



U.S. ENVIRONMENTAL PROTECTION AGENCY

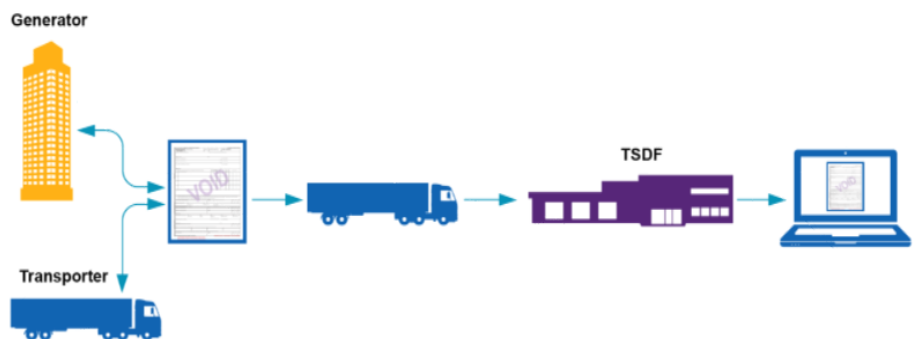
OFFICE OF INSPECTOR GENERAL

Financial Management

EPA's Fiscal Years 2016 and 2015 Hazardous Waste Electronic Manifest System Fund Financial Statements

Report No. 17-F-0363

August 14, 2017



Report Contributors:

Paul Curtis
Wanda Arrington
Mairim Lopez
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Abbreviations

EPA U.S. Environmental Protection Agency
FMFIA Federal Managers' Financial Integrity Act of 1982
OIG Office of Inspector General
OMB Office of Management and Budget

Cover photo: Diagram illustrating manifests submission through a hybrid approach.
(EPA image)

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At a Glance

Why We Did This Review

We performed this audit pursuant to the Hazardous Waste Electronic Manifest Establishment Act. The act requires the U.S. Environmental Protection Agency (EPA) to prepare, and the Office of Inspector General (OIG) to audit, the Hazardous Waste Electronic Manifest System Fund financial statements each year. Our primary objectives were to determine whether:

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

The e-Manifest system is being designed to create a means to track off-site shipments of hazardous waste from a generator's site to the site of the receipt, and disposition of the hazardous waste.

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

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Listing of [OIG reports](#).

EPA's Fiscal Years 2016 and 2015 Hazardous Waste Electronic Manifest System Fund Financial Statements

What We Found

We rendered an unmodified opinion on the EPA's fiscal years 2016 and 2015 Hazardous Waste Electronic Manifest System Fund financial statements, meaning that the statements were fairly presented and free of material misstatement.

We found the fund's financial statements to be fairly presented and free of material misstatements.

We did not identify any matters that we consider to be material weaknesses or significant deficiencies in the fund.

We identified no significant matters involving compliance with laws and regulations that came to our attention during the course of the audit.

There are no recommendations in this report.



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

OFFICE OF
INSPECTOR GENERAL

August 14, 2017

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2016 and 2015 Hazardous Waste Electronic Manifest System Fund
Financial Statements
Report No. 17-F-0363

FROM: Paul C. Curtis, Director
Financial Statement Audits

A handwritten signature in black ink, appearing to read "Paul C. Curtis".

TO: David Bloom, Acting Chief Financial Officer
Office of the Chief Financial Officer

Barry Breen, Acting Assistant Administrator
Office of Land and Emergency Management

Donna Vizian, Acting Assistant Administrator
Office of Administration and Resources Management

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) Hazardous Waste Electronic Manifest System Fund financial statements for fiscal years 2016 and 2015, conducted by the Office of Inspector General (OIG). The project number for this audit was OA-FY17-0146.

This report contains no recommendations, and you are not required to respond to this report. However, if you submit a response, it will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

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Hazardous Waste Electronic Manifest System (e-Manifest) Fund
Financial Statements**
- B Distribution**

Inspector General's Report on EPA's Fiscal Years 2016 and 2015 Hazardous Waste Electronic Manifest System Fund Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency's (EPA's) Hazardous Waste Electronic Manifest System Fund (known as the e-Manifest fund), which comprise the balance sheet for the fiscal year ended September 30, 2016, and September 30, 2015, and the related statements of net cost and changes in net position; the statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the Hazardous Waste Electronic Manifest System Fund financial statements, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position and budgetary resources of the EPA as of September 30, 2016, and September 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

Specific Audit Requirements of the Hazardous Waste Electronic Manifest Establishment Act

The Hazardous Waste Electronic Manifest Establishment Act (e-Manifest Act) requires the Office of Inspector General (OIG) to include an analysis of (1) the fees collected and disbursed, (2) the reasonableness of the fee structure in place, (3) the level of use of the system by users, and (4) the success to date of the system in operating on a self-sustaining basis and improving the efficiency of tracking waste shipments and transmitting waste shipment data. As the fund has not yet established a fee structure and started use of the system, no such analyses were performed.

Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management. We obtained information from the fund's management about its methods for preparing the Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements.

We did not identify any material inconsistencies between the information presented in the fund's financial statements and the information presented in the Management's Discussion and Analysis.

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the fund's Management's Discussion and Analysis.

Report on Internal Control Over Financial Reporting

Opinion on Internal Controls. In planning and performing our audit, we considered the fund's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had been placed in operations, assessing control risk, and performing tests of controls. We did this as a basis for designing our audit 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. 15-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Material Weaknesses and Significant Deficiencies. 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. A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected.

We did not note any matters that we consider to be material weaknesses or significant deficiencies in the fund.

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

OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report. The agency's FMFIA report is prepared and submitted at the consolidated level, of which the e-Manifest fund is a

component. The agency reported one material weakness in fiscal year 2016 regarding capitalized software, which may impact the fund. Capitalized software continues to be reported as a material weakness in the design and operation of internal controls. While capitalized software continues to be a material weakness for the agency, the EPA is in the process of accumulating costs in the development of software, and as a result, it is too early to determine whether the fund will be impacted.

Tests of Compliance With Laws, Regulations and Contracts

EPA management is responsible for complying with laws, regulations and contracts applicable to the agency and the fund. As part of obtaining reasonable assurance about whether the fund'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. 15-02, *Audit Requirements for Federal Financial Statements*. 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. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA's Hazardous Waste Electronic Manifest System Fund.

Opinion on Compliance With Laws and Regulations

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.

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

Prior Audit Coverage

During our previous financial statements audit, we reported a noncompliance with the e-Manifest Act.

In fiscal year 2015, the EPA used e-Manifest appropriated funds totaling \$22,294 to cover contract costs unrelated to the e-Manifest project. According to the e-Manifest Act, at Section 2, Subsection (d)(2)(C), the EPA shall take all necessary measures to ensure that amounts in the e-Manifest fund are used only to carry out the goals of establishing, operating, maintaining, upgrading, managing, supporting and overseeing the e-Manifest system. The EPA did not have adequate oversight to prevent the inappropriate use of the e-Manifest fund. As a result, the EPA was not in compliance with the e-Manifest Act.

The agency agreed with our fiscal year 2015 audit finding and recommendations. In response to our recommendations, the agency implemented and completed all corrective actions. As part of its corrective actions, the agency:

- Refunded the e-Manifest fund for all the amounts paid for costs unrelated to the e-Manifest project during fiscal year 2015.
- Included reminders in financial reports and issued guidance affirming that e-Manifest funds may only be used for e-Manifest work.
- Added “proper invoice processing” as a performance standard to the performance agreements.

During our current audit, we identified additional contract costs covered with e-Manifest appropriated funds during fiscal year 2016 that were unrelated to the project. However, the agency is in the process of reimbursing the fund for these costs. As a result, we are not issuing any recommendations in our fiscal year 2016 audit report.

Agency Comments

There are no recommendations in this report, and the agency had no comments.



Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
August 11, 2017

**For the Fiscal Years Ending September 30, 2016 and 2015
Hazardous Waste Electronic Manifest System (e-Manifest) Fund
Financial Statements**



*Produced by the U.S. Environmental Protection Agency
Office of the Chief Financial Officer
Office of the Controller*

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Management's Discussion and Analysis

Introduction

The Hazardous Waste Electronic Manifest System fund (e-Manifest) was established as a result of the Hazardous Waste Manifest Establishment Act (Public Law 112-195, October 5, 2012). The e-Manifest Act requires the United States Environmental Protection Agency ('EPA' or 'the Agency') to establish and own a hazardous waste electronic manifest program information technology ('IT') system that will enable electronic manifesting as a means to augment or replace the use of paper manifests for tracking hazardous waste shipments. The e-Manifest Act requires that the e-Manifest system:

1. Meet the needs of the user community;
2. Attract sufficient user participation and service revenues to ensure the viability of the system (the e-Manifest Act authorizes EPA to collect reasonable user fees); and
3. Decrease the administrative burden on the user community.

Current EPA RCRA Manifest Program

The EPA Office of Land and Emergency Management (OLEM) provides policy, guidance and direction for the Agency's emergency response and waste programs. The Office of Resource Conservation and Recovery (ORCR) within OLEM works to protect human health and the environment by ensuring responsible national management of hazardous and nonhazardous waste. Working with delegated state waste programs, ORCR implements the 1976 Resource Conservation and Recovery Act (RCRA), and ensures that the resource conservation, recovery and waste management goals of RCRA are met. All states with the exception of Iowa and Alaska have been delegated RCRA authority, meaning that states implement many if not all aspects of RCRA policy.

The manifest program as implemented by EPA and the states ensures that hazardous waste shipments are consistently tracked, and that hazardous wastes in fact arrive at permitted waste management facilities. The manifest program is based on both RCRA and Department of Transportation (DOT) hazardous materials law (The Hazardous Materials Transportation Act (HMTA)). These laws together require uniformity in the content and use of the hazardous waste manifest form.

e-Manifest System Planning Activities

Discussion of the e-Manifest system itself has taken place over many years; beginning back in the 1990's when the concept of an electronic manifest system was first taking shape. Further activities continued over the years to envision the e-Manifest system through various stakeholder discussions and pilots. For more information on EPA's efforts prior to the passage of the e-Manifest Act in 2012, [Please visit http://www.epa.gov/osw/hazard/transportation/manifest/e-man-pastmeetings.htm](http://www.epa.gov/osw/hazard/transportation/manifest/e-man-pastmeetings.htm).

In early calendar year 2013, EPA conducted various stakeholder requirements meetings to reengage with the user community. The purpose of these meetings was to build on past e-Manifest work to determine high level system functional requirements. Following this, a system alternatives analysis was conducted to look at various system implementation approaches, all assuming (among other things) a full electronic mobile workflow. The alternatives analysis recommended that EPA leverage cloud hosting for initial system development and system launch, and for long term operations and maintenance, consider re-negotiating the cloud contract model or potentially migrate to an on premise hosting model to keep costs down.

Also as a part of the planning work, a system Concept of Operations (CONOPS) was completed that, at a high level, outlines both what the current manifest process entails for highway and rail transporters as well as what the future system may look like. The CONOPS document provides a process and conceptual model for how data will flow from stakeholder to stakeholder and through the system during the manifest workflow.

The technical architecture for e-Manifest was completed in FY 2015. This architecture includes the specific components and data flows as currently defined to illustrate a technical solution for the e-Manifest system. In doing so, it defines the specific boundaries of the e-Manifest system and how the different parts of the system work together to provide the required services based on current requirements. For example, areas such as system Cross-Media Electronic Reporting Regulation (CROMERR) integration, paper manifest processing and manifest data quality assurance (QA) were analyzed as a part of this effort.

As a part of this technical architecture planning work, EPA conducted targeted meetings with states and industry separately in order to further flesh out current processes as well as expectations for the above areas. The meetings were more detailed than previous discussions, and provided critical information to inform system requirements.

The technical architecture work completed in FY 2015 serves as baseline for the current manifest program and provides very strong foundation for future system buildout. It meets user needs and provides flexibility for future iterations of the system.

Building on FY 2015, in FY 2016 the e-Manifest program realized significant progress while leveraging existing ORCR software applications. EPA initially conceived e-Manifest as a standalone system and allowed the system architects to consider a broad range of approaches without inherent constraints from an existing system design. However, as designs matured, it was recognized that the e-Manifest technical solution aligned closely with RCRAInfo in terms of end user functionality, data integration, and required technical infrastructure. These factors led to the decision to implement e-Manifest as a unique module of RCRAInfo.

Many of the new capabilities of e-Manifest can be implemented in RCRAInfo using the existing modular architecture present in RCRAInfo. In addition, some of the more innovative design aspects of e-Manifest could also be incorporated into RCRAInfo, improving both systems.

By leveraging e-Manifest and RCRAInfo modules, opportunities for reuse of existing technology investments were present, reducing the burden of e-Manifest implementation. These factors led to the decision to develop e-Manifest and RCRAInfo modules as distinct, but as interrelated entities which will meet the current and future needs of industry, government and the public.

Acquisition Strategy Change

The EPA's system development work is focused on ensuring user needs are met from day one of national system deployment. To accomplish this, the agency is conducting user-centered design and development, and is utilizing agile software development methodologies. This approach embodies continuous improvement through pilots and testing, using iterative processes, and continued regular engagement with users and stakeholders throughout the process to provide on-going opportunities for input.

Instead of locking in on one source, the new e-Manifest program services contract (multi-vendor indefinite delivery/indefinite quantity (IDIQ)) will utilize a variety of vehicles for the following segments of the system:

- Project management including integration services.
- Paper manifest processing.
- User help desk and user training.
- Quality assurance for manifest data amongst industry, states, and the EPA.
- Services to calculate, collect, and support reporting of user fees for paper and electronic manifest processing.
- Support for stakeholder communication, including outreach and meeting support.

Research has shown that using this type of lean start-up methodology, with agile techniques, lowers the cost of system development by addressing uncertainties promptly, and by ensuring that the work being completed brings real value to users.

The agency engaged with the U.S. General Services Agency's "18F" government IT development support group. In September 2015, the EPA completed an initial system demonstration. The EPA worked with several industry users to complete this initial system functionality, and is compiling their technical feedback/testing results on how to improve or better meet their needs.

The agency will continue to work closely with users, adding more functionality in an incremental manner, evolving to a minimum viable product, and providing continuous improvement for the lifetime of the system. By taking this iterative approach the EPA will refine remaining uncertainties from our architecture planning work in the most cost effective manner.

e-Manifest System Development

As a follow-on to the completed technical and conceptual architecture, e-Manifest embarked on a pilot to create initial system functionality with the General Service Administrations (GSA) 18F consulting shop. The 18F group provided the IT expertise to create the foundation of e-Manifest and also provided agile project management support. Specifically, 18F:

- Introduced user-centered design/development, which engages industry/state users in the early phases of development;
- Created the development platform and hosting environment for e-Manifest; and
- Leveraged open source technologies (Trello, GitHub, biweekly online meetings showcasing recent system updates) to allow users and other stakeholders to follow and participate in system development.

As part of the agile development focus, in September 2015, EPA, in partnership with 18F, completed an initial system demonstration. This focused on a key aspect of the system: the transaction at the end of the chain-of-custody when the hazardous waste arrives at the designated waste management facility and that facility signs the electronic manifest to verify that all the hazardous waste types and quantities were received. Getting the system to properly electronically execute this all-important manifest transaction was a critical first step. EPA worked with several industry users to complete this initial system functionality.

Although not as straightforward as standard government IT development projects, this course correction from traditional lifecycle system development (“waterfall”) methodology to agile will ultimately deliver a better system in a quicker, more value-added method going forward.

Starting with this initial system, EPA has been adding more functionality in an incremental manner. Research has shown that using this type of lean start-up methodology with agile techniques lowers the cost of current and future system development by addressing uncertainties sooner rather than later. Therefore, EPA has been conducting user-centered design and development, starting with the small scale demonstration phase. Open source code and project engages industry and state users in the early phases of development, creation of a development platform, and a hosting environment. EPA will expand engagement efforts to all users over time (e.g., states with no systems, large and small generators, etc.).

The agile software development methodology embodies continuous improvement through iterative development and delivers software in sprints. Agile embraces change, continuous and regular feedback and improvement, value-driven delivery, full-team collaboration, and learning through discovery. Agile techniques cannot eliminate the challenges intrinsic to high-discovery software development but by focusing on continuous delivery of incremental value and shorter feedback cycles. They expose challenges as early as possible to allow for immediate correction. EPA has adopted lean start-up product development strategies with agile, user-centered software design/development methodologies, and has implemented the following:

- Two-week sprint intervals;
- Modular development practices, relying heavily on available off-the-shelf software modules, by building individual working pieces of the system and integrating them into the whole;
- Early engagement with users and stakeholders, addressing uncertainties that arose during the initial architecture planning work;
- Upfront risk management, bringing down the cost of current and future development by ensuring that the work being completed brings actual value to stakeholders and users; and
- Continuous improvement, using iterative processes, and engaging regularly with users and stakeholders throughout the life of the program.

EPA has made every effort to involve industry users in the development process to build the strongest possible system. During the system development phase, the e-Manifest team is working alongside industry, states, and other stakeholders, by focusing on issues raised and addressing the issues, including the following:

- Assessing how the national e-Manifest system will connect with state and industry systems;
- Engaging users in testing the web application; and
- Addressing state data access needs

The e-Manifest team communicates regularly with states, industry, and related stakeholders about ongoing developments (i.e., continued release and testing of system iterations), updates on e-Manifest related rules (i.e., user fees for the e-Manifest system and amendments to manifest regulations), and the national launch of the e-Manifest system.

Our primary methods of communication include the following:

- The e-Manifest website
- User testing
- Conferences
- Site visits
- Listserv (general interest and development-focused)
- Public webinars
- Blog posts
- GitHub – code repository and project management

- FACA Meetings
- Meetings with stakeholders.

Provided e-Manifest is fully-funded; we will follow this path of milestones to system launch in the spring of 2018.

- September 2015– initial system functionality completed.
- Spring of 2016 – minimal viable product development.
- Spring through fall of 2016 – early full scale development.
- Fall of 2016 through winter of 2018 – rolling iterative releases/testing of system.
- Calendar year 2018 – national deployment (collecting user fees).

Principal Financial Statements:

**Environmental Protection Agency
e-Manifest
BALANCE SHEET
As of September 30, 2016 and 2015
(Dollars in Thousands)**

	<u>FY 2016</u>	<u>FY 2015</u>
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 5,230	\$ 3,411
Other (Note 3)	5	7
Total Intragovernmental	<u>5,235</u>	<u>3,418</u>
Property, Plant & Equipment, Net (Note 4)	944	-
Total Assets	\$ <u>6,179</u>	\$ <u>3,418</u>
Liabilities:		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	\$ 9	\$ 4
Other (Note 5)	20	12
Total Intragovernmental	<u>29</u>	<u>16</u>
Accounts Payable & Accrued Liabilities	39	109
Payroll & Benefits Payable (Note 6)	149	122
Total Liabilities	\$ <u>217</u>	\$ <u>247</u>
Net Position:		
Unexpended Appropriations	\$ 5,086	\$ 3,240
Cumulative Results of Operations	876	(69)
Total Net Position	<u>5,962</u>	<u>3,171</u>
Total Liabilities and Net Position	\$ <u>6,179</u>	\$ <u>3,418</u>

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

Environmental Protection Agency
e-Manifest
STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Costs:		
Gross costs	\$ 962	\$ 2,157
Expenses from Other Appropriations (Note 7)	205	-
Less:		
Earned revenue	-	-
Net cost of operations	\$ <u>1,167</u>	\$ <u>2,157</u>

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

**Environmental Protection Agency
e-Manifest
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)**

	<u>FY 2016</u>	<u>FY 2015</u>
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ (69)	\$ (69)
Budgetary Financing Sources:		
Appropriations Used	\$ 1,828	\$ 2,090
Income from Other Appropriations (Note 7)	<u>205</u>	<u>-</u>
Total Budgetary Financing Sources	2,033	2,090
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	\$ <u>80</u>	\$ <u>66</u>
Total Other Financing Sources	80	66
Net Cost of Operations	<u>(1,167)</u>	<u>(2,157)</u>
Net Change	<u>946</u>	<u>-</u>
Cumulative Results of Operations	<u>\$ 876</u>	<u>\$ (69)</u>
Unexpended Appropriations:		
Net Position - Beginning of Period	\$ 3,240	\$ 1,656
Budgetary Financing Sources:		
Appropriations Received	\$ 3,674	\$ 3,674
Appropriations Used	<u>(1,828)</u>	<u>(2,090)</u>
Total Budgetary Financing Sources	1,846	1,584
Total Unexpended Appropriations	<u>5,086</u>	<u>3,240</u>
Net Position	<u>\$ 5,962</u>	<u>\$ 3,171</u>

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

**Environmental Protection Agency
e-Manifest
STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)**

	<u>FY 2016</u>	<u>FY 2015</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 3,220	\$ 1,013
Recoveries of prior year unpaid obligations	37	17
Unobligated balance from prior year budget authority, net	3,257	1,030
Appropriations (discretionary and mandatory)	<u>3,674</u>	<u>3,674</u>
Total Budgetary Resources	<u>\$ 6,931</u>	<u>\$ 4,704</u>
 Status of Budgetary Resources:		
Obligations Incurred	\$ 2,965	\$ 1,484
Unobligated Balance, end of year:		
Apportioned	<u>3,966</u>	<u>3,220</u>
Total Unobligated balance, end of period	<u>3,966</u>	<u>3,220</u>
 Total Status of Budgetary Resources	<u>\$ 6,931</u>	<u>\$ 4,704</u>
 Change in Obligated Balance Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	\$ 191	\$ 854
Obligations incurred, net	2,965	1,484
Outlays (gross)	(1,855)	(2,130)
Recoveries of prior year unpaid obligations	<u>(37)</u>	<u>(17)</u>
Unpaid obligations, end of year (gross)	<u>1,264</u>	<u>191</u>
 Memorandum entries:		
Obligated balance, start of year	\$ 191	\$ 854
Obligated balance, end of year (net)	<u>\$ 1,264</u>	<u>\$ 191</u>
 Budget Authority and Outlays, Net:		
Budget authority, net	<u>\$ 3,674</u>	<u>\$ 3,674</u>
Agency outlays, net	<u>\$ 1,855</u>	<u>\$ 2,130</u>

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

Environmental Protection Agency
e-Manifest
Notes to Financial Statements
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Hazardous Waste Electronic Manifest System Fund (e-Manifest) was authorized by the establishment of the Hazardous Waste Electronic Manifest System Act. The act mandates that the Agency, within three years, establish a hazardous waste electronic manifest system that can be accessed by any user. The act authorized the administrator to impose on users' fees to pay the costs incurred in developing, operating, maintaining, and upgrading the system, including any costs incurred in collecting and processing data from paper manifests submitted to the system after the date on which the system enters operations.

The e-Manifest fund charges some administrative costs directly to the fund, and charges the remainder of the indirect administrative costs to Agency-wide appropriations. These amounts are included as "Income from Other Appropriations" on the Statement of Changes in Net Position and as "Expenses from Other Appropriations" on the Statement of Net Cost.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the EPA for the e-Manifest Fund in accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the EPA in accordance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the EPA pursuant to OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of FY 2016 cost factors for calculating imputed costs for Federal civilian benefits programs. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

C. Budgets and Budgetary Accounting

Funding of the e-Manifest Fund will be provided by fees collected from users to offset costs incurred by the EPA in carrying out these programs. Since inception in October 5, 2012 through fiscal year 2016, funding for the e-Manifest fund was from appropriated funds. EPA did not collect fees from inception of the fund through FY 2016.

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which issues standards for the federal government. The financial statements are prepared in accordance with GAAP for federal entities.

Transactions are recorded on an accrual accounting basis and a budgetary basis. 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

In FY 2016, EPA did not collect any user fees for the e-Manifest fund, as the system is still in development.

F. Funds with the Treasury

The e-Manifest Fund did not have any receipts for fiscal year 2016.

G. Investments in U. S. Government Securities

Investments in U. S. Government securities are maintained by Treasury (Bureau of Fiscal Services) and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. E-Manifest will hold the investments to maturity, unless needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. Only fees collected will be invested in U.S. Government securities. As of September 30, 2016 the e-Manifest fund had not collected any fees.

H. General Property, Plant and Equipment

General property, plant and equipment for e-Manifest consists of software in development. EPA (except for the Working Capital Fund) capitalizes software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of the Statement of Federal Financial Accounting Standard (SFFAS) No. 10, “*Accounting for Internal Use Software.*” Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset’s useful life ranging from two to five years.

I. Liabilities

Liabilities represent the amount of monies or other resources that are more likely than not to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities, and there is no certainty that the appropriations will be enacted.

J. Accrued Unfunded Annual Leave

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

K. 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.

L. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Note 2. Fund Balance with Treasury

	<u>FY 2016</u>	<u>FY 2015</u>
Entity Assets	\$ 5,230	\$ 3,411

Note 3. Other Assets

	<u>FY 2016</u>	<u>FY 2015</u>
Other Intragovernmental Assets:		
Advance to Working Capital Fund	\$ 5	\$ 7

Note 4. General Property, Plant and Equipment

As of September 30, 2016, e-Manifest incurred \$944 thousand in costs related to the development of information technology software associated with the Hazardous Waste Electronic Manifest System.

Note 5. Other Liabilities

The Payroll and Benefits Payable, non-Federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 7).

	<u>FY 2016</u>	<u>FY 2015</u>
Other Intragovernmental Liabilities:		
Covered by Budgetary Resources Employer Contribution- Payroll	\$ 20	\$ 12

Note 6. Payroll and Benefits Payable, non-Federal

	<u>FY 2016</u>	<u>FY 2015</u>
Covered by Budgetary Resources:		
Accrued Payroll Payable to Employees	\$ 77	\$ 35
Withholdings Payable	3	17
Thrift Savings Plan Benefits payable	2	1
Total	82	53
Not Covered by Budgetary Resources:		
Unfunded Annual Leave Liability	\$ 67	\$ 69
Total	\$ 149	\$ 122

Note 7. Income and Expenses from Other Appropriations

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

Beginning with fiscal year 2016, the Agency began applying an indirect rate to account for administrative expenses paid through other appropriations. For FY 2016, the indirect rate was 21.38%. As illustrated below, there is no impact on e-Manifest’s Statement of Changes in Net Position. Had full cost been implemented in FY 2015, the amount of expenses paid by other appropriations would have been \$461 thousand.

		FY 2016
Income from Other Appropriations	\$	<u>205</u>
Expenses from Other Appropriations		(205)
Net Effect	\$	<u>-</u>

Note 8. Reconciliation of Net Cost of Operations to Budget

	<u>FY 2016</u>	<u>FY 2015</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 2,965	\$ 1,484
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(37)</u>	<u>(17)</u>
Obligations, Net of Offsetting Collections	2,928	1,467
Other Resources:		
Imputed Financing Sources	80	66
Income from Other Appropriations	<u>205</u>	<u>-</u>
Net Other Resources Used to Finance Activities	285	66
Total Resources Used to Finance Activities	\$ 3,213	\$ 1,533
Resources Used to Finance Items		
Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated	\$ (1,104)	\$ 624
Resources that Finance Asset Acquisition	<u>(944)</u>	<u>-</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>(2,048)</u>	<u>624</u>
Total Resources Used to Finance the Net Cost of Operations	\$ <u>1,165</u>	\$ <u>2,157</u>
	<u>FY 2016</u>	<u>FY 2015</u>
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	\$ <u>2</u>	\$ <u>-</u>
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	2	-
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>2</u>	<u>-</u>
Net Cost of Operations	\$ <u>1,167</u>	\$ <u>2,157</u>

Distribution

The Administrator
 Chief of Staff
 Chief of Staff for Operations
 Deputy Chief of Staff for Operations
 Chief Financial Officer
 Agency Follow-Up Coordinator
 Assistant Administrator for Land and Emergency Management
 Assistant Administrator for Administration and Resources Management
 General Counsel
 Associate Administrator for Congressional and Intergovernmental Relations
 Associate Administrator for Public Affairs
 Controller, Office of the Controller, Office of the Chief Financial Officer
 Deputy Controller, Office of the Controller, Office of the Chief Financial Officer
 Director, Financial Services Division, Office of the Chief Financial Officer
 Director, Accounting and Cost Analysis Division, Office of the Chief Financial Officer
 Chief, General Ledger Analysis and Reporting Branch, Accounting and Cost Analysis Division,
 Office of the Chief Financial Officer
 Principal Deputy Assistant Administrator, Office of Land and Emergency Management
 Deputy Assistant Administrator, Office of Land and Emergency Management
 Director, Office of Resource Conservation and Recovery, Office of Land and Emergency
 Management
 Deputy Director, Office of Resource Conservation and Recovery, Office of Land and Emergency
 Management
 Associate Director, Program Implementation and Information Division, Office of Resource
 Conservation and Recovery, Office of Land and Emergency Management
 Branch Chief, Permits Branch, Office of Resource Conservation and Recovery, Office of Land
 and Emergency Management
 Branch Chief, Information Collection and Analysis Branch, Office of Resource Conservation
 and Recovery, Office of Land and Emergency Management
 Associate Branch Chief, Information Collection and Analysis Branch, Office of Resource
 Conservation and Recovery, Office of Land and Emergency Management
 Chair, Fee Rule Workgroup, Permits Branch, Office of Resource Conservation and Recovery,
 Office of Land and Emergency Management
 Deputy Assistant Administrator, Office of Administration and Resources Management
 Director, Office of Acquisition Management, Office of Administration and Resources
 Management
 Audit Follow-Up Coordinator, Office of the Administrator
 Audit Follow-Up Coordinator, Office of the Chief Financial Officer
 Audit Follow-Up Coordinator, Office of the Controller, Office of the Chief Financial Officer
 Audit Follow-Up Coordinator, Office of Land and Emergency Management
 Audit Follow-Up Coordinator, Office of Resource Conservation and Recovery, Office of Land
 and Emergency Management
 Audit Follow-Up Coordinator, Office of Administration and Resources Management
 Audit Follow-Up Coordinator, Office of Acquisition Management, Office of Administration and
 Resources Management