U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Audit of EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements

Report No. 10-1-0029

November 16, 2009

Abbreviations

BPD	Bureau of Public Debt
CTS	Customer Technology Solution
DOJ	Department of Justice
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
GAO	Government Accountability Office
IFMS	Integrated Financial Management System
LEO	Legal Enforcement Office
LUST	Leaking Underground Storage Tank
LVFC	Las Vegas Finance Center
MATS	Management Audit Tracking System
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORC	Office of Regional Counsel
ORD	Office of Research and Development
RMDS	Resources Management Directive Systems
RPO	Regional Program Office
RSSI	Required Supplementary Stewardship Information
SSC	Superfund State Contract
SFO	Servicing Finance Office
SFFAS	Statement of Federal Financial Accounting Standards
ULO	Unliquidated Obligation
YACT	Year End Closing Table

U.S. Environmental Protection Agency
Office of Inspector General

10-1-0029
November 16, 2009

At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

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

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

Background

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.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2010/20091116-10-1-0029.pdf

Audit of EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements

EPA Receives an Unqualified Opinion

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for fiscal 2009 and 2008 (restated), meaning that they were fairly presented and free of material misstatement.

Internal Control Material Weakness, Significant Deficiencies Noted

We noted the following three material weaknesses:

- EPA understated accounts receivable for fiscal 2008.
- EPA understated unearned revenue.
- Improvement is needed in billing costs and reconciling unearned revenue for Superfund State Contract costs.

We also noted the following eight significant deficiencies:

- EPA misstated uncollectible debt and other related accounts.
- EPA needs to improve billing and accounting for accounts receivable.
- Headquarters property items were not inventoried.
- EPA should improve its financial statement preparation process.
- Unneeded funds were not deobligated timely.
- Improvement is needed in managing data system's user accounts.
- Las Vegas Finance Center needs improved physical access controls.
- Customer Technology Solutions equipment needs improved planning.

Noncompliance With Laws and Regulations Noted

We noted one noncompliance issue, involving EPA's need to continue efforts to reconcile intra-governmental transactions.

Agency Comments and Office of Inspector General Evaluation

In a memorandum dated November 12, 2009, from the Chief Financial Officer, the Agency recognized the issues raised and indicated it will take corrective actions.

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

OFFICE OF
INSPECTOR GENERAL

November 16, 2009

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal 2009 and 2008 (Restated)
Consolidated Financial Statements
Report No. 10-1-0029

FROM: Paul C. Curtis
Director, Financial Statement Audits

TO: Barbara J. Bennett
Chief Financial Officer

Craig Hooks
Assistant Administrator for Administration and Resources Management

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2009 and 2008 (restated) consolidated financial statements. We are reporting three material weaknesses and eight significant deficiencies. We also identified an instance of noncompliance with laws and regulations related to reporting intra-governmental transactions. Attachment 3 contains the status of recommendations related to the material weaknesses, significant deficiencies, and noncompliances with laws and regulations reported in prior years' reports. The significant deficiencies and noncompliances included in Attachment 3 also apply for fiscal 2009.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is $2,240,000.

This audit report represents the opinion of the Office of Inspector General, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon 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. This report will be available at http://www.epa.gov/oig.

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days of the final report date. The response should address all issues and recommendations contained in Attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether 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.

Attachments

cc: See Appendix III, Distribution

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Inspector General's Report on EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA, or the Agency) as of September 30, 2009 and 2008 (restated), and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements, as amended August 25, 2008*. 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 Agency has restated its financial statements for fiscal 2008 due to material errors in accounting for accounts receivable and unearned revenue. EPA found that six settlement agreements totaling $150.9 million should have been recorded as receivables and revenue in fiscal 2008. EPA also found that a revised fiscal 2003 policy for recognizing revenue was not properly implemented and led to a cumulative $95.4 million understatement of cashout advances and overstatement of revenue. As a result, EPA determined that it needed to restate the fiscal 2008 financial statements in order to properly reflect accounts receivable, unearned revenue, and related accounts. The Agency restated the fiscal 2008 financial statements to reflect an increase in the net book value of receivables of $150.9 million and unearned revenue of $95.4 million, and made corresponding adjustments to other related accounts. Due to the material errors found in accounting for accounts receivable, unearned revenue and other related accounts, our report on EPA's fiscal 2008 financial statements, issued on November 14, 2008, is not to be relied upon. That report is replaced by this report on the restated fiscal 2008 financial statements. We reported the internal control deficiencies that resulted in the material errors as material weaknesses in the Internal Control section of this report.

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. The U.S. Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds. The U.S. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the U.S. Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to 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 aspects of the Agency's activities.

In our opinion, the consolidated financial statements present fairly, including the accompanying notes, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by goal, changes in net position, custodial activity, and combined budgetary resources of EPA as of and for the years ended September 30, 2009 and 2008 as restated, in conformity with accounting principles generally accepted in the United States of America.

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

We inquired of EPA's management as to its methods for preparing Required Supplementary Stewardship Information (RSSI), Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements. The Supplemental Information includes the unaudited Superfund Trust Fund financial statements for fiscal 2009 and 2008 (restated), which are being presented for additional analysis and are not a required part of the basic financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

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

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, 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.
>
> **Compliance with applicable laws, regulations, and government-wide policies** - Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB, and other laws and regulations that

could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements as amended August 25, 2008.* We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. 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 significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, of which three are considered to be material weaknesses.

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. 07-04, as amended August 25, 2008. Our procedures were not designed to provide assurance on these internal controls and, accordingly, we do not express an opinion on such controls.

Material Weaknesses

Material weaknesses noted are summarized below and detailed in Attachment 1.

EPA Understated Accounts Receivable for Fiscal 2008

EPA materially understated the fiscal 2008 accounts receivables by not recording approximately $151 million in receivables. EPA's Servicing Finance Office was not aware of legal documents supporting six receivables until the end of fiscal 2009. Regional Legal Enforcement Offices, Offices of Regional Counsel, and Regional Program Offices did not inform the Servicing Finance Office of the multi-party settlements in time to record the receivables in the financial system in fiscal 2008. The receivables were related to a bankruptcy settlement in which the responsible party was implementing a Plan of Reorganization. EPA policies and procedures require regional offices to provide the Servicing Finance Office with legal documentation supporting accounts receivable, and the Servicing Finance Office to routinely communicate with regional offices to ensure receivables are recorded timely. EPA subsequently recorded the receivables in the financial system during fiscal 2009. EPA restated its 2008 financial statements to reflect proper balances in fiscal 2008.

EPA Understated Unearned Revenue

EPA expended more than $97.7 million in Superfund special accounts against the wrong fund code, incorrectly reducing EPA's liability for advances and recognizing revenue not earned. The Office of the Chief Financial Officer's (OCFO's) *Superfund Special Account Guidance* "…establishes financial management guidance for classifying special account proceeds applicable to Superfund Cash-Out settlements in fund code TR2 (Non-Federal Special Accounts Unearned Revenue), and Superfund amounts received for past cost settlements in fund code TR2B (Special Accounts Earned Revenue)…." EPA deposited receipts for past costs in fund code TR2B but did not reclassify related obligations from TR2 to TR2B. The receipts remained recorded in TR2B, yet EPA recorded expenditures against the obligations in fund code TR2, which incorrectly reduced liabilities and increased earned revenue. EPA recorded the adjustment to restate fiscal 2007 and prior, and restated the fiscal 2008 financial statements.

Improvement Needed in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract Costs

EPA did not properly review the calculations used to reconcile unearned revenue for Superfund State Contract costs. We found numerous errors and omissions on the spreadsheets, including what appeared to be unbilled amounts of $3.9 million. Subsequently, we determined that data was missing from the calculations which reduced the unbilled amount to $877,853. In addition, we found, and EPA has reported to us, that the schedules used to compute unearned revenue contained numerous errors and omissions in information provided by regional offices. Cincinnati Finance Center personnel informed us that they do not perform a review of the schedules; instead, they rely on the regional offices to provide accurate information and auditor review. EPA could not reconcile the Superfund State Contract unearned revenue to the corresponding general ledger account. By not reconciling or reviewing the schedules provided by the regions, there is no assurance of the accuracy of the amounts to bill in these funds. The lack of an effective review of the schedules has led to errors and omissions in the calculations that directly impact the balance in the Superfund State Contract unearned revenue account and the Agency's financial statements.

Significant Deficiencies

Significant deficiencies noted are summarized below and detailed in Attachment 1.

EPA Misstated Uncollectible Debt and Other Related Accounts

EPA general ledger account, Expense Uncollectible Debt, Other Finances (Uncollectible Debt Expense), was misstated by reflecting a credit balance in the account. Uncollectible Debt Expense is a debit balance account. A credit balance in this account indicates there is a misstatement. We found that the misstatement occurred because of how accounts receivable and its related allowance accounts were moved from expiring Treasury funds to current Treasury funds. EPA moved the balances from the expiring funds without properly reviewing the entries to ensure that there would not be a net impact on current Treasury funds. As a result, uncollectible expense and accounts related to the postings were misstated in EPA's financial statements. After we informed EPA of the incorrect credit balance, EPA recorded an adjustment for the amount identified in our review.

EPA Needs to Improve Billing and Accounting for Accounts Receivable

EPA understated the fiscal 2009 fourth quarter accrual for federal unbilled accounts receivable by $1,237,468, due to its spreadsheet improperly containing credit balances because the unbilled calculation included credits for reimbursable expenditures, refunds, and billings that should not have been included. Further, we identified errors in EPA's accounting and recording for 57 accounts receivables in the financial system that occurred because EPA did not consistently follow policies and procedures. Those accounting and recording errors affect the reliability and integrity of the financial statements and the information used to manage the receivables.

Headquarters Property Items Not Inventoried

EPA did not conduct a physical inventory of 1,804 items of accountable personal property at EPA Headquarters in fiscal 2009 as required by EPA's Personal Property and Procedures Manual. EPA did not inventory all Headquarters accountable property because it did not develop procedures to adequately account for the replacement of thousands of personal computers resulting from EPA implementing a new desktop service provider. Because EPA did not inventory these 1,804 property items, it was not exercising proper control over $6.3 million of accountable personal property, of which $2.3 million was capitalized property.

EPA Should Improve Its Financial Statement Preparation Process

Review of EPA's preparation process for its fiscal 2009 draft financial statements disclosed: (a) four out-of-balance adjusting entries, (b) an ineffective review process, (c) lack of guidance relating to general ledgers and normal debit/credit balances of accounts, (d) inconsistent recording of on-top adjustments to the financial statements, and (e) outdated financial statement preparation and closing entry guidance. According to EPA guidance, on-top adjustments are for those journal entries that could not be entered into the Integrated Financial Management System (IFMS) by the closing of the reporting period but that should be part of the end-of-period statements. Outdated policies and chart of accounts caused ineffective preparation of financial support and statements, which could lead to materially misstated financial statements.

Unneeded Funds Not Deobligated Timely

EPA did not deobligate unneeded funds, totaling $1.9 million, identified during the fiscal 2009 annual review of unliquidated obligations (ULO). Federal and Agency guidance require ULOs to be reviewed annually, and EPA requires responsible offices to review inactive ULOs and take appropriate action to deobligate unneeded funds. However, EPA did not take timely actions to notify the appropriate offices to deobligate the unneeded funds. As a result, EPA has no assurance that ULOs are accurate and represent valid and viable obligations, and that obligated funds are being used efficiently.

Integrated Financial Management System User Account Management Needs Improvement

EPA needs to improve internal controls over IFMS users' accounts to: (a) ensure users cannot process financial transactions that could result in theft of funds, (b) establish user accounts consistent with the authorizing official's approval, and (c) terminate users' system access when no longer needed. Federal financial management system requirements state financial applications must comply with the security standards published by the National Institute of Standards and Technology. Those standards prescribe the mandatory security controls needed to protect IFMS. The weaknesses noted occurred because management guidance for these areas is outdated or does not exist. Further, management had not defined which financial management functions should be separated, nor had it performed required reviews to ensure user accounts were established correctly or deactivated when employees no longer needed them. As a result, users could (1) potentially process financial transactions and redirect funds to unauthorized bank accounts, (2) receive access to perform functions that are not authorized by management, and (3) potentially access the IFMS system after they have departed EPA.

Las Vegas Finance Center Needs Improved Physical Access Controls

The Las Vegas Finance Center's (LVFC's) server room and other key areas are susceptible to unauthorized access by personnel not a part of LVFC. The LVFC areas are protected by an access control system. However, the system operator – the Office of Research and Development (ORD) – does not administer the system in a manner that allows LVFC to monitor access to its area. In particular, ORD had not obtained authorization from the LVFC Director to grant access to key areas to non-LVFC personnel. ORD also had neither provided the LVFC reports detailing who has access to their areas nor performed the required semiannual review of access rights required by ORD procedures. As a result, ORD granted personnel access to sensitive LVFC areas without proper authorization.

Customer Technology Solutions Equipment Needs Improved Security Planning

On November 16, 2009, the OIG issued an audit report noting that EPA lacked a process to routinely test Customer Technology Solution equipment for known vulnerabilities and to correct identified threats. Further, EPA placed Customer Technology Solution equipment into production without assessing the risk the equipment posed upon the Agency's network and authorized the equipment for operation. OMB requires federal agencies to create a security plan for each general support system and ensure the plan complies with guidance issued by the National Institute of Standards and Technology. Both performing vulnerability management reviews and preparing critical security documents are needed to fulfill this requirement. The weaknesses noted existed because EPA undertook an aggressive schedule to install over 11,500 computers at 18 locations across the United States, and management focused attention on problems as they arose rather than developing a plan.

Attachment 3 contains the status of recommendations related to significant deficiencies reported in prior years' reports. The significant deficiencies included in attachment 3 also apply for fiscal 2009 and should be included in considering EPA's significant deficiencies for fiscal 2009. We reported less significant matters regarding internal controls in the form of position papers during the course of the audit. We will not issue a separate management letter.

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

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OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements as amended August 25, 2008*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

The Agency reported that no material weaknesses had been found in the design or operation of internal controls over financial reporting as of June 30, 2009. We identified material weaknesses with the Agency's reporting of accounts receivable and unearned revenue accruals and earned revenue. Details concerning our findings on the material weaknesses and other significant deficiencies can be found in Attachment 1.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended August 25, 2008. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

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

EPA Should Continue Efforts to Reconcile Intra-governmental Transactions

Our tests of laws and regulations disclosed the following noncompliance issue. As of September 30, 2009, EPA reported $183 million in unreconciled differences for intra-governmental transactions with 47 trading partners. Of that amount, the Department of the Treasury reported $51 million as material differences. The remaining $132 million represented amounts reported for non-verifying agencies, accruals, timing differences, and immaterial differences. Based on our review of correspondence with other agencies, EPA had difficulty reconciling these differences as required by Treasury policy primarily because of differing accounting treatments and accrual methodologies between federal agencies. EPA's inability to reconcile its intra-governmental transactions contributes to a long-standing, government-wide problem that hinders the ability of the Government Accountability Office (GAO) to render an opinion on the Consolidated Financial Statements of the Federal Government. Further details on this noncompliance issue are in Attachment 2.

Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements. The results of our tests did not disclose any instances where the Agency's financial management systems did not substantially comply with FFMIA requirements.

We reported other less significant matters involving compliance with laws and regulations in position papers during the course of our audit. We will not be issuing a separate management letter.

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

Prior Audit Coverage

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

- Oversight of Defense Finance and Accounting Service and Payroll reconciliation
- Accruals for Federal Unbilled Receivables
- Reconciling Superfund State Contract account to subsidiary ledger
- ULO review for interagency agreements
- Documentation for IFMS Vendor Table changes
- Monitoring Superfund Special Account Balances
- System Implementation Processes
- Capitalized Software
- Reporting Anti-Deficiency Act violations
- Prompt Payment Act violations
- Accounts Receivable and allowance for doubtful accounts
- Reconciling and reporting intra-governmental transactions, assets, and liabilities by federal trading partner
- Information Security Requirements on Key Applications
- Access and Security Practices over Information Technology Assets
- Controls over IFMS Suspense Table
- Assessing automated application processing controls for IFMS
- Maintaining adequate documentation for obligation accounting adjustments

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

Agency Comments and OIG Evaluation

In a memorandum dated November 12, 2009, OCFO responded to our draft report.

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

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

Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 16, 2009

Attachment 1

Internal Control Material Weaknesses and Significant Deficiencies

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1 – EPA Understated Accounts Receivable for Fiscal 2008

EPA materially understated the fiscal 2008 accounts receivables by not recording approximately $151 million in receivables. EPA's Servicing Finance Office (SFO) was not aware of legal documents supporting six receivables until the end of fiscal 2009. Regional Legal Enforcement Offices (LEOs), Offices of Regional Counsel (ORCs), and Regional Program Offices (RPOs) did not inform the SFO of the multi-party settlements in time to record the receivables in the financial system in fiscal 2008. The receivables were related to a bankruptcy settlement in which the responsible party was implementing a Plan of Reorganization. EPA policies and procedures require regional offices to provide the SFO with legal documentation supporting accounts receivable, and the SFO to routinely communicate with regional offices to ensure receivables are recorded timely. EPA subsequently recorded the receivables in the financial system during fiscal 2009.

Statutory Superfund accounts receivable arise when a court enters a judgment or the Agency enters into settlement agreements pursuant to the *Comprehensive Environmental Response, Compensation, and Liability Act of 1980* (known as Superfund). The SFO received a June 2009 court order involving numerous Superfund sites and multiple settling parties. The SFO recorded the receivables for this and other related settlements, totaling $297 million, in fiscal 2009. However, the SFO identified additional settlements related to the responsible party that were effective in fiscal 2008. The SFO researched the Public Access to Court Electronic Records service system and requested a list of related settlements from the Department of Justice (DOJ). The SFO discovered additional receivables for the same settlement totaling $151 million that should have been recorded during fiscal 2008.

Resources Management Directive Systems (RMDS) 2550D, Chapter 14, requires the ORCs, RPOs, and LEOs to forward copies of all entered Superfund consent decrees and judgments to the SFO within 3 working days of receipt from the DOJ or the court. RMDS 2540, Chapter 9, requires the responsible EPA office to forward a copy of the action document to the SFO within 5 days of determining the debt owed to the Agency. EPA's *Office of the Comptroller Transmittal No. 00-05*: *Reporting and Tracking Superfund Accounts Receivable* states SFOs must maintain routine communications with the ORCs, RPOs, and LEOs to record accounts receivables timely. The SFO should review all available information sources to identify potential accounts receivable and work to obtain accounts receivable documentation.

The SFO stated that the multi-party bankruptcy settlement was not on the DOJ debt assessed report because DOJ will not record a bankruptcy settlement until it receives a collection on the settlement. The SFO stated the program office determined the settlements were not in the Integrated Compliance Information System and recently decided to enter the information to ensure accurate reporting of settlements for fiscal 2009. One RPO believed the multi-party settlements did not establish an obligation to pay the Agency. Another regional attorney was unaware that the office should inform the SFO of settlements. Because the multi-party settlement was part of a bankruptcy proceeding, some offices were unclear as to when to notify the SFO – after the settlement or after bankruptcy.

ORC, RPOs, and LEOs are required to forward copies of settlement agreements and other source documentation establishing amounts due to EPA. If the SFO does not receive these documents timely, the data reflected in the financial system for the fiscal year is inaccurate. EPA offices should work together to ensure that accounts receivable are properly recorded within the fiscal year in which they become valid.

The Agency restated its 2008 financial statements to reflect proper balances in fiscal 2008.

Recommendations

We recommend that the Office of the Chief Financial Officer:

1. Develop a process to communicate routinely with the regional offices on a monthly or quarterly basis to identify any settlements not recorded on the DOJ debt assessed report or recorded within the Integrated Compliance Information System. Also, work with the offices to agree on a process that would include forwarding of settlement documents within the required time period.

2. Re-inform and train LEOs, ORCs, and RPOs on the requirement to timely send settlements to the finance center so the receivables can be recorded. Also work to establish and implement a process to ensure that the SFO is aware of settlements by the end of the fiscal year to ensure that current year financial statements include accounts receivable for the current year.

Agency Comments and OIG Evaluation

OCFO agreed with our findings and recommendations.

2 – EPA Understated Unearned Revenue

EPA expended more than $97.7 million in Superfund special accounts against the wrong fund code, incorrectly reducing EPA's liability for advances and recognizing revenue not earned. OCFO's *Superfund Special Account Guidance* "…establishes financial management guidance for classifying special account proceeds applicable to Superfund Cash-Out settlements in fund code TR2 (Non-Federal Special Accounts Unearned Revenue), and Superfund amounts received for past cost settlements in fund code TR2B (Special Accounts Earned Revenue)…." EPA deposited receipts for past costs in fund code TR2B but did not reclassify related obligations from TR2 to TR2B. The receipts remained recorded in TR2B, yet EPA recorded expenditures against the obligations in fund code TR2, which incorrectly reduced liabilities and increased earned revenue. EPA recorded the adjustments to restate fiscal 2007 and prior, and restated the fiscal 2008 financial statements.

During our review of general ledger account 2317 (Advances, HRSTF, Cash-Out settlements, N/F), we found that 78 special accounts had negative balances in fund code TR2. The negative balances indicated the Agency overdrew the special account for those sites for fund code TR2.

Statement of Federal Financial Accounting Standard No. 7 states: "When advance fees or payments are received, such as for large scale, long term projects, revenue should not be recognized until costs are incurred from providing the goods and services …. An increase in cash and an increase in liabilities, such as 'unearned revenue,' should be recorded when the cash is received…."

EPA established different reimbursable fund codes to record cash receipts and disbursements under Special Accounts to comply with the standard and recognize revenue when earned. OCFO published *Superfund Special Account Guidance*, dated July 16, 2002, to provide "accounting procedures for recording and tracking special account funds." This guidance established the scenarios under which to use the two fund codes:

> ***TR2 Non-Federal Special Accounts Unearned Revenue.*** *Represents amounts received under a non-federal Cash-Out settlement (principal only, excludes late payment interest). This pertains to collections related to non-federal settlement amounts for costs to be incurred (work to be performed) in the future.*
>
> ***TR2B Special Accounts Earned Revenue.*** *Represents amounts for Past Cost collections, late payment interest collections from PRPs (principal responsible parties), and interest revenue earned on special account collections that have not been disbursed. This pertains to collections related to settlement amounts for costs previously incurred.*

EPA expended more TR2 funds than it received. EPA moved the collections for the sites from TR2 to TR2B to record the funds as reimbursement for past costs and recognized earned revenue. EPA left the related obligations in TR2 and, when EPA recorded expenditures, they were against TR2 when the receipts were recorded in TR2B. The result was that revenue was double counted and unearned revenue understated.

EPA established the fund codes needed to record the Special Accounts properly in fiscal 2002. However, it did not have management reports that effectively identified negative balances in the fund codes. EPA can currently generate Special Account reports by fund code. These reports are readily assessable, and identify the fund code balances by site. EPA management was not aware of the negative amounts in the individual funds codes for the sites, since overall site balances remained positive.

The Special Account Balances by Fund Code Report indicated that EPA expended $97.7 million more than it collected in fund code TR2 as of September 30, 2009. EPA should have expended that amount from fund code TR2B. The net effect at September 30, 2009, was that EPA's liability for Cash-Out settlements advances remained underreported by $97.7 million. EPA overreported earned revenue by that same amount.

We reported our findings to the Agency and the OCFO determined the net effect of the accounting error. OCFO determined it needed to record a prior period adjustment for fiscal 2007 and restate the fiscal 2008 financial statements to correct the error. To correct the accounting error, OCFO recorded an entry increasing EPA’s liability for advances by $97,675,708 and decreasing its earned revenue by that amount. The Agency recorded the adjustment to restate fiscal 2007 and prior, and restated the fiscal 2008 financial statements. The correction in the financial statements (all in fund code TR2) was:

Account	Description	Debit	Credit
2317	ADVANCES, HRSTF CASH-OUT SETTLEMENTSS,N/F		$97,675,708
4222	UNFILLED CUSTOMER ORDERS COLL	$97,675,708	
4252	REIMB EARNED - COLLECTED		$97,675,708
522P	EARNED REVENUE PUBLIC EXCH	$2,227,678	
7401	SF SPEC ACCT FY08 RESTATEMENT	$1,835,442	
7400	SF SPEC ACCT PRE FY08 RESTATE	$93,612,588	

Recommendations

We recommend that the Office of the Chief Financial Officer, in conjunction with the Regional Financial Management Offices and the Office of Budget:

3. Prepare the accounting entry to account correctly for the special account expenditures at the site level.

4. Work with Regional Comptrollers to correctly account for the improperly expended funds at the site level.

5. Develop controls over Special Accounts so that, for each site, the fund codes collected are the fund codes spent.

Agency Comments and OIG Evaluation

OCFO agreed with our findings and recommendations.

3 – Improvement Needed in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract Costs

EPA did not properly review the calculations used to reconcile unearned revenue for Superfund State Contract (SSC) costs. We found numerous errors and omissions on the spreadsheets, including what appeared to be unbilled amounts of $3.9 million. Subsequently, we determined that data was missing from the calculations that reduced the unbilled amount. In addition, we found, and EPA has reported to us, that the schedules used to compute unearned revenue contained numerous errors and omissions in information provided by regional offices. Cincinnati Finance Center personnel informed us that they do not perform a review of the schedules; instead, they rely on the regional offices to provide accurate information and auditor review. EPA could not reconcile the SSC unearned revenue to the corresponding general ledger account. By not reconciling or reviewing the schedules provided by the regions, there is no assurance of the accuracy of the amounts to bill in these funds. The lack of an effective review of the schedules has led to errors and omissions in the calculations that directly impact the balance in the SSC unearned revenue account and the Agency's financial statements.

SSC Accrual Calculation Contained Numerous Errors and Omissions

Based on our review of the fiscal 2009 third and fourth quarter SSC accrual calculations, we found that sites were excluded from the calculation, EPA used incorrect State cost share percentages, billings were not correctly entered, site were incorrectly classified as closed, and credits were improperly stated. Our test work identified the following 13 errors and omissions, totaling $5,053,298 out of $16,671,052 tested:

- One site totaling $40,000 was not included in the fiscal 2009 fourth quarter accrual calculation.
- For nine sites, a total of $733,027 in State credits was recorded as amounts to bill.
- For one site, $293,133 of amounts billed was not included in the calculation.
- For one site, $3.6 million of State credits were not included in the calculation.
- For one site, data in the accrual calculation did not reconcile to the general ledger account for unearned revenue for SSCs by $376,587.

The Cincinnati Finance Center responded that the regions were responsible for new sites and other data included in the calculations. They were not aware of why sites were not included or of the errors in the calculations. Our inquiries of several regional financial management offices regarding the calculations showed that the calculations included various errors, omissions, and misstatements. These included credits where there should be none, inclusion of closed sites, misstatement of data, closed site accruals, over/under statement of costs, inaccurate billable amounts, billing caps not considered, incorrect percentages, and missing credits. We found $3.9 million listed as unbilled but subsequently was determined to be offset by credits that were erroneously omitted from the calculations. We found $887,583 where costs incurred exceeded prior billings and therefore should be billed. The consistency of errors and omissions found in the 79 out of 478 sites examined indicates that there could be significant undetected errors and omissions in the remaining sites.

SSC Costs Not Properly Billed

According to Title 40, Code of Federal Regulations, Part 35, Subpart O, SSC sites remain valid until EPA and the State have satisfied the cost share requirement. The State share is a guarantee payment from the State based on a percentage of the site costs incurred by EPA. An SSC site is closed when all SSC collections and expenditures have been made. It is the EPA regions' responsibility to verify the data used to calculate the States share of costs, funds collected, and costs expended before classifying a SSC site as closed.

We reviewed the fiscal 2009 fourth quarter SSC calculations for closed sites and discovered that the SSC billings and disbursements did not agree to the State share amount. For closed sites, the disbursements, billings, and State share should agree without exception. Region 3, 4, 5, and 7 did not correctly bill $887,583 on 19 closed sites.

SSC Unearned Revenues Need to Be Reconciled

According to the *Chief Financial Officers Act*, an agency must have a financial management system that provides complete, reliable, consistent, and timely information.

EPA recorded about 37 transactions in non-SSC funds between February 1986 and October 1999 that should have been moved to the current SSC expenditure funds in general ledger account 2312 (Unearned Advances, Non-Federal). By not reconciling, there is no assurance of the accuracy of the amounts to bill in these funds or the SSC unearned revenue account, which totaled approximately $45 million as of September 30, 2009. Because the SSC spreadsheet cannot be reconciled to the general ledger 2312, we examined the older activity in the account. We identified $6.8 million in general ledger account 2312 that represents prior fiscal year SSC fund transactions. We provided the Agency with a listing of prior year transactions that we believe may include invalid transactions, such as billings not collected, disbursements not billed, unsupported journal voucher entries, duplicate collections, and non-related SSC activity.

According to EPA guidance, *Superfund State Contact Spreadsheet Purpose and Column Descriptions*, Headquarters should use the calculated unearned revenue from the SSC spreadsheet for assessing whether on-top adjustments or further analysis of general ledger account 2312 is needed. However, since it is not known if the amount in the SSC spreadsheet or the amount in the general ledger account is correct, no on-tops have been made for general ledger account 2312 for SSC-related activity. To comply with the *Chief Financial Officers Act*, EPA must ensure that its financial accounting system has complete and reliable information.

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Recommendations

We recommend that the Office of the Chief Financial Officer:

6. Direct the Superfund regional offices to verify that closed sites identified in the SSC spreadsheet meet the closed site criteria and the SSC site billings and disbursements data in the SSC spreadsheet are accurate.

7. Have its Office of Financial Policy and Planning Staff work with regional comptrollers and Superfund program personnel to research transactions in older funds and eliminate invalid transactions.

8. Establish a review process for reconciling Superfund site costs to ensure that data and calculations used are consistent and properly supported.

9. Direct the regional offices to bill the States for costs incurred where necessary, including the $887,583 amount identified.

Agency Comments and OIG Evaluation

OCFO generally agreed with our findings and recommendations.

4 – EPA Misstated Uncollectible Debt and Other Related Accounts

EPA's general ledger (GL) account, Expense Uncollectible Debt, Other Finances (Uncollectible Debt Expense), was misstated by reflecting a credit balance in the account. Uncollectible Debt Expense is a debit balance account. A credit balance in this account indicates there is a misstatement. We found that the misstatement occurred because of how accounts receivable and its related allowance accounts were moved from expiring Treasury funds to current Treasury funds. EPA moved the balances from the expiring funds without properly reviewing the entries to ensure that there would not be a net impact on current treasury funds. As a result, uncollectible expense and accounts related to the postings were misstated in EPA's financial statements. After we informed EPA of the incorrect credit balance, EPA recorded an adjustment for the amount identified in our review.

EPA uses standard vouchers to record accounting events that occur on a recurring basis and have predetermined debit(s) and credit(s) in accordance with EPA Comptroller Policy 93-02, *Policies for Documenting Agency Financial Transactions.* The Standard General Ledger and Treasury Account require expense accounts to have a debit balance.

EPA recorded several transactions resulting in a $5.8 million credit balance in Uncollectible Debt Expense. The entries incorrectly reduced EPA's general ledger accounts Uncollectible Debt Expense and 2980 (Custodial Liability). EPA recorded these entries because in its year-end closing instructions the Office of Financial Management required the SFOs to move accounts receivable and related allowance for doubtful accounts in expiring funds to fund 3200 (Collection of Receivable from Cancelled Account). In doing so, the entries caused an incorrect credit balance in the general ledger account Uncollectible Debt Expense.

OMB Circular A-127, *Policies and Standards for Financial Management Systems*, requires financial management systems to provide complete, reliable, consistent, timely, and useful financial management information on Federal Government operations. If EPA had properly reviewed the account for the effect of the adjusting entries, then EPA could have noticed the net impact on current treasury funds.

Recommendations

We recommend that the Office of the Chief Financial Officer:

10. Create a receivable billing document matrix to reflect a proper accounting model to record standard voucher adjustments and the movement of accounts from expiring or cancelled appropriations. Also, review the net impact of adjusting entries prior to issuing an accounting model to ensure account balances are proper.

11. Review its accounting model provided to SFOs for net impact to expenses and revenues from prior periods to ensure that financial statements are not misstated.

Agency Comments and OIG Evaluation

OCFO agreed with our findings and recommendations.

5 – EPA Needs to Improve Billing and Accounting for Accounts Receivable

EPA understated the fiscal 2009 fourth quarter accrual for federal unbilled accounts receivable by $1,237,468, due to its spreadsheet improperly containing credit balances because the unbilled calculation included credits for reimbursable expenditures, refunds, and billings that should not have been included. Further, we identified errors in EPA's accounting and recording for 57 accounts receivables in the financial system that occurred because EPA did not consistently follow policies and procedures. Those accounting and recording errors affect the reliability and integrity of the financial statements and the information used to manage the receivables.

Federal Unbilled Accounts Receivable Understated

EPA understated the fiscal 2009 fourth quarter accrual for federal unbilled accounts receivable. EPA's unbilled accounts receivable spreadsheet for the quarter improperly contained $1,237,468 in credit balances because the unbilled calculation included unjustified credits for reimbursable expenditures, refunds, and billings; and EPA did not thoroughly review the calculation. OMB Circular A-127, *Policies and Standards for Financial Management Systems*, requires federal financial management systems to provide complete, reliable, consistent, timely, and useful financial management information. The credit balances led to a $1,237,468 understatement of the unbilled accounts receivable and related revenue in the financial statements.

EPA quarterly calculates federal unbilled accounts receivable and the related revenue. The unbilled accounts receivable consists of reimbursable expenditures EPA has incurred but has not yet billed to other agencies for services performed under reimbursable interagency agreements. The unbilled accounts receivable are assets that should carry a normal debit balance; there should not be credit balances in the calculation. The credits offset debit entries and reduce the normal debit balance in unbilled accounts receivable.

The following problems led to the inaccuracy of the fourth quarter accrual calculation:

- EPA charged reimbursable expenses against expired and/or deobligated prior year funds; EPA is unable to bill and collect these costs from other federal agencies.
- Unprocessed refunds are due to other federal agencies.
- Billings greater than incurred expenses.

Had EPA properly reviewed the unbilled accounts receivable, it could have identified, researched, and resolved the credit balances within the calculation before entry of the fourth quarter data into IFMS.

Errors Identified in Accounting for Accounts Receivables

We identified errors in EPA's accounting and recording for 57 accounts receivables in the financial system. Errors included (a) untimely recording of receivables, (b) incorrectly recording federal receipts, (c) improperly recording interest on debts assessed, (d) incorrectly calculating the allowance for doubtful accounts, (e) inadequate pursuit of collection efforts, and (f) improper reporting of status codes. These errors occurred because EPA did not consistently follow policies and procedures. Federal accounting standards and EPA policies require finance offices to accurately and timely record transactions, communicate with regional offices, and monitor debt. The errors noted affect the reliability and integrity of accounts receivable on the financial statements and the information used to manage these receivables.

Receivables generally reflect the billing of responsible parties who owe EPA money for Superfund clean-ups or for goods and services provided. GAO's *Standards for Internal Control in the Federal Government* require accurate and timely recording of transactions and events. EPA's *Office of the Comptroller Transmittal No. 00-05: Reporting and Tracking Superfund Accounts Receivable*, requires SFOs to maintain routine communications with the RPO, ORC, and Regional LEO to ensure that accounts receivable can be recorded as early as possible. We identified the following errors.

- ORCs, RPOs, and LEOs did not forward to the EPA Finance Office legal documents and supporting documentation for 35 receivables, totaling $42,754,197, within the timeframes stated in EPA's guidance. EPA's RMDS 2550D, Chapter 14, requires the ORCs, RPOs, and LEOs to forward to the SFO copies of all entered Superfund consent decrees and judgments within 3 working days of receipt from the DOJ or the court. RMDS 2540, Chapter 9, requires the responsible EPA office to forward a copy of the action document for non-Superfund receivables to the SFO within 5 days of determining the debt owed to the Agency. As noted, SFOs must maintain routine communications with the ORCs, RPOs, and LEOs to record accounts receivables timely. The SFO should review all available information sources to identify potential accounts receivable and be more proactive in efforts to obtain accounts receivable documentation. Untimely receipt of accounts receivable source documentation delays recording of accounts receivable in the financial management system and understates those receivables. EPA subsequently recorded the receivables in the financial system during fiscal 2009.

- EPA did not adequately pursue collection efforts for two accounts receivables with a combined outstanding balance of $6,451. The debts, which had no documented collection efforts since 2007, have been outstanding for 1,993 to 2,974 days. The debts were coded as "delinquent - in dunning cycle." The receivable file folders did not contain any dunning notices. RMDS 2550D-14, Chapter 14, states that the SFO should monitor the status of delinquent debts and adjust the overdue status code accordingly as status changes. RMDS 2540, Chapter 9, states that 30 days following the last demand letter the finance center "must review the debt to determine whether every reasonable effort has been used to collect it." If deemed uncollectible, the SFO should send the debt to the Department of the Treasury for collection or to the EPA Claims Officer for write-off. If EPA increased its review of older debts for collection, the financial statements would accurately reflect the general ledger accounts for the allowance for doubtful account and write-offs. Promptly writing off uncollectable accounts reduces administrative monitoring costs.

- EPA did not correctly record a federal accounts receivable and related interest for a Superfund site. In June 2009, the regional office notified EPA that settling federal agencies were required to pay EPA $4,865,424, but EPA recorded the amount in the financial system as a non-federal receivable. EPA explained that the consent decree was complex and included multiple responsible parties, and the amount due to EPA and individual responsible parties was unclear. *Statement of Federal Financial Accounting Standards* (SFFAS) No. 1 requires separate accounting and reporting for federal and non-federal receivables. GAO's standards require accurate and timely recording of transactions and events. Classifying a federal receivable and interest as non-federal misstates related accounts receivable and interest and revenue, and improperly reflects interest due from the responsible parties. EPA subsequently corrected these errors during fiscal 2009.

- EPA did not correctly record the interest for four accounts receivable totaling $655,016 included on the DOJ Debt Assessed Report. GAO's standards require accurate and timely recording of transactions and events. RMDS 2540, Chapter 9, requires the financial system to determine the interest rate and interest days, and calculate simple interest on the outstanding balance. EPA did not properly reconcile accounts receivables on the debt-assessed report to receivables recorded in the financial system to ensure all debts (e.g., principal, interest) were recorded in the correct general ledger accounts in the financial system. EPA misclassified interest as principal. As a result, EPA will improperly charge excess interest to the responsible parties. Charging excess interest is a violation of the regulation, which stipulates that only simple interest will accrue on principal balances.

- EPA incorrectly calculated the allowance for doubtful accounts for two quarters. The calculations contained errors for 12 accounts receivables. EPA calculated the allowance for doubtful accounts on each of these receivables using individual lines of accounting and differing methods versus using one method for the entire receivable balance. In doing so, EPA overstated the allowance for these receivables by $14,761. EPA should use one calculation method per receivable balance to estimate a receivable's collectability. RMDS 2540-09-T1 states that each SFO must make a determination of what method or methods it will use at the beginning of each fiscal year. In addition, it should document in writing the specific methodology used to determine the allowance for doubtful accounts. SFFAS No. 1 states: "…allowances for receivables should be viewed in the context of the overall risk of the receivables being assessed." EPA said the accounts receivable with multiple fund codes show up as separate lines in the financial system and did not realize the two lines of coding were for one receivable. EPA used the percentage analysis method for balances less than $20,000 rather than applying the specific identification method to the total receivable balance. Calculating the allowance for the receivables using both methods within each receivable led to an overstatement of the allowance for doubtful accounts and corresponding understatement in net receivables on the financial statements. After we informed EPA of the error, EPA adjusted the allowance amounts by the differences identified in our review.

- EPA incorrectly reported the status codes for three accounts receivables in the financial management system. The status codes recorded in the financial system placed collection responsibility on EPA, while supporting documentation in the receivable files indicated EPA had turned the debts over to DOJ for collection or write-off. EPA incorrectly recorded two receivables with the status code '01" for "Non-Delinquent - Due > 1 Year." The file indicated that, in both cases, EPA carries a lien on the property. The liens provide EPA with the right to collect the proceeds of the sale of the properties. We believe status code "19" for "Uncollectible with Liens" would be more applicable to these receivables. EPA recorded the third remaining receivable with a status code "96" for "Debt Referred to EPA Claims Officer (less than $100,000)." The amount of the debt was $118,341, which is greater than the limit for the status code. We believe status code "14" for "Debts Sent to DOJ for Compromise or Write-Off" would be more applicable to this receivable. RMDS 2550D, Chapter 14, states that the finance center should monitor the status of delinquent debt and adjust the overdue status code for each accounts receivable as status changes. The guidance further states SFOs should refer to DOJ for collection statutory Superfund accounts receivables arising under judicial or administrative orders. Accurate status codes give EPA management an accurate picture of delinquent accounts receivables.

Recommendations

We recommend that the Office of the Chief Financial Officer:

12. Research and resolve the $1,237,468 of unbilled accounts receivable credit balances to ensure the accuracy of future quarterly unbilled accounts receivable before they are entered into IFMS.

13. Work with other federal agencies to resolve each credit balance to ensure the exclusion of credit amounts from future unbilled accounts receivable calculations.

14. Work with RPOs, ORCs, and LEOs to obtain legal documentation sooner so receivables are recorded timely. Institute a process to review DOJ tracking mechanisms for the status of consent decrees and judgments.

15. Establish a supervisory review process to ensure procedures are being followed, and interest and federal receivables are properly recorded.

16. Establish a process to review the allowance calculation for errors, including proper application of calculation methods.

17. Develop a process to review and update receivable status code updates in the financial system quarterly.

Agency Comments and OIG Evaluation

OCFO did not agree with our recommendation to research and resolve the $1,237,468 of unbilled accounts receivable credit balances before they are entered into IFMS or to work with other agencies to resolve credit balances. OCFO believes there are valid reasons why the credits that are left the report should be included in the overall calculation. OCFO did not provide any valid reasons to support why credit balances should be in the report. We still believe the credits need to be researched to determine the nature of the credits. They should have no impact on the accrual. Working with other agencies on these matters could help the Agency address intra-governmental reconciling differences. OCFO generally agreed with our other findings and recommendations.

6 – Headquarters Property Items Not Inventoried

EPA did not conduct a physical inventory of 1,804 items of accountable personal property at EPA Headquarters in fiscal 2009 as required by EPA's Personal Property and Procedures Manual. EPA did not inventory all Headquarters accountable property because it did not develop procedures to adequately account for the replacement of thousands of personal computers resulting from EPA implementing a new desktop service provider. Because EPA did not inventory these 1,804 property items, it was not exercising proper control over $6.3 million of accountable personal property, of which $2.3 million was capitalized property.

During fiscal 2009, EPA began using a new Working Capital Fund service – Computer Technology Solutions (CTS) – to provide and coordinate all information technology end user support and services for Headquarters program offices. Under CTS, the Agency is replacing thousands of computers, including periphery items, for EPA's Headquarters program offices and their sites located across the country. The CTS contract required this replacement to take place during fiscal 2009. The CTS rapid replacement of computers heavily impacted the Headquarters Accountability Area and out-paced EPA's efforts to adequately update Agency property records.

The Facilities Management Services Division is responsible for administering the EPA Personal Property Management Program. EPA's Personal Property and Procedures Manual, Section 3.7.7, states that physical inventories of accountable personal property must be completed annually. EPA defines accountable personal property "as non-expendable personal property with an acquisition cost of $5,000 or greater, EPA-leased personal property, or property identified as a sensitive item." The fiscal 2009 Headquarters Annual Physical Inventory Certification showed 7,973 accountable personal property items. However, only 6,169 of the items were inventoried, leaving 1,804 not inventoried. The acquisition cost of the 1,804 items not inventoried was about $6.3 million, with capitalized items accounting for $2.3 million of the total. EPA's not conducting inventories of this large number of items compromised its property control system and can lead to the loss or misappropriation of Agency assets.

Recommendation

We recommend that the Assistant Administrator, Office of Administration and Resources Management:

18. Require the Director, Facilities Management and Services Division, to promptly conduct an inventory of the 1,804 Headquarters Accountable Property items not inventoried in fiscal 2009.

Agency Comments and OIG Evaluation

OCFO agreed with our findings and recommendation.

7 – EPA Should Improve Its Financial Statement Preparation Process

Review of EPA's preparation process for its fiscal 2009 draft financial statements disclosed:

- Four out-of-balance adjusting entries.
- An ineffective review process.
- Lack of guidance relating to general ledgers and normal debit/credit balances of accounts.
- Inconsistent recording of on-top adjustments to the financial statements.
- Outdated financial statement preparation and closing entry guidance.

According to EPA guidance, on-top adjustments are for those journal entries that could not be entered into IFMS by the closing of the reporting period but that should be part of the end-of-period statements. Statement adjustments must be made as needed. Outdated policies and chart of accounts caused ineffective preparation of financial support and statements, which could lead to materially misstated financial statements.
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EPA Comptroller Policy 93-02, *Policies for Documenting Agency Financial Transactions* states "entries must be self-balancing by fiscal year and appropriation." EPA Comptroller Policy 03-11, *Preparing EPA's Interim and Annual Audited Financial Statements* states "The OCFO primary responsibility in preparing the financial statements is to coordinate, establish, and maintain policies and procedures for accounting and related reporting essential to the financial integrity and efficient management of the Agency, and establish, maintain, and monitor EPA financial controls."

During our analysis of the fourth quarter on-top adjustments, we identified four one-sided on-top adjustments. The on-top adjustments should have equal debits and credit balances within the respective funds. In the case of the four one-sided on-top adjustments, they either have a debit or credit balance because the Agency posted the corresponding entry to a different fund. The Agency reviewed and approved these entries. The entries were:

Entry	Fund	Description	Debits	Credits	Difference
82	8153	To consolidate balances LUST from BPD.	$3,583,728,202	($3,597,428,202)	($13,700,000)
83	8196	To consolidate balances LUST from BPD.	$200,000,000	($186,300,000)	$13,700,000
88	8145	To consolidate balances for Superfund from BPD.	$4,780,855,901	($4,809,855,901)	($29,000,000)
89	8195	To consolidate balances for Superfund from BPD.	$600,000,000	$571,000,000	$29,000,000

Fund Description: 8153: Leaking Underground Storage Tank
8196: American Recovery and Reinvestment Act – Leaking Underground Storage Tank
8145: Superfund
8195: American Recovery and Reinvestment Act – Superfund

Abbreviations: BPD: Bureau of Public Debt
LUST: Leaking Underground Storage Tank

Source: Fourth quarter On-top Adjustment Spreadsheet prepared by the Agency.

In the review of the Agency's *Financial Statement Preparation Guide,* the fiscal 2008 closing entries, and the fiscal 2009 general ledger accounts, we found that:

- The guide does not explain changing on-top entries into journal vouchers and/or standard vouchers.
- The Year End Closing Table (YACT) referred to in the guide needs to be updated for new accounts and for the year end closing process. For example, in fiscal 2008, general ledger account 4165 (Allocation of Authority – Anticipated) incorrectly closed to account 4201 (Total Actual Resources) instead of account 4450 (Authority Available for Apportionment), according to the YACT table.
- The general ledger matrix on the EPA OCFO Intranet Website has not been updated since 2005. Since 2005, EPA has created additional general ledger accounts that do not have guidance on what are "normal" (i.e., debit/credit) general ledger balances, and the Agency no longer documents when general ledgers are not used.

Creating one-sided adjustments and having an ineffective review process and outdated policies and procedures could lead EPA to prepare materially misstated financial statements.

Recommendations

We recommend that the Office of the Chief Financial Officer:

19. Implement an effective review process for all on-top adjustments to ensure that individual entries within funds will balance (debits/credits) properly.

20. Update the *Financial Statement Preparation Guide* to contain guidance or instructions for changing on-top adjustments to either journal vouchers and/or standard vouchers.

21. Update the YACT and the general ledger matrix to identify current fiscal year general ledger accounts and their related closing activity.

Agency Comments and OIG Evaluation

OCFO did not agree with our finding regarding one-sided on-top adjustments. OCFO believes the on-top adjustments are clearly labeled and there was no negative impact on the financial statements. We agree that the end result of the multiple one-sided entries did not negatively impact the financial statements. However, we do not believe it is good practice to prepare and enter one-sided entries at any time in the financial statement preparation process. Entries to any set of accounts or fund should balance at all times in conformity with the basics of double-entry bookkeeping. OCFO generally agreed with our remaining findings and recommendations.

8 – Unneeded Funds Not Deobligated Timely

EPA did not deobligate unneeded funds, totaling $1.9 million identified during the fiscal 2009 annual review of unliquidated obligations (ULOs). Federal and Agency guidance require ULOs to be reviewed annually, and EPA requires responsible offices to review inactive ULOs and take appropriate action to deobligate unneeded funds. However, EPA did not take timely actions to notify appropriate offices to deobligate unneeded funds. As a result, EPA has no assurance that ULOs are accurate and represent valid and viable obligations and that obligated funds are being used efficiently.

GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title 7, Chapter 3, requires each agency to review its ULOs at least once a year to reasonably assure itself that all transactions meeting the criteria of legally valid obligations have been included. In addition, EPA Comptroller Policy Announcement No. 96-04, *Review of Unliquidated Obligations*, requires all responsible parties to conduct complete annual reviews of all current and prior year ULOs to ensure that all recorded obligations are still valid and viable. According to Policy Announcement No. 96-04:

- An inactive obligation is one in which there has been no activity for 6 months or more (180 days).
- A valid obligation is one for which appropriated funds are still available for the purpose and time period specified, and for which an actual need still exists within the life of the appropriation.
- A viable obligation is one for which there still exists a means to meet the need.

EPA's *Procedures and Technical Guidance for FY 2009 Unliquidated Obligations Review* names the responsible officials for reviewing inactive obligations. All responsible officials must certify that their office/region completed their inactive obligations review and took the necessary actions to deobligate the funds. Two certifications are required – the FMFIA Assurance Letter (due August 14, 2009) and the Review of Unliquidated Obligations Year-end Certification (due October 9, 2009). The Assurance Letter must include certification that the review of assigned unliquidated obligations has been completed and the necessary action taken to deobligate unneeded funds. The year-end certification certifies that each office has deobligated unneeded funds.

We found that the Agency identified unneeded funds, totaling $1.9 million, during the fiscal 2009 annual ULO review, which remained open as of September 30, 2009. Specifically:

- During our analysis of the Agency's ULO certifications, we found that several regions and Headquarters' program offices identified inactive ULOs for deobligation totaling $1.7 million. However, timely action was not taken to deobligate the funds before the October 9, 2009 certification.

	Region/Program Offices	No. of Offices	Funds for Deobligation
Year-end Certifications	• Regions 1 • Region 5 • Region 7 • Region 8 • Region 10 • Office of International Affairs • Office of the Chief Financial Officer • Office of General Counsel • Office of Prevention, Pesticides, and Toxic Substances • Office of Water • Office of Enforcement and Compliance Assurance	11	$1,509,366
Allowance Holder and Responsible Planning and Implementation Office Certifications	• Region 6 • Office of Prevention, Pesticides, and Toxic Substances • Office of Research and Development	3	$245,934
Total			**$1,755,300**

Source: OIG analysis.

- In July 2008, the Office of Air and Radiation's Stratospheric Protection Division, in the Office of Atmospheric Programs, identified $58,414 in miscellaneous unneeded funds for deobligation. However, the Office of Air and Radiation did not inform the Office of Administration and Resources Management (OARM) to take necessary action to deobligate the unneeded funds. The Stratospheric Protection Division acknowledged in July 2008 that the funds were old but did not expressly authorize OARM to deobligate the funds. After inquiries by the OIG regarding these unneeded funds, the Stratospheric Protection Division identified an additional $32,877 in unneeded Miscellaneous and Contract funds for deobligation. On October 14, 2009, the Stratospheric Protection Division formally notified OARM to take the necessary actions to deobligate the unneeded funds, totaling $91,291.

- The Office of Environmental Information had not reviewed 29 inactive Miscellaneous Obligations assigned to Headquarters' Allowance Holder 55, totaling $86,250, because it was not aware that these obligations had become its responsibility. OARM was initially responsible for reviewing these ULOs before Allowance Holder 55 was eliminated in the departmental reorganization 10 years ago. As part of the reorganization, the Office of Environmental Information was established and assigned responsibility for the remaining Miscellaneous Obligations under Allowance Holder 55. Office of Environmental Information personnel stated they were unaware of the transfer of responsibility for reviewing these ULOs until the OIG brought it to their attention. On October 23, 2009, the Office of Environmental Information formally requested OARM to deobligate these funds.

- In June 2009, the Office of Prevention, Pesticides, and Toxic Substances' Office of Pesticides Program identified $4,434 in unneeded miscellaneous ULOs, and requested that an OARM Contracting Officer authorize deobligation of these funds. The Contracting Officer did not respond timely to the Office of Pesticides Program's request. However, after the OIG's inquiry, the Contracting Officer responded on October 20, 2009, and authorized the Office of Pesticides Program to deobligate the funds.

By not taking timely and appropriate action to deobligate unneeded funds, EPA has no assurance that the ULOs are accurate and represent valid and viable obligations affecting the financial statements. Further, inadequate ULO reviews could affect the financial statements by not identifying unneeded funds that should be deobligated. The deobligation of these funds would allow for more effective utilization of resources for other environmental purposes.

Recommendations

We recommend that the Office of Chief Financial Officer:

22. Have the appropriate EPA Finance Center deobligate or confirm the deobligation of unneeded funds identified during the fiscal 2009 ULO review.

23. Have the Director, Reporting and Analysis Staff, follow-up with the appropriate EPA Finance Center to confirm the amount of funds to be deobligated before yearend.

Agency Comments and OIG Evaluation

OCFO agreed with our findings and recommendations.

9 – Integrated Financial Management System User Account Management Needs Improvement

EPA needs to improve internal controls over IFMS users' accounts to:

- Ensure users cannot process financial transactions that could result in theft of funds,
- Establish user accounts consistent with the authorizing official's approval, and
- Terminate users' system access when no longer needed.

Federal financial management system requirements state financial applications must comply with the security standards published by the National Institute of Standards and Technology. Those standards prescribe the mandatory security controls needed to protect IFMS. The weaknesses noted occurred because management guidance for these areas is outdated or does not exist. Further, management had not defined which financial management functions should be separated, nor had it performed required reviews to ensure user accounts were established correctly or deactivated when employees no longer need them. As a result, users could (1) potentially process financial transaction and redirect funds to unauthorized bank accounts, (2) receive access to perform functions that are not authorized by management, and (3) potentially access the IFMS system even after they have departed EPA.

Separation of Duties Not Monitored by IFMS Security Administrator nor Defined

The IFMS Security Administrator did not perform user security reviews to ensure that separation of duty requirements were met as required by OCFO policy. The IFMS Security Administrator indicated that OCFO relies solely on the IFMS coordinators and authorizing officials to make the determination of what functions should be separated. In addition, OCFO management had not established a policy that identified what functions associated with financial management systems are required to be separated. Without such a policy, the OCFO IFMS Security Administrator did not have a basis for making the determination on separation duties requirements. We found 39 users who had the access to perform Accounts Payable, Vendor Bank information, Purchasing, and Vendor Master File functions as a part of their IFMS role. Lack of documented policies that clearly define incompatible functions and associated processes to ensure that proper separation of duties are enforced within applications can lead to individuals being able to perpetrate and conceal irregularities.

Access Provided Did Not Match Access Requested by Authorizing Officials

EPA granted roles to IFMS users that did not match the access requested by the authorizing official. OCFO staff indicated this occurred in some cases because access requestors do not complete the form appropriately but rather provide comments describing the access they are requesting. These comments can be misinterpreted by the IFMS Security Administrator. The Security Administrator can subsequently grant access that can either be too restrictive or not restrictive enough. Additionally, the input of the access rights by the Security Administrator is a manual process subject to inputting errors that will not be caught without a control in place to detect errors. The Security Administrator had provided access for 38 users that did not match the access requested by the authorizing officials.

Access to IFMS Not Removed for Departed Employees

EPA had not removed access to IFMS for employees who had left the Agency. Subsequent to our notifying OCFO of this issue, OCFO staff showed us that these users' accounts were disabled within the Resource Access Control Facility. To gain access to IFMS, a user must have access to both the Resource Access Control Facility and IFMS. However, OCFO could not provide evidence that the user accounts were disabled prior to the notice we provided. Even if the access rights to the Resource Access Control Facility had been removed, there was a breakdown in controls. Security is intended to be implemented in layers in case one control breaks down. Removing user access should be linked to Human Resources and applied through the same process to ensure that when a user is disabled on one system the user will also be disabled for all other systems at the same time. This condition occurred because the current process relies entirely on the IFMS coordinator manually requesting the Security Administrator to disable the account. There is no automated process that ties EPA's Human Resources system to the other systems and disables user accounts for terminated personnel as a fail safe. Lack of a process to ensure that terminated users' accounts are always deactivated can lead to unauthorized users gaining access to EPA records.

Recommendations

We recommend that the Office of the Chief Financial Officer:

24. Develop and implement an OCFO policy that formally defines the incompatible functions associated with the financial management processes EPA performs related to all of EPA's financial management systems.

25. Develop and implement a detective control that the IFMS Security Administrator can use on at least a monthly basis to identify and remove a user's access rights that allow a user to perform incompatible functions within IFMS.

26. Update the Request Database to identify and alert the requestor of incompatible functions.

27. Ensure that all new financial management systems (including the IFMS replacement system) and those undergoing upgrades include a system requirement that the fielded system include an automated control to enforce separation of duties.

28. Update the formal standard operating procedures for the IFMS Security Administrator requiring that the Security Administrator return all incomplete forms to the requestor and that the Security Administrator assist the requestor in completing the form correctly prior to granting access.

29. Develop and implement a detective control to identify and correct instances where the access rights within IFMS do not match the rights requested on at least a monthly basis.

30. Develop and implement a detective control by performing comparative analysis on at least a monthly basis of the terminated personnel within the Human Resources system to the active users within the IFMS application to identify and disable active users who no longer work for the Agency.

31. Develop and implement an OCFO policy for all financial management systems to link the user administration process to Human Resources data as a fail safe to ensure that all transferred/terminated personnel's financial management system user accounts are disabled in a timely manner.

32. Ensure that all new financial management systems (including the IFMS replacement system) and those undergoing upgrades include a system requirement that the fielded systems have an automated control in place to provide a fail safe that links to the Human Resources data to identify and disable terminated/transferred personnel in the system in a timely manner.

Agency Comments and OIG Evaluation

OCFO agreed with the findings and recommendations and indicated that it plans to have the corrective actions completed by December 30, 2010.

10 – Las Vegas Finance Center Needs Improved Physical Access Controls

LVFC's server room and other key areas are susceptible to unauthorized access by personnel not part of LVFC. The LVFC areas are protected by an access control system. However, the system operator –ORD – does not administer the system in a manner that allows LVFC to monitor access to its area. In particular, ORD had not obtained authorization from the LVFC Director to grant access to key areas to non-LVFC personnel. ORD also had neither provided the LVFC reports detailing who has access to their areas nor performed the required semiannual review of access rights required by ORD procedures. As a result, ORD granted personnel access to sensitive LVFC areas without proper authorization.

ORD did not perform its responsibilities associated with managing and administering the computer-controlled card access system supporting all of the EPA buildings in Las Vegas, Nevada. The *Standard Operating Procedure for Management/Control of Access to Environmental Protection Agency Buildings in Las Vegas, NV,* dated February 17, 2004, requires ORD's Environmental Sciences Division Programs Operations Staff to:

- Grant access to EPA Las Vegas facilities based on the fully completed submission of an employee data sheet form LV-172 with all appropriate signatures.
- Perform semiannual reviews of all access provided.
- Perform a review of the signatures on the LV-172 whenever the access requirements of a staff member changes.

The ORD personnel now responsible for this function work within ORD's Office of Science Information Management. We found that ORD:

- Did not grant access based on appropriately approved and completed LV-172 forms. Our review of access to a small sample of doors for which the LVFC Director was a required approving official disclosed personnel with access whose forms were not approved by the LVFC Director.
- Did not fully complete the LV-172 forms we reviewed.
- Did not perform the required semiannual reviews of the card access provided. ORD indicated that the only review performed was back in 2004, and even for that review it could not provide evidence that the review was performed or that any corrective actions were taken based on the review.

In addition to not performing the responsibilities identified above, ORD has not been providing the necessary information to the various EPA organizations serviced by the card access system to allow them to monitor and review the access to their space. Radiation and Indoor Environments, Human Resources, and LVFC all indicated that ORD has not provided them with the information necessary to validate personnel who have access to their space. To enable each organization to properly monitor and review the access to their space, ORD needs to provide the following standard reports to each organization on a monthly basis:

- A report showing **all** of the access groups in Las Vegas that lists for each group (1) each of the doors the group can access and (2) the days of the week and times that the group can access each of the doors.
- A report showing **all** of the access groups in Las Vegas that lists **all** of the users, their associated Card ID, and the expiration date of the access for each of the users for each group.
- For reviewing the logged history of users' access, a report that shows the: (1) criteria used for the creation of the report, (2) date and time of the access attempt, (3) action taken by the device, (4) location/site, (5) door, (6) user name, and (7) card ID.

Additionally, ORD needs to be responsive to each organization's special requests for reports and provide them in a timely manner.

During subsequent communications with ORD, it indicated that it planned to negotiate the transfer of the responsibility for the maintenance and oversight of the portion of the card access system relied upon by the other offices within Las Vegas to one of these other offices.

Due to the number of EPA offices responsible for developing and implementing procedures for managing facility access, we plan to issue a separate report addressing this issue. In this separate report, we plan to recommend that the appropriate offices:

- Develop and implement procedures to ensure that all organizations are provided with the information necessary to monitor and review the access to their space until offices receive responsibility for oversight and maintenance of the card access system.

- Develop and implement a formal procedure that ensures each organization supported by the card access system performs a review of the logs and access reports provided by ORD associated with their space to look for anomalies on at least a monthly basis.

- Develop and implement a formal procedure that ensures each organization supported by the card access system verifies on at least an annual basis that all users associated with their space still need their current access to perform their assigned responsibilities.

Agency Comments and OIG Evaluation

ORD agreed with the findings. ORD agreed with one of the recommendations but did not believe it should have responsibility for the other two. ORD stated it plans to transfer oversight and maintenance responsibility for the card access system to one of the other EPA offices located in Las Vegas no later than March 31, 2010. ORD does not believe it should have responsibility for developing and implementing procedures that ensure EPA offices within Las Vegas perform their oversight responsibilities. We plan to issue a separate report that will address recommendations to the appropriate offices.

11 – Customer Technology Solutions Equipment Needs Improved Security Planning

On November 16, 2009, the OIG issued an audit report (*Improved Security Planning Needed for the Customer Technology Solutions Program*, Report No. 10-P-0028) noting that EPA lacked a process to routinely test CTS equipment for known vulnerabilities and to correct identified threats. Further, EPA placed CTS equipment into production without assessing the risk the equipment posed upon the Agency's network and authorized the equipment for operation. OMB requires federal agencies to create a security plan for each general support system and ensure the plan complies with guidance issued by the National Institute of Standards and Technology. Both performing vulnerability management reviews and preparing critical security documents are needed to fulfill this requirement. The weaknesses noted existed because EPA undertook an aggressive schedule to install over 11,500 computers at 18 locations across the United States, and management focused attention on problems as they arose rather than developing a plan.

Given the widespread use of CTS equipment throughout the Agency, thousands of potentially unmonitored computers reside on EPA's network. These unmonitored computers could serve as gateways to providing unauthorized access to the Agency's network. As such, EPA lacked processes to identify these threats or the capability to lessen their impact. We recommended in Report No. 10-P-0028 that EPA:

- Develop and implement a vulnerability testing and remediation process for CTS equipment consistent with existing EPA security policies and procedures.
- Issue a memorandum to Agency Senior Information Officials requiring their program office to conduct vulnerability testing of CTS equipment until a formal vulnerability testing and management process with CTS has been established.
- Require CTS to remediate the issues identified in a timely manner and provide evidence to the initiating Senior Information Officer of the completion of the corrective actions necessary to remediate the issues identified until a formal vulnerability testing and management process with CTS has been established.
- Ensure all key actions outlined in the November 9, 2009, CTS authorization to operate are completed by the defined milestone dates.

Agency Comments and OIG Evaluation

Management did not agree they needed to implement a vulnerability testing program for the CTS equipment. Management indicated the CTS contractor is already performing quarterly vulnerability testing and is in the process of reviewing its processes in an effort to establish roles and responsibilities for local Information Security Officers. Management did not believe it needed to issue a memorandum to the Senior Information Officials requiring them to conduct vulnerability testing as an interim measure. Management indicated they issued a memorandum to the Agency Senior Information Officials in August 2009 reminding them of their responsibility to conduct vulnerability testing.

Although management believes EPA offices are conducting vulnerability testing of CTS equipment, our research and interviews disclosed that EPA offices are not conducting vulnerability testing of the CTS equipment and the offices are not aware that a vulnerability testing process is in place. Therefore, management should take steps to ensure a vulnerability management framework is in place to protect the Agency's network from commonly known threats. Although management issued a memorandum to the Senior Information Officials in August 2009 reminding them of their duties for conducting vulnerability testing, this memorandum emphasized the need to conduct vulnerability testing over equipment the respective Senior Information Official oversees. Since the Senior Information Officials do not oversee CTS equipment, it is incumbent upon management to reissue guidance to the Senior Information Officials so they understand the scope of their responsibilities for vulnerability testing includes testing CTS equipment.

On November 9, 2009, management signed a conditional authorization to operate for the CTS equipment. This conditional authorization outlined key security tasks the CTS contractor must complete and we modified the report recommendations accordingly.

Attachment 2

Compliance with Laws and Regulations

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12 – EPA Should Continue Efforts to Reconcile Intra-governmental Transactions

As of September 30, 2009, EPA reported $183 million in unreconciled differences for intra-governmental transactions with 47 trading partners. Of that amount, the Department of the Treasury reported $51 million as material differences. The remaining $132 million represented amounts reported for non-verifying agencies, accruals, timing differences, and immaterial differences. Based on our review of correspondence with other agencies, EPA had difficulty reconciling these differences as required by Treasury policy primarily because of differing accounting treatments and accrual methodologies between federal agencies. EPA's inability to reconcile its intra-governmental transactions contributes to a long-standing, government-wide problem that hinders the ability of GAO to render an opinion on the Consolidated Financial Statements of the Federal Government.

According to the Treasury Financial Manual, verifying agencies are those required to report in the government-wide Financial Report System. These include the 24 major Chief Financial Officers Act agencies and 11 other agencies material to the *Financial Report of the United States Government.* Any agency not required is a non-verifying agency. Treasury policy requires verifying agencies to confirm and reconcile intra-governmental transactions with their trading partners.

Treasury's fiscal 2009 fourth quarter Intra-governmental Activity Detail Report and Material Differences Report showed the following material differences for EPA:

Federal Agency	Difference	Category of Difference
Department of State	$ 6,831,146	Accounts Receivable/Payable
Department of the Treasury	22,290,111	Accounts Receivable/Payable
Department of the Treasury	6,999,520	Advances to/from Other Agencies
Tennessee Valley Authority	1,767,350	Buy/Sell Costs/Revenue
Department of Homeland Security	12,916,322	Buy/Sell Costs/Revenue
Total	**$ 50,804,449**	

While the Agency has actively worked with its trading partners to reduce differences, $50,804,449 material differences continued to exist. Most of the differences resulted from confirmed reporting amounts between EPA and the Department of Treasury and Department of Homeland Security. According to EPA, other situations that contributed to the differences included (1) timing differences between EPA and the Department of State, (2) differences in advances with Treasury, and (3) expenses with the Tennessee Valley Authority for which EPA has no reciprocal billing activity.

During fiscal 2009, EPA continued to make significant improvements in its intra-governmental activity with its partners, and identified the causes of several differences. However, unreconciled differences persist, and according to GAO's *Report on the Fiscal Year 2008 U.S. Government Financial Statements,* the Federal Government's inability to adequately account for and reconcile intra-governmental activity and balances between federal agencies is a major impediment preventing GAO from rendering an opinion on the Federal Government's accrual-basis Consolidated Financial Statements.

Recommendation

We recommend that the Office of the Chief Financial Officer:

33. Have its Office of Financial Services continue to reconcile EPA's intra-governmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.

Agency Comments and OIG Evaluation

OCFO agreed with our finding and recommendation.

Attachment 3

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 Follow-up Official and is responsible for ensuring that corrective actions are implemented. During FY 2009, the Agency continued to strengthen its audit-follow-up process by implementing its plan to improve and assure the quality of data in EPA's Management Audit Tracking System (MATS). As part of this effort, during FY 2009 the Office of the Chief Financial Officer has secured contractor support to conduct on-site reviews of offices' MATS data and supporting documentation. The first of these reviews, with EPA's Office of Air and Radiation, was completed in September, 2009; additional reviews will be conducted in FY 2010.

The Agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits whose findings and recommendations could have a material effect on financial statements and have corrective actions in process are listed in the following tables.

Significant Deficiencies - Corrective Actions in Process
• **Automated Application Processing Controls for IFMS** EPA has taken additional steps towards correcting this open issue by replacing IFMS with a new financial system. EPA's contract with CGI Federal, Inc is moving forward. The anticipated "go live" date for the new EPA Financial System is the first quarter of FY 2012. Since the new system has not been implemented, a reportable condition will continue to exist concerning the lack of system documentation that inhibits our ability to audit IFMS application controls. Therefore, the deficiency will continue to exist until the new system is implemented.
• **EPA Needs to Strengthen Financial Database Security Oversight and Monitor Compliance** EPA did not complete all corrective actions related to reviewing the effectiveness of its follow-up procedures. The critical patch reports being shared and monitored as a part of the process were limited to Microsoft patches, but need to include all all other operating Systems and databases used by the Agency. EPA has also not escalated critical patch issues identified to appropriate management for immediate resolution or agreed to a course of action and time frame to effectively mitigate the identified vulnerability. EPA has not provided a date it expects to complete these remaining corrective actions.
• **Key Applications Do Not Meet Federal and EPA Information Security Requirements** EPA has made significant progress in completing the agreed corrective actions but it still needs to complete functional testing of all key components of the approved BRAINS and mLINQS contingency plans. EPA has not provided an estimated milestone date on when they plan to complete this remaining corrective action.

Significant Deficiencies - Corrective Actions in Process
• **Access and Security Practices Over Critical Information Technology Assets Need Improvement** EPA has made significant progress in completing the agreed corrective actions. However, it still needs to develop and implement a formal standard operating procedure to conduct verification and validation of the implementation and effectiveness of the standard operating procedures. EPA also still needs to implement the monthly Vulnerability Scanning. EPA plans to implement a formal process to conduct the verification and validation by January 29, 2010. EPA has not provided an estimated milestone date for when they plan to implement the monthly vulnerability scanning.
• **EPA Needs to Reconcile Superfund State Contract Funds and Credits in the General Ledger to Subsidiary Accounts** During FY 2009, the Agency did prepare a reconciliation of the general ledger to the Superfund State Contract spreadsheet. However, as described in Attachment 1, Significant Deficiencies, EPA still needs to investigate some older general ledger transactions to determine their effect on an unexplained variance of $376,586.88 found during the FY 2009 reconciliation.
• **Improvement Needed in Monitoring Superfund Special Account Balances** The Agency has made improvements in the monitoring of special account balances and interest drawdowns. However, as described in Attachment 1, EPA did not monitor all special accounts in the special account interest drawdown calculation resulting in interest drawdowns in excess of interest earned for some special accounts.
• **Lack of System Implementation Process Contributed to Financial Applications Not Complying with Requirements** The Agency has made some progress towards implementing the agreed corrective actions, but still needs to complete some of the corrective actions. They need to complete a review of OCFO financial systems compliance with prescribed federal and EPA system requirements and document the results. They also need to create and put into practice formal standard operating procedures and a formal oversight process to ensure that all current and future financial management systems meet all federal and EPA system requirements prior to being put into service and continue to meet these requirements throughout their life cycle. The Agency indicated they planned to complete the corrective actions by September 30, 2010.

Source: OIG analysis

Compliance with Laws and Regulations - Corrective Actions in Process
• **EPA Needs to Improve Reconciliation of Differences with Trading Partners:** The Agency has actively worked with its trading partners to reduce unreconciled differences. However, as described in Attachment 2, EPA reported $183 million in unreconciled differences for intra-governmental transactions with 47 trading partners.

Source: OIG analysis

Attachment 4

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	12	Develop a process to communicate routinely with the regional offices on a monthly or quarterly basis to identify any settlements not recorded on the DOJ debt assessed report or recorded within the Integrated Compliance Information System. Also, work with the offices to agree on a process that would include forwarding of settlement documents within the required time period.	O	Office of the Chief Financial Officer			
2	12	Re-inform and train LEOs, ORCs, and RPOs on the requirement to timely send settlements to the finance center so the receivables can be recorded. Also work to establish and implement a process to ensure that the SFO is aware of settlements by the end of the fiscal year to ensure that current year financial statements include accounts receivable for the current year.	O	Office of the Chief Financial Officer			
3	14	In conjunction with the Regional Financial Management Offices and the Office of Budget, prepare the accounting entry to account correctly for the special account expenditures at the site level.	O	Office of the Chief Financial Officer			
4	14	In conjunction with the Regional Financial Management Offices and the Office of Budget, work with Regional Comptrollers to correctly account for the improperly expended funds at the site level.	O	Office of the Chief Financial Officer			
5	14	In conjunction with the Regional Financial Management Offices and the Office of Budget, develop controls over Special Accounts so that, for each site, the fund codes collected are the fund codes spent.	O	Office of the Chief Financial Officer			
6	17	Direct the Superfund regional offices to verify that closed sites identified in the SSC spreadsheet meet the closed site criteria and the SSC site billings and disbursements data in the SSC spreadsheet are accurate.	O	Office of the Chief Financial Officer			
7	17	Have its Office of Financial Policy and Planning Staff work with regional comptrollers and Superfund program personnel to research transactions in older funds and eliminate invalid transactions.	O	Office of the Chief Financial Officer			
8	17	Establish a review process for reconciling Superfund site costs to ensure that data and calculations used are consistent and properly supported.	O	Office of the Chief Financial Officer			

		RECOMMENDATIONS				POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
9	17	Direct the regional offices to bill the States for costs incurred where necessary, including the $887,583 amount identified.	O	Office of the Chief Financial Officer		$888	$888
10	18	Create a receivable billing document matrix to reflect a proper accounting model to recorded standard voucher adjustments and the movement of accounts from expiring or cancelled appropriations. Also, review the net impact of adjusting entries prior to issuing an accounting model to ensure account balances are proper.	O	Office of the Chief Financial Officer	06/2010		
11	18	Review its accounting model provided to SFOs for net impact to expenses and revenues from prior periods to ensure that financial statements are not misstated.	O	Office of the Chief Financial Officer			
12	22	Research and resolve the $1,237,468 of unbilled accounts receivable credit balances to ensure the accuracy of future quarterly unbilled accounts receivable before they are entered into IFMS.	O	Office of the Chief Financial Officer		$700	$700
13	22	Work with other federal agencies to resolve each credit balance to ensure the exclusion of credit amounts from future unbilled accounts receivable calculations.	U	Office of the Chief Financial Officer			
14	22	Work with RPOs, ORCs, and LEOs to obtain legal documentation sooner so receivables are recorded timely. Institute a process to review DOJ tracking mechanisms for the status of consent decrees and judgments.	O	Office of the Chief Financial Officer			
15	22	Establish a supervisory review process to ensure procedures are being followed, and interest and federal receivables are properly recorded.	O	Office of the Chief Financial Officer			
16	22	Establish a process to review the allowance calculation for errors, including proper application of calculation methods.	O	Office of the Chief Financial Officer			
17	22	Develop a process to review and update receivable status code updates in the financial system quarterly.	O	Office of the Chief Financial Officer			
18	24	Require the Director, Facilities Management and Services Division, to promptly conduct an inventory of the 1,804 Headquarters Accountable Property items not inventoried in fiscal 2009.	O	Assistant Administrator, Office of Administration and Resources Management			
19	26	Implement an effective review process for all on-top adjustments to ensure that individual entries within funds will balance (debits/credits) properly.	O	Office of the Chief Financial Officer			
20	26	Update the *Financial Statement Preparation Guide* to contain guidance or instructions for changing on-top adjustments to either journal vouchers and/or standard vouchers.	O	Office of the Chief Financial Officer			
21	26	Update the YACT and the general ledger matrix to identify current fiscal year general ledger accounts and their related closing activity.	O	Office of the Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
22	29	Have the appropriate EPA Finance Center deobligate or confirm the deobligation of unneeded funds identified during the fiscal 2009 ULO review.	O	Office of the Chief Financial Officer		$1,941	$1,941
23	29	Have the Director, Reporting and Analysis Staff, follow-up with the appropriate EPA Finance Center to confirm the amount of funds to be deobligated before yearend.	O	Office of the Chief Financial Officer			
24	31	Develop and implement an OCFO policy that formally defines the incompatible functions associated with the financial management processes EPA performs related to all of EPA's financial management systems.	O	Office of the Chief Financial Officer	12/2010		
25	31	Develop and implement a detective control that the IFMS Security Administrator can use on at least a monthly basis to identify and remove a user's access rights that allow a user to perform incompatible functions within IFMS.	O	Office of the Chief Financial Officer			
26	31	Update the Request Database to identify and alert the requestor of incompatible functions.	O	Office of the Chief Financial Officer			
27	31	Ensure that all new financial management systems (including the IFMS replacement system) and those undergoing upgrades include a system requirement that the fielded system include an automated control to enforce separation of duties.	O	Office of the Chief Financial Officer			
28	31	Update the formal standard operating procedures for the IFMS Security Administrator requiring that the Security Administrator return all incomplete forms to the requestor and that the Security Administrator assist the requestor in completing the form correctly prior to granting access.	O	Office of the Chief Financial Officer			
29	31	Develop and implement a detective control to identify and correct instances where the access rights within IFMS do not match the rights requested on at least a monthly basis.	O	Office of the Chief Financial Officer			
30	32	Develop and implement a detective control by performing comparative analysis on at least a monthly basis of the terminated personnel within the Human Resources system to the active users within the IFMS application to identify and disable active users who no longer work for the Agency.	O	Office of the Chief Financial Officer			
31	32	Develop and implement an OCFO policy for all financial management systems to link the user administration process to Human Resources data as a fail safe to ensure that all transferred/terminated personnel's financial management system user accounts are disabled in a timely manner.	O	Office of the Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
32	32	Ensure that all new financial management systems (including the IFMS replacement system) and those undergoing upgrades include a system requirement that the fielded systems have an automated control in place to provide a fail safe that links to the Human Resources data to identify and disable terminated/transferred personnel in the system in a timely manner.	O	Office of the Chief Financial Officer			
33	39	Have its Office of Financial Services continue to reconcile EPA's intra-governmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.	O	Office of the Chief Financial Officer			
		Other potential monetary benefits achieved based on adjustments made as a result of our audit:					
		• Increase in unbilled oversight billings	C	Office of the Chief Financial Officer		$213	$213

[1] O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements

SECTION III
ANNUAL FINANCIAL STATEMENTS

Principal Financial Statements

Financial Statements

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Note 21. Intragovernmental Costs and Exchange Revenue
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Note 23 Environmental Cleanup Costs
Note 24. State Credits
Note 25. Preauthorized Mixed Funding Agreements
Note 26. Custodial Revenues and Accounts Receivable
Note 27. Reconciliation of President's Budget to Statement of Budgetary Resources

Notes to Financial Statements (continued)

Required Supplementary Information (Unaudited)

Required Supplementary Stewardship Information (Unaudited)

Supplemental Information and Other Reporting Requirements (Unaudited)

Environmental Protection Agency
Consolidated Balance Sheets
As of September 30, 2009 and 2008 (Restated)
(Dollars in Thousands)

		FY 2009		Restated FY 2008
ASSETS				
Intragovernmental:				
Fund Balance With Treasury (Note 2)	$	15,557,917	$	9,605,356
Investments (Notes 4)		6,879,948		6,174,828
Accounts Receivable, Net (Note 5)		39,362		34,636
Other (Note 6)		214,831		107,433
Total Intragovernmental	$	22,692,058	$	15,922,253
Cash and Other Monetary Assets (Note 3)		10		10
Accounts Receivable, Net (Note 5)		817,844		500,592
Loans Receivable, Net - Non-Federal (Note 7)		11,645		17,088
Property, Plant & Equipment, Net (Note 9)		852,488		814,253
Other (Note 6)		2,228		3,655
Total Assets	$	**24,376,273**	**$**	**17,257,851**
Stewardship PP& E (Note 11)				
LIABILITIES				
Intragovernmental:				
Accounts Payable and Accrued Liabilities (Note 8)		76,054		80,655
Debt Due to Treasury (Note 10)		9,983		13,158
Custodial Liability (Note 12)		71,200		47,951
Other (Note 13)		140,645		109,377
Total Intragovernmental	$	297,882	$	251,141
Accounts Payable & Accrued Liabilities (Note 8)	$	865,764	$	713,595
Pensions & Other Actuarial Liabilities (Note 15)		44,122		44,615
Environmental Cleanup Costs (Note 23)		19,494		19,411
Cashout Advances, Superfund (Note 16)		572,412		489,430
Commitments & Contingencies (Notes 18)		4,573		44
Payroll & Benefits Payable (Note 34)		250,617		232,958
Other (Note 13)		115,918		115,649
Total Liabilities	$	2,170,782	$	1,866,843
NET POSITION				
Unexpended Appropriations - Other Funds (Note 17)		14,536,347		8,674,711
Cumulative Results of Operations - Earmarked Funds (Note 19)		7,086,476		6,160,531
Cumulative Results of Operation - Other Funds		582,668		555,766
Total Net Position		22,205,491		15,391,008
Total Liabilities and Net Position	**$**	**24,376,273**	**$**	**17,257,851**

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

Environmental Protection Agency
Consolidated Statements of Net Cost
For the Periods Ending September 30, 2009 and 2008 (Restated)
(Dollars in Thousands)

		FY 2009		Restated FY 2008
COSTS				
Gross Costs (Note 21)	$	8,920,963	$	8,675,411
Less:				
Earned Revenue (Notes 20, 21)		773,612		675,865
NET COST OF OPERATIONS (Note 21)	**$**	**8,147,351**	**$**	**7,999,546**

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

Environmental Protection Agency
Consolidated Statements of Net Cost by Goal
For the Period Ending September 30, 2009
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 187,484	$ 191,558	$ 386,549	$ 271,028	$ 207,660
With the Public	874,787	3,236,903	1,821,301	1,134,155	609,538
Total Costs (Note 21)	1,062,271	3,428,461	2,207,850	1,405,183	817,198
Less:					
Earned Revenue, Federal	15,455	4,758	101,767	20,047	4,071
Earned Revenue, non Federal	3,036	3,208	580,119	42,267	(1,116)
Total Earned Revenue (Note 20 & 21)	18,491	7,966	681,886	62,314	2,955
NET COST OF OPERATIONS (Note 21)	**$ 1,043,780**	**$ 3,420,495**	**$ 1,525,964**	**$ 1,342,869**	**$ 814,243**

	Consolidated Totals
Costs:	
Intragovernmental	**$ 1,244,279**
With the Public	**$ 7,676,684**
Total Costs	**8,920,963**
Less:	
Earned Revenue, Federal	**$ 146,098**
Earned Revenue, non Federal	**$ 627,514**
Total Earned Revenue (Note 19)	**773,612**
NET COST OF OPERATIONS	**$ 8,147,351**

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

Environmental Protection Agency
Consolidated Statements of Net Cost by Goal
For the Period Ending September 30, 2008 (Restated)
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Restated Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 181,467	$ 162,679	$ 347,011	$ 281,767	$ 176,376
With the Public	816,336	3,334,953	1,654,205	1,126,764	593,853
Total Costs (Note 21)	997,803	3,497,632	2,001,216	1,408,531	770,229
Less:					
Earned Revenue, Federal	18,360	7,615	73,829	22,710	5,540
Earned Revenue, non-Federal	2,043	2,841	501,719	39,407	1,801
Total Earned Revenue (Notes 20 & 21)	20,403	10,456	575,548	62,117	7,341
NET COST OF OPERATIONS (Note 22)	**$ 977,400**	**$ 3,487,176**	**$ 1,425,668**	**$ 1,346,414**	**$ 762,888**

	Consolidated Totals
Costs:	
Intragovernmental	$ 1,149,300
With the Public	$ 7,526,111
Total Costs (Note 21)	$ 8,675,411
Less:	
Earned Revenue, Federal	$ 128,054
Earned Revenue, non-Federal	$ 547,811
Total Earned Revenue (Notes 20 & 21)	$ 675,865
NET COST OF OPERATIONS (Note 21)	**$ 7,999,546**

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

Environmental Protection Agency
Consolidating Statements of Changes in Net Position
For the Period Ending September 30, 2009
(Dollars in Thousands)

		FY 2009 Earmarked Funds		FY 2009 All Other Funds		FY 2009 Consolidated Total
Cumulative Results of Operations:						
Net Position - Beginning of Period		6,160,531		555,766		6,716,297
Adjustment:						-
(a) Changes in Accounting Principles		-		-		-
(b) Correction of Errors		-		-		-
Beginning Balances, as Adjusted	$	6,160,531	$	555,766	$	6,716,297
Budgetary Financing Sources:						
Other Adjustments		-		-		-
Appropriations Used		-		8,504,157		8,504,157
Nonexchange Revenue - Securities Investment (Note 36)		176,168		-		176,168
Nonexchange Revenue - Other (Note 36)		188,245		-		188,245
Transfers In/Out (Note 32)		(39,705)		57,392		17,687
Trust Fund Appropriations		1,747,911		(1,747,911)		-
Other		-		-		-
Total Budgetary Financing Sources	$	2,072,619	$	6,813,638	$	8,886,257
Other Financing Sources (Non-Exchange)						
Transfers In/Out (Note 32)		(84)		694		610
Imputed Financing Sources (Note 33)		28,975		184,356		213,331
Total Other Financing Sources	$	28,891	$	185,050	$	213,941
Net Cost of Operations		(1,175,565)		(6,971,786)		(8,147,351)
Net Change		925,945		26,902		952,847
Cumulative Results of Operations	$	**7,086,476**	$	**582,668**	$	7,669,144
Unexpended Appropriations:						
Net Position - Beginning of Period		-		8,674,710		8,674,710
Adjustment:						
(a) Changes in Account Principles		-		-		-
(b) Corrections of Errors		-		-		-
Beginning Balances, as Adjusted		-		8,674,710		8,674,710
Budgetary Financing Sources:						
Appropriations Received		-		14,406,298		14,406,298
Appropriations Transferred In/Out (Note 32)		-		(10,953)		(10,953)
Other Adjustments (Note 35)		-		(29,551)		(29,551)
Appropriations Used		-		(8,504,157)		(8,504,157)
Total Budgetary Financing Sources		-		5,861,637		5,861,637
Total Unexpended Appropriations		-		14,536,347		14,536,347
TOTAL NET POSITION	**$**	**7,086,476**	**$**	**15,119,015**	**$**	**22,205,491**

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

Environmental Protection Agency
Consolidating Statements of Changes in Net Position
For the Periods Ending September 30, 2008 (Restated)
(Dollars in Thousands)

	Restated FY 2008 Earmarked Funds	FY 2008 All Other Funds	Restated FY 2008 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	5,886,227	562,573	6,448,800
Adjustment:			
(a) Changes in Account Principles		-	-
(b) Corrections of Errors	(93,613)		(93,613)
Beginning Balances, as Adjusted	$ 5,792,614	$ 562,573	$ 6,355,187
Budgetary Financing Sources:			
Other Adjustments	-	-	-
Appropriations Used	-	7,743,276	7,743,276
Nonexchange Revenue - Securities Investment (Note 36)	241,873	-	241,873
Nonexchange Revenue - Other (Note 36)	204,115	-	204,115
Transfers In/Out (Note 32)	(18,190)	37,151	18,961
Trust Fund Appropriations	984,974	(984,974)	-
Other	19,878		19,878
Total Budgetary Financing Sources	$ 1,432,650	$ 6,795,453	$ 8,228,103
Other Financing Sources (Non-Exchange)			
Transfers In/Out (Note 32)	-	28	28
Imputed Financing Sources (Note 33)	20,934	111,591	132,525
Total Other Financing Sources	$ 20,934	$ 111,619	$ 132,553
Net Cost of Operations	(1,085,667)	(6,913,879)	(7,999,546)
Net Change	367,917	(6,807)	361,110
Cumulative Results of Operations	**$ 6,160,531**	**$ 555,766**	**$ 6,716,297**
Unexpended Appropriations:			
Net Position - Beginning of Period	-	9,350,591	9,350,591
Adjustment:			-
(b) Corrections of Errors	-		-
Beginning Balances, as Adjusted	$ -	$ 9,350,591	$ 9,350,591
Budgetary Financing Sources:			
Appropriations Received	-	7,197,712	7,197,712
Appropriations Transferred In/Out (Note 32)	-	(7,875)	(7,875)
Other Adjustments (Note 35)	-	(122,441)	(122,441)
Appropriations Used	-	(7,743,276)	(7,743,276)
Total Budgetary Financing Sources	-	(675,880)	(675,880)
Total Unexpended Appropriations	-	8,674,711	8,674,711
TOTAL NET POSITION	**$ 6,160,531**	**$ 9,230,477**	**$ 15,391,008**

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

Environmental Protection Agency
Combined Statements of Budgetary Resources
For the Periods Ending September 30, 2009 and 2008 (Restated)
(Dollars in Thousands)

	FY 2009	Restated FY 2008
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	$ 3,551,880	$ 3,541,387
Adjustment to Unobligated Balance (Alloc Transfer Agencies)	-	-
Adjusted Subtotal	3,551,880	3,541,387
Recoveries of Prior Year Unpaid Obligations (Note 28)	220,329	281,117
Budgetary Authority:		
Appropriation	15,276,374	7,268,236
Borrowing Authority	5	34
Contract Authority	-	-
Spending Authority from Offsetting Collections		
Earned:		
Collected	631,378	706,594
Change in Receivables from Federal Sources	2,884	(22,170)
Change in Unfilled Customer Orders:		
Advance Received	29,183	79,716
Without Advance from Federal Sources	(93,701)	59,780
Anticipated for Rest of Year, Without Advances	-	-
Previously Unavailable	-	-
Expenditure Transfers from Trusts Funds	57,392	37,151
Total Spending Authority from Offsetting Collections	627,136	861,071
Nonexpenditure Transfers, Net, Anticipated and Actual (Note 32)	1,371,077	1,387,967
Temporarily Not Available Pursuant to Public Law (Note 28)	-	(6,366)
Permanently Not Available (Note 28)	(32,732)	(125,526)
Total Budgetary Resources (Note 27)	$ 21,014,069	$ 13,207,920
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 16,740,272	$ 9,035,912
Reimbursable	570,775	620,128
Total Obligations Incurred (Note 27)	17,311,047	9,656,040
Unobligated Balances:		
Apportioned (Note 29)	3,440,829	3,204,800
Exempt from Apportionment	-	-
Total Unobligated Balances	3,440,829	3,204,800
Unobligated Balances Not Available (Note 29)	262,193	347,080
Total Status of Budgetary Resources	$ 21,014,069	$ 13,207,920

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

Environmental Protection Agency
Combined Statements of Budgetary Resources
For the Periods Ending September 30, 2009 and 2008 (Restated)
(Dollars in Thousands)

	FY 2009	Restated FY 2008
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	$ 9,368,094	$ 9,873,207
Adjustment to Unpaid Obligations (Alloc Transfer Agencies)	-	
Adjusted Total	9,368,094	9,873,207
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(666,246)	(632,790)
Total Unpaid Obligated Balance, Net	8,701,848	9,240,417
Obligations Incurred, Net (Note 27)	17,311,047	9,656,040
Less: Gross Outlays (Note 27)	(10,670,422)	(9,880,035)
Obligated Balance Transferred, Net:		
Actual Transfers, Unpaid Obligations	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-	-
Total Unpaid Obligated Balance Transferred, Net	-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual (Note 28)	(220,329)	(281,117)
Change in Uncollected Customer Payments from Federal Sources	92,421	(33,457)
Total, Change in Obligated Balance	15,214,565	8,701,848
Obligated Balance, Net, End of Period:		
Unpaid Obligations	15,788,389	9,368,094
Less: Uncollected Customer Payments from Federal Sources	(573,824)	(666,246)
Total, Unpaid Obligated Balance, Net, End of Period	$ 15,214,565	$ 8,701,848
NET OUTLAYS		
Net Outlays:		
Gross Outlays (Note 27)	$ 10,670,422	$ 9,880,035
Less: Offsetting Collections (Note 27)	(719,558)	(827,616)
Less: Distributed Offsetting Receipts (Notes 27 and 31)	(1,884,134)	(1,118,429)
Total, Net Outlays	$ 8,066,730	$ 7,933,990

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

Environmental Protection Agency
Statements of Custodial Activity
For the Periods Ending September 30, 2009 and 2008 (Restated)
(Dollars in Thousands)

	FY 2009	Restated FY 2008
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 101,613	$ 126,283
Other	(14,079)	(13,733)
Total Cash Collections	$ 87,534	$ 112,550
Accrual Adjustment	16,390	8,107
Total Custodial Revenue (Note 26)	$ 103,924	$ 120,657
Disposition of Collections:		
Transferred to Others (General Fund)	$ 87,520	$ 112,695
Increases/Decreases in Amounts to be Transferred	16,404	7,962
Total Disposition of Collections	$ 103,924	$ 120,657
Net Custodial Revenue Activity (Note 26)	**$ -**	**$ -**

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

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2009 and 2008 (Restated)
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (EPA or Agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and the EPA accounting policies, which are summarized in this note. In addition to the reports required by OMB Circular No. A-136, the Statement of Net Cost has been prepared with cost segregated by the Agency's strategic goals.

B. Reporting Entities

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

For FY 2009, the accompanying financial statements are grouped and presented in a consolidated basis for the Balance Sheet, and Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

1. **General Fund Appropriations (Treasury Fund Groups 0000 – 3999)**

   a. ***State and Tribal Assistance Grants (STAG) Appropriation:*** The STAG appropriation, Treasury fund group 0103, 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.

b. ***Science and Technology (S&T) Appropriation:*** The S&T appropriation, Treasury fund group 0107, finances salaries, travel, science, technology, research and development activities including laboratory 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 2009, 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.

c. ***Environmental Programs and Management (EPM) Appropriation:*** The EPM appropriation, Treasury fund group 0108, 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, Land Preservation and Restoration, Healthy Communities and Ecosystems, and Compliance and Environmental Stewardship.

d. ***Buildings and Facilities Appropriation (B&F):*** The B&F appropriation, Treasury fund group 0110, provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA.

e. ***Office of Inspector General (OIG) Appropriation:*** The OIG appropriation, Treasury fund group 0112, 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 appropriation includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury fund group 8145 and 8153.

f. ***Payments to the Hazardous Substance Superfund Appropriation:*** The Payment to the Hazardous Substance Superfund appropriation, Treasury fund group 0250, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program.

g. ***Payments to Leaking Underground Storage Tank Appropriation:*** The Payment to the Leaking Underground Storage Tank appropriation, Treasury fund group 0251, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Leaking Underground Storage Tank program.

h. ***Asbestos Loan Program:*** The Asbestos Loan Program is accounted for under Treasury fund group 0118, Program Account, for interest subsidy and administrative support; under Treasury fund group 4322, Financing Account, for loan disbursements, loans receivable and loan collections on post-FY 1991 loans; and under Treasury fund group 2917 for pre-FY 1992 loans receivable and loan collections.

   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 FY 1992, 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 Account 0118 disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Account 4322 receives the subsidy payment, borrows from Treasury and collects the asbestos loans.

i. ***Allocations and Appropriations Transferred to the Agency:*** The EPA receives allocations or appropriations transferred from other federal agencies.

j. ***Treasury Clearing Accounts:*** 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 Intra-agency Payments and Collections (IPAC) Account. These are accounted for under Treasury fund groups 3875, 3880 and 3885, respectively.

k. ***General Fund Receipt Accounts:*** General Fund Receipt Accounts include: Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Downward Re-estimates of Subsidies; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. These accounts are accounted for under Treasury fund groups 0895, 1099, 1435, 1499, 2753.3, 3200 and 3220, respectively.

l. ***Allocation of Budget Authority:*** EPA is an allocation budget transfer parent to five federal agencies: Department of Interior, Department of Labor, Center for Disease Control, Department of Commerce, and Federal Emergency Management Agency. EPA has an Interagency Agreement or a Memorandum of

Understanding (MOU) with each child agency to provide an annual work plan and quarterly progress report containing an accounting of funds obligated in each budget category within 15 days after the end of each quarter. This allows EPA to properly report the financial activity. The allocation transfers are reported in the net cost of operations, changes in net position, balance sheet and budgetary resources where activity is being performed by the receiving Federal entity. In addition, EPA receives allocation transfers, as a child, from the Bureau of Land Management.

2. Revolving Funds (Treasury Fund Group 4000 – 4999)

a. ***Federal Insecticide, Fungicide and Rodenticide Act (FIFRA):*** The FIFRA Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA Act of 1972, as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide Maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

b. ***Tolerance Revolving Fund:*** The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund (see above).

c. ***Asbestos Loan Program:*** The Asbestos Loan Program is accounted for under Treasury fund group 4322, Financing Account for loan disbursements, loans receivable and loan collections on post-FY 1991 loans. Refer to General Fund Appropriations paragraph h. for details.

d. ***Working Capital Fund (WCF):*** The WCF, Treasury fund group, 4565, includes four activities: computer support services, financial system services, employee relocation services, and postage. The WCF derives revenue from these activities based upon a fee for services. The WCF's customers currently consist primarily of Agency program offices and a small portion from other federal agencies. Accordingly, those revenues generated by the WCF from services provided to Agency program offices and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation of the financial statements.

3. **Special Funds (Treasury Fund Group 5000 - 5999)**

   Environmental Services Receipt Account: The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts as authorized by Congress in the agency's appropriations bill.

   Exxon Valdez Settlement Fund: The Exxon Valdez Settlement Fund authorized by a 1992 act, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions corporations, and offices for the fiscal year ending September 30, 1993 (P.L. 102-389)," Treasury fund group 5297, 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.

   Pesticide Registration Fund: The Pesticide Registration Fund authorized by a 2004 act, "Consolidated Appropriations Act (P.L. 108-199)," Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Act of 1988, are to be paid by industry and deposited into this fund group.

4. **Deposit Funds (Treasury Fund Group 6000 – 6999)**

Deposits 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, City Income Taxes Withheld, and Other Federal Payroll Withholding Allotments. These funds are accounted for under Treasury fund groups 6264, 6265, 6266, 6500, 6050, 6275, and 6276, respectively.

5. **Trust Funds (Treasury Fund Group 8000 – 8999)**

   a. ***Superfund Trust Fund:*** In 1980, the Superfund Trust Fund, Treasury fund group 8145, 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 EPA 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 EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections and investment activity.

b. ***Leaking Underground Storage Tank (LUST) Trust Fund:*** The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2011.

c. ***Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, 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.

d ***Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended by (P.L. 92-500, The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, 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.

C. Budgets and Budgetary Accounting

1. General Funds

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 OIG to be available for 2 fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a 1 year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur in subsequent years after the loans were disbursed.

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

2. Revolving Funds

Funding of the FIFRA and Pesticide Registration 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 and other federal agencies to offset costs incurred for providing Agency administrative support for computer and telecommunication services, financial system services, employee relocation services, and postage.

3. Special Funds

The Environmental Services Receipt Account obtains fees associated with environmental programs that will be appropriated to the S&T and EPM appropriations.

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

4. Deposit Funds

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

5. Trust Funds

Congress adopts an annual appropriation amount for the Superfund, LUST and the Oil Spill Response Trust Funds to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the appropriation amount.

D. Basis of Accounting

GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government.

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

E. Revenues and Other Financing Sources

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources."

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under CERCLA Section 122(b)(3) placed in special accounts. 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.

The majority of all other funds receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used within statutory limits. The Asbestos Direct Loan Financing fund 4322, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993.

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

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

F. Funds with the Treasury

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

G. Investments in U.S. Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

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

J. Accounts Receivable and Interest Receivable

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

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

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

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

K. Advances and Prepayments

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

L. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

M. Appropriated Amounts Held by Treasury

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

N. Property, Plant, and Equipment

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

A purchase of EPA-held or contract personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least 2 years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of 6 years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. This modified straight-line method is still used for contract 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 5 years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset’s useful life, ranging from 2 to 15 years.

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

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

An exception to the accounting of contract property includes equipment purchased by the Working Capital Fund (WCF). This property is retained in FAS and depreciated utilizing the straight-line method based upon the asset's acquisition date and useful life.

Real property consists of land, buildings, capital and leasehold improvements, as well as capital leases. Real property, other than land, is capitalized when the value is $85 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 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

Software for the WCF, a revenue generating activity, is capitalized if the purchase price was $100 thousand or more with an estimated useful life of 2 years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from 2 to 10 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 collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

P. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans 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.

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 34 as a component of "Payroll and Benefits Payable."

S. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

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

T. Prior Period Adjustments and Restatements

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

For detailed information on the restatements made to the FY 2008 financial statements, refer to *Note 38 Restatements*.

U. Recovery Act Funds

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

The EPA manages $7.2 billion in Recovery Act funded projects and programs that will help achieve these goals, offer resources to help other “green” agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2009, the EPA has paid out $304 million, obligated $7.1 billion, and has $106 million available. The EPA has committed to focusing on the following areas: Reduced Diesel Emissions, Superfund Hazardous Waste Cleanup, Cleaner Underground Storage Tank Sites, Revitalized Neighborhoods from Brownfields and Cleaner Water and Drinking Water Infrastructures.

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

EPA has the three-year EPM treasury symbol 689/10108 that is under the Recovery Act. EPA's two-year EPM treasury symbol 689/00108 is a "regular" program. Recovery fund groups are the following: 0113, 0102, 0249, 8195, and 8196.

Note 2. Fund Balance with Treasury (FBWT)

Fund Balances with Treasury as of September 30, 2009 and 2008, consist of the following:

	FY 2009 Entity Assets	FY 2009 Non-Entity Assets	FY 2009 Total	FY 2008 Entity Assets	FY 2008 Non-Entity Assets	FY 2008 Total
Trust Funds:						
Superfund	$ 62,631	$ -	$ 62,631	$ 45,596	$ -	$ 45,596
LUST	25,169	-	25,169	12,712	-	12,712
Oil Spill & Misc.	2,441	-	2,441	3,637	-	3,637
Revolving Funds:						
FIFRA/Tolerance	7,153	-	7,153	2,371	-	2,371
Working Capital	80,293	-	80,293	65,080	-	65,080
Cr. Reform Finan.	390	-	390	399	-	399
Appropriated	15,122,481	-	15,122,481	9,237,455	-	9,237,455
Other Fund Types	247,877	9,482	257,359	229,038	9,068	238,106
Total	**$ 15,548,435**	**$ 9,482**	**$ 15,557,917**	**$ 9,596,288**	**$ 9,068**	**$ 9,605,356**

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

	FY 2009	**FY 2008**
Status of Fund Balances:		
Unobligated Amounts in Fund Balances		
Available for Obligation	$3,440,831	$3,204,800
Unavailable for Obligation	262,971	339,319
Net Receivables from Invested Balances	(3,583,119)	(2,861,933)
Balances in Treasury Trust Fund (Note 39)	(18,334)	397
Obligated Balance not yet Disbursed	15,214,555	8,701,838
Non-Budgetary FBWT	241,013	220,935
Totals	**$15,557,917**	**$9,605,356**

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2009 and FY 2008 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2009 and 2008, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2009 and 2008 investments related to Superfund and LUST consist of the following:

		Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Intragovernmental						
Non-Marketable	FY 2009	$ 6,641,708	$ (195,777)	$ 42,463	$ 6,879,948	$ 6,879,948
Non-Marketable	FY 2008	$ 6,057,258	$ (77,301)	$ 40,269	$ 6,174,828	$ 6,174,828

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable (see Note 6). All investments in Treasury securities are earmarked funds (see Note 19).

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to EPA as evidence of its receipts. Treasury securities are an asset to EPA and a liability to the U.S. Treasury. Because EPA and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

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

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2009 and 2008 (restated) consist of the following:

		FY 2009		Restated FY 2008
Intragovernmental:				
Accounts & Interest Receivable	$	39,362	$	34,636
Total	**$**	**39,362**	**$**	**34,636**
Non-Federal:				
Unbilled Accounts Receivable	$	137,593	$	113,359
Accounts & Interest Receivable		1,376,831		1,339,523
Less: Allowance for Uncollectibles		(696,580)		(952,290)
Total	**$**	**817,844**	**$**	**500,592**

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

Note 6. Other Assets

Other Assets as of September 30, 2009 and 2008 consist of the following:

		FY 2009		FY 2008
Intragovernmental:				
Advances to Federal Agencies	$	214,654	$	107,327
Advances for Postage		177		106
Total	**$**	**214,831**	**$**	**107,433**
Non-Federal:				
Travel Advances	$	(183)	$	135
Letter of Credit Advances		8		88
Other Advances		2,146		2,934
Operating Materials and Supplies		147		159
Inventory for Sale		110		339
Total	**$**	**2,228**	**$**	**3,655**

Note 7. Loans Receivable, Net

Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2009 and 2008 are as follows:

	FY 2009			FY 2008		
	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	$ 2,003	$ -	$ 2,003	$ 4,327	$ -	$ 4,327
Direct Loans Obligated After FY 1991	10,590	(948)	9,642	14,513	(1,752)	12,761
Total	**$ 12,593**	**$ (948)**	**$ 11,645**	**$ 18,840**	**$ (1,752)**	**$ 17,088**

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

During FY 2008, EPA made a payment within the U.S. Treasury for the Asbestos Loan Program based on an upward re-estimate of $33 thousand for increased loan financing costs. It was believed that the payment only consisted of “interest” costs and, as such, an automatic apportionment, per OMB Circular A-11, Section 120.83, was deemed appropriate. However, approximately one third ($12 thousand) of the $33 thousand re-estimate was for increased “subsidy” costs which requires an approved apportionment by OMB before any payment could be made. Therefore, the payment resulted in a minor technical Anti-deficiency Act (ADA) violation. On October 13, 2009, EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB. EPA will continue to work with OMB and Treasury on resolution of this ADA violation.

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

	Interest Rate Re-estimate	Technical Re-estimate	Total
Upward Subsidy Reestimate - FY 2009	$ -	$ -	$ -
Downward Subsidy Reestimate - FY 2009	$ (3)	$ (2)	$ (5)
FY 2009 Totals	**$ (3)**	**$ (2)**	**$ (5)**
Upward Subsidy Reestimate - FY 2008	$ 21	$ 12	$ 33
Downward Subsidy Reestimate - FY 2008	$ (22)	$ (12)	$ (34)
FY 2008 Totals	**$ (1)**	**$ 0**	**$ (1)**

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

	FY 2009	FY 2008
Beginning balance of the subsidy cost allowance	$ (1,752)	$ (2,714)
Adjustments:		
Loans written off	1	-
Subsidy allowance amortization	752	981
Ending balance of the subsidy cost allowance before reestimates	753	981
Add or subtract subsidy reestimates by component:		
(a) interest rate reestimate	36	(21)
(b) Technical/default reestimate	15	2
Total of the above reestimate components	51	(19)
Ending Balance of the subsidy cost allowance	**$ (948)**	**$ (1,752)**

EPA has not disbursed Direct Loans since 1993.

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2009 and 2008.

		FY 2009		FY 2008
Intragovernmental:				
Accounts Payable	$	2,230	$	2,811
Accrued Liabilities		73,824		77,844
Total	$	**76,054**	$	**80,655**

Non-Federal:		FY 2009		FY 2008
Accounts Payable	$	116,799	$	114,712
Advances Payable		9		24
Interest Payable		6		7
Grant Liabilities		521,188		413,981
Other Accrued Liabilities		227,762		184,871
Total	$	**865,764**	$	**713,595**

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

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

As of September 30, 2009 and 2008, General PP&E consist of the following:

		FY 2009			FY 2008		
		Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$	246,999 $	(138,385) $	108,614 $	238,051 $	(130,045) $	108,006
Software		373,964	(118,115)	255,849	307,883	(93,925)	213,958
Contractor Held Equip.		79,855	(47,207)	32,648	63,132	(28,417)	34,715
Land and Buildings		607,131	(166,316)	440,815	595,597	(154,986)	440,611
Capital Leases		41,068	(26,506)	14,562	47,505	(30,542)	16,963
Total	$	**1,349,017 $**	**(496,529) $**	**852,488 $**	**1,252,168 $**	**(437,915) $**	**814,253**

Note 10. Debt Due to Treasury

The debt due to Treasury consists of borrowings to finance the asbestos loan program. The debt to Treasury as of September 30, 2009 and 2008 is as follows:

All Other Funds		**FY 2009**			**FY 2008**	
	Beginning Balance	**Net Borrowing**	**Ending Balance**	**Beginning Balance**	**Net Borrowing**	**Ending Balance**
Intragovernmental:						
Debt to Treasury	$ 13,158	$ (3,175)	$ 9,983	$ 16,156	$ (2,998)	$ 13,158

Note 11. 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, 2009 and 2008, the Agency possesses the following land and land rights:

	FY 2009	**FY 2008**
Superfund Sites with Easements		
Beginning Balance	32	33
Additions	2	1
Withdrawals	1	2
Ending Balance	**33**	**32**
Superfund Sites with Land Acquired		
Beginning Balance	31	32
Additions	0	2
Withdrawals	1	3
Ending Balance	**30**	**31**

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2009 and 2008, custodial liability is approximately $71 million and $48 million, respectively.

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2009:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities – Intragovernmental			
Current			
Employer Contributions & Payroll Taxes	$ 19,875	$ -	$ 19,875
WCF Advances	960	-	960
Other Advances	60,043	-	60,043
Advances, HRSTF Cashout	27,642	-	27,642
Deferred HRSTF Cashout	-	-	-
Resources Payable to Treasury	3	-	3
Subsidy Payable to Treasury	54	-	54
Non-Current			
Unfunded FECA Liability	-	10,068	10,068
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	**$ 108,577**	**$ 32,068**	**$ 140,645**
Other Liabilities - Non-Federal			
Current			
Unearned Advances	$ 79,490	$ -	$ 79,490
Liability for Deposit Funds	8,330	-	8,330
Non-Current			-
Other Liabilities	-	230	230
Capital Lease Liability	-	27,868	27,868
Total Non-Federal	**$ 87,820**	**$ 28,098**	**$ 115,918**

Other Liabilities consist of the following as of September 30, 2008:

Other Liabilities – Intragovernmental		**Covered by Budgetary Resources**		**Not Covered by Budgetary Resources**		**Total**
Current						
Employer Contributions & Payroll Taxes	$	17,125	$	-	$	17,125
WCF Advances		3,166		-		3,166
Other Advances		14,489		-		14,489
Advances, HRSTF Cashout		41,586		-		41,586
Deferred HRSTF Cashout		1,089		-		1,089
Liability for Deposit Funds		-		-		-
Resources Payable to Treasury		3		-		3
Subsidy Payable to Treasury		5		-		5
Non-Current						
Unfunded FECA Liability		-		9,914		9,914
Payable to Treasury Judgment Fund		-		22,000		22,000
Total Intragovernmental	$	**77,463**	**$**	**31,914**	**$**	**109,377**
Other Liabilities - Non-Federal						
Current						
Unearned Advances	$	77,089	$	-	$	77,089
Liability for Deposit Funds		8,810		-		8,810
Non-Current						
Other Liabilities		-		230		230
Capital Lease Liability		-		29,520		29,520
Total Non-Federal	$	**85,899**	**$**	**29,750**	**$**	**115,649**

Note 14. Leases

Capital Leases:

The value of assets held under Capital Leases as of September 30, 2009 and 2008 are as follows:

		FY 2009		FY 2008
Summary of Assets Under Capital Lease:				
Real Property	$	40,913	$	40,913
Personal Property		155		155
Software License		-		6,437
Total	**$**	**41,068**	**$**	**47,505**
Accumulated Amortization	$	26,506	$	30,542

EPA has three capital leases for land and buildings housing scientific laboratories and computer facilities. All of these leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. The real property leases terminate in FY 2010, 2013, and 2025.

The total future minimum capital lease payments are listed below.

Future Payments Due:		
Fiscal Year		**Capital Leases**
2010	$	6,101
2011		5,714
2012		5,714
2013		5,714
2014		4,215
Beyond 2014		43,559
Total Future Minimum Lease Payments	**$**	71,017
Less: Imputed Interest		(43,149)
Net Capital Lease Liability	**$**	**27,868**
Liabilities not Covered by Budgetary Resources (See Note 13)	**$**	**27,868**

Operating Leases:

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

EPA has four current direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. The leases expire in FY 2010, 2017, and 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

Fiscal Year	Operating Leases, Land and Buildings
2010	$ 92
2011	89
2012	89
2013	89
2014	89
Beyond 2014	374
Payments	**$ 822**

Note 15. FECA Actuarial Liabilities

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

The FECA Actuarial Liability as of September 30, 2009 and 2008, was $44.1 million and $44.6 million, respectively. The FY 2009 present value of these estimated outflows is calculated using a discount rate of 4.223 percent in the first year, and 4.715 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2009 and 2008, cashouts are approximately $572 million and $489 million as restated, respectively.

Note 17. Unexpended Appropriations – Other Funds

As of September 30, 2009 and 2008, the Unexpended Appropriations consist of the following:

Unexpended Appropriations:		**FY 2009**		**FY 2008**
Unobligated				
Available	$	1,652,461	$	1,520,587
Unavailable		70,053		94,130
Undelivered Orders		12,813,833		7,059,994
Total	$	**14,536,347**	$	**8,674,711**

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.

As of September 30, 2009 and 2008 total accrued liabilities for commitments and potential loss contingencies is $4.57 million and $44 thousand, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

Litigation Claims and Assessments

There are currently three legal claims which have been asserted against the EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. For two of these claims, losses have been deemed probable, and the unfavorable outcome is estimated to be approximately $2.2 million. EPA has accrued this amount as of September 30, 2009. The maximum amount of exposure under these two claims could range as much as $10 million in the aggregate.

Additionally, the potential loss due to the third claim has been deemed to be reasonably possible, and it has been estimated that this could result in an unfavorable outcome of between $50 and $150 thousand.

Superfund

Under CERCLA Section 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

As of September 30, 2009, there is currently one CERCLA Section 106(b) administrative claims which has been asserted and for which an unfavorable outcome has been deemed probable. It is estimated that the potential loss could be approximately $2.37 million and this amount has been accrued as of September 30, 2009.

Other Commitments

EPA has a commitment to fund the Unites States Government's payment to the Commission of the North American Agreement on Environmental Cooperation Between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. For the periods ended September 30, 2009 and 2008, EPA paid $3 million for each of these periods to the CEC. A payment of $3 million will be made in FY 2010, subject to the availability of funds.

EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. Future payments totaling $9.5 million have been deemed reasonably possible and are anticipated to be paid in FY 2010.

Note 19. Earmarked Funds

Balance Sheet as of September 30, 2009	**Environmental Services**	**LUST**	**Superfund**	**Other Earmarked Funds**	**Total Earmarked Funds**
Assets					
Fund Balance with Treasury	$ 231,821	$ 25,169	$ 62,631	$ 25,650	$ 345,271
Investments	-	3,422,610	3,457,338	-	6,879,948
Accounts Receivable, Net	-	-	769,531	4,157	773,688
Other Assets	-	217	104,735	4,827	109,780
Total Assets	231,821	3,447,996	4,394,236	34,635	8,108,687
Other Liabilities	$ 1	$ 11,693	$ 977,700	$ 32,817	$ 1,022,211
Total Liabilities	$ 1	$ 11,693	$ 977,700	$ 32,817	$ 1,022,211
Cumulative Results of Operations	$ 231,820	$ 3,436,303	$ 3,416,536	$ 1,817	$ 7,086,476
Total Liabilities and Net Position	$ 231,821	$ 3,447,996	$ 4,394,236	$ 34,634	$ 8,108,687
Statement of Changes in Net Cost for the Period Ended September 30, 2009					
Gross Program Costs	$ -	$ 98,901	$ 1,672,246	$ 75,485	$ 1,846,632
Less: Earned Revenues	-	79	615,577	55,411	671,067
Net Cost of Operations	$ -	$ 98,822	$ 1,056,669	$ 20,074	$ 1,175,565
Statement of Changes in Net Position for the Period ended September 30, 2009					
Net Position, Beginning of Period	$ 211,282	$ 3,244,497	$ 2,702,763	$ 1,989	$ 6,160,531
Nonexchange Revenue- Securities Investments	-	124,088	52,065	15	176,168
Nonexchange Revenue	20,538	169,186	(1,479)	-	188,245
Other Budgetary Finance Sources	-	(3,000)	1,693,519	17,687	1,708,206
Other Financing Sources	-	354	26,338	2,199	28,891
Net Cost of Operations	-	(98,822)	(1,056,669)	(20,074)	(1,175,565)
Change in Net Position	$ 20,538	$ 191,806	$ 713,774	$ (173)	$ 925,945
Net Change End of Period	$ 231,820	$ 3,436,303	$ 3,416,537	$ 1,816	$ 7,086,476

Balance sheet as of September 30, 2008	Enviornmental Services	LUST	Restated Superfund	Other Earmarked Funds	Restated Total Earmarked Funds
Assets					
Fund Balance with Treasury	$ 211,282	$ 12,711	$ 45,596	$ 23,765	$ 293,354
Investments	-	3,240,675	2,926,233	7,921	6,174,829
Accounts Receivable, Net	-	27	468,626	4,404	473,057
Other Assets	-	72	89,408	2,487	91,967
Total Assets	211,282	3,253,485	3,529,863	38,577	7,033,207
Other Liabilities	$	$ 8,988	$ 827,100	$ 36,588	$ 872,676
Total Liabilities	$ -	$ 8,988	$ 827,100	$ 36,588	$ 872,676
Cumulative Results of Operations	$ 211,282	$ 3,244,497	$ 2,702,763	$ 1,989	$ 6,160,531
Total Liabilities and Net Position	$ 211,282	$ 3,253,485	$ 3,529,863	$ 38,577	$ 7,033,207
Statement of Changes in Net Cost for the Period Ended September 30, 2008					
Gross Program Costs	$ -	$ 77,702	$ 1,530,979	$ 73,284	$ 1,681,965
Less: Earned Revenues	-	32	543,841	52,425	596,298
Net Cost of Operations	$ -	$ 77,670	$ 987,138	$ 20,859	$ 1,085,667
Statement of Changes in Net Position for the Period ended September 30, 2008					
Net Position, Beginning of Period	$ 188,371	$ 3,023,769	$ 2,670,425	$ 3,662	$ 5,886,227
Prior Period Adjustment	-	-	(93,613)	-	(93,613)
Net Position, Adjusted	188,371	3,023,769	2,576,812	3,662	5,792,614
Nonexchange Revenue- Securities Investments	-	127,346	114,340	187	241,873
Nonexchange Revenue	22,911	170,762	10,442	-	204,115
Other Budgetary Finance Sources	-	1	969,606	17,056	986,663
Other Financing Sources	-	289	18,701	1,943	20,933
Net Cost of Operations	-	(77,670)	(987,138)	(20,859)	(1,085,667)
Change in Net Position	$ 22,911	$ 220,728	$ 125,951	$ (1,673)	$ 367,917
Net Change End of Period	$ 211,282	$ 3,244,497	$ 2,702,763	$ 1,989	$ 6,160,531

Earmarked funds are as follows:

Environmental Services Receipt Account: The Environmental Services Receipt Account authorized by a 1990 act, “To amend the Clean Air Act (P.L. 101-549),” Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts as authorized by Congress in the Agency's appropriations bill.

Leaking Underground Storage Tank (LUST) Trust Fund: The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent per gallon tax on motor fuels which will expire in 2011.

Superfund Trust Fund: In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to 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 EPA, private parties, or other Federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

Other Earmarked Funds:

Oil Spill Response Trust Fund: The Oil Spill Response Trust Fund, Treasury fund group 8221, 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.

Miscellaneous Contributed Funds Trust Fund: The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended P.L. 92-500 (The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, 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.

Pesticide Registration Fund: The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Act of 1988, are to be paid by industry and deposited into this fund group.

Federal Insecticide, Fungicide and Rodenticide Act (FIFRA): The FIFRA Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA Act of 1972, as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

Tolerance Revolving Fund: The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund.

Exxon Valdez Settlement Fund: The Exxon Valdez Settlement Fund authorized by a 1992 Act, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993 (P.L. 102-389)," Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

Note 20. Exchange Revenues, Statement of Net Cost

Exchange, or earned revenues on the Statement of Net Cost include income from services provided, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue. As of September 30, 2009 and 2008, exchange revenues are $773.6 million and $675.9 million, as restated, respectively.

Note 21. Intragovernmental Costs and Exchange Revenue

	FY 2009			FY 2008		
	Intragovern-mental	With the Public	TOTAL	Intragovern-mental	With the Public	TOTAL
Clean Air						
Program Costs	$ 187,484	$ 874,787	$ 1,062,271	$ 181,467	$ 816,336	$ 997,803
Earned Revenue	15,455	3,036	18,491	18,360	2,043	20,403
NET COST	$ 172,029	$ 871,751	$ 1,043,780	$ 163,107	$ 814,293	$ 977,400
Clean & Safe Water						
Program Costs	$ 191,558	3,236,903	$ 3,428,461	$ 162,679	3,334,953	$ 3,497,632
Earned Revenue	4,758	3,208	7,966	7,615	2,841	10,456
NET COST	$ 186,800	$ 3,233,695	$ 3,420,495	$ 155,064	$ 3,332,112	$ 3,487,176
Land Preservation & Restoration						
Program Costs	$ 386,549	$ 1,821,301	$ 2,207,850	$ 347,011	$ 1,654,205	$ 2,001,216
Earned Revenue	101,767	580,119	681,886	73,829	501,719	575,548
NET COST	$ 284,782	$ 1,241,182	$ 1,525,964	$ 273,182	$ 1,152,486	$ 1,425,668
Healthy Communities & Ecosystems						
Program Costs	$ 271,028	$ 1,134,155	$ 1,405,183	$ 281,767	$ 1,126,764	$ 1,408,531
Earned Revenue	20,047	42,267	62,314	22,710	39,407	62,117
NET COST	$ 250,981	$ 1,091,888	$ 1,342,869	$ 259,057	$ 1,087,357	$ 1,346,414
Compliance & Environmental Stewardship						
Program Costs	$ 207,660	$ 609,538	$ 817,198	$ 176,376	$ 593,853	$ 770,229
Earned Revenue	4,071	(1,116)	2,955	5,540	1,801	7,341
NET COST	$ 203,589	$ 610,654	$ 814,243	$ 170,836	$ 592,052	$ 762,888
Total						
Program Costs	$ 1,244,279	$ 7,676,684	$ 8,920,963	$ 1,149,300	$ 7,526,111	$ 8,675,411
Earned Revenue	146,098	627,514	773,612	128,054	547,811	675,865
NET COST	$ 1,098,181	$ 7,049,170	$ 8,147,351	$ 1,021,246	$ 6,978,300	$ 7,999,546

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

Note 22. Cost of Stewardship Land

The costs related to the acquisition of stewardship land was approximately $323 thousand and $2 million for September 30, 2009 and 2008, respectively. These costs are included in the Statement of Net Cost.

Note 23. Environmental Cleanup Costs

As of September 30, 2009, EPA has one site that requires clean up stemming from its activities. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund cleanup work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY2009, and none are expected in FY2010. During FY2009, costs amounting to approximately $53 thousand was paid out by the Treasury Judgment Fund for another site, and no further action is warranted.

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. EPA owns two sites that have an unfunded environmental liability of $230 thousand.

Accrued Cleanup Cost:

EPA has 15 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2009 and 2008, the estimated costs for site cleanup are $19.49 million and $19.41 million, respectively. 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.

Note 24. State Credits

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Credits (SSC) when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. 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, 2009 and 2008, the total remaining state credits have been estimated at $21.9 million and $15.3 million, respectively.

Note 25. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2009, EPA had 9 outstanding preauthorized mixed funding agreements with obligations totaling $19.9 million. As of September 30, 2008, EPA had 14 for $25.2 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 26. Custodial Revenues and Accounts Receivable

		FY 2009		FY 2008
Fines, Penalties and Other Miscellaneous Receipts	**$**	**103,924**	**$**	**120,657**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:				
Accounts Receivable	$	238,957	$	220,123
Less: Allowance for Uncollectible Accounts		(174,411)		(171,966)
Total	**$**	**64,546**	**$**	**48,157**

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

Note 27. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2009 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2010 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2009 has not yet been published. We expect it will be published by March 2010, and it will be available on the OMB website at http://www.whitehouse.gov/. The actual amounts published for the year ended September 30, 2008 are listed immediately below:

FY 2008	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 13,207,920	9,656,040	1,118,429	9,052,419
Adjustments to Undelivered Orders and Other	2,134	1,357	-	1,535
Expired and Immaterial Funds*	(423,487)	(76,113)	-	(7)
Rounding Differences**	(2,567)	(1,284)	(429)	53
Reported in Budget of the U. S. Government	**$ 12,784,000**	**$ 9,580,000**	**$ 1,118,000**	**$ 9,054,000**

* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.
** Balances are rounded to millions in the Budget Appendix.

Note 28. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2009 and 2008:

	FY 2009	**FY 2008**
Recoveries of Prior Year Obligations – Downward adjustments of prior years' obligations	$ 220,329	$ 281,117
Temporarily Not Available – Rescinded Authority	-	(6,366)
Permanently Not Available:		
Payments to Treasury	(3,180)	(3,032)
Rescinded Authority	(10,000)	(117,284)
Cancelled Authority	(19,552)	(5,210)
Total Permanently Not Available	**(32,732)**	**(125,526)**

Note 29. Unobligated Balances Available

Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, Unobligated Balances and Unobligated Balances Not Available. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations. The unobligated balances available consist of the following as of September 30, 2009 and 2008.

	FY 2009	FY 2008
Unexpired Unobligated Balance	$ 3,452,750	$ 3,205,306
Expired Unobligated Balance	250,272	346,574
Total	**$ 3,703,022**	**$ 3,551,880**

Note 30. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2009 and 2008 are $14.69 billion and $8.43 billion, respectively.

Note 31. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FY 2009 and 2008, the following receipts were generated from these activities:

	FY 2009	FY 2008
Trust Fund Recoveries	$ 96,782	$ 89,995
Special Fund Environmental Service	20,539	22,911
Downward Re-estimates of Subsidies	5	-
Trust Fund Appropriation	1,747,911	984,974
Special Fund Receipt Account and Treasury		
Miscellaneous Receipts and Clearing Accounts	18,897	20,549
Total	**$ 1,884,134**	**$ 1,118,429**

Note 32. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For FY 2009 and 2008, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follows for September 30, 2009 and 2008:

Transfers In/Out Without Reimbursement, Budgetary:

Fund/Type of Account	**FY 2009**	**FY 2008**
U.S. Navy	$ (8,000)	$ (7,875)
Small Business Administration	(2,953)	-
Total Appropriation Transfers (Other Funds)	$ (10,953)	(7,875)
Net Transfers from Invested Funds	1,382,030	1,389,902
Transfer to Another Agency	(10,953)	(7,875)
Allocations Rescinded	-	5,940
Total of Net Transfers on Statement of Budgetary Resources	**$ 1,371,077**	**$ 1,387,967**

For FY 2009 and 2008, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. Detail of the transfers-in and transfers-out, expenditure and nonexpenditure, follows for September 30, 2009 and 2008:

Type of Transfer/Funds	**FY 2009**				**FY 2008**			
		Earmark		**Other Funds**		**Earmark**		**Other Funds**
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	$	(57,392)	$	57,392	$	(37,204)	$	37,204
Transfer-in nonexpenditure recovery from CDC		-		-		1,905		-
Transfers-in, nonexpenditure, Oil Spill		17,687		-		17,056		-
Transfer-in (out) cancelled funds		-		-		53		(53)
Total Transfers in (out) without Reimbursement, Budgetary	$	**(39,705)**	$	**57,392**	**$**	**(18,190)**	$	**37,151**

Transfers In/Out without Reimbursement, Other Financing Sources:

For FY 2009 and 2008, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised 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 for September 30, 2009 and 2008:

Type of Transfer/Funds	FY 2009		FY 2008	
	Earmark	Other Funds	Earmark	Other Funds
Transfers-in by allocation transfer agency	$ 84	$ -	$ -	$ -
Transfers-in property	-	46	-	-
Transfers (out) of prior year negative subsidy to be paid following year	-	(740)	-	28
Total Transfers in (out) without Reimbursement, Budgetary	**$ 84**	**$ (694)**	**$ -**	**$ 28**

Note 33. Imputed Financing

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2009 were $197.8 million ($25.1 million from Earmarked funds, and $172.7 million from Other Funds). For FY 2008, the estimates were $132.5 million ($20.9 million from Earmarked Funds, and $111.6 million from Other Funds).

SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" and SFFAS No. 30, "Inter-Entity Cost Implementation," requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other Federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2009 total imputed costs were $11.7 million ($3.8 million from Earmark funds, and $7.9 million from Other Funds).

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2009 entries for Judgment Fund payments totaled $3.7 million (Other Funds). For FY 2008, entries for Judgment Fund payments totaled $2.4 million (Other Funds).

The combined total of imputed financing sources for FY 2009 and FY 2008 is $213.3 million and $132.5 million, respectively.

Note 34. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2009 and 2008, consist of the following:

FY 2009 Payroll & Benefits Payable	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accrued Funded Payroll & Benefits	$ 57,004	$ -	$ 57,004
Withholdings Payable	31,307	-	31,307
Employer Contributions Payable-TSP	3,177	-	3,177
Accrued Unfunded Annual Leave	-	159,129	159,129
Total - Current	**$ 91,488**	**$ 159,129**	**$ 250,617**
FY 2008 Payroll & Benefits Payable			
Accrued Funded Payroll & Benefits	$ 46,966	$ -	$ 46,966
Withholdings Payable	30,659	-	30,659
Employer Contributions Payable-TSP	2,670	-	2,670
Accrued Unfunded Annual Leave	-	152,663	152,663
Total - Current	**$ 80,295**	**$ 152,663**	**$ 232,958**

Note 35. Other Adjustments, Statement of Changes in Net Position

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

		Other Funds FY 2009		Other Funds FY 2008
Rescissions to General Appropriations	$	29,551	$	117,284
Cancelled General Authority		-		5,157
Total Other Adjustments	**$**	**29,551**	**$**	**122,441**

Note 36. Nonexchange Revenue, Statement of Changes in Net Position

The Nonexchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2009 and 2008 consists of the following items:

		Earmark Funds FY 2009		Earmark Funds FY 2008
Interest on Trust Fund	$	176,168	$	241,873
Tax Revenue, Net of Refunds		169,186		170,762
Fines and Penalties Revenue		(1,479)		10,442
Special Receipt Fund Revenue		20,538		22,911
Total Nonexchange Revenue	**$**	**364,413**	**$**	**445,988**

Note 37. Reconciliation of Net Cost of Operations to Budget

	FY 2009	Restated FY 2008
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$ 17,311,047	$ 9,656,040
Less: Spending Authority from Offsetting Collections and Recoveries	(847,465)	(1,142,189)
Obligations, Net of Offsetting Collections	$ 16,463,582	$ 8,513,851
Less: Offsetting Receipts	(1,884,134)	(1,118,429)
Net Obligations	$ 14,579,448	$ 7,395,422
Other Resources		
Transfers In/Out Without Reimbursement, Property	$ 656	$
Imputed Financing Sources	213,331	132,525
Income from Other Appropriations	-	-
Net Other Resources Used to Finance Activities	$ 213,987	$ 132,525
Total Resources Used To Finance Activities	$ 14,793,435	$ 7,527,947
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated	$ (6,440,873)	$ 417,645
Resources that Fund Prior Periods Expenses	(381)	(22)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances	3,943	3,985
Offsetting Receipts Not Affecting Net Cost	136,222	133,455
Resources that Finance Asset Acquistion	(138,030)	(98,715)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	-	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (6,439,119)	$ 456,348
Total Resources Used to Finance the Net Cost of Operations	$ 8,354,316	$ 7,984,295

		FY 2009		Restated FY 2008
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	$	6,461	$	9,807
Increase in Environmental and Disposal Liability		83		1,197
Increase in Unfunded Contingencies		4,529		44
Upward/Downward Reestimates of Credit Subsidy Expense		-		
Increase in Public Exchange Revenue Receivables		(337,008)		(176,404)
Increase in Workers Compensation Costs		-		5,641
Other		(3,232)		59
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	$	(329,167)	$	(159,656)
Components Not Requiring/Generating Resources:				
Depreciation and Amortization	$	71,550	$	88,586
Revaluation of Assets and Liabilities		-		
Expenses Not Requiring Budgetary Resources		50,652		86,321
Total Components of Net Cost that Will Not Require or Generate Resources	$	122,202	$	174,907
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	(206,965)	$	15,251
Net Cost of Operations	**$**	**8,147,351**	**$**	**7,999,546**

Note 38. Restatements

EPA has discovered two accounting errors that have resulted in material misstatements of EPA's financial statements issued for the periods from FY 2002 through FY 2008. As a consequence, EPA is correcting the errors by restating its consolidated balance sheet as of September 30, 2008 and its consolidated statements of net cost and net cost by goal for the period ended September 30, 2008. In addition, EPA is reflecting the cumulative effect of the errors attributable to fiscal years prior to FY 2008 as an adjustment to the beginning balance of cumulative results of operations in the statement of changes in net position for the period ended September 30, 2008.

The first error involves "special accounts", EPA is authorized by section 122(b) (3) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) to use funds it collects under this authority to perform site clean-up actions in accordance with settlement agreement (e.g., consent decrees). EPA is authorized to retain these funds in interest-earning, site-specific special accounts, which are subaccounts of the EPA Hazardous Substance Superfund Trust Fund.

For some site clean-up projects, EPA, at a given point in time, will not have as yet incurred costs ("future costs"), whereas for others it will have already incurred costs ("prior costs").

Before October 1, 2002, EPA's policy was to defer revenue recognition for both types of projects until such time as clean-up costs were actually incurred. Since, for prior cost projects, work is in progress, the policy of deferring all revenue for these projects was incorrect.

As a remedy, EPA, effective on October 1, 2002, implemented a revised policy for revenue recognition involving prior cost projects. For prior-cost projects, EPA's revised policy was to recognize revenue upon the collection of settlement-related funds. EPA, however, did not properly implement the revised policy and, as a result, revenue was overstated and cashout advances for superfund was understated by $95.4 million through September 30, 2008.

After discovering the error, EPA recorded a financial statement adjustment to correct for the cumulative effect of the error within the FY 2009 financial statements, and management directed its Regional Offices to make corrections at the detailed transaction level during the first quarter of FY 2010.

The second error involves judgments entered by courts against private sector companies. Pursuant to its mission and regulations, EPA pursues litigation against companies that have been deemed to have polluted or contaminated the environment. When these cases are settled or decided in the Government's favor, settlement agreements are executed with the offending companies. Upon being notified of a settlement agreement, it is EPA policy to record a receivable as of the date of the settlement agreement.

During FY 2009, EPA discovered eight settlement agreements in the total amount of $150.9 million that should have been recorded as receivables and revenue in FY 2008. This error has resulted in an understatement of accounts receivable of $150.9 million; revenue of $43.5 million and advances from the public of $107.3 million.

After discovering the error, EPA recorded a financial statement adjustment to correct for the cumulative effect of the error within the FY 2009 financial statements, and management recorded the account receivable and strengthened its internal controls to require that Regional Counsels certify that all closed settlements are recorded in appropriate tracking systems.

The effect of the restatement is as follows:

	FY 2008, as Previously Reported	Adjustment	FY 2008, as Restated
Consolidated Balance Sheet			
Accounts Receivable, Net	349,739	150,853	500,592
Total Assets	17,106,998	150,853	17,257,851
Cashout Advances, Superfund (see Note 16)	286,630	202,801	489,430
Total Liabilities	1,664,042	202,801	1,866,843
Cumulative Results of Operations - Earmarked Funds	6,212,479	(51,948)	6,160,531
Total Net Position	15,442,956	(51,948)	15,391,008
Consolidated Statement of Net Cost			
Earned Revenue	634,201	41,664	675,865
Total Net Cost of Operations	8,041,210	(41,664)	7,999,546
Consolidated Statement of Net Cost by Goal			
Land Preservation & Restoration:			
Total Earned Revenue	533,884	41,664	575,548
Net Cost of Operations	1,467,332	(41,664)	1,425,668
Consolidated Totals:			
Total Earned Revenue	634,201	41,664	675,865
Net Cost of Operations	8,041,210	(41,664)	7,999,546
Consolidated Statement of Changes in Net Position			
Cumulative Results of Operations:			
Total:			
Beginning Balance	6,448,800	(93,613)	6,355,187
Net Cost of Operations	(8,041,210)	41,664	(7,999,546)
Ending Balance	6,768,245	(51,948)	6,716,297
Earmarked Funds:			
Beginning Balance	5,886,227	(93,613)	5,792,614
Net Cost of Operations	(1,127,331)	41,664	(1,085,667)
Ending Balance	6,212,479	(51,948)	6,160,531
Combined Statement of Budgetary Resources			
Spending Authority from Offsetting Collections:			
Earned:			
Collected	708,430	(1,836)	706,594
Change in Unfilled Customer Orders:			
Advance Received	77,880	1,836	79,716

Note 39. Amounts Held by Treasury (UNAUDITED)

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

Superfund

Superfund is supported by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties.

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2009 and 2008. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2009	**EPA**	**Treasury**	**Combined**
Undistributed Balances			
Uninvested Fund Balance	$ -	$ (7,975)	$ (7,975)
Total Undisbursed Balance	-	(7,975)	(7,975)
Interest Receivable	-	19,624	19,624
Investments, Net	3,277,721	159,991	3,437,712
Total Assets	$ 3,277,721	$ 171,640	$ 3,449,361
Liabilities & Equity			
Receipts and Outlays	$	$	$ -
Equity	$ 3,277,721	$ 171,640	$ 3,449,361
Total Liabilities and Equity	$ 3,277,721	$ 171,640	$ 3,449,361
Receipts			
Cost Recoveries	$ -	$ 96,782	$ 96,782
Fines & Penalties	-	1,374	1,374
Total Revenue	-	98,156	98,156
Appropriations Received	-	1,747,911	1,747,911
Interest Income	-	52,064	52,064
Total Receipts	$ -	$ 1,898,131	$ 1,898,131
Outlays			
Transfers to/from EPA, Net	$ 1,905,845	$ (1,905,845)	$ -
Transfer from CDC (recovery)	-	-	-
Total Outlays	1,905,845	(1,905,845)	-
Net Income	$ **1,905,845**	$ **(7,714)**	$ **1,898,131**

In FY 2009, the EPA received an appropriation of $1.75 billion for Superfund. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2009 and 2008, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of $3.28 billion and $2.75 billion, respectively.

SUPERFUND FY 2008	**EPA**	**Treasury**	**Combined**
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 2,894	$ 2,894
Total Undisbursed Balance	-	2,894	2,894
Interest Receivable	-	11,533	11,533
Investments, Net	2,749,821	164,878	2,914,699
Total Assets	$ 2,749,821	$ 179,305	$ 2,929,126
Liabilities & Equity			
Receipts and Outlays	-	-	-
Equity	$ 2,749,821	$ 179,305	$ 2,929,126
Total Liabilities and Equity	$ 2,749,821	$ 179,305	$ 2,929,126
Receipts			
Cost Recoveries	$ -	$ 89,975	$ 89,975
Fines & Penalties	-	2,850	2,850
Total Revenue	-	92,825	92,825
Appropriations Received	-	984,974	984,974
Interest Income	-	114,340	114,340
Total Receipts	$ -	$ 1,192,139	$ 1,192,139
Outlays			
Transfers to/from EPA, Net	$ 1,301,315	$ (1,301,315)	$ -
Transfers from CDC (recovery)	$ -	$ 1,905	$ 1,905
Total Outlays	1,301,315	(1,299,410)	1,905
Net Income	$ **1,301,315**	$ **(107,271)**	$ **1,194,044**

LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2009 and 2008, there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes have been provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2009		**EPA**		**Treasury**		**Combined**
Undistributed Balances						
Uninvested Fund Balance	$	-	$	(10,359)	$	(10,359)
Total Undisbursed Balance		-		(10,359)		(10,359)
Interest Receivable		-		22,838		22,838
Investments, Net		305,445		3,094,325		3,399,770
Total Assets	$	305,445	$	3,106,804	$	3,412,249
Liabilities & Equity						
Equity	$	305,445	$	3,106,804	$	3,412,249
Equity	$	305,445	$	3,106,804	$	3,412,249
Receipts						
Highway TF Tax	$	-	$	159,719	$	159,719
Airport TF Tax		-		9,454		9,454
Inland TF Tax		-		13		13
Total Revenue		-		169,186		169,186
Interest Income		-		124,087		124,087
Total Receipts	$	-	$	293,273	$	293,273
Outlays						
Transfers to/from EPA, Net	$	312,577	$	(312,577)	$	-
Total Outlays		312,577		(312,577)		-
Net Income	$	**312,577**	$	**(19,304)**	$	**293,273**

LUST FY 2008		**EPA**		**Treasury**		**Combined**
Undistributed Balances						
Uninvested Fund Balance	$	-	$	(2,497)	$	(2,497)
Total Undisbursed Balance		-		(2,497)		(2,497)
Interest Receivable		-		28,735		28,735
Investments, Net		112,068		3,099,871		3,211,939
Total Assets	$	112,068	$	3,126,109	$	3,238,177
Liabilities & Equity						
Equity	$	112,068	$	3,126,109	$	3,238,177
Equity	$	112,068	$	3,126,109	$	3,238,177
Receipts						
Highway TF Tax	$	-	$	154,309	$	154,309
Airport TF Tax		-		16,240		16,240
Inland TF Tax		-		213		213
Total Revenue		-		170,762		170,762
Interest Income		-		127,346		127,346
Total Receipts	$	-	$	298,108	$	298,108
Outlays						
Transfers to/from EPA, Net	$	105,816	$	(105,816)	$	-
Total Outlays		105,816		(105,816)		-
Net Income	$	**105,816**	$	**192,292**	$	**298,108**

Environmental Protection Agency
Required Supplementary Information
As of September 30, 2009
(Dollars in Thousands)
(Unaudited)

1. 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.

2. Stewardship Land

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

Environmental Protection Agency
Required Supplementary Information
As of September 30, 2009
(Dollars in Thousands)
(Unaudited)

3. Supplemental Combined Statement of Budgetary Resources For the Period Ending September 30, 2009

BUDGETARY RESOURCE	EPM	FIFRA	LUST	S&T	STAG	OTHER	TOTAL
Unobligated Balance Brought Forward, October 1	$ 626,416	$ 6,630	$ 7,299	$ 226,500	$ 1,090,683	$ 1,594,352	$ 3,551,880
Recoveries of prior year unpaid obligations	22,107	315	1,497	8,860	62,560	124,990	220,329
Budgetary Authority:							
Appropriation	2,392,079	-	200,000	790,051	9,376,464	2,517,780	15,276,374
Borrowing Authority	-	-	-	-	-	5	5
Spending Authority from Offsetting Collections:							
Collected	86,713	23,713	118	9,797	3,368	507,669	631,378
Change in receivables from Federal sources	1,632	-	-	(125)	-	1,377	2,884
Advance received	8,879	(1,936)	(2)	2,849	-	19,393	29,183
Without advance from Federal source	(114,443)	-	-	1,360	-	19,382	(93,701)
Expenditure Transfers from trust funds	21,000	-	-	26,417	-	9,975	57,392
Nonexpenditure transers, net anticipated and actual	60,500	-	112,577	-	(71,453)	1,269,453	1,371,077
Permanently not available	(11,803)	-	-	(6,250)	(10,000)	(4,679)	(32,732)
Total Budgetary Resources	**$ 3,093,080**	**$ 28,722**	**$ 321,489**	**$ 1,059,459**	**$ 10,451,622**	**$ 6,059,697**	**$ 21,014,069**
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$ 2,423,049	$ -	$ 308,295	$ 822,326	$ 9,315,822	$ 3,870,780	$ 16,740,272
Reimbursable	73,998	24,560	79	6,526	-	465,612	570,775
Total Obligations Incurred	2,497,047	24,560	308,374	828,852	9,315,822	4,336,392	17,311,047
Unobligated Balances:							
Unobligated funds apportioned	387,774	4,163	13,114	193,278	1,135,800	1,706,700	3,440,829
Unobligated balance not available	208,259	-	-	37,329	-	16,605	262,193
Total Status of Budgetary Resources	**$ 3,093,080**	**$ 28,723**	**$ 321,488**	**$ 1,059,459**	**$ 10,451,622**	**$ 6,059,697**	**$ 21,014,069**
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid obligations brought forward, October 1	$ 893,902	$ 3,659	$ 119,978	$ 473,301	$ 6,333,467	$ 1,543,787	$ 9,368,094
Less: Uncollected customer payments from Federal sources brought forward, October 1	(446,717)	-	-	(36,499)	-	(183,030)	(666,246)
Total unpaid obligation balance, net	447,185	3,659	119,978	436,802	6,333,467	1,360,757	8,701,848
Obligations incurred net	2,497,047	24,560	308,374	828,852	9,315,822	4,336,392	17,311,047
Less: Gross outlays	(2,490,801)	(24,914)	(98,997)	(869,999)	(3,449,797)	(3,735,914)	(10,670,422)
Less: Recoveries of prior year unpaid obligations, actual	(22,108)	(316)	(1,496)	(8,860)	(62,560)	(124,989)	(220,329)
Change in uncollected customer payments from Federal sources	112,811	-	-	254	-	(20,644)	92,421
Total	544,134	2,990	327,859	387,049	12,136,932	1,815,602	15,214,565
Obligated Balance, net, end of period:							
Unpaid obligations	878,040	2,990	327,859	423,294	12,136,932	2,019,275	15,788,389
Less: Uncollected customer payments from Federal sources	(333,906)	-	-	(36,245)	-	(203,673)	(573,824)
Total, unpaid obligated balance, net, end of period	$ 544,134	$ 2,990	$ 327,859	$ 387,049	$ 12,136,932	$ 1,815,602	$ 15,214,565
NET OUTLAYS							
Gross outlays	$ 2,490,801	$ 24,914	$ 98,997	$ 869,999	$ 3,449,797	$ 3,735,914	$ 10,670,422
Less: Offsetting collections	(116,592)	(21,778)	(116)	(40,552)	(3,368)	(537,152)	(719,558)
Less: Distributed Offsetting Receipts	-	-	-	-	-	-	(1,884,134)
Total, Net Outlays	**$ 2,374,209**	**$ 3,136**	**$ 98,881**	**$ 829,447**	**$ 3,446,429**	**$ 3,198,762**	**$ 8,066,730**

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2009
(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. EPA's Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding, the framework, and technologies we need to detect, abate, and avoid environmental problems. Research also provides the crucial underpinning(s) for EPA decision-making 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 development of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the environmental effects on children's health; the potential risks and effects of manufactured nanomaterials on human health and the environment; the impacts of global change and providing information to policy makers to help them adapt to a changing climate; the potential risks of unregulated contaminants in drinking water; the development of recreational water quality criteria; the health effects of air pollutants such as particulate matter; the protection of the nation's ecosystems; and the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security. EPA also supports regulatory decision-making with chemical risk assessments.

For FY 2009, the full cost of the Agency's Research and Development activities totaled over $720M. Below is a breakout of the expenses (dollars in thousands):

	FY 2005	FY 2006	FY2007	FY2008	FY2009
Programmatic Expenses	$628,467	$630,438	$624,088	$597,080	$600,552
Allocated Expenses	$112,558	$104,167	$100,553	$103,773	$119,630

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development. Each of EPA's strategic goals has a Science and Research Objective.

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. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

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

The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds. 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 2005	FY 2006	FY 2007	FY 2008	FY 2009
Construction Grants	$21,148	$39,193	$9,975	$11,517	$30,950
Clean Water SRF	$1,127,883	$1,339,702	$1,399,616	$1,063,825	$835,446
Safe Drinking Water SRF	$715,060	$910,032	$962,903	$816,038	$906,803
Other Infrastructure Grants	$385,226	$411,023	$381,481	$388,555	$306,366
Allocated Expenses	$402,853	$446,113	$443,716	$396,253	$414,249

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

HUMAN CAPITAL

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

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

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Training and Awareness Grants	$46,750	$43,765	$32,845	$30,768	$37,981
Fellowships	$10,195	$12,639	$12,185	$9,650	$6,818
Allocated Expenses	$10,199	$9,320	$7,255	$7,025	$8,924

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Balance Sheet for Superfund Trust Fund
For the Periods Ending September 30, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

	FY 2009	Restated FY 2008
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note S1)	$ 62,631	$ 45,596
Investments	3,457,338	2,926,233
Accounts Receivable, Net	20,694	17,832
Other	23,100	21,116
Total Intragovernmental	$ 3,563,763	$ 3,010,777
Accounts Receivable, Net	748,838	450,794
Property, Plant & Equipment, Net	81,216	67,541
Other	419	751
Total Assets	**$ 4,394,236**	**$ 3,529,863**
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	47,787	52,639
Custodial Liability	187	-
Other	76,051	50,448
Total Intragovernmental	$ 124,025	$ 103,087
Accounts Payable & Accrued Liabilities	$ 183,477	$ 141,049
Pensions & Other Actuarial Liabilities	7,829	7,922
Cashout Advances, Superfund (Note S2)	572,412	489,430
Payroll & Benefits Payable	44,604	40,902
Other	45,353	44,710
Total Liabilities	$ 977,700	$ 827,100
NET POSITION		
Cumulative Results of Operations	3,416,536	2,702,763
Total Net Position	3,416,536	2,702,763
Total Liabilities and Net Position	**$ 4,394,236**	**$ 3,529,863**

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

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Net Cost for Superfund Trust Fund
For the Periods Ending September 30, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

	FY 2009	Restated FY 2008
COSTS		
Gross Costs	$ 1,672,246	$ 1,530,979
Expenses from Other Appropriations (Note S5)	130,931	69,769
Total Costs	1,803,177	1,600,748
Less:		
Earned Revenue	615,577	543,842
NET COST OF OPERATIONS	**$ 1,187,600**	**$ 1,056,906**

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

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Changes in Net Position for Superfund Trust Fund
For the Periods Ending September 30, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

		FY 2009 Earmarked Funds		Restated FY 2008 Earmarked Funds
Cumulative Results of Operations:				
Net Position - Beginning of Period		2,702,763		2,670,425
Adjustment:				
(b) Correction of Errors				(93,613)
Beginning Balances, as Adjusted	$	2,702,763	$	2,576,812
Budgetary Financing Sources:				
Other Adjustments		-		-
Appropriations Used		-		-
Nonexchange Revenue - Securities Investment		52,065		114,340
Nonexchange Revenue - Other		(1,479)		10,441
Transfers In/Out		(54,393)		(35,246)
Trust Fund Appropriations		1,747,911		984,974
Other		-		19,878
Income from Other Appropriations (Note S5)		130,931		69,769
Total Budgetary Financing Sources	$	1,875,035	$	1,164,156
Other Financing Sources (Non-Exchange)				
Transfers In/Out		(84)		-
Imputed Financing Sources		26,422		18,701
Total Other Financing Sources	$	26,338	$	18,701
Net Cost of Operations		(1,187,600)		(1,056,906)
Net Change		713,773		125,951
Cumulative Results of Operations	$	**3,416,536**	$	**2,702,763**

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

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Budgetary Resources for Superfund Trust Fund
For the Periods Ending September 30, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

	FY 2009	Restated FY 2008
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	$ 1,513,176	$ 1,245,311
Recoveries of Prior Year Unpaid Obligations	118,278	168,480
Budgetary Authority:		
Appropriation	636,392	37,205
Spending Authority from Offsetting Collections		
Earned:		
Collected	292,403	388,917
Change in Receivables from Federal Sources	1,401	(1,725)
Change in Unfilled Customer Orders:		
Advance Received	12,032	75,873
Without Advance from Federal Sources	4,574	4,476
Total Spending Authority from Offsetting Collections	310,410	467,541
Nonexpenditure Transfers, Net, Anticipated and Actual	1,269,453	1,288,350
Temporarily Not Available Pursuant to Public Law	-	(4,263)
Permanently Not Available	-	(54)
Total Budgetary Resources	$ 3,847,709	$ 3,202,570
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 1,996,048	$ 1,425,282
Reimbursable	246,297	264,112
Total Obligations Incurred	2,242,345	1,689,394
Unobligated Balances:		
Apportioned	1,593,443	1,512,670
Exempt from Apportionment	-	-
Total Unobligated Balances	1,593,443	1,512,670
Unobligated Balances Not Available	11,921	506
Total Status of Budgetary Resources (Note S6)	$ 3,847,709	$ 3,202,570

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

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Budgetary Resources for Superfund Trust Fund
For the Periods Ending September 30, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

	FY 2009	Restated FY 2008
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	$ 1,392,311	$ 1,361,334
Adjusted Total	1,392,311	1,361,334
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(112,921)	(110,170)
Total Unpaid Obligated Balance, Net	1,279,390	1,251,164
Obligations Incurred, Net	2,242,345	1,689,394
Less: Gross Outlays	(1,654,470)	(1,489,936)
Obligated Balance Transferred, Net:		
Actual Transfers, Unpaid Obligations	-	-
Actual Transfers, Uncollected Customer Payments from Federal Sources	-	-
Total Unpaid Obligated Balance Transferred, Net	-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(118,278)	(168,480)
Change in Uncollected Customer Payments from Federal Sources	(5,975)	(2,752)
Total, Change in Obligated Balance	1,743,012	1,279,390
Obligated Balance, Net, End of Period:		
Unpaid Obligations	1,861,908	1,392,311
Less: Uncollected Customer Payments from Federal Sources	(118,896)	(112,921)
Total, Unpaid Obligated Balance, Net, End of Period	$ 1,743,012	$ 1,279,390
NET OUTLAYS		
Net Outlays:		
Gross Outlays (Note S6)	$ 1,654,470	$ 1,489,936
Less: Offsetting Collections (Note S6)	(304,434)	(464,790)
Less: Distributed Offsetting Receipts* (Notes S6)	(1,244,694)	(1,074,969)
Total, Net Outlays	$ 105,342	$ (49,823)

*Offsetting receipts line includes the amount in 68X0250 (payment to trust fund) from Treasury
The payment cannot be made directly through the trust fund, but must go through a "pass-through" fund

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

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Related Notes to Superfund Trust Financial Statements
For the Periods Ending September 30, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

Note S1. Fund Balance with Treasury for Superfund Trust

Fund Balances with Treasury for the Super Fund as of September 30, 2009 and 2008 is $62.63 million and $45.6 million, respectively. Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

Status of Fund Balances:	**FY 2009**	**FY 2008**
Unobligated Amounts in Fund Balances:		
Available for Obligation	$ 1,593,443	$ 1,512,670
Unavailable for Obligations	11,824	463
Net Receivables from Invested Balances	(3,277,674)	(2,749,821)
Balances in Treasury Trust Fund	(7,975)	2,894
Obligated Balance not yet Disbursed	1,743,013	1,279,390
Totals	**$ 62,631**	**$ 45,596**

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

Note S2. Cashout Advances, Superfund

Cashout Advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA, Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2009 and 2008, cashout advances are $572 million and $489 million as restated, respectively.

Note S3. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require states to enter into 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 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. 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, 2009, the total remaining state credits have been estimated at $21.9 million. The estimated ending credit balance on September 30, 2008 was $15.3 million.

Note S4. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2009 and 2008, EPA had 9 outstanding preauthorized mixed funding agreements with obligations totaling $19.9 million and $25.2 million respectively. 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 S5. Income and Expenses from other Appropriations; General Support Services Charged to Superfund

The Statement of Net Cost reports costs that represent the full costs of the program outputs. These costs 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 FYs 2009 and 2008, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. 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 consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2009			FY 2008		
	Income from Other Appropriations	**Expenses from Other Appropriations**	**Net Effect**	**Income from Other Appropriations**	**Expenses from Other Appropriations**	**Net Effect**
Superfund	$ 130,931	(130,931)	$ -	$ 69,769	(69,769)	$ -
All Others	(130,931)	130,931	-	(69,769)	69,769	-
Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are $234 thousand for FY 2009 and $500 thousand for FY 2008.

Note S6. Reconciliation of the Statement of Budgetary Resources to the President's Budget

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2007 Statement of Budgetary Resources, will be reconciled to the amounts included in the Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2009 has not yet been published. We expect it will be published by March 2010, and it will be available on the OMB website at http://www.whitehouse.gov/omb/budget/fy2010. The actual amounts published for the year ended September 30, 2008 are included in EPA's FY 2009 financial statement disclosures.

FY 2008	**Budgetary Resources**	**Obligations**	**Offsetting Receipts**	**Outlays**
Statement of Budgetary Resources	**$** 3,202,570	1,689,394	1,074,969	**$** 1,025,146
Rounding Differences*	(570)	(394)	31	1,854
Reported in Budget of the U. S. Government	**$ 3,202,000**	**$ 1,689,000**	**$ 1,075,000**	**$ 1,027,000**

* Balances are rounded to millions in the Budget Appendix.

Note S7. Superfund Eliminations

The Superfund Trust Fund has intra-agency activities with other EPA funds which are eliminated on the consolidated Balance Sheet and the Statement of Net Cost. These are listed below:

	FY 2009	**FY 2008**
Advances	\$14,327	\$9,716
Expenditure Transfers Payable	\$25,189	\$26,794
Accrued Liabilities	\$2,991	\$3,704
Expenses	\$29,100	\$28,718
Transfers	\$54,392	\$37,151

Appendix II

Agency's Response to Draft Report

11/12/2009

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal 2009 and 2008 (Restated)
Consolidated Financial Statements

FROM: Barbara J. Bennett (2710A) /s/
Chief Financial Officer

TO: Bill A. Roderick (2410T)
Deputy Inspector General

Fiscal Year 2009 marks another successful financial statements audit cycle for the U.S. Environmental Protection Agency. This year, we broadened Agency partnerships with a focus on strengthening fiscal integrity, enhancing core business operations, and contributing to Agency-wide performance management systems. We are proud of the many accomplishments and thank you for identifying additional areas for improvement in the draft Inspector General's Audit Report. The audit work performed will help shape future financial management initiatives.

Our offices worked together to expand stakeholder involvement, thereby engaging all parts of the Agency in fiscal stewardship yielding significant results. Attached are the Agency's responses to this audit report. Detailed corrective action plans will be provided to you and your staff within 90-days of the issuance of the final audit report. Please let me know if you have any questions, or your staff can contact Stefan Silzer, Acting Director, Office of Financial Management on 202-564-5389 regarding the audit.

Attachments

cc:
Craig E. Hooks, Assistant Administrator, Office of Administration and Resource Management
Gina McCarthy, Assistant Administrator, Office of Air and Radiation
Linda Travers, Acting Assistant Administrator, Office of Environmental Information
Steve Owens, Assistant Administrator, Office of Prevention, Pesticides and Toxic Substances
Lek Kadeli, Acting Assistant Administrator, Office of Research and Development
Susan B. Hazen, Principal Deputy Assistant Administrator, Office of Administration and Resource Management

Mike Flynn, Acting Deputy Assistant Administrator, Office of Environmental Information
Maryann Froehlich, Deputy Chief Financial Officer
Melissa Heist, Assistant Inspector General
Margaret Schneider, Director, Office of Administration and Policy Office of Enforcement and Compliance Assurance
Mark Badalamente, Deputy Director, Office of Administration and Policy Office of Enforcement and Compliance Assurance
Jack Puzak, Director, Office of Science Information Management
Larry Reiter, Director, National Exposure Research Laboratory
Dan Heggem, Acting Director, Environmental Sciences Division
Jed Harrison, Director, Radiation & Indoor Environment
Johnny Davis, Acting Director, Enterprise Desktop Solutions Division
Paul Curtis, Director, Financial Statements Audits
Dany Lavergne, Director, Las Vegas Finance Center
Jim Wood, Director, Cincinnati Finance Office
Sheron Johnson, Director, Human Resources Staff: Team Vegas
Dennisses Valdes, Director, Environmental Response Team – West
Richard Bennett, Staff Director, Reporting and Analysis Staff
Jeanne Conklin, Staff Director, Financial Policy and Planning Staff
Eva Ripollone, Staff Director, Applications Management Staff

Attachment 1

Response to Draft Audit of EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements

1 – EPA Understated Accounts Receivable for Fiscal 2008

Recommendations

We recommend that the Office of the Chief Financial Officer:

1. Develop a process to communicate routinely with the regional offices on a monthly or quarterly basis to identify any settlements not recorded on the Department of Justice (DOJ) debt assessed report or recorded within the Integrated Compliance Information System. Also, work with the offices to agree on a process that would include forwarding of settlement documents within the required time period.

Response: (Concur)
The Cincinnati Finance Center (CFC) communicates with regional offices and DOJ on a daily basis. As settlement documents are identified, the regions are contacted to request that the documentation be sent to CFC. In addition to the DOJ debt assessed report, CFC will utilize the DOJ 30-day tracking reports more extensively. As stated in the position paper, there were additional complexities that prevented this particular bankruptcy settlement from being forwarded to CFC or entered into the other Agency tracking systems. CFC staff will reiterate to the Regional Bankruptcy Coordinators that any bankruptcy settlement also needs to be sent to CFC so that an appropriate accounts receivable is established.

2. Re-inform and train Legal Enforcement Offices (LEOs), Office of Regional Counsels (ORCs), and Regional Program Offices (RPOs) on the requirement to timely send settlements to the finance center so the receivables can be recorded. Also work to establish and implement a process to ensure that the Servicing Finance Office (SFO) is aware of settlements by the end of the fiscal year to ensure that current year financial statements include accounts receivable for the current year.

Response: (Concur)
CFC provides training relating to accounts receivables whenever possible. For example, CFC provided accounts receivable training at the Superfund conference. In light of this particular bankruptcy issue, the topic was added to the National Bankruptcy Conference where CFC staff presented the Agency's position on the proper recording of a bankruptcy. Office of Site Remediation Enforcement (OSRE) is working on a Bankruptcy Guidance document to be disseminated to the regional offices outlining roles and responsibilities for each office within the process. CFC will continue to provide training, not only on an individual basis, but during regional visits, conferences, etc. and will continue to use any tools available to search for orders not readily sent to CFC.

2 – EPA Understated Unearned Revenue

Recommendations

We recommend that the Office of the Chief Financial Officer, in conjunction with the Regional Financial Management Offices and the Office of Budget:

3. Prepare the accounting entry to account correctly for the special account expenditures at the site level.

Response: (Concur)
A vast majority ($93.6 million) of these corrections relate to transactions between fiscal years 2003 and 2007. Therefore, a separate accounting model will need to be developed so that the proper general ledger accounts are impacted. The Office of Financial Services (OFS) will work with the Office of Financial Management (OFM) to develop an appropriate accounting model to record the transactions in IFMS. In addition, regional budget and/or finance personnel will need to be part of the correction process since reimbursable authority must be requested on a site by site basis for these transactions.

4. Work with Regional Comptrollers to correctly account for the improperly expended funds at the site level.

Response: (Concur)
The response for this recommendation is addressed with the response to recommendation 3, above. Since the majority of these transactions ($93.6 million) occurred between fiscal years 2003 and 2007 an accounting model will need to be created to properly record these corrections.

5. Develop controls over Special Accounts so that, for each site, the fund codes collected are the fund codes spent.

Response: (Concur)
OCFO will work with Regional Comptrollers to establish adequate controls over Special Accounts even though the control resides with their offices. The Regional Comptroller Offices work with the various regional program offices to provide funding for contracts, IAs, grants, etc. The control over which fund code is available for a particular site resides at the level where the request for reimbursable authority would occur.

OCFO's OFS will monitor special account fund code usage. The primary control for ensuring the proper fund codes are requested and used resides with the region requesting to use the funds.

3– Improvement Needed in Billing Costs and Reconciling Unearned Revenue for

Superfund State Contract Costs

Recommendations

We recommend that the Office of the Chief Financial Officer:

6. Direct the Superfund regional offices to verify that closed sites identified in the SSC spreadsheet meet the closed site criteria and the SSC site billings and disbursements data in the SSC spreadsheet are accurate.

Response: (Concur)
Based on existing guidance the applicable regions are responsible for identifying if a site should be open or closed. The regions are directly involved with the SSC negotiations and are in the best position to determine if a site should be closed. OFS relies on the regional expertise in this area. OCFO will reiterate regional responsibilities regarding site status.

7. Have its Office of Financial Policy and Planning Staff work with regional comptrollers and Superfund program personnel to research transactions in older funds and eliminate invalid transactions.

Response: (Concur)
The Financial Policy and Planning Staff (FPPS) in coordination with the Reporting and Analysis Staff (RAS) and the Program Costing Staff (PCS) will work with Regional Comptrollers and Superfund Program personnel to research transactions in older funds and eliminate invalid transactions. We plan to have the corrective action completed by September 30, 2010.

8. Establish a review process for reconciling Superfund site costs to ensure that data and calculations used are consistent and properly supported.

Response: (Concur)
OFS took over responsibility for entering data onto the SSC spreadsheets in the fourth quarter of fiscal 2008. OFS relied on the audited spreadsheets to that point and relied on the data as presented at that time. OFS has a process for verifying the data it added starting in the fourth quarter of fiscal 2008 forward. Based on vulnerabilities identified during the audit, OFS will strengthen review/verification controls.

9. Direct the regional offices to bill the States for costs incurred where necessary, including the $887,583 amount identified.

Response: (Concur)
OFS agrees with the intent of this recommendation for accurate billing.

4 – EPA Misstated Uncollectible Debt and Other Related Accounts

Recommendations

We recommend that the Office of the Chief Financial Officer:

10. Create a receivable billing document matrix to reflect a proper accounting model to record standard voucher adjustments and the movement of accounts from expiring or cancelled appropriations. Also, review the net impact of adjusting entries prior to issuing an accounting model to ensure account balances are proper.

Response: (Concur)
OFM will review the current accounting model and revise it as appropriate to properly record adjustments for the movement of accounts from expiring or cancelled appropriations. OFM will review the net impact of entries prior to issuing the accounting model by June 30, 2010.

11. Review its accounting model provided to SFOs for net impact to expenses and revenues from prior periods to ensure that financial statements are not misstated.

Response: (Concur)
OFM will review its accounting model provided to SFOs for net impact to expenses and revenues from prior periods to ensure that financial statements are not misstated.

5 – EPA Needs to Improve Billing and Accounting for Accounts Receivable

Recommendations

We recommend that the Office of the Chief Financial Officer:

12. Research and resolve the $1,237,468 of unbilled accounts receivable credit balances to ensure the accuracy of future quarterly unbilled accounts receivable before they are entered into IFMS.

Response: (Do not concur)
In calculating the reimbursable accrual, we consider all activity related to non-advance federal reimbursable agreements to be part of the accrual. CFC did research the credits which were part of the reimbursable accrual for the 4th quarter. Credits were excluded from the accrual report if they were not valid or if the offset was in an expired year. There are valid reasons why the credits left on the report ($1.2 million) should be included in the overall accrual calculation. Major components include:

- $144K relates to the National Oil Agreement, which includes dozens of Org codes related to that one agreement. Not including these credits would overstate the accrual for this agreement. The majority of the oil credits are due to the indirect costs which are billed and collected at the site level, but distributed at the non-site level.

- Over $682K related to two agreements in which there are multiple Org codes. The credit lines offset the unbilled expenses against another Org code. By eliminating these Org codes with credits, it would overstate the overall accrual for those agreements.

- Over $129K relate to FEMA agreements in which the mission assignments have not been closed. We are not refunding this until the mission assignments are closed, which will confirm there are no trailing costs.

13. Work with other federal agencies to resolve each credit balance to ensure the exclusion of credit amounts from future unbilled accounts receivable calculations.

Response: (Do not concur)
While we do agree that if a credit can be resolved/refunded, it should, and CFC will strive to monitor and clear credits whenever possible, we disagree that they should be removed from the accrual calculation. There was not a problem with the calculation itself, and credits should be included in this calculation unless identified as invalid. While CFC works closely with other Federal Agencies regarding reimbursable agreements, there is no reason to seek assistance with the credits on the accrual report.

14. Work with RPOs, ORCs, and LEOs to obtain legal documentation sooner so receivables are recorded timely. Institute a process to review DOJ tracking mechanisms for the status of consent decrees and judgments.

Response: (Concur)
CFC works closely with the regions and DOJ, and has instituted the use of many tools to assist with identifying and tracking finalized orders. CFC has a process that has been identified and supported by Agency policy. This recommendation is similar to recommendations in the Draft Fines & Penalties Report; hence, additional information will be outlined in the response to the Fines & Penalties Report, which encompasses all Offices involved in the Accounts Receivable process

15. Establish a supervisory review process to ensure procedures are being followed, and interest and federal receivables are properly recorded.

Response: (Concur)
CFC has procedures in place for how to treat interest lines and federal receivables. These procedures will be reviewed with staff during staff meetings and/or performance reviews to ensure there is a clear understanding of the proper treatment of these types of receivables.

16. Establish a process to review the allowance calculation for errors, including proper application of calculation methods.

Response: (Concur)
CFC will add this review to the quarterly allowance calculation to ensure multiple lines of a debt are recorded with the same allowance method.

17. Develop a process to review and update receivable status code updates in the financial system quarterly.

Response: (Concur)
While CFC does review and follow up on delinquent debt, especially the large dollar debt, they will also ensure that the smaller dollar delinquent debt is followed up on and resolved as well.

The Office of Inspector General (OIG) report has some factual errors and does not accurately characterize what happened

Page 1 – "in the letter to the Administrator, it references that eight settlement agreements were not entered." It should state six settlement agreements were not entered.

Page 4 – "Program Offices did not inform the Servicing Finance Office of the multi-party settlements in time to record the receivables in the financial system in fiscal 2009". It should state fiscal year 2008.

Page 5 – "we identified errors in EPA's accounting and recording for 57 accounts receivables in the financial system." It should reference that 37 of the 57 accounts receivables were entered correctly though not within the timeframe listed in Agency policy.

6 – Headquarters Property Items Not Inventoried

Recommendation

We recommend that the Assistant Administrator, Office of Administration and Resources Management:

18. Require the Director, Facilities Management and Services Division, to promptly conduct an inventory of the 1,804 Headquarters Accountable Property items not inventoried in fiscal 2009.

Response: (Concur)
Deployment has been completed for the CTS computers; all Agency property replaced during the life of the project will not be released for disposal until January 31, 2010.

The speed and volume of deployment has presented challenges from a property inventory perspective. Despite best efforts of both offices, the property Team was not able to maintain timely and accurate tracking of the replaced Agency property. There have been instituted appropriate controls to resolve the identified property management concerns. The Property Team has developed a plan to locate all of the missing equipment, in particular the 23 missing capitalized pieces. There will be an inventory done where the Property Team will perform a wall-to-wall inventory; during which every office, cubicle, storage room, and conference room will be inventoried. The warehouses in Landover and the V Street location will also be subject to the comprehensive inventory process.

The Property Team will prepare a message to be issued to all Property Management Officers as well as the Headquarters Custodial Officers to request a complete inventory of all equipment replaced at Headquarters as part of the CTS project. At the conclusion of these activities, the Property Team will conduct a complete reconciliation process and any outstanding items of personal property will be tracked and accounted for in IFMS and FAS.

7 – EPA Should Improve Its Financial Statement Preparation Process

We recommend that the Office of the Chief Financial Officer:

19. Implement an effective review process for all on-top adjustments to ensure that individual entries within funds will balance (debits/credits) properly.

Response: (Do Not Concur)
OFM/RAS disagrees with the recommendation**.** In our response to Observation #1 below, we described our handling of the on-top adjustments, and that the entries did not result in an out of balance condition.

OIG Observation #1: "During our analysis of the fourth quarter on-top adjustments, we identified four one sided on-top adjustments. The on-top adjustment should have equal debits and credit balances. In the case of the four one sided on-tops adjustments, they either have a debit or credit balance. The Agency reviewed and approved these entries."

RAS Response: RAS clearly labeled on the explanation line on the ontop adjustment forms in question that the debit/credit differences are reconciled on the next pages, thus, ensuring that there is no negative impact on the financial statements. The Bureau of Public Debt consolidates the activities of the Superfund program and the Recovery Act Superfund program in a single trial balance. This is also the case for the Leaking Underground Storage Tank (LUST) program and the Recovery Act LUST program. However, EPA separately records the activities of the Superfund and Recovery Act Superfund programs as well as the LUST and Recovery Act LUST programs in four separate trial balances for transparency. To reiterate, in handling this unique situation, RAS processed four separate ontop adjustments; i.e., one adjustment for the Superfund program and one adjustment for the Recovery Act Superfund program as well as one adjustment for the LUST program and one adjustment for the Recovery Act LUST program and cross referenced and reconciled the debit/credit differences. RAS prepared similar entries in the FY 2009 2nd and 3rd quarters, and did not receive OIG feedback via the Agreed Upon procedures that there were issues.

20. Update the *Financial Statement Preparation Guide* to contain guidance or instructions for changing on-top adjustments to either journal vouchers and/or standard vouchers.

Response: (Concur)
OFM/RAS addressed this recommendation in an e-mail message on October 23, 2009, and agreed with OIG's suggestion to attach its internal checklist as an appendix to the Financial Statement Preparation Guide. RAS had not changed its routine for Ontop Adjustments. RAS has been processing Journal Vouchers (JV's), Standard Voucher(s) or Ontop Adjustments over the years as needed in accordance with an internal checklist, "OFM Tasks Impacting FY 2009 Financial Statements Quarter."

21. Update the YACT and the general ledger matrix to identify current fiscal year general ledger accounts and their related closing activity.

Response: (Concur)
OFM concurs with the intent of having up-to-date matrixes. The YACT table is currently updated on an annual basis. OFM/RAS will continue this practice. OFM/RAS annually downloads the General Ledger Account (GLAC) Table into an Excel file that contains the latest general ledger account updates and crosswalks EPA accounts with the U.S. Standard General Ledger accounts. This user-friendly tool allows the user to sort, filter the data, or create Excel pivot tables for additional analysis. The example that the OIG cited in their write-up was already addressed by RAS in the Agreed Upon Procedures during the year.

Annually, OFM/RAS has provided OIG staff with a download of the GLAC Table which contains the latest General Ledger account updates and crosswalks EPA accounts with the U.S. Standard General Ledger accounts. On May 7, 2009, OFM provided OIG, with the latest download of the GLAC table. Noteworthy, the download of the GLAC table into an Excel file is a user-friendly tool which allows the user to sort, filter the data, or create Excel pivot tables for additional analysis. Once again, annually this process is evaluated by KPMG in their A-123 Review to ensure its timeliness and correctness. OFM will post the updated matrix on the OCFO intranet.

8 – Unneeded Funds Not Deobligated Timely

Recommendations

We recommend that the Office of Chief Financial Officer:

22. Have the appropriate EPA Finance Center deobligate or confirm the deobligation of unneeded funds identified during the fiscal 2009 ULO review.

Response: (Concur)
OFM/RAS will confirm with the appropriate Finance Center that it processed all deobligation requests that it has received.

23. Have the Director, Reporting and Analysis Staff, follow-up with the appropriate EPA Finance Center to confirm the amount of funds to be deobligated before yearend

Response: (Concur)
While OCFO agrees with the intent of the recommendation to deobligate unneeded funds, it will continue to use its current year-end certification process to identify unneeded funds that were not deobligated.

The Office of Inspector General (OIG) report has some factual errors and does not accurately characterize what happened.

The OIG report indicates that the Stratospheric Protection Division identified in July 2009 $58,414 in miscellaneous unneeded funds for deobligation, but that the Stratospheric Protection Division did not inform the Office of Administration and Resources Management (OARM) to take the necessary action to deobligate the unneeded funds. Actually, in an e-mail dated July 24, 2008, the Stratospheric Protection Division asked its OAM contracting officers to deobligate a number of unliquidated obligations that totaled approximately $130,000. The $58,414, in miscellaneous unneeded funds of interest to the OIG, was a subset of the transactions that the Stratospheric Protection Division requested to have deobligated on July 24, 2008.

As part of our annual review of unliquidated obligations in 2009, we found that our original e-mail request of July 24, 2008 was not completed. In examining our original e-mail request of July 24, 2008, we can see that the request could be misinterpreted -- that the e-mail request was not crystal clear. In the future, when we request that unliquidated obligations be deobligated, we will make our communications crystal clear, and we will follow-up with OARM to ensure that our requests are completed.

9 – Integrated Financial Management System User Account Management Needs Improvement

Recommendations:

We recommend that the Office of the Chief Financial Officer:

24. Develop and implement an OCFO policy that formally defines the incompatible functions associated with the financial management processes EPA performs related to all of EPA's financial management systems.

Response (Concur) The Office of Technology Solutions concurs with all recommendations. The Office of Technology Solutions in coordination with the FPPS will develop and implement a policy regarding the segregation of duties. Based on this policy the Applications Management Staff will develop and implement detective controls to enforce the integrity of the internal control environment regarding user account management in the IFMS. We plan to have the corrective action completed by December 30, 2010.

25. Develop and implement a detective control that the IFMS Security Administrator can use on at least a monthly basis to identify and remove a user's access rights that allow a user to perform incompatible functions within IFMS**. Response (Concur) - see 24 above**

26. Update the Request Database to identify and alert the requestor of incompatible functions. **Response (Concur)-see 24 above**

27. Ensure that all new financial management systems (including the IFMS replacement system) and those undergoing upgrades include a system requirement that the fielded system include an automated control to enforce separation of duties. **Response (Concur) - see 24 above**

28. Update the formal standard operating procedures for the IFMS Security Administrator requiring that the Security Administrator return all incomplete forms to the requestor and that the Security Administrator assist the requestor in completing the form correctly prior to granting access. **Response (Concur) - see 24 above**

29. Develop and implement a detective control to identify and correct instances where the access rights within IFMS do not match the rights requested on at least a monthly basis. **Response (Concur) - see 24 above**

30. Develop and implement a detective control by performing comparative analysis on at least a monthly basis of the terminated personnel within the Human Resources system to the active users within the IFMS application to identify and disable active users who no longer work for the Agency. **Response (Concur) - see 24 above**

31. Develop and implement an OCFO policy for all financial management systems to link the user administration process to Human Resources data as a fail safe to ensure that all transferred/terminated personnel's financial management system user accounts are disabled in a timely manner. **Response (Concur) - see 24 above**

32. Ensure that all new financial management systems (including the IFMS replacement system) and those undergoing upgrades include a system requirement that the fielded systems have an automated control in place to provide a fail safe that links to the Human Resources data to identify and disable terminated/transferred personnel in the system in a timely manner. **Response (Concur) - see 24 above**

10 – Las Vegas Finance Center Needs Improved Physical Access Controls

Recommendations

We recommend that the Assistant Administrator for Research and Development:

33. Develop and implement procedures to ensure that all organizations are provided with the information necessary to monitor and review the access to their space both if and when the transfer takes place as well as in the interim until the transfer takes place, including:

- a. Providing electronic copies of the following reports to the director of each organization supported by the system on a monthly basis to enable them to monitor and review the access to their space.
    - i. A Standard Report showing all of the access groups in Las Vegas that lists for each group:
        1. Each of the doors the group can access, and
        2. The days of the week and times that the group can access each of the doors.
    - ii. A Standard Report showing all of the access groups in Las Vegas that lists all of the users, their associated Card ID, and the expiration date of the access for each of the users for each group.
    - iii. For reviewing the logged history of users' access, a standard report that shows the: (1) criteria used for the creation of the report, (2) date and time of the access attempt, (3) action taken by the device, (4) location/site, (5) door, (6) user name, and (7) card ID.
- b. Providing, upon request, the reports as requested by the organizations in a timely manner (within 2 working days) for special situations.

Response (Concur)
ORD will work collaboratively with other AA-ships to appropriately redistribute physical security responsibilities. Given this information, we believe that the most prudent course of action would be for the AA-ships occupying the La Plaza facilities to have their own physical access system, Physical Security Program, and supporting policies and

procedures.

During the recent Las Vegas EPA Director's meeting held on October 22, 2009, the La Plaza EPA offices agreed to implement a physical access system for La Plaza and are working on the technical requirements with the vendor. Barring any unforeseen complications, the non-ORD offices are expected to be off the ORD system no later than March 31, 2010. To address Recommendation 33, in the interim, ORD/OSIM will update the current standard operating procedures (SOP) to provide electronic reports allowing each organization to monitor and review access to their space until an independent card access system is implemented, and responsibility for this function transfers to the responsible organization. Expected completion date is December 18, 2009.

34. Develop and implement a formal procedure that ensures each organization supported by the system performs a review of the logs and access reports provided by ORD associated with their space to look for anomalies on at least a monthly basis. **Response (Do Not Concur)**

35. Develop and implement a formal procedure that ensures each organization supported by the system verifies on at least an annual basis that all users associated with their space still need their current access to perform their assigned responsibilities. **Response (Do Not Concur)**

The appropriate course of action for Recommendations 34 and 35 will require more discussions between the Agency leaders and the OIG staff. We do not believe it is appropriate or prudent for ORD to have oversight responsibility for La Plaza AA-ships given that ORD will not have the authority or the responsibility for the La Plaza Physical Security Program.

11 – Customer Technology Solutions Equipment Needs Improved Security Planning

Given the widespread use of CTS equipment throughout the Agency, thousands of potentially unmonitored computers reside on EPA's network. These unmonitored computers could serve as gateways to providing unauthorized access to the Agency's network. As such, EPA lacked processes to identify these threats or the capability to lessen their impact. We plan to recommend in a separate report that EPA:

A. Develop and implement a vulnerability testing and remediation process for CTS equipment consistent with existing EPA security policies and procedures.

Response: (Do Not Concur)
In accordance with the Agency Network Security Policy, CTS conducts regular vulnerability testing and remediation on its assets at least once a quarter. Additional annual vulnerability

testing and remediation is completed via its annual assessment activity. CTS is however, in the process of reviewing its vulnerability testing and remediation process to in an effort to establish roles and responsibilities for local Information Security Officers (ISO) to ensure their ability to management vulnerability testing and remediation independently as we have identified this area as a potential area of interest.

B. Issue a memorandum to Agency Senior Information Officials requiring their program office to conduct vulnerability testing of CTS equipment until a formal vulnerability testing and management process with CTS has been established.

Response: (Do Not Concur)
The Senior Agency Information Security Officer (SAISO) has issued a memorandum to the Agency Senior Information Officials (SIO) reminded them and the staffs of the NIST requirements for vulnerability testing and remediation. We understand that this memorandum did not address the recommendation to conduct vulnerability testing and remediation on a monthly basis vs. quarterly as identified in NIST SP 800-123. This recommendation is being considered by the Agency Information Security Program Work Group.

C. Require CTS to remediate the issues identified in a timely manner and provide evidence to the initiating Senior Information Officer of the completion of the corrective actions necessary to remediate the issues identified until a formal vulnerability testing and management process with CTS has been established.

Response: (Concur)
CTS Zone Representatives shall conduct a quarterly review with each Primary Information Security Officer (ISO) demonstrating the evidence of the timely corrective actions taken to remediate identified vulnerability from our testing and remediation activities.

D. Ensure that all CTS security documents have been developed and approved by the appropriate EPA officials.

Response: (Do Not Concur)
All CTS security documents have been developed and approved by the appropriate EPA officials. A copy of the entire Certification & Accreditation (C&A) package has been provided to the OIG as requested. Additionally, copies of the security documentation produced prior to deployment are being provided to demonstrate the level of risk assessed prior to deployment.

12 – EPA Should Continue Efforts to Reconcile Intra-governmental Transactions

Recommendation

We recommend that the Office of the Chief Financial Officer:

36. Have its Office of Financial Services continue to reconcile EPA's intra-governmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.

Response: (Concur)
The Cincinnati Finance Center will continue to work with trading partners to reconcile balances and make appropriate adjustments to comply with Federal financial reporting requirements.

Responsible Managers:

____ Signature/Date
Stefan Silzer , Acting Director, Office of Financial Management, OCFO

____ Signature/Date
Raffael Stein, Acting Director, Office of Financial Services, OCFO

____Signature/Date
Kathy O'Brien, Acting Director, Office of Technology Solutions, OCFO

____Signature/Date
David Bloom, Director, Office of Budget, OCFO

____Signature/Date
Patrice Kortuem, Deputy Director, Office of Resources and Information Management, OCFO

____Signature/Date
Lek Kadeli, Acting Assistant Administrator, Office of Research and Development

____Signature/Date
Vaughn Noga, Acting Director, Office of Technology Operations and Planning
Office of Environmental Information

____Signature/Date
Craig Hooks, Assistant Administrator, Office of Administration and Resource Management

Appendix III

Distribution

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