer-out of prior year negative subsidy, paid out in current year and adjusted to funded expenses			0	816
Total Transfers in(out) without Reimbursement, Budgetary	$ 84	$ 47	$ 287	$ 398

Note 32. Imputed Financing

In accordance with SFFAS 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. These 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. The estimates for FY 2003 were $17.8 million and $103.2 million for Superfund and All Other Funds, respectively. For FY 2002, the estimates were $14.7 million and $83 million for Superfund and All Other Funds, respectively.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgement Fund payments on behalf of the agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions. For FY 2003 entries for Judgement Fund payments totaled $2.2 million and $5 million for Superfund and All Other Funds, respectively. For FY 2002, no Judgement Fund payments were made on EPA’s behalf.

Note 33. Payroll and Benefits Payable

The amounts that relate to payroll and benefits payable to EPA employees for the years ending September 30, 2003 and 2002, are detailed in the following tables.

FY 2003 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Accrued Funded Payroll and Benefits	$ 4,097	$ 0	$ 4,097
Withholdings Payable	3,007	0	3,007
Employer Contributions Payable, non Federal (TSP)	197	0	197
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave		23,735	23,735
Total - Superfund - Current	$ 7,304	$ 23,735	$ 31,039
All Other Funds - Current			
Accrued Funded Payroll and Benefits	$ 17,645	$ 0	$ 17,645
Withholdings Payable	14,366	0	14,366
Employer Contributions Payable, non Federal (TSP)	940	0	940
Other Post-employment Benefits Payable	33	0	33
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave		109,487	109,487
Total - All Other Funds - Current	$ 33,304	$ 109,487	$ 142,791

FY 2002 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Accrued Funded Payroll and Benefits	$ 9,146	$ 0	$ 9,146
Withholdings Payable	6,897	0	6,897
Employer Contributions Payable, non Federal (TSP)	443	0	443
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave	0	22,647	22,647
Total - Superfund - Current	$ 16,489	$ 22,647	$ 39,136
All Other Funds - Current			
Accrued Funded Payroll and Benefits	$ 41,309	$ 0	$ 41,309
Withholdings Payable	30,233	0	30,233
Employer Contributions Payable, non Federal (TSP)	1,943	0	1,943
Other Post-employment Benefits Payable	29	0	29
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave	0	103,598	103,598
Total - All Other Funds - Current	$ 73,834	$ 103,598	$ 177,432

Note 34. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of rescissions to appropriated funds and cancellations of funds that expired five years earlier. These amounts affected Unexpended Appropriations for All Other Funds for FY 2003 and 2002.

		FY 2003		FY 2002
Rescissions to General Appropriations	$	48,147	$	1,588
Canceled General Authority		23,719		33,872
Total Other Adjustments	$	71,866	$	35,460

Note 35. Nonexchange Revenue, Statement of Changes in Net Position

The Nonexchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for FY 2003 and 2002 are comprised of the following items:

FY 2003		**Superfund Trust Fund**		**All Other Funds**		**Combined Total**
Interest on Trust Fund Investments	$	48,945	$	64,447	$	113,392
Tax Revenue, Net of Refunds*		(99,355)		184,477		85,122
Fines and Penalties Revenue		718		0		718
Special Receipt Fund Revenue		0		11,591		11,591
Total Nonexchange Revenue	$	(49,692)	$	260,515	$	210,823

FY 2002		**Superfund Trust Fund**		**All Other Funds**		**Combined Total**
Interest on Trust Fund Investments	$	110,577	$	67,563	$	178,140
Tax Revenue, Net of Refunds		7,466		181,190		188,656
Fines and Penalties Revenue **		(10,005)		0		(10,005)
Special Receipt Fund Revenue		0		11,358		11,358
Total Nonexchange Revenue	$	108,038	$	260,111	$	368,149

** In FY 2003, the Superfund trust fund refunded $99,355 thousand in previously accrued corporate environmental taxes.*
*** FY 2002 fines and penalties revenue included the following negative items: a $9,664 thousand write-off and $1,339 thousand allowance for uncollectible accounts.*

Note 36. Hazardous Substance (Superfund) Trust Fund Balance

In FY 2003, the EPA received an appropriation for Superfund of $1.264 billion. The funding source for the appropriation consisted of $632 million from the Superfund Trust Fund, and $632 million from Treasury's general fund. Treasury's Bureau of Public Debt (BPD), the manager of Superfund Trust Fund Assets, records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and therefore are not available for appropriation. The Superfund Trust Fund has a liability to EPA for previously appropriated funds as of September 30, 2003 and 2002 of $2.6 billion and $3.3 billion, respectively. Unappropriated funds available for future appropriations as of September 30, 2003 and 2002 was $0 and $549 million, respectively.

During FY 2003, the Superfund Trust Fund revenue from cost recoveries and investment interest was less than anticipated. In addition, the Internal Revenue Service issued approximately $99 million in corporate net tax refunds that were previously deposited in the Trust Fund. Due to these circumstances, and when combined with the FY 2003 Superfund appropriation, the amount appropriated to EPA for Superfund activities exceeded the assets available for appropriation in the Trust Fund as of September 30, 2003 by $82.7 million. The Agency expects the Trust Fund to continue to receive revenues from cost recoveries and investment interest. Nevertheless, such revenue is not expected to be sufficient to cover the same level of funding from the Trust Fund as in past years. In EPA's view, the shortfall for FY 2003 will be covered by the collection of cost recoveries and receipt of interest income to the Trust Fund over time.

Environmental Protection Agency
Required Supplemental Information
As of September 30, 2003
(Dollars in Thousands)
(Unaudited)

Deferred Maintenance

The EPA classifies tangible property, plant, and equipment as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings, and, 4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. 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 2003).

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
4	Government Printing Office					$ 68	$ 823
11	Executive Office of the President				127		
12	Department of Agriculture			58	36		
13	Department of Commerce			1	49	4	19
14	Department of Interior			13,589	758		
15	Department of Justice			101	(15)	58	
17	Department of the Navy			58	321		
18	U. S. Postal Service			47			594
19	Department of State			19	(61)		2,418
20	Department of the Treasury	2,516,147	2,114,684	36	130		
21	Department of the Army			11,081	159		
31	Nuclear Regulatory Commission			2	1		
45	Equal Employment Opportunity Commission				64		
47	General Services Administration			14	20		
49	National Science Foundation				36		
57	Department of the Air Force			92	(4)		

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
61	Consumer Product Safety Commission				3		
64	Tennessee Valley Authority				6		
68	EPA (between Superfund and All Other)				89,789	7,269	
69	Department of Transportation			18	7,995		
70	Department of Homeland Security				15,950		
72	Agency for International Development				617		
75	Department of Health and Human Services			528	1,146		
80	National Aeronautics and Space Administration				39		
86	Department of Housing and Urban Development				29		
89	Department of Energy			124	1,308		
96	US Army Corps of Engineers			156	827		
97	US Department of Defense			8,742	201		
99	Treasury General Fund				7		
0	Unassigned			(1)	403	15	(27)
Total		$2,516,147	$2,114,684	$34,665	$119,941	$7,414	$3,827

Intragovernmental Liabilities

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
3	Library of Congress			$ 6	$ 150		$ 60
4	Government Printing Office			51	1,297	(1)	489
5	General Accounting Office					(367)	(1)
10	The Judiciary						(18)
11	Executive Office of the President				3		16
12	Department of Agriculture			818	1,882	2,170	1,015
13	Department of Commerce	888		981	3,042		3,066
14	Department of Interior	901		4,359	2,957	49	308
15	Department of Justice	617	58	2,381	79	570	(117)
16	Department of Labor	2,258		210	502	1,447	6,612
17	Department of the Navy	351		20	73	873	(319)
18	United States Postal Service			1	364	14	1
19	Department of State			1	269		716

Trading Partner Code	Agency	Superfund	All Other	Superfund	All Other	Superfund	All Other
20	Department of the Treasury			38	200	143	4
21	Department of the Army			27		2,334	(17)
24	Office of Personnel Management			79	549	1,004	4,745
31	US Nuclear Regulatory Commission		6		16		
33	Smithsonian Institution			3	17		(57)
36	Dept. of Veterans Affairs			5	60		74
45	EEOC				18		(68)
47	General Services Administration		377	4,505	37,445	10,767	(20,885)
49	National Science Foundation			6	13		45
57	Department of the Air Force					2,386	
59	Nat’l Foundation on Arts and Humanities			12			
64	Tennessee Valley Authority				159		59
68	EPA (between Superfund and All Others)	86,087		3,702			7,269
69	Department of Transportation			4,169	4,159		8,968
70	Department of Homeland Security	15,318		22	48		(420)
73	Small Business Administration				17		
75	Department of Health and Human Services	16		1,139	8,547		8,150
80	National Aeronautics and Space Administration				187		31
86	Department of Housing and Urban Development						418
89	Department of Energy			370	4,167		(335)
93	Federal Mediation Service				10		
95	Independent Agencies				495	1,490	
96	US Army Corps of Engineers	650	160	15,564	1,793		5
97	Office of the Secretary of Defense	(351)	1	163	482	7,346	4
99	Treasury General Fund					375	1,793
0	Unassigned	(38)	16	302	538		
	Total	106,697	618	38,934	69,538	30,600	21,611

For All Other Funds’ remaining intragovernmental liabilities, $21,189 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and $78,776 thousand in Custodial Liability is assigned to the Treasury General Fund (trading partner Code 99).

EPA has confirmed the year-end intragovernmental fiduciary assets, liabilities, revenue, and expenses with the Bureau of Public Debt, the Department of Labor, and the OPM. EPA has also been in contact with several other Federal agencies to reconcile non-fiduciary intragovernmental balances for year-end as required.

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	$16,682	$124,233
Associated Costs to generate above Revenue (Budget Functional Classification 304)	16,682	124,233

Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources
As of September 30, 2003
(Dollars in Thousands)

	STAG	Environ-mental Programs & Manage-ment	Science and Technology	FIFRA	LUST Trust Fund	All Other	Total All Other
BUDGETARY RESOURCES							
Budgetary Authority:							
Appropriations Received	$ 3,859,994	$ 2,111,604	$ 720,821	$ 0	$ 0	$ 731,931	$ 7,424,350
Borrowing Authority							0
Net Transfers		4,550			72,313		76,863
Other							0
Unobligated Balances:							
Beginning of Period	1,365,927	354,150	225,477	376	3,227	96,091	2,045,248
Net Transfers, Actual							0
Anticipated Transfers Balance							0
Spending Authority-Offsetting Collections							
Earned and Collected	4,853	86,932	5,526	22,838	28	153,526	273,703
Receivable from Federal Sources		6,423	1,247			(2,596)	5,074
Change in Unfilled Customer Orders							
Advance Received		(1,470)	807	216		(19,915)	(20,362)
Without Advance from Federal Sources		(54,402)	194			25,735	(28,473)
Anticipated for Rest of Year							
Transfers from Trust Funds			83,475			12,660	96,135
Total Spending Authority from Collections	$ 4,853	$ 37,483	$ 91,249	$ 23,054	$ 28	$ 169,410	$ 326,077
Recoveries of Prior Year Obligations	97,227	11,437	3,475	168	231	1,899	114,437
Permanently Not Available	(25,090)	(32,011)	(10,675)		(470)	(7,936)	(76,182)
Total Budgetary Resources	$ 5,302,911	$ 2,487,213	$ 1,030,347	$ 23,598	$ 75,329	$ 991,395	$ 9,910,793
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$ 3,902,080	$ 2,098,541	$ 731,821	$ 0	$ 71,433	$ 735,720	$ 7,539,595
Reimbursable		92,976	4,292	22,708		152,350	272,326
Total Obligations Incurred	$ 3,902,080	$ 2,191,517	$ 736,113	$ 22,708	$ 71,433	$ 888,070	$ 7,811,921
Unobligated Balances:							
Apportioned	1,400,831	227,577	277,195	890	3,896	101,082	2,011,471
Exempt from Apportionment							0
Unobligated Balances Not Available		68,119	17,039			2,243	87,401
Total Status of Budgetary Resources	$ 5,302,911	$ 2,487,213	$ 1,030,347	$ 23,598	$ 75,329	$ 991,395	$ 9,910,793
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS							
Obligations Incurred, Net	$ 3,800,000	$ 2,142,597	$ 641,389	$ (514)	$ 71,174	$ 716,761	$ 7,371,407
Obligated Balances, Net - Beginning	8,236,011	700,676	563,359	2,621	81,819	24,166	9,608,652
Accounts Receivable		22,103	83,297			12,637	118,037
Unfilled Customer Orders-Federal Sources		124,890	10,768			89,216	224,874
Undelivered Orders	(7,857,036)	(583,687)	(475,383)	149	(76,421)	(85,205)	(9,077,583)
Accounts Payable	(495,044)	(203,829)	(93,556)	(1,053)	(7,886)	(46,176)	(847,544)
Total Outlays	$ 3,683,931	$ 2,202,750	$ 729,874	$ 1,203	$ 68,686	$ 711,399	$ 7,397,843
Disbursements	$ 3,688,785	$ 2,288,212	$ 779,435	$ 24,258	$ 68,714	$ 857,529	$ 7,706,933
Collections	(4,854)	(85,462)	(49,561)	(23,055)	(28)	(146,130)	(309,090)
Less: Offsetting Receipts						(643,956)	(643,956)
Net Outlays	$ 3,683,931	$ 2,202,750	$ 729,874	$ 1,203	$ 68,686	$ 67,443	$ 6,753,887

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Balance Sheet
As of September 30, 2003
(Dollars in Thousands)

		Unaudited
ASSETS		
Intragovernmental		
Fund Balance With Treasury	$	57,780
Accounts Receivable, Net Federal		23,869
Other		595
Total Intragovernmental	$	82,244
General Property, Plant and Equipment, Net		10,919
Other Non Federal Assets		51
Total Assets	$	93,214
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities, Federal	$	24,595
Other Federal Liabilities		25,500
Total Intragovernmental	$	50,095
Accounts Payable & Accrued Liabilities, Non Federal		9,836
Payroll and Benefits Payable Non Federal		1,513
Total Liabilities	$	61,444
NET POSITION		
Cumulative Results of Operations	$	31,770
Total Net Position		31,770
Total Liabilities and Net Position	$	93,214

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Net Cost
For the Year Ended September 30, 2003
(Dollars in Thousands)

		Unaudited
COSTS		
Intragovernmental	$	70,863
With the Public		61,351
Total Costs	$	132,214
Less:		
Earned Revenues, Federal		130,499
Earned Revenues, Non Federal		0
Total Earned Revenues	$	130,499
NET COST OF OPERATIONS	$	1,715

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Changes in Net Position
For the Year Ended September 30, 2003
(Dollars in Thousands)

		Unaudited
Net Position - Beginning of Period	$	31,025
Prior Period Adjustments		0
Beginning Balances, as adjusted	$	31,025
Other Financing Sources:		
Transfers In/Out		(111)
Imputed Financing Sources		2,571
Total Other Financing Sources	$	2,460
Net Cost of Operations		(1,715)
Net Position - End of Period	$	31,770

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Budgetary Resources
For the Year Ended September 30, 2003
(Dollars in Thousands)

		Unaudited
BUDGETARY RESOURCES		
Budgetary Authority:		
Appropriations Received	$	0
Borrowing Authority		
Net Transfers		
Other		
Unobligated Balances:		
Beginning of Period		27,162
Net Transfers, Actual		
Anticipated Transfers Balance		
Spending Authority from Offsetting Collections:		
Earned and Collected		130,506
Receivable from Federal Sources		0
Change in Unfilled Customer Orders		
Advance Received		(19,800)
Without Advance from Federal Sources		22,408
Anticipated for Rest of Year		
Transfers from Trust Funds		
Total Spending Authority from Offsetting Collections	$	133,114
Recoveries of Prior Year Obligations		239
Permanently Not Available		0
Total Budgetary Resources	$	160,515
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Reimbursable	$	138,191
Unobligated Balances:		
Apportioned		22,324
Exempt from Apportionment		0
Unobligated Balances Not Available		0
Total Status of Budgetary Resources	$	160,515
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred, Net	$	4,838
Obligated Balances, Net - Beginning of Period		30,218
Accounts Receivable		114
Unfilled Customer Orders from Federal Sources		26,083
Undelivered Orders		(26,944)
Accounts Payable		(34,710)
Total Outlays	$	(401)
Disbursements	$	110,305
Collections		(110,706)
Less: Offsetting Receipts		0
Net Outlays	$	(401)

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Financing
For the Year Ended September 30, 2003
(Dollars in Thousands)

		Unaudited
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$	138,191
Less: Spending Authority from Offsetting Collections and Recoveries		(133,353)
Obligations Net of Offsetting Collections and Recoveries	$	4,838
Less: Offsetting Receipts		0
Net Obligations	$	4,838
Other Resources		
Transfers In/Out Without Reimbursement, Property	$	(111)
Imputed Financing Sources		2,571
Other (+/-)		0
Income from Other Appropriations		0
Net Other Resources Used to Finance Activities	$	2,460
Total Resources Used To Finance Activities	$	7,298
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	$	(6,487)
Resources that Fund Prior Period Expenses		
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances		
Offsetting Receipts Not Affecting Net Cost of Operations		
Resources that Finance the Acquisition of Assets		(6,151)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations		
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$	(12,638)
Total Resources Used to Finance the Net Cost of Operations	$	(5,340)
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$	86
Increase in Environmental and Disposal Liability		
Upward/Downward Reestimates of Credit Subsidy Expense		
Increase in Exchange Revenue Receivable from the Public		
Increase in workers compensation costs		
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	$	86
Components Not Requiring or Generating Resources		
Depreciation and Amortization	$	6,089
Revaluation of Assets or Liabilities		0
Other Expenses Not Requiring Budgetary Resources		880
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$	6,969
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	7,055
Net Cost of Operations	$	1,715

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2003
(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. The Environmental Protection Agency's (EPA) 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, efficient and effective approaches to reducing environmental risks.

Among the Agency's highest priorities are research programs that address the effects of the environment on children's health, the potential risks of unregulated contaminants in drinking water, the health effects of air pollutants such as particulate matter, and the protection of the nation's ecosystems. For FY 2003, the full cost of the Agency's Research and Development activities totaled over $700 million. Below is a breakout of the expenses (dollars in thousands):

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Programmatic Expenses	543,777	541,117	555,794	559,218	593,295
Allocated Expenses	58,728	59,523	90,039	123,307	106,971

INVESTMENT IN THE NATION'S INFRASTRUCTURE:

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

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than $60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the 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: EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds. 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 1999	FY 2000	FY 2001	FY 2002	FY 2003
Construction Grants	414,528	55,766	63,344	149,841	15,845
Clean Water SRF	925,744	1,564,894	1,548,270	1,389,048	1,295,394
Safe Drinking Water SRF	387,429	588,116	728,921	708,528	842,936
Other Infrastructure Grants	245,606	212,124	282,914	367,259	582,091
Allocated Expenses	213,117	266,299	424,999	576,536	493,349

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. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred.

As of September 30, 2003 the Agency possesses the following land and land rights:

Superfund Sites with Easements	
Beginning Balance	31
Additions	1
Withdrawals	1
Ending Balance	31
Superfund Sites with Land Acquired	
Beginning Balance	24
Additions	2
Withdrawals	1
Ending Balance	25

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 1999	FY 2000	FY 2001	FY 2002	FY 2003
Training and Awareness Grants	46,630	49,265	48,697	49,444	47,827
Fellowships	10,239	9,570	11,451	8,728	6,572
Allocated Expenses	6,142	6,472	9,744	12,827	9,808

Agency's Response to Draft Report

MEMORANDUM

SUBJECT: Response to the Draft Audit Report on EPA's Fiscal 2003 Financial Statements

FROM: Linda M. Combs /s/ *Mike Ryan for*
Chief Financial Officer (2710A)

TO: Paul C. Curtis, CPA
Director, Financial Statement Audits (2422T)

Thank you for providing us with the opportunity to respond to the findings and recommendations made in the "Draft Audit of EPA's Fiscal 2003 and 2002 Financial Statements." Attached is our response to the specific audit findings and recommendations made in the report.

I appreciate the OIG's recognition of the various actions and initiatives the OCFO has taken to resolve current and prior financial statement audit issues. As acknowledged, we in OCFO continue to make progress in enhancing our managerial cost accounting. We completed a cost information outreach initiative that is currently providing positive results. Agency program managers are using cost information to make decisions and effectively manage their programs. Furthermore, the Office of Management and Budget has recognized our success in this area as part of the President's Management Agenda.

We appreciate your concern with the Superfund Trust Fund (Trust Fund) deficit, however, we would like to clarify the funding sources for the Trust Fund. Congress appropriates funds annually to EPA, not Treasury's Bureau of Public Debt. The funding source can vary – it is primarily Treasury's General Fund, but there are other funding sources, such as the Trust Fund. Once there is an appropriation, the funds are made available to EPA. The Superfund Program will continue to operate as long as Congress continues to appropriate funds for the Superfund Program. Accordingly, the Trust Fund will remain as long as funds are appropriated and deposited. Of the $1.264 billion appropriated to the Superfund in FY 2003, $632 million came from Trust Fund assets and the remaining $632 million came from the General Fund. Based on the appropriation, general revenues were transferred into and deposited in the Trust fund. The mere fact that Congress has appropriated funds to EPA in excess of available Trust Fund assets does not mean that the Superfund Program will cease operations.

In addition, my staff and I would like to work with you to allay the recent concerns about the suspense file records. By bringing this issue to our attention at such a late date in the process, it is essential that we be given the opportunity to address the concerns prior to the issuance of the final report.

If you have any questions concerning our response to the draft audit report, please contact Juliette McNeil, Director of the Financial Management Division at 564-4905.

Attachments

cc: Mike Ryan

RESPONSE to DRAFT AUDIT of EPA's FISCAL 2003 and 2002

FINANCIAL STATEMENTS

REPORTABLE CONDITIONS

1 – Documentation of Standard Vouchers Needs Improvement

We recommend that the Office of the Chief Financial Officer (OCFO):

1-1. Establish written procedures to calculate the amount of the monthly transfer from Treasury to EPA Trust Fund Accounts.

Agency Comments:

We have developed a plan of action to address the recommendations and will established written procedures.

Corrective Action	Target Completion Date	Action Official
Develop written procedures were necessary for calculating the monthly transfers from Treasury to EPA	March 2004	FRAB

1-2. Require that all transfers and requests have supporting documentation attached to the standard voucher that shows how the amount requested from Treasury was derived.

Agency Comments:

We will provide complete documentation to support the amount of the transfers. The additional documentation supporting the funding transfers has already been implemented.

2 – Continued Improvement Needed in EPA's Interagency Agreement (IAG) Invoice Approval Process

1-3. We recommend that the Director, Office of Grants and Debarment (OGD), determine the root cause of the problem and develop effective procedures to ensure that project officers properly manage the entire process.

Agency Comments:

In view of the audit findings, OGD agrees with the OIG's recommendation on the need for corrective action. OGD will issue a long-term training plan that calls for developing a stand-alone IAG project officer training course. This course will allow EPA to provide more in-depth training to Project Officers on IAG core competencies. Until the stand-alone course is developed, OGD will further emphasize, in its current training courses, the importance of collecting and reviewing invoice documentation to substantiate costs. OGD will also issue guidance to program offices on the need to strengthen the IAG invoice approval process.

To better monitor whether IAG project officers are effectively managing their agreements, OGD will incorporate IAG program reviews as part of their Grants Management Reviews.

Corrective Action	Target Completion Date	Action Official
Issue a long term training plan for developing a stand-alone IAG Project Officer training course.	December 2003	OGD
Complete IAG Project Officer training course.	December 2004	OGD
Issue guidance on strengthening the IAG invoice approval process	March 2004	OGD
Revise the tri-annual review protocol to incorporate the review of the IAG program	September 2004	OGD

3 – Improvement Needed in Reconciling State Superfund Contracts Unearned Revenue

1-4. We recommend that the OCFO have the Financial Management Division (FMD) calculate annually the combined unearned revenue from SSCs for all accounting points and reconcile the amount to the consolidated balance of general ledger account 2312.

***Agency Comments*:**

FMD will calculate and analyze SSC expenditures and reconcile IFMS balances annually. Where adjustments are necessary, FMD will work with the regions.

Corrective Action	Target Completion Date	Action Official
Calculate and analyze SSC expenditures & reconcile to IFMS.	Annually	FRAB

4 – EPA Did Not Promptly Record Marketable Securities Received in Fiscal 2003

We recommend that the OCFO have the Director, FMD:

1-5. Develop stricter guidelines governing the recording of marketable securities and ensure that Finance Offices record financial instruments at fair market value when received.

1-6. Develop procedures for Financial Management Offices for sending securities between offices to ensure that the receiving Financial Management Office has sufficient information to record the securities in IFMS when received directly from the Department of Justice and prepare an Intragovernmental Payment and Collection System entry to the appropriate regional finance office.

Agency Comments:

FMD will develop and issue policy and procedures for timely recording marketable securities.

Corrective Action	Target Completion Date	Action Official
Issue policy and procedures on recording marketable securities	April 2004	FPPCB

5 – Automated Application Processing Controls for Integrated Financial Management System Could Not be Assessed.

Agency Comments:

The OCFO has a planned target date of 2006 for replacing IFMS. A commercial off-shelf-package will be delivered with systems documentation.

6 – Integrated Financial Management System Suspense File Needs to be Reconciled to the General Ledger

We recommend that the OCFO:

1-7. Establish and test a formal reconciliation process that includes total dollar and record counts for the data processed from the IFMS suspense file to the general ledger accounts.

Agency Comments:

Comptroller Policy Announcement No. 03-09 establishes policies and procedures for reconciling the IFMS suspense table (SUSF) to the IFMS general ledger. To simplify the reconciliation process, the Financial Systems Branch (FSB) is in the process of developing a standard automated reconciliation process. This process currently is in the testing and validation phase and is expected to be operational during the second quarter of FY 2004.

We disagree with the assertion in the audit report that OCFO does not have adequate assurance that data from users or subsystems is accurate or completely posted into the IFMS general ledger. OCFO has numerous controls in place to verify that all transactions are posted to the general ledger. For example, daily reviews of the IFMS SUSF are performed by regional offices and finance centers to ensure that all valid transactions that should be processed, including rejects and records on hold, are processed. At year-end a special review of the IFMS SUSF is performed to ensure that all applicable transactions are processed and recorded in the appropriate fiscal year.

Additionally, the audit report states that as of October 10, 2003, the IFMS SUSF contained 435,329 records and that the dollar amounts could not be quantified. Further, the audit report states that OCFO is "attempting to categorize 56% of the records that had no status." The number of records in the IFMS SUSF as of September 30, 2003, total 109,001. All records have a status code and the amounts are readily available by reviewing each transaction on-line. We have contacted several of our finance offices requesting that they re-review their SUSF IFMS records and again assess if any FY 2003 transactions have been inadvertently omitted. All reports thus far indicate that all FY 2003 records were processed in FY 2003.

Because of the potential impact of this finding on the audit opinion and the considerable factual inaccuracies that may exist, I ask that OIG staff reconvene this week with FSB staff to validate the facts prior to issuance of the final audit report.

Corrective Action	Target Completion Date	Action Official
Develop a standardized automated reconciliation process for SUSF/IFMS GL	March 2004	FSB

1-8. Update the formal quality assurance process to ensure IFMS is evaluated annually regarding its compliance with all applicable JFMIP Federal system requirements and certified as part of the FMFIA review. Also, complete the checklist review of IFMS for compliance with all applicable JFMIP core systems requirements.

Agency Comments:

IFMS is evaluated annually as part of the FMFIA review. The most recent IFMS JFMIP check list was completed in 2003. In addition, IFMS was evaluated against JFMIP requirements in 2002 to identify noncompliance areas and estimate the cost to incorporate new requirements. It was determined that the cost would be at least ten million dollars. As a result, OCFO management determined that it would not be cost beneficial to invest in new requirements for this legacy system.

Corrective Action	Target Completion Date	Action Official
Continue to evaluate IFMS as part of the FMFIA review	Annually	FSB

7 – Further Improvements Needed in Managing EPA's Accounts Receivable

We recommend the Director, FMD:

1-9. Periodically follow-up with the DOJ, Directors of Office of Regional Counsel and Other Program Offices with a quality assurance letter to ensure legal documents are being promptly forwarded to the financial management offices.

Agency Comments:

FMD will develop policy and procedures requiring periodic quality assurance letters to ensure legal documents are promptly forwarded to the financial management offices.

Corrective Action	Target Completion Date	Action Official
Develop policy and procedures for ensuring legal documentation reaches the intended party.	March 2004	PCAB

1-10. Establish procedures to verify that year-end transactions are processed by the Financial Management Offices.

Agency Comments:

FMD has implemented procedures to verify that year-end or period-end transactions are processed by the Financial Management Offices as documented for FY 2003 in the Annual Year End Closing instructions (see page 10, paragraph K; page 11, paragraph L; and Attachments 9 and 10).

1-11. Establish procedures to verify that Financial Management Offices are conducting quarterly reviews of the allowance for doubtful accounts and updating the percentages based on the collection rate in accordance with OCFO policies.

***Agency Comments*:**

FMD has established procedures to review the allowance for doubtful accounts and update percentages based on collection experience from prior years. These procedures are included in the Resource Management Directives (RMDS) 2540, Chapter 9, paragraph 10.A.1.

8 - Internal Controls for Correcting Errors in IFMS Need Improvement

We recommend that the OCFO:

1-12. Establish policies and procedures to ensure that negative transactions are not entered into IFMS and the standard double entry bookkeeping be followed.

1-13. Reduce IFMS's Vulnerability to fraud and abuse by establishing an edit check or other system control to prevent negative transactions from being entered into IFMS.

Agency Comments:

We believe that Comptroller Policy 93-02 documents the Agency's procedures for processing financial transactions. The Financial Systems Branch (FSB) is in the process of updating related Standard Operating Procedures (SOPs) to insure transactions are processed using standard accounting protocol.

Corrective Action	Target Completion Date	Action Official
Establish/update SOPs for processing accounting transactions.	April 2004	FSB

COMPLIANCE WITH LAWS AND REGULATIONS

9 – EPA Continues to Make Efforts to Improve Its Costs Accounting Processes

We recommend that the OCFO:

2-1. Continue with its efforts to improve Agency financial and cost accounting systems including its strategy that further educates users on the types of cost information available from OCFO systems, and how to use the systems to obtain the information they need to effectively manage their programs.

Agency Comments:

EPA has a cost information assessment under way. In phase II we will continue to educate users on the benefit of cost information. The assessment is designed to elicit from Agency managers additional cost information needs and types of information all ready available in OCFO systems. OCFO will continue to work with Agency managers and staff to identify their cost information needs and incorporate those requirements into the Agency's accounting processes, where practicable.

2-2. Reconsider their decision to retain the PRC subobjectives as the official Agency cost accounting output and to change the Agency's output to something more meaningful and useful to Agency managers.

Agency Comments:

The Agency's cost accounting output will continue to be the subobjective. Having the Agency output as a subobjective does not preclude the Agency from accounting for discrete programs or projects below the subobjective level. The revised accounting structure for the new strategic plan will allow the Agency to do just that. Moreover, the Agency accounts for projects below the subobjective level now, one example being the Superfund Program. We expect that Phase II of our cost information assessment will identify other projects and activities that may be at a level lower than subobjective or even below the Program/Project level. If practicable to do so, the Agency will establish procedures to collect cost information in the Agency's accounting system**.**

10 – EPA Continues to Experience Difficulties in Reconciling Intragovernmental Transactions

Agency Comments: EPA will continue its efforts to reconcile the Agency's intragovernmental transactions and comply with Federal financial reporting requirements**.**

11 – EPA Needs to Revise and Resubmit Federal Financial Management Improvement Act Remediation Plan

We continue to recommend that OCFO revise its 1999 Remediation Plan to recognize when EPA will establish a security certification process for all its major financial and mixed-financial systems. Specifically, we recommend that OCFO:

2-3. Identify the party responsible for establishing a security certification process.

2-4. Indicate an estimated milestone date as to when the certification process will be applied to persons with sensitive access rights to major financial and mixed systems. OCFO also needs to submit the revised Remediation Plan to Office of Management and Budget (OMB).

Agency Comments:

EPA's 1999 Remediation Plan already has been updated and submitted to the OMB. The updated plan shows (1) that Office of Administration and Resources Management is the party responsible for establishing a security certification process for non-federal workers, and (2) the estimated milestones for issuing the security certification policy is July 2004 for contractor personnel, and July 2005 for grantee personnel. The revised Remediation Plan was included in the FY 2004 - FY 2009 Financial Management Five Year Plan and provided to the Office of Management and Budget in October 2003.

We concur with your analysis that the OCFO taken steps to ensure that a certification process for contractors using EPA's IFMS is in place. This certification process is contained in OCFO Policy Announcement No. 98-08.

The audit report also stated that EPA's Memorandums of Understanding (MOUs) with other financial or mixed systems that interface with IFMS do not stipulate clear baseline security requirements for screening contractor personnel with access to financial data. However, the MOUs clearly reference the Interconnection Security Agreement, which requires compliance with IFMS' Security Plan. Under the Security Plan, background screening is required for contractor personnel. Further, we have surveyed our interfacing system owners (e.g., EPAYS, IDOTS, and CPS) and found that contractor personnel do not have access to them.

<u>12 – EPA Not in Compliance Regarding Preparation and Reconciliation of SF 224</u>

We recommend that the OCFO:

2-5. Discontinue including the adjusted amount on the SF 224, thus enabling Treasury to report these amounts through the Statement of differences (FMS 6652).

2-6. Make source documentation readily available to improve timely clearing of reconciling items included in the suspense account and on the Statement of Difference (FMS 6652).

Agency Comments:

We believe that the characterization of the entire agency as not being in compliance with Treasury regulations does not fairly represent EPA's status given that the majority of the finance offices comply with Treasury regulations.

Specifically, EPA currently has 26 agency locations that prepare monthly SF 224 reports for Treasury. Only one of those locations (Accounting Point (AP) 15–Washington Finance Center) is still adjusting current unrecorded transactions to suspense accounts on the SF 224. The other 25 locations are reporting current transactions from the general ledger in accordance with current regulations and policy.

We have provided the OIG with an analysis of the suspense differences between the IFMS reports on cash transactions and the SF 224, Treasury Undisbursed amounts as of September 30, 2003 (Attachment 1). AP 15 and three other locations had differences in the suspense accounts at year-end. Two of the locations' differences are minor unresolved amounts from the months just prior to the implementation of the current policy, and the remaining office's difference is from an error made between funds in the "thirteenth" month pre-closing ledger.

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