U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

*Operating efficiently and effectively*

# EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements

**Report No. 19-F-0003** **November 14, 2018**

**Abbreviations**

| | |
|---|---|
| CFC | Cincinnati Finance Center |
| EPA | U.S. Environmental Protection Agency |
| FBWT | Fund Balance with Treasury |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| FY | Fiscal Year |
| GAO | U.S. Government Accountability Office |
| GSA | General Services Administration |
| NCC | National Computer Center |
| NIST | National Institute of Standards and Technology |
| OARM | Office of Administration and Resources Management |
| OCFO | Office of the Chief Financial Officer |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PIV | Personal Identity Verification |
| PTY | Potomac Yard |
| RMDS | Resource Management Directive System |
| SLCM | System Life Cycle Management |
| SFFAS | Statement of Federal Financial Accounting Standards |
| U.S.C. | United States Code |
| WCF | Working Capital Fund |

**Are you aware of fraud, waste or abuse in an EPA program?**

**EPA Inspector General Hotline**
1200 Pennsylvania Avenue, NW (2431T)
Washington, DC 20460
(888) 546-8740
(202) 566-2599 (fax)
OIG_Hotline@epa.gov

Learn more about our OIG Hotline.

**EPA Office of Inspector General**
1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
(202) 566-2391
www.epa.gov/oig

Subscribe to our Email Updates
Follow us on Twitter @EPAoig
Send us your Project Suggestions

19-F-0003
November 14, 2018

# At a Glance

### Why We Did This Review

We performed this audit in accordance with the Government Management Reform Act of 1994, which requires the U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) to audit the financial statements prepared by the agency each year. Our primary objectives were to determine whether:

- The EPA's consolidated 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, regulations, contracts and grant agreements.

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

**This report addresses the following:**

- *Operating efficiently and effectively.*

**Send all inquiries to our public affairs office at (202) 566-2391 or [www.epa.gov/oig](www.epa.gov/oig).**

**Listing of [OIG reports.](OIG reports.)**

# *EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements*

## EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2018 and 2017, meaning they were fairly presented and free of material misstatement.

**We found the EPA's financial statements to be fairly presented and free of material misstatement.**

## Internal Control Material Weakness and Significant Deficiencies Noted

We noted the following material weakness:

- The EPA's accounting for unearned revenue for Superfund special accounts continues to be a material weakness.

We noted the following significant deficiencies:

- Additional efforts are needed to resolve cash differences with the U.S. Department of the Treasury.
- The EPA misstated uncollectible debt.
- The EPA improperly increased accounts receivable and related revenue.
- The EPA materially overstated earned revenue.
- The EPA improperly processed General Services Administration rent payments.
- The EPA should restrict access to computer rooms with financial and mixed-financial systems.
- The EPA needs to perform a documented evaluation on upgrading equipment used to implement physical environmental controls at the National Computer Center.

## Compliance with Laws and Regulations

We did not note any significant noncompliance with laws and regulations.

## Recommendations and Planned Agency Corrective Actions

The EPA agreed with Recommendations 1 through 9 of our report and has either implemented corrective actions or provided an estimated time frame for completion. The agency disagreed with Recommendations 10 through 15, citing the need for clarifying information. EPA management set up a November 26, 2018, meeting with the OIG to discuss these findings. We consider Recommendations 10 through 15 unresolved pending the agency's response to the final report.

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

OFFICE OF
INSPECTOR GENERAL

November 14, 2018

**MEMORANDUM**

**SUBJECT:** EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements
Report No. 19-F-0003

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

**TO:** Holly Greaves, Chief Financial Officer

Vaughn Noga, Principal Deputy Assistant Administrator
and Deputy Chief Information Officer
Office of Environmental Information

Donna J. Vizian, Principal Deputy Assistant Administrator
Office of Administration and Resources Management

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2018 and 2017 consolidated financial statements. The project number for this audit was OA&E-FY18-0189. We are reporting one internal control material weakness and seven significant deficiencies. Attachment 1 contains details on the material weakness and significant deficiencies. We did not note any instances of noncompliance.

This audit report represents the opinion of the Office of Inspector General (OIG), and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon the EPA in any enforcement proceeding brought by the EPA or the U.S. Department of Justice.

The agency agreed with Recommendations 1 through 9 of our report and has either implemented corrective actions or provided an estimated time frame for completion. The EPA disagreed with Recommendations 10 through 15, citing the need for clarifying information.

**Action Required**

In accordance with EPA Manual 2750, the resolution process begins immediately with the issuance of this report. We are requesting a meeting within 30 days between the Principal Deputy Assistant Administrator for Administration and Resources Management, the Principal Deputy Assistant Administrator for Environmental Information, and the OIG's Assistant Inspector General for Audit and Evaluation. If resolution is still not reached, the Office of Administration and Resources Management and the Office of Environmental Information are required to complete and submit a dispute resolution request to the Chief Financial Officer to continue resolution.

This report will be available at www.epa.gov/oig.

Attachments (3)

# *Table of Contents*



*-continued-*

## Appendices

# Inspector General's Report on EPA's Fiscal Years 2018 and 2017 Consolidated 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 (EPA), which comprise the consolidated balance sheet, as of September 30, 2018, and September 30, 2017, and the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

### *Management's Responsibility 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 control 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 Controller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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.

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

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

### *Opinion*

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by major program, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter—Software Capitalization*

As described in Note 1 to the financial statements, in fiscal year (FY) 2017, the agency changed its capitalization policy by increasing the capitalization threshold from $250,000 to $5 million for new purchases in FY 2017 and thereafter. Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, allows for agencies to select their own capitalization threshold. However, the standard states that agencies should consider whether period cost would be distorted or asset values understated by expensing the purchase. We found that the EPA did not consider the cost impact on the financial statements and instead relied mainly on the capitalization policy of several other agencies that also have adopted a higher capitalization threshold. We could not independently determine the impact that the change in the capitalization threshold would have on the agency's statements. In addition, in FY 2017, the agency wrote off approximately $300 million in software development costs that could not be readily charged to a project or for projects abandoned. Such costs were unrelated to the change in capitalization threshold. Our opinion was not modified in respect to this matter.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and 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 EPA management about its methods for preparing Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and we reviewed this information for consistency with the financial statements.

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

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

## Report on Internal Control over Financial Reporting

**Opinion on Internal Control.** In planning and performing our audit, we considered the EPA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal control 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 control 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. 19-01, *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 Weakness and Significant Deficiencies.** Our consideration of the internal control 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 control 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 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 in a timely manner. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet is important enough to merit attention by those charged with governance.

Because of inherent limitations in internal control, 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, one of which we consider to be a material weakness. These issues are summarized below and detailed in Attachment 1.

## Material Weakness

### SPECIAL ACCOUNTS

#### EPA's Accounting for Unearned Revenue for Superfund Special Accounts Continues to Be a Material Weakness

We found that the EPA did not properly record $309,929,010 of unearned revenue for Superfund special account activity. Federal government internal control standards require accurate recording of transactions and SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue and recognize exchanged [earned] revenue at the time a government entity provides goods or services to the public or to another entity.

## Significant Deficiencies

### CASH

#### EPA Needs to Undertake Additional Efforts to Resolve Cash Differences with Treasury

As of June 30, 2018, the EPA had not resolved $2,233,425 in cash differences between EPA and U.S. Treasury cash balances. Pursuant to Treasury guidance, the EPA should correct and resolve any differences between Treasury's balance and the EPA's Fund Balance with Treasury. However, the EPA's Office of the Chief Financial Officer did not have effective internal controls to adequately monitor internal cash differences and ensure that the EPA resolved the differences. Unresolved differences may result in the EPA misstating its Fund Balance with Treasury and financial statements and increase the risk of fraud.

### ACCOUNTS RECEIVABLE / REVENUE

#### EPA Misstated Expenses Uncollectible Debt

We found that the EPA misstated its general ledger Expenses Uncollectible Debt account by reflecting a $8.5 million credit balance. Federal accounting standards define expenses as having a debit balance. The misstatement occurred when the EPA recorded transactions to adjust its Allowance for Doubtful Accounts. In doing so, the entries caused incorrect balances in related accounts. As a result, uncollectible expense and accounts related to the entries are misstated in the EPA's financial statements.

### EPA Improperly Increased Accounts Receivable and Related Revenue

The EPA improperly increased accounts receivable and related revenue by $3,715,531. The EPA increased the amount of an account receivable based on cash received rather than an amount stipulated in a legal claim. This occurred because the EPA did not (1) record marketable securities at fair market value when they were received or (2) recognize a gain when marketable securities were sold for an amount higher than the book value. SFFAS No. 1 requires federal entities to recognize accounts receivable when a legal claim exists. The EPA's Resource Management Directive System 2550D states that the agency will record marketable securities at fair market value when they are received. SFFAS No. 7 further requires the recognition of a gain or loss when marketable securities are sold for an amount different from the book value. When unrecorded securities were sold at an amount greater than the receivable, the EPA understated the gains by $3,715,531 in its financial statements.

### EPA Materially Overstated Earned Revenue

During FY 2018, the EPA did not properly eliminate internal Working Capital Fund earned revenue of $147 million. Agency standards require intra-entity balances to be eliminated for consolidated financial statement reporting. The EPA processed a journal voucher to eliminate internal Working Capital Fund earned revenue; however, the agency did not follow standard operating procedures when preparing the entry or verify the entry properly eliminated Working Capital Fund earned revenue. As a result, the EPA's financial statements are materially misstated.

## EXPENSES

### EPA Improperly Processed GSA Rent Payments

The EPA processed over $58,338,789 of rent payments to the General Services Administration (GSA) without proper authorization or approval. EPA guidance states that program offices will be responsible for the oversight and approval of bills for GSA rent invoices. Federal guidance states that transactions are authorized and executed only by persons acting within the scope of their authority.

## INFORMATION TECHNOLOGY

### EPA Should Restrict Access to Computer Rooms with Financial and Mixed-Financial Systems

The EPA does not adequately restrict access to computer rooms with financial and mixed-financial applications, nor does it adequately train people with access to the computer rooms, as required by EPA procedures and National Institute of Standards and Technology guidance. This occurred because the EPA did not perform the following control activities:

- Revoke employee access to the computer rooms when access was no longer necessary.
- Review quarterly reports for the Potomac Yard computer room and reviewed incomplete quarterly reports for the National Computer Center computer room.
- Maintain an inventory of cards used by visitors to access the National Computer Center computer room.
- Verify the identity of cardholders prior to allowing access to computer rooms.
- Provide alternative facility training when the contracted vendor stopped offering training.

As a result, the agency increases the risk that computer equipment may be intentionally or unintentionally harmed, which could impact the availability of the financial and mixed-financial applications.

### EPA Needs to Perform a Documented Evaluation of Upgrading Equipment Used to Implement Physical Environmental Controls at the National Computer Center

The equipment supporting the physical and environmental controls for the computer room at the EPA's National Computer Center has not been maintained or reviewed to see whether it still meets the needs of the computer center. This computer room became operational in 2002.

Attachment 2 contains the status of issues reported in prior years' reports. The issues included in the attachment should be considered among the EPA's significant deficiencies for FY 2018. We reported less significant internal control matters to the agency 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 Control*

OMB Bulletin No. 19-01, *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. The OIG is also required to identify material weaknesses disclosed by the audit, which were not reported in the agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

The agency reported Accounting for Unearned Revenue as a material weakness in FY 2018. Accounting for Unearned Revenue has been reported as a material weakness since FY 2016. The agency has reported that it is developing a corrective action plan for Accounting for Unearned Revenue.

Details concerning our findings on significant deficiencies can be found in Attachment 1.

## Tests of Compliance with Laws, Regulations, Contracts and Grant Agreements

EPA management is responsible for complying with laws, regulations, contracts and grant agreements 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, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements. We also performed certain other limited procedures as described in *Codifications of Statements on Auditing Standards,* AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin 19-01, *Audit Requirements for Federal Financial Statements,* requires that we evaluate compliance with federal financial statement system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

### *Opinion on Compliance with Laws, Regulations, Contracts and Grant Agreements*

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

We did not identify any significant matters involving compliance with laws and regulations that came to our attention during the course of the audit.

### *Federal Financial Management Improvement Act Noncompliance*

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

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

We did not identify any significant matters involving compliance with laws and regulations related to the agency's financial management systems that came to our attention during the course of the audit.

In its Management Assurances, the EPA reported three incidents of potential violations of the Antideficiency Act. We did not identify any other potential violations of this act during the course of our audit.

### *Audit Work Required Under the Hazardous Substance Superfund Trust Fund*

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

## Prior Audit Coverage

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

- The EPA undercapitalized software costs, leading to restated FY 2013 financial statements and a continued material weakness.
- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA's property management system does not reconcile to its accounting system.
- The EPA did not properly record or reconcile unearned revenue for Superfund special accounts.
- Originating offices did not forward accounts receivable source documents in a timely manner to the finance center.
- The EPA should improve its efforts to resolve its long-standing cash differences with the U.S. Treasury.
- Financial management system user account management needs improvement.
- The EPA's Office of the Chief Financial Officer lacks internal controls when assuming responsibility for account management procedures of financial systems.
- The EPA needs controls to monitor direct access to its accounting system.
- The EPA needs to appoint a Project Manager to oversee management of Compass Financials and improve acquisition planning.

Attachment 2 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues. During our audit, we found that the issues reported in prior audits and listed in Attachment 2 still exist and should be considered as outstanding significant deficiencies and noncompliance issues unless otherwise noted.

## Agency Comments and OIG Evaluation

In a memorandum dated November 9, 2018, the Chief Financial Officer responded to our draft report. The EPA agreed with our findings on cash, accounts receivable, revenue, expenses and corresponding Recommendations 1 through 9. The EPA disagreed with our findings regarding restricting access to computer rooms and documenting an evaluation on upgrading equipment used to implement physical environmental controls and corresponding Recommendations 10 through 15. EPA management set up a November 26, 2018, meeting with the OIG to discuss these findings. We consider Recommendations 10 through 15 unresolved pending the agency's response to the final report.

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

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

Paul C. Curtis
Certified Public Accountant
Director, Financial Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 14, 2018

# *Internal Control Material Weakness and Significant Deficiencies*

## Table of Contents

# 1—EPA's Accounting for Unearned Revenue for Superfund Special Accounts Continues to Be a Material Weakness

We found that the EPA did not properly record $309,929,010 of unearned revenue for Superfund special account activity. Federal government internal control standards require accurate recording of transactions, and SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue and recognize exchanged [earned] revenue at the time a government entity provides goods or services to the public or to another entity.

The EPA processed a journal voucher to reclassify special account earned and unearned revenue activity for the FY 2018 second quarter. However, the EPA did not consider previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs, and special account collection movements while preparing the special account reclassification entry. During our examination of the FY 2018 second quarter special account reclassification journal entry, we found six errors totaling $257,127,141 that involved misstated earned and unearned revenue on the financial statements. We also found 21 transactions totaling $52,801,869 that improperly impacted earned revenue. The EPA did not modify its accounting model to properly record all Superfund special accounts activity or perform a comprehensive reconciliation of Superfund special account general ledger balances to the special accounts database during FY 2018. As a result, the EPA cannot ensure the accuracy of the unearned revenue and earned revenue on the financial statements.

Federal guidance directs agencies to record cash advances received for long-term projects as unearned revenue, and to reconcile general ledger control totals to file totals. For example:

- SFFAS No. 7 is the accounting standard for revenue and other financing sources. The standard directs agencies to record a cash advance for long-term projects as unearned revenue. Revenue should be recognized as costs are incurred to provide goods and services.

- Section 122(b)(3) of the Comprehensive Environmental Response, Compensation, and Liability Act [42 U.S.C. 9622(b)(3)], and Executive Order 12580, authorize the EPA to retain and use funds received through an agreement with potentially responsible parties to address past and/or future response cost. The EPA retains these funds in site-specific accounts called "special accounts." The EPA should record special account settlement funds received as unearned revenue, and the agency should reduce unearned revenue and recognize earned revenue as expenses are incurred.

- The U.S. General Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events, as well as comparison of file totals with control totals.

In FY 2018, the EPA made six errors in the agency's second quarter special account reclassification entry, which misstated revenue and unearned revenue. Table 1 summarizes the errors that our audit identified.

**Table 1: Summary of errors**

| Description | Dollar amount (absolute value) |
|---|---|
| Superfund nonfederal special account future cost expenses were reclassified to earned revenue. The EPA's nonfederal special account future cost posting model already recognized earned revenue for those costs. | $67,552,634.08 |
| Superfund federal special account future cost expenses were reclassified to earned revenue. The EPA previously recognized earned revenue for federal expenses incurred. | 5,766,302.83 |
| Nonfederal Superfund unbilled oversight revenue was inappropriately included in the reclassification entry to unearned revenue. | 26,508,714.64 |
| Federal Superfund unbilled oversight was inappropriately included in the reclassification entry to unearned revenue. | 15,689.74 |
| Superfund special account transactions used to move special account collection activity to other subaccounts were inappropriately included in the reclassification entry to unearned revenue. | 1,936,620.72 |
| Quarterly reclassification journal voucher entry was not flagged to reverse during the third quarter. The entry should automatically reverse during the first month of the next quarter. | 155,347,178.79 |
| **Total** | $257,127,140.80 |

Source: OIG analysis.

As a result, the EPA did not properly record revenue and unearned revenue for Superfund special account activity during FY 2018, which misstated earned and unearned revenue on the Consolidated Balance Sheet and the Statement of Net Cost in the EPA's financial statements.

In OIG Report No.17-F-0046, *Audit of EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016, we reported, as a material weakness, that the EPA did not properly record or reconcile unearned revenue for Superfund special accounts. The EPA agreed with our recommendations to modify the accounting model in Compass Financials, the agency's accounting system, and to prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail. However, during our testing for the FY 2018 financial audit, we found that the EPA still had not implemented the recommendation and misrecorded 21 transactions totaling over $52 million of receivable and collection transactions.

Table 2 notes our FY 2016 recommendations to the Chief Financial Officer and the status of the EPA's corrective actions, which should address the accounting for such transactions.

**Table 2: FY 2016 recommendations, corrective actions and status**

| No. | OIG recommendation | EPA corrective action | Status of corrective action |
|---|---|---|---|
| 2 | Modify the accounting model in Compass Financials to properly record all special account receivables and collections as unearned revenue and reduce the unearned revenue and recognize earned revenue as expenses are incurred. | The agency will modify accounting models in Compass to properly record Superfund special account receivables once OMB and Treasury have approved the agency's accounting approach. In preparation for year-end processing, configuration of the posting of Compass models is on hold until 02/28/2018. | Not implemented. Revised date of completion is 12/31/2018. |
| 3 | Prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail. | The agency will conduct the quarterly reconciliation of the Superfund special accounts general ledger to the special accounts database detail. In preparation for year-end processing, configuration of the posting of Compass models is on hold until 03/31/2018. | Not implemented. Revised date of completion is 12/31/2018. |

Source: OIG analysis.

When the EPA does not properly record unearned revenue for Superfund special accounts or reconcile Superfund special accounts general ledger balances to the special accounts database detail, the EPA cannot ensure the accuracy of the unearned revenue and financial statements. Improper accounting of these settlement funds could lead to funds being spent on sites not stipulated in the settlement agreements and could jeopardize future clean-up of sites for which the funds were intended. Since the EPA has not implemented either recommendation in Table 2, we continue to report this as a material weakness.

## Recommendation

We recommend that the Chief Financial Officer:

1. Ensure that the special account reclassification entry includes a review to determine whether previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs and special account collection movements should or should not be included, and include supporting documents identifying the accounts and amounts reviewed.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation. The agency's estimated completion date for corrective actions is March 29, 2019.

## 2—EPA Needs to Undertake Additional Efforts to Resolve Cash Differences with Treasury

As of June 30, 2018, the EPA had not resolved $2,223,425 in cash differences between EPA and U.S. Treasury cash balances. Pursuant to Treasury guidance, the EPA should correct and resolve any differences between the Treasury's balance and the EPA's Fund Balance with Treasury (FBWT). However, the EPA's Office of the Chief Financial Officer (OCFO) did not have effective internal controls to adequately monitor internal cash differences and ensure that the EPA resolved the differences. Unresolved differences may result in the EPA misstating its FBWT and financial statements and increase the risk of fraud.

*Treasury Financial Manual*, Volume 1, Section 3335, titled "Reconciling FMS 224, Section II," states that agencies should reconcile regional finance center transactions separately from Intra-governmental Payment and Collection (IPAC) transactions by comparing transactions reported in accounting systems with transactions reported to Treasury by regional finance centers and through the IPAC system. In the month following the reporting month, agencies should correct any disclosed differences. For our audit, we considered cash differences to be long-standing if they were unresolved for more than 1 month after the initial reporting month.

The EPA's Resource Management Directive System (RMDS) No. 2540-03-P1, titled *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the EPA to review and track monthly differences between its FBWT and the Treasury's balance. The directive requires the OCFO's General Ledger Analysis and Reporting Branch to conduct a monthly review of the EPA's financial system of record and report any issues to the respective finance center. The General Ledger Analysis and Reporting Branch is responsible for tracking all budget clearing account items from posting to final disposition. The OCFO prepares an internal monthly cash difference report (according to the accounting point and treasury symbol) to identify and resolve differences between Treasury and EPA records. EPA finance centers and responsible staff are required to provide comments, as needed, to the General Ledger Analysis and Reporting Branch concerning the monthly cash difference reports.

Based on the OCFO's monthly cash difference reports, we have reported in prior audits that EPA finance centers and responsible staff are not resolving cash differences between Treasury and EPA records in a timely manner. Table 3 shows cash differences as of June 30, 2018, which were unresolved for at least 2 months.

**Table 3: Cash differences as of June 30, 2018**

| Responsible office | Accounting point location code | Amount |
|---|---|---|
| Las Vegas Finance Center *(responsible for payroll accounting point cash reconciliation)* | 68010015 | $769,749 |
| Accounting and Cost Analysis Division *(responsible for cash reconciliation of the former Washington Finance Center)* | 68010099 | $1,452,860 |
| Cincinnati Finance Center | 68010727 | $816 |
| | Total | $2,223,425 |

Source: OIG analysis of EPA data.

The OCFO did not adequately monitor internal cash differences at the transaction level to ensure that the EPA resolved any differences with the Treasury. The General Ledger Analysis and Reporting Branch relied on EPA finance centers and responsible staff to resolve individual cash differences. However, the OCFO's Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, did not timely resolve cash differences for the accounting point locations stated in Table 3. Therefore, the OCFO did not have effective internal controls to resolve individual cash differences.

By not adequately monitoring and resolving all cash differences, the EPA increases the risk of unrecorded transactions and fraud. Unrecorded transactions misstate the agency's FBWT and EPA financial statements.

## Recommendation

We recommend that the Chief Financial Officer:

2. Require the Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, to research and resolve cash differences.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation. The agency's estimated completion date for corrective actions is March 29, 2019.

## 3—EPA Misstated Expenses Uncollectible Debt

We found that the EPA misstated its general ledger Expenses Uncollectible Debt account by reflecting a $8.5 million credit balance. Federal accounting standards define expenses as having a debit balance. The misstatement occurred when the EPA recorded transactions to adjust its Allowance for Doubtful Accounts. In doing so, the entries caused incorrect balances in related accounts. As a result, uncollectible expense and accounts related to the entries are misstated in the EPA's financial statements.

The U.S. Department of the Treasury's *Treasury Financial Manual*, Volume 1, United States Standard General Ledger Part 1, Section II, requires expense accounts to have a debit balance.

The GAO's *Standards for Internal Control in the Federal Government* sets standards for federal entities. Federal government internal control standards require accurate and timely recording of transactions and events.

In accordance with EPA Comptroller Policy 93-02, *Policies for Documenting Agency Financial Transactions*, the EPA uses standard vouchers to record accounting events that occur on a recurring basis and have predetermined debit(s) and credit(s).

During our examination of accounts, we found that the EPA recorded several transactions resulting in a $8.5 million credit balance in the Expenses Uncollectible Debt account, which is a debit balance account. A credit balance in this account indicates that the agency has revenue from uncollectible debts or the general ledger account is otherwise misstated. The misstatement occurred because:

- In fiscal year FY 2017, the EPA recorded a standard voucher to correct an error in the fourth quarter Allowance for Doubtful Accounts calculation. The voucher was improperly reversed in the FY 2018 first quarter and caused an incorrect credit posting in the Expense Uncollectible Debt account.

- The EPA recorded a standard voucher to reverse an account receivable and its related Allowance for Doubtful Account. By reversing the receivable and the allowance, which represents cumulative bad debt expense estimates recorded over several years, the EPA created a credit posting in the Expenses Uncollectible Debt account. The proper transaction for recording the removal of the receivable would be to record the difference between the balance in the receivable and allowance as a loss or as an additional write-off of a receivable.

- The agency determined that a receivable previously considered partially uncollectible was collectible and posted a transaction to adjust an allowance for doubtful accounts and related Expenses Uncollectible Debt (bad debt expense). The adjustment resulted in crediting the Expenses Uncollectible Debt account.

As a result, operating expenses and other related accounts are misstated on the financial statements.

## Recommendations

We recommend that the Chief Financial Officer:

3. Review the Allowance for Doubtful Accounts calculation to ensure that adjusting entries are accurate.

4. Review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to determine the net impact of expenses and revenues from prior periods and ensure that financial statements are not misstated.

5. Review adjusting entries and their reversals to verify whether account balances are posted properly and do not contain abnormal balances or activity.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendations and has completed corrective actions.

# 4—EPA Improperly Increased Accounts Receivable and Related Revenue

The EPA improperly increased accounts receivable and related revenue by $3,715,531. The EPA increased the amount of an account receivable based on cash received rather than an amount stipulated in a legal claim. This occurred because the EPA did not (1) record marketable securities at fair market value when they were received or (2) recognize a gain when marketable securities were sold for an amount higher than the book value. SFFAS No. 1 requires federal entities to recognize accounts receivable when a legal claim exists. The EPA's RMDS 2550D states that the agency will record marketable securities at fair market value when they are received. SFFAS No. 7 further requires the recognition of a gain or loss when marketable securities are sold for an amount different from the book value. When unrecorded securities were sold at an amount greater than the receivable, the EPA understated the gains by $3,715,531 in its financial statements.

SFFAS No. 1, paragraph 41, states, "A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities…based on legal provisions." RMDS 2550D, Chapter 14, 7.a., Recording Securities at Fair Market Value, states, "When EPA receives marketable securities, they will be recorded as a collection at their fair market value on the day they are received." SFFAS No. 7, paragraph 35, states, "When a transaction…at a price is unusual or nonrecurring, a gain or loss should be recognized rather than revenue or expense so as to differentiate such transactions." SFFAS No. 7, paragraph 36(e), states, "When an asset other than inventory is sold, any gain (or loss) should be recognized when the asset is delivered to the purchaser."

The EPA did not appropriately record accounts receivable, revenue or gains on the disposition of assets. The EPA established a $2.8 million receivable based on the amount stipulated in the consent decree. The EPA received cash and investment securities as outlined in the consent decree. The market value of the securities on the settlement date was approximately $3,159,860, which is $1,962,737 more than what should have been recognized as the book value of the securities when they were received.

When the securities were sold, the EPA increased the existing receivable and recognized revenue of $2,862,323, based on the amount of proceeds received from the sale of securities, which was greater than the outstanding balance due on the receivable. Upon further review of activity related to this receivable, we found that the EPA increased the receivable and recognized revenue in the amount of $853,208 because of dividend income and the sale of additional securities. The total increase in receivables and revenue recorded was $3,715,531, which should have been recognized as gains on the disposition of assets. As a result, revenue and gains on the disposition of assets are misstated in the EPA's financial statements.

## Recommendations

We recommend that the Chief Financial Officer:

6. Update the policy for the proper accounting and recognition of gains or losses from marketable securities based on the sale of stock.
7. Record or adjust accounts receivables only for amounts stipulated in settlement agreements.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings. The agency’s estimated completion date for corrective actions on Recommendation 6 is March 29, 2019. Corrective actions for Recommendation 7 have been completed.

## 5—EPA Materially Misstated Earned Revenue

During FY 2018, the EPA did not properly eliminate internal Working Capital Fund (WCF) earned revenue of $147 million. Agency standards require intra-entity balances to be eliminated for consolidated financial statement reporting. The EPA processed a journal voucher to eliminate internal WCF earned revenue; however, the agency did not follow standard operating procedures when preparing the entry or verify the entry properly eliminated WCF earned revenue. As a result, the EPA's financial statements are materially misstated.

EPA Office of the Chief Financial Officer's *Standard Operating Procedure for Intra-agency Eliminations* requires the elimination of WCF earned revenue intra-agency balances for financial statement reporting.

Federal government internal control standards require accurate and timely recording of transactions and events. The GAO's *Standards for Internal Control in the Federal Government* sets internal control standards for federal entities.

Our review of FY 2018 year-end general ledger balances identified a balance of $147 million in the agency's internal WCF earned revenue account. Internal WCF earned revenue should eliminate on a consolidated basis and result in a zero balance for reporting purposes. Upon further review, we determined that the agency's current year elimination entries were not consistent with the prior year. The agency reported that standard operating procedures were not followed for the elimination entry's preparation, and the wrong agency report was used. In addition, the agency did not verify the WCF elimination entry properly eliminated internal WCF earned revenue.

As a result, the EPA did not properly eliminate internal WCF earned revenue, which materially overstated earned revenue on the Statement of Net Cost in the EPA's financial statements. After discussing the issue with the EPA, the agency indicated it would correct the entry to properly eliminate internal WCF earned revenue.

### Recommendation

We recommend that the Chief Financial Officer:

8. Update the EPA's standard operating procedures for preparing Working Capital Fund elimination entries to include verification of entries and proper ending balances.

### Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation and has completed corrective actions.

# 6—EPA Improperly Processed GSA Rent Payments

The EPA processed over $58,338,789 of rent payments to the GSA without proper authorization or approval. EPA guidance states that program offices will be responsible for the oversight and approval of bills for GSA rent invoices. Federal guidance states that transactions are authorized and executed only by persons acting within the scope of their authority.

While EPA program offices improperly authorized or approved GSA rent invoices, the EPA's Cincinnati Finance Center (CFC) processed these rent payments without evidence of proper authorization or approval. By not approving rent invoices prior to payment, material errors could occur in the form of paying for property that was not used and allowing unauthorized transactions to be included in the EPA's financial reporting.

The EPA follows internal directive RMDS 2550C-04-P3, titled *Management of Non-Standard Interagency Agreements (NSIA)*, which states that EPA program offices will "be responsible for project-level oversight of the NSIA and bill approval for NSIA bills unless otherwise specified." The directive also states that EPA program offices will "approve/disapprove Trading Partner Agency invoices via the Inter-Governmental Document Online Tracking System web link," and will "review bill/cost information from TPs [Trading Partners] for proper NSIA project review."

In addition, the GAO's *Standards for Internal Control in the Federal Government* sets internal control standards for federal entities, and notes that "transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into."

During our testing, we found no evidence to support the review or approval of 6 months of rent payments to GSA totaling $58,338,789 (Table 4).

**Table 4: Summary of GSA rent samples**

| Transaction number | Date | Fund code | Sample line item amount |
|---|---|---|---|
| 1801RENTGSA | 10/27/2017 | B | $11,569,026 |
| 1802RENTGSA | 11/21/2017 | B | 14,000,000 |
| 1802RENTGSA | 11/21/2017 | C | 3,966,084 |
| 1805RENTGSA | 02/28/2018 | B | 11,000,000 |
| 1806RENTGSA | 03/27/2018 | T | 1,500,000 |
| 1806RENTGSA | 03/27/2018 | B | 16,303,679 |
| | | | $58,338,789 |

Source: OIG analysis.

EPA project officers responsible for GSA rent payments had previously approved GSA rent invoices via emails to the CFC, but project officers stopped sending such approvals. The most recent approval email that the CFC received from project officers was in June 2017. However, the CFC continued to process payments in Compass, the EPA's financial system, without evidence of review and approval.

We also found that GSA rent invoices are not processed through the Inter-Governmental Document Online Tracking System (IDOTS) using the approval function, which would require project officer approval before processing the payments in Compass. Processing GSA rental payments through IDOTS would not only ensure that project officers are notified when invoices await approval, but also provide evidence of such approvals.

The EPA averages $19 million per month in GSA rent payments, and annual payments could be over $235 million. By not approving rent invoices prior to payment, material errors could occur in the form of paying for property that was not used and potentially allowing over $235 million in unauthorized transactions to be included in the EPA's financial reporting.

## Recommendation

We recommend that the Chief Financial Officer:

9. Require project officers to review and submit approvals or disapprovals of General Services Administration rent invoices each month.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendation and has completed corrective actions.

## 7—EPA Should Restrict Access to Computer Rooms with Financial and Mixed-Financial Systems

The EPA does not adequately restrict access to computer rooms with financial and mixed-financial applications, nor does it adequately train people with access to the computer rooms, as required by EPA procedures and National Institute of Standards and Technology (NIST) guidance. This occurred because the EPA did not perform the following control activities:

- Revoke employee access to the computer rooms when access was no longer necessary.
- Review quarterly reports for the Potomac Yard (PTY) computer room and reviewed incomplete quarterly reports for the National Computer Center (NCC) computer room.
- Maintain an inventory of cards used by visitors to access the NCC computer room.
- Verify the identity of cardholders prior to allowing access to computer rooms.
- Provide alternative facility training when the contracted vendor stopped offering training.

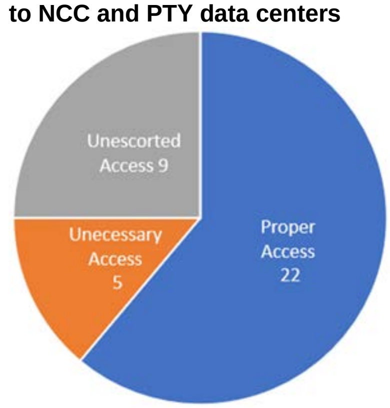
As a result, the agency increases the risk that computer equipment may be intentionally or unintentionally harmed, which could impact the availability of financial and mixed-financial applications.

We tested access for 36 of the 380 individuals granted access to the NCC or PTY computer rooms. Of the 36 individuals tested (26 for NCC and 10 for PTY), access was not properly restricted for 14 individuals as follows (and shown in Figure 1):

- Five individuals indicated computer room access was unnecessary to perform their current job functions or access was unnecessarily retained by a former EPA employee or contractor.

- Nine individuals had unescorted access to the computer rooms. These individuals indicated that they required access, but their job duties did not involve hardware maintenance of devices in the computer room. This included janitorial staff, individuals who perform pest control and semiannual occupational health and safety inspections, and a carpenter.

**Figure 1: Individuals with access to NCC and PTY data centers**




Source: OIG image.

Other problems regarding physical access to the EPA's computer rooms included the following:

- The EPA was missing four of the 24 Personal Identity Verification (PIV) cards that allowed access to the NCC computer room for individuals[1] not assigned to that room.

- No one was stationed at each of the computer rooms' entry points, nor did the entry points use multi-factor authentication to verify that PIV cards were being used by individuals authorized to be in the computer rooms. Multi-factor authentication uses multiple items that individuals have or know to validate identity.

- We were informed that the required facility training that covered the use of fire extinguishers and emergency power shutoffs was not provided to individuals who could access the computer room.

To enforce physical access authorizations, as required by *PE-3 Physical Access Control*, NIST Special Publication 800-53, Revision 4, dated April 2013, organizations need to be "[v]erifying individual access authorizations before granting access to the facility."

Part 6 of the EPA's Information Security–Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, requires that the review and approval of the access list and authorization credentials must be done quarterly, and states:

> - Access to EPA buildings, rooms, work areas, spaces, and structures housing information systems, equipment, and data shall be limited to authorized personnel.
> - The level of access provided to each individual must not exceed the level of access required to complete the individual's job responsibilities.
> - Individual access authorizations must be verified before access to the facility is granted.
> - All necessary personnel must be informed of the emergency power shutoff locations and they must be trained to operate them safely.
> - Personnel must be trained on how to use a fire extinguisher and must receive annual refresher training.

There were multiple reasons why access to the computer rooms was not properly restricted, including:

- We were informed no controls exist to prompt the removal of computer room access for an individual when access by that individual is no longer required.

[1] While most cards have an individual's name and picture, these cards had a description and no picture (e.g., the Fire Department or a contractor).

- Quarterly reviews of computer room access for the NCC computer room are incomplete and were only being performed for the PTY computer room on an as requested basis by the supervisors of individuals who could access the room.

- An Office of Environmental Information representative indicated that individuals with unescorted access and whose job duties did not involve hardware maintenance of devices in the computer room should have a public trust clearance. The representative was uncertain who would monitor these individuals in the computer room.

- No inventory of unassigned PIV cards (with computer room access rights) was taken to promptly remove access granted to the missing cards.

- PIV card scanners do not use multi-factor authentication, and there is no visual verification of individuals accessing the computer room.

Further, Office of Environmental Information representatives indicated that past training covered fire suppression and emergency power cutoff for individuals granted access to the computer room, but the contractor stopped providing that training years ago and the EPA did not find an alternative training solution.

Malicious individuals that gain unauthorized access to a computer room may cause damage to equipment. Additionally, individuals without adequate training on the use of fire suppression and emergency power cutoff may accidentally inflict damage to computer room equipment. If the computer room equipment is damaged, the financial and mixed-financial applications would be unavailable until they are restored.

## Recommendations

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

10. Develop and implement controls to remove an individual's Personal Identity Verification card access rights to computer rooms with financial and mixed-financial applications when that individual no longer requires access.

11. As required by the EPA's Information Security–Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, perform quarterly reviews of access to computer rooms with financial and mixed-financial applications, to determine whether individuals require physical access to the equipment in the computer room to complete their job responsibilities.

12. Implement a process to provide access to and monitor individuals who occasionally need access to a computer room with financial and mixed-financial applications but not to the computer equipment.

13. Maintain an inventory of all Personal Identity Verification cards with access to computer rooms with financial and mixed-financial applications that are not assigned to individuals and remove access when cards are discovered missing.

14. Implement controls to enforce the required verification of individuals' identity every time individuals enter the computer rooms.

## Agency Comments and OIG Evaluation

The EPA disagreed with our findings and recommendations. The agency would like further meetings to discuss the findings. Recommendations 10 through 14 remain unresolved.

## 8—EPA Needs to Perform a Documented Evaluation on Upgrading Equipment Used to Implement Physical Environmental Controls at the National Computer Center

Equipment supporting the physical and environmental controls for the computer room at the NCC has not been maintained or reviewed to see if it still meets the needs of the computer center. This computer room became operational in 2002. During our visit to the NCC Data Center we observed that:

A joystick is an input device used to manually change the views of cameras.

- Surveillance cameras used to monitor physical access to the inside of the computer room were not fully functioning because repairs were needed to the joystick used to control the cameras. The computer room operators indicated that the camera system in the computer room has been down on numerous occasions.

- An Office of Administration and Resources Management (OARM) representative indicated that the back-up generator used to provide alternative power to the computer room in the event of an extended power outage holds approximately 2,800 gallons of fuel that would provide energy to the computer room for approximately 24 hours. The OARM representative also indicated that there is an 8,000-gallon fuel tank for a smaller more fuel-efficient generator used to provide emergency energy to heating, ventilation and air conditioning units. The representative indicated that during emergencies, such as hurricanes, it may be difficult to obtain fuel to refill the tanks. The representative indicated that in the event of an extended power outage, it may be too difficult to add updates that would transfer fuel from the larger tank to the smaller tank to support continued operations until the fuel tanks could be replenished. But according to an Office of Environmental Information representative at the NCC, only hosted applications that subscribe to recovery services resume operations within 72 hours. The hosted applications that do not subscribe to recovery services take 30 days to resume operations. This may affect the EPA's financial and mixed-financial applications hosted at the NCC.

NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* PE-6, requires organizations to monitor physical access to a facility where information systems reside to detect and respond to physical security incidents. Further, PE-11 of this publication requires agencies to provide a short-term uninterrupted power supply to facilitate an orderly shutdown of the information system or to transition to a long-term alternate power.

EPA Procedure CIO-2150.3-P-11.1, *Information Security–Interim Physical and Environmental Protection Procedures V1.9*, reflects NIST guidance for requiring the EPA to install surveillance equipment to monitor physical access to information systems.

The EPA's System Life Cycle Management (SLCM) Policy, CIO 2121.1, dated December 21, 2017, specifies Operation and Maintenance as one of six phases in the life cycle of a system in the EPA. The SLCM Procedure, CIO 2121-P-03.0, dated December 21, 2017, establishes the agency's approach and practices in, among other things, the operation and maintenance of EPA information systems and states:

> This phase ensures that the system operates properly in its production environment and that maintenance takes place. During this time, the Project Manager and System Manager maintain schedules and periodically conduct reviews to ensure the health of the system and to validate its suitability for meeting the business requirements. The System Manager uses structured techniques to detect defects, capture user satisfaction, review the system requirements, and evaluate the suitability of existing and emerging technologies to continue to meet the mission need.

SLCM procedures for the "Operations and Maintenance" phase calls for a review of system requirements and an evaluation of the suitability of existing and emerging technologies. OMB Circular A94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, recommends a benefit-cost analysis technique as a formal economic analysis of government programs or projects.

EPA personnel indicated that they were unaware of whether there has been an analysis to determine whether the original generators and surveillance system supporting the physical and environmental controls of the computer room are currently suitable, considering technologies that have emerged on the market since 2002.

Without a functioning surveillance system, the EPA is not readily able to monitor incidents involving individuals and equipment within the NCC computer room that hosts financial and mixed-financial systems. Further, without sufficient fuel for backup generators, the NCC—which hosts financial and mixed financial systems—may not be able to provide long-term power in the event of an extended power outage.

## Recommendation

We recommend that the Assistant Administrator for Administration and Resources Management:

15. Perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation.

## Agency Comments and OIG Evaluation

The EPA disagreed with our findings and recommendation. The agency would like further meetings to discuss the findings. Recommendation 15 remains unresolved.

# *Status of Prior Audit Report Recommendations*

The EPA is working to strengthen its audit management procedures to address audit findings in a timely manner and to complete corrective actions expeditiously and effectively. Strengthened procedures will also help improve environmental results. In FY 2018, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, were fully engaged in working with the Audit Follow-Up Coordinators and senior agency leaders to stress the need to for concisely written corrective actions that addressed the intent of the recommendations and that have achievable due dates. The EPA also accomplished other notable actions to strengthen its audit management procedures:

- The OCFO worked closely with Agency Audit Follow-Up Coordinators during FY 2018 to ensure that corrective action dates were being met and the required certification memorandums were being submitted. OCFO efforts significantly helped with the EPA's responses to the OIG's spring and fall 2018 *Semiannual Report to Congress*.

- The agency provided training on the revised EPA Manual 2750, *Audit Management Procedures*, during FY 2018. All Agency Audit Follow-Up Coordinators and other interested parties attended the training.

- The agency continued to have quarterly meetings with Agency Audit Follow-Up Coordinators to discuss issues and concerns, and to emphasize adherence to corrective action due dates and the need to keep the Management Audit Tracking System current. The OIG was asked to participate in the agency's spring quarterly meeting, which resulted in a better understanding of OIG and EPA roles and responsibilities.

In addition, the EPA maintained its commitment to engage early with the OIG on audit findings and to develop effective corrective actions that address OIG recommendations. Table 5 outlines the status of past significant deficiency findings that have not been resolved to date.

**Table 5: Significant deficiency issues not fully resolved**

| |
|---|
| • **EPA's Accounting for Software Continues to Be a Material Weakness**<br>In our FYs 2014, 2015 and 2016 audits, we identified the agency's accounting for software as a material weakness. In FY 2014, the agency found that it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate that the agency has a material weakness in internal control over identifying and capitalizing software; and internal control failed to detect and correct the errors, resulting in a misstatement of the FY 2013 financial statements. During FY 2017, the agency continued to take corrective actions to improve its accounting for software. While the agency has made progress and taken steps to correct weaknesses, not all corrective actions have been completed. Corrective actions for the remaining recommendations are not due to be completed until 2018. |

- **EPA Did Not Capitalize Lab Renovation Costs**
  In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovations as a capital improvement. The agency capitalized and booked the Research Triangle Park lab renovation costs and related depreciation. One corrective action was partially completed. The EPA's Office of General Counsel believed that the 1999 legal opinion was still a viable legal opinion but did not provide examples to guide the agency's determinations of when renovation work should be funded from agency program appropriations or Building and Facilities funds. Corrective actions for other recommendations related to this finding were not due until September 2017; however, the agency revised the excepted completion date to February 28, 2018. As of June 8, 2018, the Office of General Counsel was unable to provide global examples to correct the corrective action.

- **EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement**
  In our FY 2014 audit, we noted that the EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for FY 2014. The EPA also identified 573 property items not recorded in Maximo. During our FY 2015 audit, we found that the agency made progress and took steps to correct the differences between the amount of personal property recorded in Maximo and the amount of physical inventory. Although the agency implemented corrective actions, we have not assessed the effectiveness of these actions.

- **EPA's Property Management System Does Not Reconcile to Its Accounting System (Compass)**
  During our FY 2014 audit, we found that the EPA did not reconcile $100 million of capital equipment within its property management subsystem (Maximo) to relevant financial data within its accounting system (Compass). The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting. We previously reported on this issue in our FYs 2012 and 2013 financial statement audit reports. In FY 2014, the agency issued procedures to reconcile capital property. The agency stated that it had begun to resolve the differences between Maximo and Compass; however, problems continue to exist. In FYs 2015 and 2017, we again reported this weakness as a significant deficiency; therefore, the EPA's corrective actions were not yet effective. In FY 2017, the agency informed us that this corrective action was completed in September 2016; however, no supporting documentation has been provided to date. Therefore, we were not able to assess the effectiveness of the action.

- **EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts**
  During FY 2015, the EPA misstated earned and unearned revenue for Superfund special accounts. The EPA changed its accounting practice in FY 2015 to record settlement proceeds in Superfund special accounts as unearned revenue. However, in our FY 2017 audit, we found that the EPA did not properly record $168 million of unearned revenue for Superfund special accounts or perform a comprehensive reconciliation of Superfund special accounts unearned revenue general ledger balances to the special accounts database detail. The EPA made these errors because it did not modify the accounting model for special accounts in Compass Financials. During our FY 2018 audit, we found that the EPA would not be able to complete its corrective actions to modify the accounting model or reconcile Superfund special accounts unearned revenue general ledger balances to the special accounts database.

- **Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center**
  In FY 2014, we found that the EPA and the Department of Justice did not forward accounts receivable source documents to the finance center in a timely manner. During FY 2015, the EPA's Office of Enforcement and Compliance Assurance issued a memorandum reminding the regions to

provide accounts receivable enforcement documentation to the finance center in a timely manner. In addition, the OCFO updated the EPA's Superfund guidance to direct originating offices to send accounts receivable control forms to the finance center in a timely manner. While we have noted some improvements in the CFC's timely receipt of legal documents, we still identified instances of untimely receipt during FYs 2015, 2017 and 2018. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate how timely accounts receivable source documents are when received.

- **EPA Should Improve Its Efforts to Resolve Long-Standing Cash Differences with Treasury**
  During our FY 2015 audit, we found that the EPA had not resolved $2.6 million in long-standing cash differences between the EPA and Treasury balances. Based on our findings, we recommended that the Chief Financial Officer require the General Ledger Analysis and Reporting Branch to monitor and work with the finance centers to resolve all internal cash differences to enable the EPA to resolve all differences with Treasury. We also recommended that the Chief Financial Officer require the Payroll accounting point and Washington Finance Center to research and resolve cash differences. The agency agreed with our finding and recommendations. According to the agency's corrective action status report, as of November 2, 2016, the agency completed its corrective action for the first recommendation. During our FY 2016 audit, we found that the EPA made efforts to identify and resolve its long-standing cash differences and that the agency was working on completing its corrective action to require the Payroll accounting point and the Washington Finance Center to research and resolve cash differences. We did not make any additional recommendations regarding this issue in our FY 2016 financial audit report but included it as an unresolved significant deficiency. During our FY 2017 audit, we noted major improvements, but long-standing unresolved cash differences of $2.2 million remain at the Washington Finance Center. Since the EPA is still working on resolving cash differences and completing its corrective action, we did not make any new recommendations in our FY 2017 financial audit report.

- **Financial Management System User Account Management Needs Improvement**
  During our FY 2009 audit, we found that the EPA had not established policies that clearly define incompatible functions and associated processes to ensure that the proper separation of duties is enforced within the financial system application. Based on our findings, we recommended in our FY 2009 report that the OCFO ensure that all new and updated financial management systems include an automated control to enforce separation of duties. The agency agreed with our finding and recommendation. The EPA had considered this recommendation closed; however, the OCFO agreed in FY 2016 to develop alternative corrective actions for this recommendation, with a planned completion date of December 31, 2017. In FY 2017, the OCFO extended the completion date to December 31, 2018.

- **OCFO Lacks Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems**
  During our FY 2015 audit, we found that the OCFO's Application Management staff assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring that the system had documentation covering key account management procedures. Based on our findings, we recommended in our FY 2015 report that the Chief Financial Officer implement an internal control process for transferring the management of an application's user access to Application Management staff. We also recommended that the Chief Financial Officer conduct an inventory of OCFO systems managed by Application Management staff and create or update supporting access management documentation for each application. Further, we recommended that the Chief Financial Officer work with the Contracting Officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by Application Management staff. The agency agreed with our finding and recommendations.
  In FY 2018, the OCFO extended the completion date for the first and second recommendations to December 31, 2018.

| |
|---|
| • **EPA Needs Controls to Monitor Direct Access to the Compass Financials Database**<br>During our FY 2017 audit, we found that the EPA did not establish controls to monitor direct access to data within the Compass Financials database. Based on our findings, we recommended in our FY 2017 report that the Chief Financial Officer work with the Compass Financials service provider to establish controls for creating and locking administrative accounts. We also recommended that the Chief Financial Officer work with the Compass Financials service provider to develop and implement a methodology to monitor accounts with administrative capabilities. Further, we recommended that the Chief Financial Officer enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions. The agency concurred with our recommendations. According to the agency's corrective action status report, as of November 1, 2018, the agency is adhering to the planned completion date of September 30, 2021, for the first and second recommendations. Corrective actions for the third recommendation have been completed. |
| • **EPA Needs to Appoint a Project Manager to Oversee Management of Compass Financials and Improve Acquisition Planning**<br>During our FY 2017 audit, we found that the EPA's Compass Financials application—a major Information Technology investment—lacks the oversight to ensure that personnel implement agency policies and procedures to guide projects through the acquisition process. Based on our finding, we recommended in our FY 2017 report that the Chief Financial Officer: (1) require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the Information Technology specialization within the 1-year deadline, as required by the Office of Management and Budget; and (2) take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline. The agency concurred with our recommendation. According to the agency's corrective action status report, as of November 1, 2018, the agency now plans to complete the recommendation on October 18, 2019. |

Source: OIG analysis.

**Attachment 3**

# *Status of Current Recommendations and Potential Monetary Benefits*

RECOMMENDATIONS

| Rec. No. | Page No. | Subject | Status[1] | Action Official | Planned Completion Date | Potential Monetary Benefits (in $000s) |
|---|---|---|---|---|---|---|
| 1 | 13 | Ensure that the special account reclassification entry includes a review to determine whether previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs and special account collection movements should or should not be included, and include supporting documents identifying the accounts and amounts reviewed. | R | Chief Financial Officer | 3/29/19 | |
| 2 | 15 | Require the Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, to research and resolve cash differences. | R | Chief Financial Officer | 3/29/19 | |
| 3 | 17 | Review the Allowance for Doubtful Accounts calculation to ensure that adjusting entries are accurate. | C | Chief Financial Officer | | |
| 4 | 17 | Review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to determine the net impact of expenses and revenues from prior periods and ensure that financial statements are not misstated. | C | Chief Financial Officer | | |
| 5 | 17 | Review adjusting entries and their reversals to verify whether account balances are posted properly and do not contain abnormal balances or activity. | C | Chief Financial Officer | | |
| 6 | 19 | Update the policy for the proper accounting and recognition of gains or losses from marketable securities based on the sale of stock. | R | Chief Financial Officer | 3/29/19 | |
| 7 | 19 | Record or adjust accounts receivables only for amounts stipulated in settlement agreements. | C | Chief Financial Officer | | |
| 8 | 20 | Update the EPA's standard operating procedures for preparing Working Capital Fund elimination entries to include verification of entries and proper ending balances. | C | Chief Financial Officer | | |
| 9 | 22 | Require project officers to review and submit approvals or disapprovals of General Services Administration rent invoices each month. | C | Chief Financial Officer | | |
| 10 | 25 | Develop and implement controls to remove an individual's Personal Identity Verification card access rights to computer rooms with financial and mixed-financial applications when that individual no longer requires access. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |

RECOMMENDATIONS

| Rec. No. | Page No. | Subject | Status[1] | Action Official | Planned Completion Date | Potential Monetary Benefits (in $000s) |
|---|---|---|---|---|---|---|
| 11 | 25 | As required by the EPA's Information Security–Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, perform quarterly reviews of access to computer rooms with financial and mixed-financial applications, to determine whether individuals require physical access to the equipment in the computer room to complete their job responsibilities. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 12 | 25 | Implement a process to provide access to and monitor individuals who occasionally need access to a computer room with financial and mixed-financial applications but not to the computer equipment. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 13 | 26 | Maintain an inventory of all Personal Identity Verification cards with access to computer rooms with financial and mixed-financial applications that are not assigned to individuals and remove access when cards are discovered missing. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 14 | 26 | Implement controls to enforce the required verification of individuals' identity every time individuals enter the computer rooms. | U | Assistant Administrator for Environmental Information and Chief Information Officer | | |
| 15 | 28 | Perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation. | U | Assistant Administrator for Administration and Resources Management | | |

[1] C = Corrective action completed.
R = Recommendation resolved with corrective action pending.
U = Recommendation unresolved with resolution efforts in progress.

**Appendix I**

# *EPA's FYs 2018 and 2017 Consolidated Financial Statements*

# EPA's Fiscal 2018 and 2017 Consolidated Financial Statements

# Financial Section

## Table of Contents

## Principal Financial Statements

**United States Environmental Protection Agency**
**Consolidated Balance Sheet**
**As of September 30, 2018 and 2017**
**(Dollars in Thousands)**

| | FY 2018 | FY 2017 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental: | | |
| Fund Balance With Treasury (Note 2) | $ 9,184,092 | $ 8,464,107 |
| Investments (Note 4) | 5,498,047 | 5,326,013 |
| Accounts Receivable, Net (Note 5) | 17,849 | 17,804 |
| Other (Note 6) | 212,509 | 200,822 |
| Total Intragovernmental | 14,912,497 | 14,008,746 |
| | | |
| Cash and Other Monetary Assets (Note 3) | 10 | 10 |
| Accounts Receivable, Net (Note 5) | 458,456 | 508,171 |
| Loans Receivable, Net - Non-Federal (Note 7) | - | - |
| Property, Plant & Equipment, Net (Note 9 ) | 687,393 | 719,488 |
| Other (Note 6) | 3,288 | 8,241 |
| **Total Assets** | **$ 16,061,644** | **$ 15,244,656** |
| | | |
| Stewardship PP& E (Note 11 ) | | |
| | | |
| **LIABILITIES** | | |
| Intragovernmental: | | |
| Accounts Payable and Accrued Liabilities (Note 8) | $ 130,462 | $ 97,035 |
| Debt Due to Treasury (Note 10) | - | - |
| Custodial Liability (Note 12) | 26,544 | 22,548 |
| Other (Note 13) | 125,495 | 134,983 |
| Total Intragovernmental | 282,501 | 254,566 |
| | | |
| Accounts Payable & Accrued Liabilities (Note 8) | 464,136 | 523,713 |
| Pensions & Other Actuarial Liabilities (Note 15) | 43,679 | 45,245 |
| Environmental Cleanup Costs (Note 21) | 32,958 | 39,544 |
| Cashout Advances, Superfund (Note 16) | 3,305,023 | 3,514,426 |
| Commitments & Contingencies (Note 17) | - | - |
| Payroll & Benefits Payable (Note 32) | 202,019 | 205,632 |
| Other (Note 13) | 149,309 | 145,328 |
| Total Liabilities | 4,479,625 | 4,728,454 |
| | | |
| **NET POSITION** | | |
| Unexpended Appropriations - Funds from Dedicated Collections (Note 18) | 2,790 | 3,697 |
| Unexpended Appropriations - Other Funds | 8,117,597 | 7,302,077 |
| Cumulative Results of Operations - Funds from Dedicated Collections (Note 18) | 2,966,236 | 2,638,364 |
| Cumulative Results of Operations - Other Funds | 495,396 | 572,065 |
| | | |
| Total Net Position | 11,582,019 | 10,516,203 |
| | | |
| **Total Liabilities and Net Position** | **$ 16,061,644** | **$ 15,244,656** |

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

**United States Environmental Protection Agency**
**Consolidated Statement of Net Cost**
**For the Fiscal Years Ending September 30, 2018 and 2017**
**(Dollars in Thousands)**

| | FY 2018 | FY 2017 |
|---|---|---|
| **COSTS** | | |
| Gross Costs (Note 19) | $ 8,635,505 | $ 9,024,232 |
| Earned Revenue (Note 19) | 660,708 | 532,663 |
| **NET COST OF OPERATIONS (Note 35)** | **$ 7,974,797** | **$ 8,491,569** |

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

**United States Environmental Protection Agency**
**Statement of Net Cost by Major Program**
**For the Fiscal Year Ending September 30, 2018**
**(Dollars in Thousands)**

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State and Tribal Assistance Agreements | Other | Totals |
|---|---|---|---|---|---|---|---|
| Costs: | | | | | | | |
| Intragovernmental | $ 890,178 | 5,484 | 181,132 | 254,030 | 63,593 | 167,095 | $1,561,512 |
| WCF Eliminations | - | - | | - | - | (211,942) | (211,942) |
| With the Public | 1,910,796 | 88,412 | 530,218 | 1,074,417 | 3,489,408 | 192,684 | 7,285,935 |
| Total Costs | 2,800,974 | 93,896 | 711,350 | 1,328,447 | 3,553,001 | 147,837 | **8,635,505** |
| Less: | | | | | | | |
| Earned Revenue, Federal | 165,360 | - | 3,644 | 7,459 | - | 225,053 | 401,516 |
| WCF Elimination | - | - | - | - | - | (212,386) | (212,386) |
| Earned Revenue, non Federal | 7,884 | - | 1,533 | 414,818 | - | 47,343 | 471,578 |
| Total Earned Revenue (Note 19) | 173,244 | - | 5,177 | 422,277 | - | 60,010 | **660,708** |
| **NET COST OF OPERATIONS** | **$ 2,627,730** | **93,896** | **706,173** | **906,170** | **3,553,001** | **87,827** | **$7,974,797** |

**United States Environmental Protection Agency**
**Statement of Net Cost by Major Program**
**For the Fiscal Year Ending September 30, 2017**
**(Dollars in Thousands)**

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State and Tribal Assistance Agreements | Other | Totals |
|---|---|---|---|---|---|---|---|
| Costs: | | | | | | | |
| Intragovernmental | $ 924,012 | 4,437 | 200,358 | 275,695 | 54,159 | 112,492 | $1,571,153 |
| WCF Eliminations | - | - | - | - | - | (211,512) | (211,512) |
| With the Public | 2,093,973 | 85,996 | 612,169 | 1,219,020 | 3,395,913 | 257,520 | 7,664,591 |
| Total Costs | 3,017,985 | 90,433 | 812,527 | 1,494,715 | 3,450,072 | 158,500 | **9,024,232** |
| Less: | | | | | | | |
| Earned Revenue, Federal | 40,400 | - | 7,356 | 26,733 | - | 231,229 | 305,718 |
| WCF Elimination | - | - | - | - | - | (211,290) | (211,290) |
| Earned Revenue, non Federal | 10,275 | - | 1,274 | 389,103 | - | 37,583 | 438,235 |
| Total Earned Revenue (Note 19) | 50,675 | - | 8,630 | 415,836 | - | 57,522 | **532,663** |
| **NET COST OF OPERATIONS** | **$ 2,967,310** | **90,433** | **803,897** | **1,078,879** | **3,450,072** | **100,978** | **$8,491,569** |

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

**United States Environmental Protection Agency**
**Consolidating Statement of Changes in Net Position**
**For the Fiscal Year Ending September 30, 2018**
**(Dollars in Thousands)**

| | FY 2018 Funds from Dedicated Collections | FY 2018 All Other Funds | FY 2018 Consolidated Total |
|---|---|---|---|
| **Cumulative Results of Operations:** | | | |
| **Net Position - Beginning of Period** | $ 2,638,364 | $ 572,065 | $ 3,210,429 |
| **Budgetary Financing Sources:** | | | |
| Appropriations Used | 4,144 | 7,872,798 | 7,876,942 |
| Nonexchange Revenue - Securities Investment (Note 34) | 80,893 | - | 80,893 |
| Nonexchange Revenue - Other (Note 34) | 244,969 | - | 244,969 |
| Transfers In/Out (Note 30) | (4,763) | 23,976 | 19,213 |
| Trust Fund Appropriations | 1,000,646 | (1,094,046) | (93,400) |
| Total Budgetary Financing Sources | 1,325,889 | 6,802,728 | 8,128,617 |
| **Other Financing Sources (Non-Exchange)** | | | |
| Imputed Financing Sources (Note 31) | 14,598 | 82,785 | 97,383 |
| Total Other Financing Sources | 14,598 | 82,785 | 97,383 |
| Net Cost of Operations | (1,012,615) | (6,962,182) | (7,974,797) |
| Net Change | 327,872 | (76,669) | 251,203 |
| **Cumulative Results of Operations** | $ **2,966,236** | $ **495,396** | $ **3,461,632** |

| | FY 2018 Funds from Dedicated Collections | FY 2018 All Other Funds | FY 2018 Consolidated Total |
|---|---|---|---|
| **Unexpended Appropriations:** | | | |
| **Net Position - Beginning of Period** | $ 3,697 | $ 7,302,077 | $ 7,305,774 |
| **Budgetary Financing Sources:** | | | |
| Appropriations Received | 3,237 | 8,862,285 | 8,865,522 |
| Other Adjustments (Note 33) | - | (173,967) | (173,967) |
| Appropriations Used | (4,144) | (7,872,798) | (7,876,942) |
| Total Budgetary Financing Sources | (907) | 815,520 | 814,613 |
| **Total Unexpended Appropriations** | **2,790** | **8,117,597** | **8,120,387** |
| **TOTAL NET POSITION** | $ **2,969,026** | $ **8,612,993** | $ **11,582,019** |

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

**United States Environmental Protection Agency**
**Consolidating Statement of Changes in Net Position**
**For the Fiscal Year Ending September 30, 2017**
**(Dollars in Thousands)**

| | FY 2017 Funds from Dedicated Collections | FY 2017 All Other Funds | FY 2017 Consolidated Total |
|---|---|---|---|
| **Cumulative Results of Operations:** | | | |
| **Net Position - Beginning of Period** | $ 2,577,360 | $ 852,331 | $ 3,429,691 |
| **Budgetary Financing Sources:** | | | |
| Appropriations Used | 2,991 | 7,945,939 | 7,948,930 |
| Nonexchange Revenue - Securities Investment (Note 34) | 47,445 | - | 47,445 |
| Nonexchange Revenue - Other (Note 34) | 246,289 | - | 246,289 |
| Transfers In/Out (Note 30) | (13,211) | 24,041 | 10,830 |
| Trust Fund Appropriations | 953,850 | (1,038,131) | (84,281) |
| **Total Budgetary Financing Sources** | 1,237,364 | 6,931,849 | 8,169,213 |
| **Other Financing Sources (Non-Exchange)** | | | |
| Imputed Financing Sources (Note 31) | 13,425 | 89,669 | 103,094 |
| Total Other Financing Sources | 13,425 | 89,669 | 103,094 |
| Net Cost of Operations | (1,189,785) | (7,301,784) | (8,491,569) |
| Net Change | 61,004 | (280,266) | (219,262) |
| **Cumulative Results of Operations** | **$ 2,638,364** | **$ 572,065** | **$ 3,210,429** |

| | FY 2017 Funds from Dedicated Collections | FY 2017 All Other Funds | FY 2017 Consolidated Total |
|---|---|---|---|
| **Unexpended Appropriations:** | | | |
| **Net Position - Beginning of Period** | $ 4,080 | $ 7,263,400 | $ 7,267,480 |
| **Budgetary Financing Sources:** | | | |
| Appropriations Received | 3,178 | 8,107,870 | 8,111,048 |
| Other Adjustments (Note 33) | (570) | (123,254) | (123,824) |
| Appropriations Used | (2,991) | (7,945,939) | (7,948,930) |
| Total Budgetary Financing Sources | (383) | 38,677 | 38,294 |
| **Total Unexpended Appropriations** | **3,697** | **7,302,077** | **7,305,774** |
| **TOTAL NET POSITION** | **$ 2,642,061** | **$ 7,834,599** | **$ 10,516,203** |

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

**United States Environmental Protection Agency**
**Combined Statement of Budgetary Resources**
**For the Fiscal Years Ending September 30, 2018 and 2017**
**(Dollars in Thousands)**

| | | FY 2018 | | FY 2017 |
|---|---|---|---|---|
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance from prior year budget authority, net (discretionary and mandatory) | $ | 4,479,928 | $ | 4,551,426 |
| Appropriations (discretionary and mandatory) | | 10,225,913 | | 9,370,266 |
| Borrowing Authority (discretionary and mandatory) | | 2,500,000 | | - |
| Spending Authority from offsetting collection (discretionary and mandatory) | | 610,290 | | 680,152 |
| **Total Budgetary Resources** | $ | 17,816,131 | $ | 14,601,844 |
| | | | | |
| **MEMORANDUM (non-add) entries** | | | | |
| Net Adjustments to unobligated balance brought forward, Oct. 1 (Note 26) | $ | 232,751 | $ | 330,525 |
| | | | | |
| **STATUS OF BUDGETARY RESOURCES** | | | | |
| New obligations and upward adjusmtents (total) | $ | 11,862,249 | $ | 10,354,618 |
| Unobligated Balance, end of year: | | | | |
| Apportioned, unexpired Accounts | | 5,672,318 | | 4,152,585 |
| Unapportioned, unexpired accounts | | 194,768 | | 1,992 |
| Expired unobligated balance, end of year | | 86,796 | | 92,649 |
| Unobligated Balance, end of year (total): | | 5,953,882 | | 4,247,226 |
| **Total Status of Budgetary Resources** | $ | 17,816,131 | $ | 14,601,844 |
| | | | | |
| **OUTLAYS, NET** | | | | |
| Outlays, net (total) (discretionary and mandatory) | $ | 9,484,562 | $ | 9,272,263 |
| Distributed offsetting receipts (Note 29) | | (1,399,483) | | (1,109,453) |
| Agency outlays, net (discretionary and mandatory) | $ | 8,085,079 | $ | 8,162,810 |

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

## United States Environmental Protection Agency
## Statement of Custodial Activity
## For the Fiscal Years Ending September 30, 2018 and 2017
## (Dollars in Thousands)

| | FY 2018 | FY 2017 |
|---|---|---|
| **Revenue Activity:** | | |
| Sources of Cash Collections: | | |
| Fines and Penalties | $ 78,596 | $ 1,571,258 |
| Other | 23,087 | 29,301 |
| Total Cash Collections | 101,683 | 1,600,559 |
| Accrual Adjustment | 2,467 | (19,545) |
| **Total Custodial Revenue (Note 24)** | $ 104,150 | $ 1,581,014 |
| **Disposition of Collections:** | | |
| Transferred to Others (General Fund) | $ 101,615 | $ 1,600,593 |
| Increases/Decreases in Amounts to be Transferred | 2,535 | (19,579) |
| **Total Disposition of Collections** | 104,150 | 1,581,014 |
| **Net Custodial Revenue Activity** | **$ -** | **$ -** |

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

## Note 1. Summary of Significant Accounting Policies

### A. Reporting Entities

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

The FY 2018 financial statements are presented on a consolidated basis for the Balance Sheet, Statement of Net Cost, Statement of Net Costs by Major Program, and Statement of Changes in Net Position, and Statement of Custodial Activity and The Statement of Budgetary Resources is presented on a combined basis. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

### B. Basis of Presentation

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (the 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.

### C. Budgets and Budgetary Accounting

#### I. General Funds

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

The EPA has three-year appropriation accounts and a no year revolving fund account to provide funds to carry out section 3024 of the Solid Waste Disposal Act, including the development, operation, maintenance, and upgrading of the hazardous waste electronic manifest system. The Agency is authorized to establish and collect user fees for this account to recover the full cost of providing the electronic manifest system related services.

The Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) established a Federal credit program administered by the EPA for eligible water and wastewater infrastructure projects. The program is financed from appropriations to cover the estimated long-term cost of the loan. The long-term cost of the loans is defined as the net present value of the estimated cash flows associated with the loans. A permanent indefinite appropriation is available to finance the costs of re-estimated loans that occur in subsequent years after the loans were disbursed. The Agency received two-year appropriations in fiscal years 2017 and 2018 to finance the administration portion of the program.

EPA re-estimates the risk on each individual loan basis annually. Proceeds issued by EPA cannot exceed forty-nine percent of eligible project costs. Project costs must exceed a minimum of $20 million for large communities and $5 million for communities with populations of 25,000 or less. After substantial completion of a project, the borrower may defer up to five years to start loan repayment and cannot exceed thirty-five years for the final loan maturity date.

Funds transferred from other federal agencies are processed as non-expenditure transfers. 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.

### II. Revolving Funds

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

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

The EPA Damage Assessment and Restoration Revolving Fund was established through the US Department of Treasury and OMB for funds received for critical damage assessments and restoration of natural resources injured as a result of the Deepwater Horizon oil spill.

### III. Special Funds

The Environmental Services Receipts Account Fund obtains fees associated with environmental programs. Pesticide Registration Improvement Act Funds (PRIA) collects pesticide registration service fees for specified registration and amended registration and associated tolerance actions which set maximum residue levels for food and feed.

### IV. Deposit Funds

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. Until a determination is made, these are not the EPA's funds. The amounts are reported to the US Treasury through the Government-Wide Treasury Account Symbol Adjusted Trial Balance System.

### V. Trust Funds

Congress enacts an annual appropriation for the Hazardous Substance Superfund, Leaking Underground Storage Tank (LUST) and the Inland Oil Spill Programs accounts to remain available until expended. Transfer accounts for the Superfund and LUST Trust Funds have been established to record appropriations moving from the Trust Fund to allocation accounts for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the expenditure account, the Agency draws down monies from the Superfund and LUST Trust Funds held 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 enacts the Inland Oil Spill Programs appropriation amount to the EPA's Inland Oil Spill Programs account.

In 2015, the EPA established a receipt account for Superfund special account collections. Special accounts are comprised of reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3). This allows the Agency to invest the funds until drawdowns are needed for special accounts disbursements. The agency updated posting models and expects to fully utilize this receipt account by January 31, 2019.

### VI. Allocation Transfers

The EPA is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations for one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. In addition to these funds, the EPA allocates funds, as the parent, to the Center for Disease Control. The EPA receives allocation transfers, as the child, from the Bureau of Land Management.

## D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government and the American Institute of Certified Public Accountants (AICPA). 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 liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with OMB directives and the U.S. Treasury regulations.

EPA uses a modified matching principle since federal entities recognize unfunded liabilities (without budgetary resources) in accordance FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 5 "Accounting for Liabilities of the Federal Government."

## 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 SFFAS No. 7, "Accounting for Revenues and Other Financing Sources."

### I. Superfund

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the

Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from PRPs under CERCLA Section 122(b)(3) which are placed into special accounts. Special accounts and corresponding interest are classified as mandatory appropriations due to the 'retain and use' authority under CERCLA 122(b) (3). Cost recovery settlements that are not placed in special accounts are deposited in the Superfund Trust Fund.

### II. Other Funds

Funds under the Federal Credit Reform Act of 1990 receive program guidance and funding needed to support loan programs through appropriations which may be used within statutory limits for operating and capital expenditures. The WIFIA program receives additional funding to support awarding, servicing and collecting loans and loan guarantees through application fees collected in the program fund. WIFIA authorizes the EPA to charge fees to recover all or a portion of the Agency's cost of providing credit assistance and the costs of retaining expert firms, including financial engineering, and legal services, to assist in the underwriting and servicing of federal credit instruments. The fees are to cover costs to the extent not covered by congressional appropriations.

The FIFRA and PRIA funds receive funding through fees collected for services provided and interest on invested funds. The Hazardous Waste Electronic Manifest System Fund receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System. The WCF receives revenue through fees collected for services provided from the Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements.

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 General 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, they generally are held to maturity (see Note 4).

## H. 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).

## I. Accounts Receivable and Interest Receivable

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by Superfund Amendments and Reauthorization Act of 1986 (SARA). Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5). The Agency also records allocations receivable from the Superfund Trust Fund, which are eliminated in the consolidated totals.

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

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10 percent or 50 percent of site remedial action costs, depending on who has the primary responsibility 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.

Most remaining receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, and refunds receivable for the STAG appropriation.

### J. Advances and Prepayments

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

### K. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. 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. Loan proceeds are disbursed pursuant to the terms of the loan agreement. Interest is calculated semi-annually on a per loan basis. Repayments are made pursuant to the terms of the loan agreement with the option to repay loan amounts early.

### L. Appropriated Amounts Held by Treasury

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

### M. Property, Plant, and Equipment

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

A purchase of EPA-held or contractor-held personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least two years. For contractor-held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years two through five. For contractor-held property detailed records are maintained and accounted for in contractor systems, not in EPA's FAS. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

Personal property includes capital leases. To be defined as a capital lease, a lease, at its inception, must have a lease term of two or more years and the lower of the fair value or present value of the projected minimum lease payments must be $75 thousand or more. Capital leases containing real property (therefore considered in the real property category as well), have a $150 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cash flows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value.

Superfund contract property used as part of the remedy for site-specific response action is capitalized in accordance with the Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, the EPA retains control of the property (i.e., pump and treat facility) for 10 years or less, and transfers its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with the EPA's 10-year retention period, depreciation for this property is based on a 10-year useful 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 the EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations. An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in EPA's FAS, depreciated utilizing the straight-line method based upon the asset's in-service date and useful life.

Real property consists of land, buildings, capital and leasehold improvements and capital leases. In FY 2017, the EPA increased the capitalization threshold for real property, other than land, to $150 thousand from $85 thousand for buildings and improvements and $25 thousand for plumbing, heating, and sanitation projects. The new threshold will be applied prospectively. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value, if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 50 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software that was internally developed by Agency employees. In FY 2017, the EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets, reviewed capitalization of other federal entities, and evaluated the materiality of software account balances. Based on the review, the Agency increased the capitalization threshold from $250 thousand to $5 million to better align with major software acquisition investments. The $5 million threshold will be applied prospectively to software acquisitions and modifications/enhancements placed into service after September 30, 2016. Software assets placed into service prior to October 1, 2016 were capitalized at the $250 thousand threshold. Internal use software is capitalized at full cost (direct and indirect) and amortized using the straight-line method over its useful life, not exceeding five years.

Internal use software purchased or developed for the working capital fund is capitalized at $250 thousand and is amortized using the straight-line method over its useful life, not exceeding 5 years

## N. 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 authorized for retention. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

## O. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the non subsidy portion of the WIFIA direct loans. The Agency borrows the funds from Treasury when the loan disbursements agreed upon in the loan agreement are made. Principal payments are made to Treasury based on the collection of loan receivables at the end of the fiscal year.

## P. 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.

## Q. 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, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, 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.

## R. Prior Period Adjustments

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.

## S. Deepwater Horizon Oil Spill

The April 20, 2010 Deepwater Horizon (DWH) oil spill was the largest oil spill in U.S. history. In the wake of the spill, the National Contingency Plan regulation was revised to reflect the EPA's designation as a DWH Natural Resource Trustee. The DWH Natural Resources Damage Assessment is a legal process pursuant to the Oil Pollution Act and the April 4, 2016, Consent Decree between the U.S., the five Gulf states, and BP entered by a federal court in New Orleans. Under the Consent Decree, a payment schedule was set forth for BP to pay $7.1 billion in natural resource damages. The NRDA trustees are then jointly responsible to use those funds in the manner set forth in Appendix 2 of the Consent Decree to restore natural resources injured by the DWH oil spill. In FY 2016, the EPA received an advance of $184 thousand from BP and $2 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill. In FY 2017 and 2018, the EPA returned the unused balance of fund amounts of $900 and $440 thousand, respectively, to the U.S. Coast Guard for deposit in the Oil Spill Liability Trust Fund. As additional projects are identified, the EPA may continue to receive funding through the 2016 Consent Decree to implement its DWH NRDA Trustee responsibilities in the Agency's Damage Assessment and Restoration Revolving Trust Fund.

## T. Hurricane Sandy

On January 29, 2013, President Obama signed into law the Disaster Relief Appropriations Act (Disaster Relief Act) which provided aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, the Disaster Relief Act required federal agencies supporting Sandy recovery and other disaster-related activities to write and implement and Internal Control Plan to prevent waste, fraud and abuse of these funds. The EPA Hurricane Sandy Internal Control Plan was reviewed and approved by OMB, GAO and the IG in FY 2013.

The EPA received a post sequestration appropriation of $577 million in Hurricane Sandy funds for the following programs (all amounts are post sequestration):

a) The Clean Water State Revolving Fund received $475 million for work on clean water infrastructure projects in New York and New Jersey.

b) The Drinking Water State Revolving Fund received $95 million for work on drinking water infrastructure projects in New York and New Jersey.

c) The Leaking Underground Storage Tanks program received $5 million for work on projects impacted by Hurricane Sandy.

d) The Superfund program received $2 million for work on Superfund sites impacted by Hurricane Sandy.

e) The EPA also received $689 thousand to make repairs to the EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

## U. Puerto Rico Insolvency

In February 2016, the Puerto Rico Aqueduct and Sewer Authority (PRASA) requested a restructuring of the Clean Water and Drinking Water SRF debt due to a lack of cash flows and inability to access the municipal bond market. PRASA is the primary water utility for Puerto Rico and, at the time of their request, the debt outstanding to the SRFs was $547 million. Annual debt service to the SRFs is approximately $37 million per year.

In June 2016, the EPA and the Puerto Rico SRFs agreed to a 1-year forbearance on principal and interest payments. In June 2017, the 1-year forbearance which was to end on June 30, 2017, was extended for an additional 6 months, ending December 30, 2017. Since that time, the forbearance has again been extended, first for 6 months, ending June 30, 2018 and again for 3 months, ending September 30, 2018. The current forbearance agreement expires on November 30, 2018.

In May 2017, following PRASA's fiscal plan approval by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) oversight board created by Congress, the EPA, and the Puerto Rico SRFs began negotiations with PRASA on restructuring current debt and setting terms for future debt. If a restructuring agreement between the SRFs and PRASA is reached prior to the end of current forbearance, the restructuring agreement will supersede the forbearance. PRASA continues to work with the EPA in its fiduciary and oversight capacity, the Commonwealth SRF Agencies, and private debt holders to restructure its debt obligations owed the Commonwealth SRF Agencies.

**V. 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, including environmental and grant liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**W. Reclassifications and Comparative Figures**

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised July 30, 2018. As a result, certain line items have been amended in the Statement of Budgetary Resources.

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

Fund Balance with Treasury as of September 30, 2018 and September 30, 2017, consists of the following:

| | FY 2018 | | | FY 2017 | | |
|---|---|---|---|---|---|---|
| | Entity Assets | Non-Entity Assets | Total | Entity Assets | Non-Entity Assets | Total |
| **Trust Funds:** | | | | | | |
| Superfund | $ 140,013 | - | $ 140,013 | $ 155,259 | - | $ 155,259 |
| LUST | 10,425 | - | 10,425 | 68,266 | - | 68,266 |
| Oil Spill & Misc. | 8,822 | - | 8,822 | 11,129 | - | 11,129 |
| **Revolving Funds:** | | | - | | | |
| FIFRA/Tolerance | 47,864 | - | 47,864 | 43,614 | - | 43,614 |
| Working Capital | 128,909 | - | 128,909 | 101,524 | - | 101,524 |
| Cr. Reform Finan. | - | - | - | - | - | - |
| E-Manifest | 4,294 | - | 4,294 | 5,385 | - | 5,385 |
| NRDA | 2,057 | - | 2,057 | 2,729 | - | 2,729 |
| **Appropriated** | 8,348,172 | - | 8,348,172 | 7,604,790 | - | 7,604,790 |
| **Other Fund Types** | 489,727 | 3,809 | 493,536 | 467,626 | 3,785 | 471,411 |
| **Total** | $ 9,180,283 | 3,809 | $ 9,184,092 | $ 8,460,322 | 3,785 | $ 8,464,107 |

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 the EPA for other entities.

| **Status of Fund Balances:** | **FY 2018** | **FY 2017** |
|---|---|---|
| **Unobligated Amounts in Fund Balance:** | | |
| Available for Obligation | $ 4,405,970 | $ 4,154,001 |
| Unavailable of Obligation | 86,796 | 94,641 |
| Net Receivables from Invested Balances | (4,758,627) | (4,797,519) |
| Balances in Treasury Trust Fund (Note 36) | 1,807 | 15,112 |
| Obligated Balance not yet Disbursed | 8,974,558 | 8,496,895 |
| Non-Budgetary FBWT | 473,588 | 500,977 |
| **Total** | **$ 9,184,092** | **$ 8,464,107** |

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2018 and FY 2017 no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury.

**Note 3. Cash and Other Monetary Assets**

As of September 30, 2018, and September 30, 2017, the balance in the imprest fund was $10 thousand.

**Note 4. Investments**

As of September 30, 2018, and September 30, 2017, investments related to Superfund and LUST consist of the following:

| | | | Cost | Amortized (Premium) Discount | Interest Receivable | Investments, Net | | Market Value |
|---|---|---|---|---|---|---|---|---|
| **Intragovernmental Securities:** | | | | | | | | |
| Non-Marketable | FY 2018 | $ | 5,537,630 | 44,298 | 4,715 | 5,498,047 | $ | 5,498,047 |
| Non-Marketable | FY 2017 | $ | 5,329,067 | 6,455 | 3,401 | 5,326,013 | $ | 5,326,013 |

CERCLA, as amended by SARA, authorizes the 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, the 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. All investments in Treasury securities are funds from dedicated collections (see Note 18).

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for dedicated collection funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the EPA as evidence of its receipts. Treasury securities are an asset to the EPA and a liability to the U.S. Treasury. Because the 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 the EPA with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the 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, 2018, and September 30, 2017, consist of the following:

| | FY 2018 | FY 2017 |
|---|---|---|
| **Intragovernmental:** | | |
| Accounts & Interest Receivable | $ 17,849 | $ 19,227 |
| Less: Allowance for Uncollectibles | - | (1,423) |
| **Total** | $ **17,849** | $ **17,804** |
| | | |
| **Non-Federal:** | | |
| Unbilled Accounts Receivable | $ 234,731 | $ 206,044 |
| Accounts & Interest Receivable | 2,385,341 | 2,413,358 |
| Less: Allowance for Uncollectibles | (2,161,616) | (2,111,231) |
| **Total** | **$ 458,456** | **$ 508,171** |

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, 2018, and September 30, 2017, consist of the following:

| **Intragovernmental:** | FY 2018 | FY 2017 |
|---|---|---|
| Advances to Federal Agencies | $ 212,334 | $ 200,703 |
| Advances for Postage | 175 | 119 |
| **Total** | **$ 212,509** | **$ 200,822** |
| | | |
| **Non-Federal:** | | |
| Travel Advances | $ 119 | $ 79 |
| Securities from Debt Settlement | - | 1,863 |
| Other Advances | 2,954 | 6,196 |
| Inventory for Sale | 215 | 103 |
| **Total** | **$ 3,288** | **$ 8,241** |

## Note 7. Loans Receivable, Net

Loans Receivable generally consists of 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. In fiscal year 2018, the Agency received borrowing authority of $2.5 billion for the non-subsidy portion of loan proceeds disbursed. In FY 2018 the Agency closed $ 1 billion in WIFIA loans. As of September 30, 2018, the EPA has not disbursed any loans for the WIFIA program but has incurred $4.0 million in administrative expenses.

## 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, 2018, and September 30, 2017:

| | FY 2018 | FY 2017 |
|---|---|---|
| **Intragovernmental:** | | |
| Accounts Payable | $ 3,902 | $ 4,199 |
| Liability for allocation | - | - |
| Accrued Liabilities | 126,560 | 92,836 |
| **Total** | **$ 130,462** | **$ 97,035** |

| **Non-Federal:** | **FY 2018** | **FY 2017** |
|---|---|---|
| Accounts Payable | $ 67,003 | $ 58,212 |
| Advances Payable | (1,355) | 17 |
| Interest Payable | 5 | 5 |
| Grant Liabilities | 288,526 | 296,157 |
| Other Accrued Liabilities | 109,957 | 169,322 |
| **Total** | **$ 464,136** | **$ 523,713** |

Other Accrued Liabilities are mostly comprised of contractor accruals.

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

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

As of September 30, 2018, and September 30, 2017, General PP&E consisted of the following:

| | FY 2018 | | | FY 2017 | | |
|---|---|---|---|---|---|---|
| | Acquisition Value | Accumulated Depreciation | Net Book Value | Acquisition Value | Accumulated Depreciation | Net Book Value |
| EPA-Held Equipment | $ 299,732 | (203,434) | $ 96,298 | $ 304,068 | (198,897) | $ 105,171 |
| Software (production) | 441,571 | (365,206) | 76,365 | 437,334 | (364,300) | 73,034 |
| Software (development) | 7,908 | - | 7,908 | 47,377 | - | 47,377 |
| Contractor Held Equip. | 40,437 | (26,706) | 13,731 | 39,759 | (24,117) | 15,642 |
| Land and Buildings | 774,146 | (286,224) | 487,922 | 742,932 | (269,779) | 473,153 |
| Capital Leases | 24,485 | (19,316) | 5,169 | 24,485 | (19,374) | 5,111 |
| **Total** | **$ 1,588,279** | **(900,886)** | **$ 687,393** | **$ 1,595,955** | **(876,467)** | **$ 719,488** |

In FY 2015, the Agency initiated an intensive remediation effort to address the material weakness in how the Agency accounts for software. The Agency disclosed a material weakness through its internal control review of software capitalization processes in FY 2014. The material weakness was cited in the, "Audit of the EPA's Fiscal Year's 2014 and 2013 (Restated) Consolidated Financial Statements" report, dated November 17, 2014. The significant decrease in software in-development acquisition value from FY 2017 to FY 2018 is attributable to the Agency's software material weakness remediation efforts. The software in-development decrease totaling $40 million is due to software disposals, reclassification of software costs to expense, and adjustments to asset values. A key part of this remediation effort has been improving procedures for validating expenditures that require capitalization and improving communications between Agency program offices and the accounting office. The Agency completed corrective actions to resolve the weakness in software capitalization in FY 2018.

The increase in the Agency's capitalization threshold was effective on October 1, 2016 and did not have a material effect in the change in software asset values.

**Note 10. Debt Due to Treasury**

As of September 30, 2018, the EPA does not have any debt due to Treasury. In FY 2018, the EPA did not borrow funds to finance the WIFIA Loan Program.

**Note 11. Stewardship Property Plant & Equipment**

The Agency acquires title to certain property and property rights under the authorities provided in Section 104(j) CERCLA related to remedial clean-up sites. The property rights are in the form of fee interests (ownership) and easements to allow access to clean-up sites or to restrict usage of remediated sites. The Agency takes title to the land during remediation and transfers it to state or local governments upon the completion of clean-up. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred under the terms of 104(j).

As of September 30, 2018, the Agency possessed the following land and land rights:

| | FY 2018 | FY2017 |
|---|---|---|
| **Superfund Sites with Easements:** | | |
| Beginning Balance | $ 39 | $ 38 |
| Additions | - | 1 |
| Withdrawals | - | - |
| Ending Balance | $ 39 | $ 39 |
| **Superfund Sites with Land Acquired:** | | |
| Beginning Balance | $ 34 | $ 34 |
| Additions | - | 1 |
| Withdrawals | 2 | 1 |
| Ending Balance | $ 32 | $ 34 |

**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, 2018, and September 30, 2017, custodial liability is approximately $26.5 million and $22.5 million, respectively.

## Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2018:

| Other Liabilities – Intragovernmental | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|---|---|---|---|
| **Current** | | | |
| Employer Contributions & Payroll Taxes | $ 17,574 | - | $ 17,574 |
| WCF Advances | 1,651 | - | 1,651 |
| Other Advances | 6,162 | - | 6,162 |
| Advances, HRSTF Cashout | 60,048 | - | 60,048 |
| Deferred HRSTF Cashout | 9,069 | - | 9,069 |
| Liability for Deposit Funds | (2) | - | (2) |
| **Non-Current** | | | |
| Unfunded FECA Liability | - | 8,906 | 8,906 |
| Unfunded Unemployment Liability | - | 87 | 87 |
| Payable to Treasury Judgment Fund | - | 22,000 | 22,000 |
| **Total Intragovernmental** | **$ 94,502** | **30,993** | **$ 125,495** |
| **Other Liabilities - Non-Federal** | | | |
| **Current** | | | |
| Unearned Advances, Non-Federal | $ 127,131 | - | $ 127,131 |
| Liability for Deposit Funds, Non-Federal | 5,942 | - | 5,942 |
| **Non-Current** | | | |
| Capital Lease Liability | - | 16,236 | 16,236 |
| **Total Non-Federal** | **$ 133,073** | **16,236** | **$ 149,309** |

Other Liabilities consist of the following as of September 30, 2017:

| **Other Liabilities – Intragovernmental** | **Covered by Budgetary Resources** | **Not Covered by Budgetary Resources** | **Total** |
|---|---|---|---|
| **Current** | | | |
| Employer Contributions & Payroll Taxes | $ 19,119 | - | $ 19,119 |
| WCF Advances | 1,676 | - | 1,676 |
| Other Advances | 9,235 | - | 9,235 |
| Advances, HRSTF Cashout | 65,807 | - | 65,807 |
| Deferred HRSTF Cashout | 7,853 | - | 7,853 |
| Liability for Deposit Funds | 53 | | 53 |
| **Non-Current** | | | |
| Unfunded FECA Liability | - | 8,839 | 8,839 |
| Unfunded Unemployment Liability | - | 401 | 401 |
| Payable to Treasury Judgment Fund | - | 22,000 | 22,000 |
| **Total Intragovernmental** | $ **103,743** | **31,240** | **$ 134,983** |
| **Other Liabilities - Non-Federal** | | | |
| **Current** | | | |
| Unearned Advances, Non-Federal | $ 121,339 | - | $ 121,339 |
| Liability for Deposit Funds, Non-Federal | 6,441 | - | 6,441 |
| **Non-Current** | | | |
| Capital Lease Liability | - | 17,548 | 17,548 |
| **Total Non-Federal** | $ **127,780** | **17,548** | **$ 145,328** |

## Note 14. Leases

### A. Capital Leases:

The value of assets held under Capital Leases as of September 30, 2018, and September 30, 2017, are as follows:

| **Summary of Assets Under Capital Lease:** | **FY 2018** | **FY 2017** |
|---|---|---|
| Real Property | $ 24,485 | $ 24,485 |
| Personal Property | - | - |
| **Total** | **24,485** | **24,485** |
| Accumulated Amortization | $ 19,316 | $ 19,374 |

The EPA has one capital lease for land and buildings housing scientific laboratories. This lease includes 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 EPA's lease will terminate in FY 2025.

| Future Payments Due Fiscal Year | | Capital Leases |
|---|---|---|
| 2019 | $ | 4,215 |
| 2020 | | 4,215 |
| 2021 | | 4,215 |
| 2022 | | 4,215 |
| 2023 | | 4,215 |
| After 5 years | | 5,620 |
| **Total Future Minimum Lease Payments** | | 26,695 |
| Less: Imputed Interest | | (10,460) |
| **Net Capital Lease Liability** | | 16,235 |
| **Liabilities not Covered by Budgetary Resource** | **$** | **16,235** |

## B. Operating Leases:

The GSA provides leased real property (land and buildings) as office space for the EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties. The EPA has two direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics.

The total minimum future operating lease costs are listed below:

| Fiscal Year | | Operating Leases, Land and Buildings |
|---|---|---|
| 2019 | $ | 94 |
| 2020 | | 36 |
| **Total Future Minimum Lease Payments** | **$** | **130** |

## 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, the 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, 2018, and September 30, 2017, was $43.7 million and $45.2 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2018 present value of these estimated outflows is calculated using a discount rate of 2.716 percent in the first year, and 2.716 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 the EPA, a state, or another responsible party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cash-out funds received by the 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 the EPA without further appropriation by Congress. As of September 30, 2018, and September 30, 2017, cash-out advances total $3.3 billion and $3.5 billion respectively.

## Note 17. Commitments and Contingencies

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

a) Various personnel actions, suits, or claims brought against the Agency by employees and others.

b) Various contract and assistance program claims brought against the Agency by vendors, grantees and others.

c) The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.

d) 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, 2018, and September 30, 2017, there were no accrued liabilities for commitments and potential loss contingencies.

### A. Gold King Mine

On August 5, 2015, EPA and its contractors were conducting an investigation under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of the Gold King Mine, an inactive mine in Colorado, when a release of acid mine drainage occurred. While the EPA team was excavating above the mine adit, water began leaking from the mine adit. The small leak quickly turned into a significant breach, releasing approximately three million gallons of mine water into the North Fork of Cement Creek, a tributary of the Animas River. The plume of acid mine water traveled from Colorado's Animas River into New Mexico's San Juan River, passed through the Navajo Nation, and deposited into Utah's Lake Powell. As of September 30, 2018, EPA has received approximately 403 total claims under the Federal Tort Claims Act from individuals and businesses situated on or near the affected waterways for alleged lost wages, loss of business income, agricultural and livestock losses, property damage, diminished property value, and personal injury. Of those claims, approximately 294 have entered litigation against the United States in federal district court, leaving approximately 109 administrative claims within EPA's jurisdiction. EPA has awarded no administrative claims. The amounts estimated related to the Gold King Mine are $2.1 billion but they are only reasonably possible, and the final outcomes are not probable.

### B. Flint, Michigan

The EPA has received claims from individuals under the Federal Tort Claims Act for alleged injuries and property damages caused by the EPA's alleged negligence related to the water health crisis in Flint, Michigan. The amounts related to the water health crisis are $2 billion, but they are only reasonably possible and the final outcomes are not probable.

### C. Superfund

Under CERCLA Section 106(a), the 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 the 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. The amounts related to Superfund are $20 million, but they are only reasonably possible, and the final outcomes are not probable.

### D. Environmental Liabilities

As of September 30, 2018, there is one case pending against the EPA that is reported under Environmental Liabilities: Bob's Home Service Landfill amount is $900 thousand but it is only reasonable possible, and the final outcome is not probable.

### E. Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." The EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim. As of September 30, 2018, there is no other case pending in the court.

### F. Other Commitments

EPA has a commitment to fund the United States Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. EPA paid $2.5 million to the CEC in the period ending September 30, 2018 and $2.55 million in the period ending September 2017.

EPA has a legal commitment under a noncancelable agreement, subject to the availability of funds, with the United Nations Environmental Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling $8,326,000 in the period ending September 2017 and $8,326,000 in the period ending September 2018.

## Note 18. Fund from Dedicated Collections (Unaudited)

| Balance sheet as of September 30, 2018 | Environmental Services | LUST | Superfund | Other Funds from Dedicated Collections | Total Funds from Dedicated Collections |
|---|---|---|---|---|---|
| Assets | | | | | |
| Fund Balance with Treasury | $ 469,194 | 10,425 | 140,013 | 83,571 | $ 703,203 |
| Investments | - | 620,160 | 4,877,887 | - | 5,498,047 |
| Accounts Receivable, Net | - | 87,588 | 306,338 | 1,784 | 395,710 |
| Other Assets | - | 209 | 54,722 | 7,614 | 62,545 |
| Total Assets | 469,194 | 718,382 | 5,378,960 | 92,969 | 6,659,505 |
| | | | | | |
| Other Liabilities | 3 | 95,026 | 3,522,626 | 72,824 | 3,690,479 |
| Total Liabilities | 3 | 95,026 | 3,522,626 | 72,824 | 3,690,479 |
| | | | | | |
| Unexpended Appropriation | - | - | (2) | 2,792 | 2,790 |
| Cumulative Results of Operations | 469,191 | 623,356 | 1,856,336 | 17,353 | 2,966,236 |
| | | | | | |
| Total Liabilities and Net Position | 469,194 | 718,382 | 5,378,960 | 92,969 | 6,659,505 |
| | | | | | |
| **Statement of Net Cost for the Period Ended September 30, 2018** | | | | | |
| Gross Program Costs | - | 93,897 | 1,328,447 | 66,224 | 1,488,568 |
| Less: Earned Revenues | - | - | 422,277 | 53,676 | 475,953 |
| | | | | | |
| Net Cost of Operations | - | 93,897 | 906,170 | 12,548 | 1,012,615 |
| | | | | | |
| **Statement of Changes in Net Position for the Period ended September 30, 2018** | | | | | |
| Net Position, Beginning of Period | 444,636 | 591,252 | 1,599,954 | 6,218 | 2,642,060 |
| Nonexchange Revenue- Securities Investments | - | 8,657 | 71,516 | 720 | 80,893 |
| Nonexchange Revenue | 24,555 | 210,731 | 6,598 | 3,085 | 244,969 |
| Other Budgetary Finance Sources | - | (93,400) | 1,070,070 | 22,450 | 999,120 |
| Other Financing Sources | - | 13 | 14,366 | 220 | 14,599 |
| Net Cost of Operations | - | (93,897) | (906,170) | (12,548) | (1,012,615) |
| | | | | | |
| Change in Net Position | 24,555 | 32,104 | 256,380 | 13,927 | 326,966 |
| | | | | | |
| Net Position | $ 469,191 | $ 623,356 | $ 1,856,334 | $ 20,145 | $ 2,969,026 |

| Balance sheet as of September 30, 2017 | Environmental Services | LUST | Superfund | Other Funds from Dedicated Collections | Total Funds from Dedicated Collections |
|---|---|---|---|---|---|
| Assets | | | | | |
| Fund Balance with Treasury | $ 444,637 | 68,265 | 155,260 | 85,847 | $ 754,009 |
| Investments | - | 529,482 | 4,796,531 | - | 5,326,013 |
| Accounts Receivable, Net | - | 37,647 | 416,861 | 26 | 454,534 |
| Other Assets | - | 699 | 20,558 | 599 | 21,856 |
| Total Assets | 444,637 | 636,093 | 5,389,210 | 86,472 | 6,556,412 |
| Other Liabilities | - | 44,841 | 3,789,256 | 80,254 | 3,914,351 |
| Total Liabilities | - | 44,841 | 3,789,256 | 80,254 | 3,914,351 |
| Unexpended Appropriations | - | - | (2) | 3,699 | 3,697 |
| Cumulative Results of Operations | 444,637 | 591,252 | 1,599,956 | 2,519 | 2,638,364 |
| Total Liabilities and Net Position | 444,637 | 636,093 | 5,389,210 | 86,472 | 6,556,412 |
| **Statement of Net Cost for the Period Ended September 30, 2017** | | | | | |
| Gross Program Costs | - | 90,432 | 1,495,192 | 67,414 | 1,653,038 |
| Less: Earned Revenues | - | - | 416,036 | 47,217 | 463,253 |
| Net Cost of Operations | - | 90,432 | 1,079,156 | 20,197 | 1,189,785 |
| **Statement of Changes in Net Position for the Period ended September 30, 2017** | | | | | |
| Net Position, Beginning of Period | 421,406 | 546,543 | 1,608,142 | 5,350 | 2,581,441 |
| Nonexchange Revenue- Securities Investments | - | 3,048 | 44,166 | 230 | 47,444 |
| Nonexchange Revenue | 23,231 | 225,193 | (701) | (1,434) | 246,289 |
| Other Budgetary Finance Sources | - | (93,100) | 1,014,090 | 22,257 | 943,247 |
| Other Financing Sources | - | - | 13,413 | 12 | 13,425 |
| Net Cost of Operations | - | (90,432) | (1,079,156) | (20,197) | (1,189,785) |
| Change in Net Position | 23,231 | 44,709 | (8,188) | 868 | 60,620 |
| Net Position | $ 444,637 | $ 591,252 | $ 1,599,954 | $ 6,218 | $ 2,642,061 |

## A. Funds from Dedicated Collections are as follows

### i. *Environmental Services Receipt Account:*

The Environmental Services Receipt Account authorized by a 1990 act, “To amend the Clean Air Act (P.L. 101-549),” was established for the deposit of fee receipts associated with environmental programs, including 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 if authorized by Congress in the Agency's appropriations bill.

### ii. *Leaking Underground Storage Tank (LUST) Trust Fund:*

The LUST Trust Fund, was authorized by the SARA as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to prevent and 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 and prevention grants to inspect and 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.

### iii. *Superfund Trust Fund:*

In 1980, the Superfund Trust Fund, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to the Department of Justice 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.

## B. Other Funds from Dedicated Collections

### *i. Inland Oil Spill Programs Account:*

The Inland Oil Spill Programs Account was authorized by the Oil Pollution Act of 1990 (OPA). Monies are appropriated from the Oil Spill Liability Trust Fund to the EPA's Inland Oil Spill Programs Account each year. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for specific oil spill cleanup actions is provided through the U.S. Coast Guard from the Oil Spill Liability Trust Fund through reimbursable Pollution Removal Funding Agreements (PRFAs) and other inter-agency agreements.

### *ii. Pesticide Registration Fund:*

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

### *iii. Reregistration and Expedited Processing Fund:*

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

### *iv. Tolerance Revolving Fund:*

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

## Note 19. Intragovernmental Costs and Exchange Revenue

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

| | FY 2018 | | | FY 2017 | | |
|---|---|---|---|---|---|---|
| | Intragovern-mental | With the Public | Total | Intragovern-mental | With the Public | Total |
| **Environmental Programs & Mgmt** | | | | | | |
| Program Costs | $ 890,178 | 1,910,796 | 2,800,974 | $ 924,012 | 2,093,973 | $ 3,017,985 |
| Earned Revenue | 165,360 | 7,884 | 173,244 | 40,400 | 10,275 | 50,675 |
| NET COSTS | 724,818 | 1,902,912 | 2,627,730 | 883,612 | 2,083,698 | 2,967,310 |
| **Leaking Underground Storage Tanks** | | | | | | |
| Program Costs | 5,484 | 88,412 | 93,896 | 4,437 | 85,996 | 90,433 |
| Earned Revenue | - | - | - | - | - | - |
| NET COSTS | 5,484 | 88,412 | 93,896 | 4,437 | 85,996 | 90,433 |
| **Science & Technology** | | | | | | |
| Program Costs | 181,132 | 530,218 | 711,350 | 200,358 | 612,169 | 812,527 |
| Earned Revenue | 3,644 | 1,533 | 5,177 | 7,356 | 1,274 | 8,630 |
| NET COSTS | 177,488 | 528,685 | 706,173 | 193,002 | 610,895 | 803,897 |
| **Superfund** | | | | | | |
| Program Costs | 254,030 | 1,074,417 | 1,328,447 | 275,695 | 1,219,020 | 1,494,715 |
| Earned Revenue | 7,459 | 414,818 | 422,277 | 26,733 | 389,103 | 415,836 |
| NET COSTS | 246,571 | 659,599 | 906,170 | 248,962 | 829,917 | 1,078,879 |
| **State and Tribal Assistance Agreements** | | | | | | |
| Program Costs | 63,593 | 3,489,408 | 3,553,001 | 54,159 | 3,395,913 | 3,450,072 |
| Earned Revenue | - | - | - | - | - | - |
| NET COSTS | 63,593 | 3,489,408 | 3,553,001 | 54,159 | 3,395,913 | 3,450,072 |
| **Other** | | | | | | |
| Program Costs | 167,095 | 192,684 | 359,779 | 112,492 | 257,520 | 343,721 |
| WCF Eliminations | (211,942) | - | (211,942) | (211,512) | - | (211,512) |
| Earned Revenue | 225,053 | 47,343 | 272,396 | 231,229 | 37,583 | 295,103 |
| WCF Eliminations | (212,386) | - | (212,386) | (211,290) | - | (211,290) |
| NET COSTS | (32,180) | 145,341 | 87,827 | (118,959) | 219,937 | 100,978 |
| **Total** | | | | | | |
| Program Costs | 1,349,570 | 7,285,935 | 8,635,505 | 1,359,641 | 7,664,591 | 9,024,232 |
| Earned Revenue | 189,130 | 471,578 | 660,708 | 94,428 | 438,235 | 532,663 |
| **NET COSTS** | **$ 1,160,440** | **6,814,357** | **7,974,797** | **$ 1,265,213** | **7,226,356** | **$ 8,491,569** |

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

## Note 20. Cost of Stewardship Land

The EPA had two instances of property transfer of ownership via a Quit Claim Deed. The first transaction was a transfer of ownership of 21 Parcels of land acquired by the United States EPA in conjunction with remedial actions to Grantee Escambia County Board of County Commissioners. This action was effectuated via the signing of the Quit Claim Deed (signed on January 16, 2018). The second transaction was a transfer of ownership of 11 tracts of land acquired by the United States EPA in conjunction with remedial actions to Grantee West Virginia Department of Environmental Protection. This action was effectuated via the signing of the Quit Claim Deed (signed on February 8, 2018).

**Note 21. Environmental Cleanup Costs**

Annually, the EPA is required to disclose its audited estimated future costs associated with:

a) Cleanup of hazardous waste and restoration of the facility when it is closed, and
b) Costs to remediate known environmental contamination resulting from the Agency's operations.

The EPA has 32 sites for which it is responsible for clean-up costs incurred under federal, state, and/or local regulations to remove, contain, or dispose of hazardous material found at these facilities.

The EPA is also required to report the estimated costs related to:

a) Clean-up from federal operations resulting in hazardous waste
b) Accidental damage to nonfederal property caused by federal operations, and
c) Other damage to federal property caused by federal operations or natural forces.

The key to distinguishing between future clean-up costs versus an environmental liability is to determine whether the event (accident, damage, etc.) has already occurred and whether we can reasonably estimate the cost to remediate the site.

The EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

As of September 30, 2018, the EPA has 1 site that requires clean up stemming from its activities. The claimants' chances of success are characterized as reasonably possible with costs amounting to $900 thousand that may be paid out of the Treasury Judgment Fund.

**A. Accrued Clean-up Cost**

The EPA has 32 sites for which it is required to fund the environmental cleanup. As of September 30, 2018, the estimated costs for site clean-up were $33.0 million unfunded, and $1.1 million funded, respectively. In 2017 the estimated costs for site clean-up were $39.5 million unfunded, and $500 thousand funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2018, the estimate for unfunded clean-up cost decreased by $6.6 million from the FY 2017 estimate. This decrease is primarily due to current lab cleanup and closeout actions, and ongoing clean-up actions at similar facilities resulted in more refined and significantly lower estimates of future clean-up costs in various regions.

**Note 22. State Credits**

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Contracts (SSC) when the 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 the EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. The credit is limited to state site-specific expenses the EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action.

Once the 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 the EPA. As of September 30, 2018, and September 30, 2017, the total remaining state credits have been estimated at $21.4 million, and $22.2 million, respectively.

**Note 23. Preauthorized Mixed Funding Agreements**

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The 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, 2018, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $6.65 million. As of September 30, 2017, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $1.4 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by the EPA for payment. Further, the 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 the EPA.

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

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

| | FY 2018 | FY 2017 |
|---|---|---|
| **Fines, Penalties and Other Miscellaneous Receipts** | **$ 104,150** | **$ 1,581,014** |
| **Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:** | | |
| Accounts Receivable | $ 158,990 | $ 149,522 |
| Less: Allowance for Uncollectible Accounts | (131,494) | (124,493) |
| **Total** | **$ 27,496** | **$ 25,029** |

In FY 2017, Volkswagen paid a civil penalty to the EPA of $1.5 billion to resolve allegations that Volkswagen violated the Clean Air Act by selling approximately 590 thousand model year 2009 to 2016 diesel motor vehicles equipped with "defeat devices" that circumvented emissions testing. These funds were transferred to the U.S. Treasury on September 30, 2017.

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

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2018 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2018 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2018 has not yet been published. We expect it will be published by early 2019, and it will be available on the Office of Management and Budget website at https://www.whitehouse.gov/

The actual amounts published for the year ended September 30, 2017 are listed immediately below (dollars in millions):

| FY 2017 | | Budgetary Resources | Obligations | Offsetting Receipts | Net Outlays |
|---|---|---|---|---|---|
| **Statement of Budgetary Resources** | $ | 14,602 | 10,355 | 1,109 | 9,273 |
| **Reported in Budget of the U. S. Government** | $ | 14,502 | 10,347 | 1,109 | 9,271 |

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

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2018, and September 30, 2017:

| | | FY 2018 | | FY 2017 |
|---|---|---|---|---|
| Net Adjustments to Unobligated Balance Brought Forward, Oct. 1 | $ | 232,751 | $ | 330,486 |
| Temporarily Not Available - Rescinded Authority | | (11,217) | | (10,555) |
| Permanently Not Available: | | | | |
| Payments to Treasury | | - | | - |
| Rescinded authority | | (148,848) | | (90,348) |
| Canceled authority | | (24,200) | | (46,483) |
| **Total Permanently Not Available** | **$** | **(173,048)** | **$** | **(136,831)** |

## Note 27. Unobligated Balances Available

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

The unobligated balances available consist of the following as of September 30, 2018, and September 30, 2017:

| | | FY 2018 | | FY 2017 |
|---|---|---|---|---|
| Unexpired Unobligated Balance | $ | 5,867,574 | $ | 4,154,577 |
| Expired Unobligated Balance | | 86,796 | | 92,649 |
| **Total** | **$** | **5,954,370** | **$** | **4,247,226** |

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

Budgetary resources obligated for undelivered orders at September 30, 2018, and September 30, 2017, were $10.0 billion and $8.32 billion, respectively.

**Note 29. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2018, and September 30, 2017, the following receipts were generated from these activities:

| | FY 2018 | FY 2017 |
|---|---|---|
| Trust Fund Recoveries | $ 40,664 | $ (49,379) |
| Special Fund Environmental Service | 24,558 | 23,222 |
| Trust Fund Appropriation | 1,292,678 | 1,135,527 |
| Miscellaneous Receipt and Clearing Accounts | 41,583 | 83 |
| **Total** | **$ 1,399,483** | **$ 1,109,453** |

**Note 30. Transfers-In and Out, Statement of Changes in Net Position**

**A. Appropriation Transfers, In/Out:**

For September 30, 2018 and September 30, 2017, 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, and Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follow for September 30, 2018, and September 30, 2017:

| | FY 2018 | FY 2017 |
|---|---|---|
| Net Transfers from Invested Funds | $ 1,306,784 | $ 1,195,715 |
| Transfer to DOT | 142,400 | 93,100 |
| Transfers to Another Agency | 1,004 | 870 |
| Allocations Rescinded | 6,600 | 6,900 |
| **Total of Net Transfers on Statement of Budgetary Resources** | **$ 1,456,788** | **$ 1,296,585** |

### B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2018 and September 30, 2017, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and non-expenditure, follow for September 30, 2018, and September 30, 2017:

| | FY 2018 | | FY 2017 | |
|---|---|---|---|---|
| **Type of Transfer/Funds** | **Fund from Dedicated Collections** | **Other Funds** | **Fund from Dedicated Collections** | **Other Funds** |
| Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds | $ (23,976) | 23,976 | $ (24,274) | 24,041 |
| Transfers-in nonexpenditure, Oil Spill | 18,209 | - | (18,209) | - |
| Transfers-in (out) nonexpenditure, Superfund | - | - | 54,464 | - |
| Transfer-out LUST | - | - | 100 | - |
| NRDA | 1,004 | - | (870) | - |
| Total Transfer in (out) without Reimbursement, Budgetary | $ **(4,763)** | **23,976** | $ **11,211** | **24,041** |

## Note 31. 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 2018 were $73.0 million. For FY 2017, the estimates were $77.3 million.

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. The 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. The 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 2018 total imputed costs were $22.1 million.

In addition to the pension and retirement benefits described above, the 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 2018, entries for Judgment Fund payments totaled $2.3 million. For FY 2017, entries for Judgment Fund payments totaled $3.6 million.

## Note 32. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years September 30, 2018, and September 30, 2017, consist of the following:

| **FY 2018 Payroll & Benefits Payable** | | **Covered by Budgetary Resources** | **Not Covered by Budgetary Resources** | | **Total** |
|---|---|---|---|---|---|
| Accrued Funded Payroll & Benefits | $ | 40,487 | - | $ | 40,487 |
| Withholdings Payable | | 20,553 | - | | 20,553 |
| Employer Contributions Payable-TSP | | 2,795 | - | | 2,795 |
| Accrued Unfunded Annual Leave | | - | 138,184 | | 138,184 |
| **Total - Current** | $ | **63,835** | **138,184** | $ | **202,019** |

| **FY 2017 Payroll & Benefits Payable** | | | | | |
|---|---|---|---|---|---|
| Accrued Funded Payroll and Benefits | $ | 31,095 | - | $ | 31,095 |
| Withholdings Payable | | 32,311 | - | | 32,311 |
| Employer Contributions Payable-TSP | | 638 | - | | 638 |
| Accrued Unfunded Annual Leave | | - | 141,588 | | 141,588 |
| **Total - Current** | $ | **64,044** | **141,588** | $ | **205,632** |

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

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 7 years earlier. These amounts affect Unexpended Appropriations.

| | | **Other Funds FY 2018** | | **Other Funds FY 2017** |
|---|---|---|---|---|
| Canceled General Authority | $ | 173,967 | $ | 123,824 |
| **Total Other Adjustments** | **$** | **173,967** | **$** | **123,824** |

## Note 34. Non-Exchange Revenue, Statement of Changes in Net Position

Non-Exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2018 and September 30, 2017 consists of the following Funds from Dedicated Collections items:

| | Funds from Dedicated Collections FY 2018 | Funds from Dedicated Collections FY 2017 |
|---|---|---|
| Interest on Trust Fund | $ 80,893 | $ 47,445 |
| Tax Revenue, Net of Refunds | 210,731 | 225,194 |
| Fines and Penalties Revenue | 6,598 | (701) |
| Special Receipt Fund Revenue | 27,640 | 21,796 |
| **Total Nonexchange Revenue** | **$ 325,862** | **$ 293,734** |

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

| | FY 2018 | FY 2017 |
|---|---|---|
| **RESOURCES USED TO FINANCE ACTIVITIES:** | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | $ 11,862,249 | $ 10,354,618 |
| Less: Spending Authority from Offsetting Collections and Recoveries | (867,018) | (1,031,789) |
| Obligations, Net of Offsetting Collections | 10,995,231 | 9,322,829 |
| Less: Offsetting Receipts | (1,399,483) | (1,109,453) |
| Net Obligations | 9,595,748 | 8,213,376 |
| Other Resources | | |
| Transfers In/Out Without Reimbursement, Property | - | - |
| Imputed Financing Sources | 97,383 | 103,093 |
| Net Other Resources Used to Finance Activities | 97,383 | 103,093 |
| Total Resources Used To Finance Activities | $ 9,693,131 | $ 8,316,469 |
| **RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:** | | |
| Change in Budgetary Resources Obligated | $ (1,341,001) | $ (66,195) |
| Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations: | | |
| Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances | 2,112 | 31 |
| Offsetting Receipts Not Affecting Net Cost | 66,142 | 72,980 |
| Resources that Finance Asset Acquistion | (131,556) | (121,053) |
| Adjustments to Expenditure Transfers that Do Not Affect Net Cost | (298) | (8,819) |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | (1,404,601) | (123,056) |
| Total Resources Used to Finance the Net Cost of Operations | $ 8,288,530 | $ 8,193,413 |

| | FY 2018 | FY 2017 |
|---|---|---|
| **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 | $ (3,404) | $ (8,483) |
| Increase in Environmental and Disposal Liability | (6,586) | 3,441 |
| Increase in Unfunded Contingencies | - | - |
| Upward/Downward Reestimates of Credit Subsidy Expense | - | - |
| Increase in Public Exchange Revenue Receivables | (498,223) | (159,362) |
| Increase in Workers Compensation Costs | (1,813) | (123) |
| Other | - | 105 |
| Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods | (510,026) | (164,422) |
| Components Not Requiring/Generating Resources: | | |
| Depreciation and Amortization | 101,826 | 108,927 |
| Expenses Not Requiring Budgetary Resources | 94,467 | 353,651 |
| Total Components of Net Cost that Will Not Require or Generate Resources | 196,293 | 462,578 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | (313,733) | 298,156 |
| **Net Cost of Operations** | **$ 7,974,797** | **$ 8,491,569** |

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

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

**A. 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, 2018, and September 30, 2017. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

| SUPERFUND FY 2018 | EPA | Treasury | Combined |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | 1,807 | 1,807 |
| Total Undisbursed Balance | - | 1,807 | 1,807 |
| Interest Receivable | | | - |
| Investments, Net | 4,671,302 | 201,942 | 4,873,244 |
| **Total Assets** | 4,671,302 | 203,749 | 4,875,051 |
| **Liabilities & Equity** | | | |
| Equity | 4,671,302 | 208,391 | 4,879,693 |
| **Total Liabilities and Equity** | 4,671,302 | 208,391 | 4,879,693 |
| **Receipts** | | | |
| Corporate Environmental | - | - | - |
| Cost Recoveries | - | 239,297 | 239,297 |
| Fines & Penalties | - | 1,294 | 1,294 |
| Total Revenue | - | 240,591 | 240,591 |
| Appropriations Received | | 1,094,046 | 1,094,046 |
| Interest Income | - | 71,516 | 71,516 |
| **Total Receipts** | - | 1,406,153 | 1,406,153 |
| **Outlays** | | | |
| Transfers to/from EPA, Net | 1,324,412 | | - |
| **Total Outlays** | 1,324,412 | - | - |
| **Net Income** | $ **1,324,412** | **1,406,153** | **1,406,153** |

In FY 2018, the EPA received an appropriation of $1.1 billion for Superfund. Treasury's Bureau of Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to the EPA for the amount of the appropriation. BFS 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, 2018, and September 30, 2017, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of $5.0 billion and $4.8 billion, respectively.

| SUPERFUND FY 2017 | | EPA | Treasury | Combined |
|---|---|---|---|---|
| **Undistributed Balances** | | | | |
| Uninvested Fund Balance | $ | - | 1,422 | 1,422 |
| Total Undisbursed Balance | | - | 1,422 | 1,422 |
| Interest Receivable | | - | 3,387 | 3,387 |
| Investments, Net | | 4,704,616 | 88,528 | 4,793,144 |
| **Total Assets** | | 4,704,616 | 93,337 | 4,797,953 |
| **Liabilities & Equity** | | | | |
| Equity | | 4,704,616 | 93,337 | 4,797,953 |
| **Total Liabilities and Equity** | | 4,704,616 | 93,337 | 4,797,953 |
| **Receipts** | | | | |
| Corporate Environmental | | - | - | - |
| Cost Recoveries | | - | 49,379 | 49,379 |
| Fines & Penalties | | - | 2,592 | 2,592 |
| Total Revenue | | - | 51,971 | 51,971 |
| Appropriations Received | | - | 1,038,131 | 1,038,131 |
| Interest Income | | - | 44,166 | 44,166 |
| **Total Receipts** | | - | 1,134,268 | 1,134,268 |
| **Outlays** | | | | |
| Transfers to/from EPA, Net | | 1,119,857 | (1,119,857) | - |
| **Total Outlays** | | 1,119,857 | (1,119,857) | - |
| **Net Income** | $ | **1,119,857** | **14,411** | **1,134,268** |

## B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2018 and 2017, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

| LUST FY 2018 | EPA | Treasury | Combined |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | - | - |
| Total Undisbursed Balance | - | - | - |
| Interest Receivable | - | 72 | 72 |
| Investments, Net | 87,588 | 532,500 | 620,088 |
| **Total Assets** | 87,588 | 532,572 | 620,160 |
| **Liabilities & Equity** | | | |
| **Equity** | 87,588 | 532,572 | 620,160 |
| **Receipts** | | | |
| Highway TF Tax | - | 200,338 | 200,338 |
| Airport TF Tax | - | 10,348 | 10,348 |
| Inland TF Tax | - | 45 | 45 |
| Total Revenue | - | 210,731 | 210,731 |
| Interest Income | | 8,657 | 8,657 |
| **Total Receipts** | - | 219,388 | 219,388 |
| **Outlays** | | | |
| Transfers to/from EPA, Net | 142,400 | (142,400) | - |
| **Total Outlays** | 142,400 | (142,400) | - |
| **Net Income** | **$ 142,400** | **76,988** | **219,388** |

| LUST FY 2017 | EPA | Treasury | Combined |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | 13,690 | 13,690 |
| Total Undisbursed Balance | - | 13,690 | 13,690 |
| Interest Receivable | - | 14 | 14 |
| Investments, Net | 37,647 | 491,821 | 529,468 |
| **Total Assets** | 37,647 | 505,525 | 543,172 |
| **Liabilities & Equity** | | | |
| **Equity** | 37,647 | 505,525 | 543,172 |
| **Receipts** | | | |
| Highway TF Tax | - | 213,392 | 213,392 |
| Airport TF Tax | - | 11,752 | 11,752 |
| Inland TF Tax | - | 49 | 49 |
| Total Revenue | - | 225,193 | 225,193 |
| Interest Income | - | 3,048 | 3,048 |
| **Total Receipts** | - | 228,241 | 228,241 |
| **Outlays** | | | |
| Transfers to/from EPA, Net | 107,000 | (107,000) | - |
| **Total Outlays** | 107,000 | (107,000) | - |
| **Net Income** | **$ 107,000** | **121,241** | **228,241** |

**Required Supplementary Information (Unaudited)**

**Environmental Protection Agency**
**As of September 30, 2018, and September 30, 2017**
**(Dollars in Thousands)**

## Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

Deferred Maintenance is described as the act of keeping fixed assets in acceptable condition.

Such activities include: Preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.

The deferred maintenance as of Fiscal Year 2018:

| Asset Category | FY2018 | FY2017 |
|---|---|---|
| Buildings | $ 136,407 | $ 143,583 |
| EPA Held Equipment | 120 | 620 |
| Vehicles | 0 | 9 |
| Total Deferred Maintenance | $ 136,527 | $ 144,212 |

In Fiscal Year 2018, in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs*: *Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, the EPA presents Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

**Buildings:**

| Policy | Explanation |
|---|---|
| Maintenance and repairs policies and how they are applied. | The maintenance and repair policy is to maintain facilities and real property installed equipment to fully meet mission needs at each site. Systems are maintained to function efficiently at full capacity and to meet or exceed life expectancy of buildings and building systems. |
| How we rank and prioritize maintenance and repair activities among other activities. | Building and facility program projects are scored and ranked individually based on seven weighted factors to determine priority needs. High scoring projects are prioritized above lower scoring projects. The seven factors considered are: health and safety, energy conservation, environmental compliance, program requirements, repair and upkeep, space alteration, and operational urgency. Repair and Improvement (R&I) projects are identified and prioritized on a local basis. |
| Factors considered in determining acceptable condition standards. | The nine building systems must function at a level that fully meet mission needs. The nine building systems are: structure, roof, exterior components and finish, interior finish, HVAC, electrical, plumbing, conveyance, and specialized program support equipment. Each system is rated from 0 to 5 during facility assessments. Ratings are used to determine facility condition index and estimated deferred maintenance. |
| State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E. | Facilities assessments and the resulting DM&R estimates are applied to capitalize PP&E only. Full facility assessments using the NASA parametric model are used to determine facilities and systems indices and deferred maintenance estimates. |
| PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E. | Buildings are not excluded from DM&R estimates. |
| Explain significant changes from the prior year. | No significant changes. |

**EPA Held Equipment**

| Policy | Explanation |
|---|---|
| Maintenance and repairs policies and how they are applied. | Managers of the equipment consider manufacturers recommendations in determining maintenance requirements. |
| How we rank and prioritize maintenance and repair activities among other activities. | Equipment is maintained based on manufacture's recommendations. |
| Factors considered in determining acceptable condition standards. | Manufacturer recommendations. |
| State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E. | DM&R relates to all EPA Held Equipment as determined by individual site managers. |
| PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E. | Individual site managers determine the need to measure and/or report DM&R based on mission needs. |
| Explain significant changes from the prior year. | Individual site equipment managers decide on a case-by-case basis the need to maintain equipment. |

**Vehicles**

| Policy | Explanation |
|---|---|
| Maintenance and repairs policies and how they are applied. | Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer. |
| How we rank and prioritize maintenance and repair activities among other activities. | The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor*. System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built. |
| Factors considered in determining acceptable condition standards. | The vehicle is inspected to ensure that it (the vehicle) and related specialized equipment are in good working order. The criteria being that the vehicle is being maintained as built and as recommended by the manufacturer. |
| State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E. | All vehicles are capitalized. |
| PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E. | None. |
| Explain significant changes from the prior year. | No significant changes. |

Beginning in FY 2015, requirements for recognizing and reporting significant and expected to be permanent impairment of general PP&E (except Internal Use Software) remaining in use are in SFFAS NO. 44, accounting for Impairment of General Property, Plant, and Equipment (G-PP&E) Remaining in Use.

This statement establishes accounting and financial reporting standards for impairment of general property, plant, and equipment remaining in use, except for internal use software.
G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction work in progress. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.

This statement does not anticipate that entities will have to establish additional or separate procedures beyond those that may already exist, such as those related to deferred maintenance and repairs, to search for impairments. Impairments can be identified and brought to management's attention in a variety of ways. Although a presumption exists that there are existing processes and internal controls in place to reasonably assure identification and communication of potential material impairments, this statement does not require entities to conduct an annual or other periodic survey solely for the purpose of applying these standards.

Management may determine that existing processes and internal controls are not sufficient to reasonably assure identification of potential material impairments and impairments and implement appropriate additional processes and internal controls.

## Supplemental Combined Statement of Budgetary Resources

### Environmental Protection Agency
### For the Period Ending September 30, 2018
### (Dollars in Thousands)

| | | Env. Prog. & Mgmt. | Leaking Underground Storage Tank | Science & Tech. | Superfund | State & Tribal Ass. Grants | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **BUDGETARY RESOURCES** | | | | | | | | |
| Unobligated balance from prior year budget authority, net | $ | 336,376 | 5,898 | 107,913 | 3,515,848 | 274,147 | 239,746 | 4,479,928 |
| Appropriations (discretionary and mandatory) | | 2,607,999 | 192,341 | 706,473 | 1,280,835 | 4,165,963 | 1,272,302 | 10,225,913 |
| Borrowing authority (discretionary and mandatory) | | - | - | - | - | - | 2,500,000 | 2,500,000 |
| Spending authority from offsetting collections | | 280,203 | - | 24,564 | 17,330 | - | 288,193 | 610,290 |
| **Total Budgetary Resources** | $ | 3,224,578 | 198,239 | 838,950 | 4,814,013 | 4,440,110 | 4,300,241 | 17,816,131 |
| | | | | | | | | |
| **MEMORANDUM (NON-ADD) Entries:** | | | | | | | | |
| Net adjustments to unobligted balance brought forward, Oct. 1 | | 33,884 | 2,256 | 10,924 | 126,085 | 45,777 | 13,825 | 232,751 |
| | | | | | | | | |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | | | |
| New obligations and upward adjustments | $ | 2,819,758 | 188,134 | 716,507 | 1,506,418 | 4,072,796 | 2,558,636 | 11,862,249 |
| Unobligated balance, end of year: | | | | | | | | - |
| Apportioned, unexpired accounts | | 341,156 | 7,776 | 102,156 | 3,364,711 | 274,605 | 1,581,914 | 5,672,318 |
| Unapportioned, unexpired accounts | | 1,828 | 2,329 | - | (57,116) | 92,709 | 155,018 | 194,768 |
| Expired unobligated balance, end of year | | 61,836 | - | 20,287 | - | - | 4,673 | 86,796 |
| Total unobligated balance, end of period | | 404,820 | 10,105 | 122,443 | 3,307,595 | 367,314 | 1,741,605 | 5,953,882 |
| **Total Status of Budgetary Resources** | $ | 3,224,578 | 198,239 | 838,950 | 4,814,013 | 4,440,110 | 4,300,241 | 17,816,131 |
| | | | | | | | | |
| **OUTLAYS, NET** | | | | | | | | |
| Outlays, net (discretionary and mandatory) | $ | 2,511,277 | 186,550 | 704,486 | 1,339,821 | 3,566,137 | 1,176,291 | 9,484,562 |
| Distributed offsetting receipts | | - | - | - | (1,292,678) | - | (106,805) | (1,399,483) |
| Agency outlays, net (discretionary and mandatory) | $ | 2,511,277 | 186,550 | 704,486 | 47,143 | 3,566,137 | 1,069,486 | 8,085,079 |

## Required Supplemental Stewardship Information (Unaudited)

**Environmental Protection Agency**
**Required Supplemental Stewardship Information (Unaudited)**
**For the Year Ended September 30, 2018**
**(Dollars in Thousands)**

### Investment in The Nation's Research and Development:

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

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

For FY 2018, the full cost of the Agency's Research and Development activities totaled over $547M. Below is a breakout of the expenses (dollars in thousands):[1]

| | | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|---|---|---|---|---|---|---|
| Programmatic Expenses | $ | 510,911 | 535,352 | 541,190 | 532,153 | 492,648 |
| Allocated Expenses | $ | 73,622 | 78,028 | 82,646 | 103,451 | 54,684 |

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development.

[1] Allocated Expenses calculated specifically for the Required Supplemental Stewardship Information report and do not represent the overall Agency indirect cost rates. Allocated expenses include general and administrative expenses of headquarter organizations that provide support services to the entire agency, general and administrative expenses of the regional and headquarter offices that provide support services to national programs within their organization, and inter-entity costs provided by Office of Personal Management.

**Investment in The Nation's Infrastructure:**

The Agency makes significant investments in the nation's drinking water and clean water infrastructure, primarily through the two SRF programs and the WIFIA program.

WIFIA: The EPA provides through the WIFIA program long-term, low cost supplemental credit assistance under customized terms for creditworthy water and wastewater projects. The WIFIA program directly supports the Agency's goal to ensure waters are clean through improved water infrastructure. The program requires a small appropriation compared to its potential loan volume. For example, the FY17 WIFIA appropriation of $30 million could potentially spur up to $5 billion in total infrastructure investment when combined with other sources of funding. The WIFIA program is designed to attract private participation, encourage new revenue streams for infrastructure investment, and allow public agencies to get more projects done.

State Revolving Funds: The EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to eligible 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.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program provided 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, the EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

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

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

| | | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|---|---|---|---|---|---|---|
| Construction Grants | $ | 1,447 | 17,462 | 11,344 | 8,686 | - |
| Clean Water SRF | $ | 1,534,453 | 1,715,630 | 1,459,820 | 1,247,919 | 1,442,613 |
| Drinking Water SRF | $ | 1,187,212 | 1,268,360 | 1,213,201 | 994,297 | 890,460 |
| Other Infrastructure Grants | $ | 118,706 | 96,439 | 62,011 | 44,916 | 48,198 |
| Allocated Expenses | $ | 516,102 | 590,595 | 529,815 | 480,415 | 438,823 |
| WIFIA[2] | $ | - | - | - | 30,000 | 63,000 |

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

[2] Amounts for WIFIA include administrative expenses.

**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):

| | | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|---|---|---|---|---|---|---|
| Training and Awareness Grants | $ | 23,255 | 27,047 | 29,116 | 22,090 | 19,351 |
| Fellowships | | 8,082 | 6,579 | 4,630 | 2,077 | 1,460 |
| Allocated Expenses | | 4,226 | 5,146 | 5,336 | 4,073 | 2,525 |
| Total | $ | 35,563 | 38,772 | 39,082 | 28,240 | 23,336 |

Appendix II

# *Agency Response to Draft Report*

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

NOV 09 2018

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Draft Audit Report No. OA&E FY18-0189, *"EPA's Fiscal Years 2018 and 2017 Consolidated Financial Statements,"* dated November 9, 2018

**FROM:** Holly W. Greaves, Chief Financial Officer
Office of the Chief Financial Officer

for Vaughn Noga, Principal Deputy Assistant Administrator Harry Lewis
Office of Environmental Information

for Donna L. Vizian, Principal Deputy Assistant Administrator Lynnann Hitchens
Office of Administration and Resources Management

**TO:** Paul C. Curtis, Director
Financial Directorate
Office of Audit and Evaluation

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

AGENCY'S OVERALL POSITION

The agency concurs with nine of the recommendations and non-concurs with six recommendations.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

**Agreements**

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion by Quarter and FY |
|---|---|---|---|
| 1 | We recommend that the special account reclassification entry include a review to determine whether previously reported earned revenue for future costs incurred, expenses incurred, unbilled oversight costs and special account collection movements should or should not be included, and whether to include supporting documents identifying the accounts and amounts reviewed. | The EPA agreed to modify the accounting model in Compass Financials, the agency's accounting system, and to prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database. The accounting models are developed and will be implemented in the second quarter of FY 2019. The conversion of prior accounting data into the approved process will be made at that time. Pending the implemented solution, journal vouchers to reclassify special accounts and earned/unearned revenue activity were processed to ensure the accuracy of the accounts. | March 29, 2019 |
| 2 | We recommend that the Chief Financial Officer require the Accounting and Cost Analysis Division, and the Las Vegas and Cincinnati Finance Centers, to research and resolve cash differences. | The agency will continue to review processes and research old cash balance differences. | March 29, 2019 |
| 3 | We recommend that the Chief Financial Officer review the Allowance for Doubtful Accounts calculation to ensure that adjusting entries are accurate. | The EPA reviewed the Allowance for Doubtful Accounts calculation and made an adjusting entry to ensure the account was accurate. | Completed |
| 4 | We recommend that the Chief Financial Officer review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to determine the net impact of expenses and revenues from prior periods and ensure that financial statements are not misstated. | The agency will review entries posted to Accounts Receivable and the Allowance for Doubtful Accounts to ensure they are correctly stated. For FY 2018, the agency processed an adjustment to correct the amounts presented in the financial statement. | Completed |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion by Quarter and FY |
|---|---|---|---|
| 5 | We recommend that the Chief Financial Officer review adjusting entries and their reversals to verify whether account balances are posted properly and do not contain abnormal balances or activity. | The agency has strengthened processes to incorporate flagging stock and rare cash transactions. Additional reviews are now conducted by the appropriate subject matter experts followed by subsequent management approval. | Completed |
| 6 | We recommend that the Chief Financial Officer update the policy for the proper accounting and recognition of gains or losses from marketable securities based on the sale of stock. | The agency will issue an administrative update to RMDS 2550D-14 "*Superfund Accounts Receivable and Billings*". | March 29, 2019 |
| 7 | We recommend that the Chief Financial Officer record or adjust accounts receivables only for amounts stipulated in settlement agreements. | The agency has recorded, or adjusted accounts receivable based on amounts in stipulated penalties. | Completed |
| 8 | We recommend that the Chief Financial Officer update the EPA's standard operating procedures for preparing Working Capital Fund elimination entries to include verification of entries and proper ending balances. | The EPA has updated the Financial Statement Review Check List, within the appropriate standard operating procedures, to incorporate verification of elimination amounts. | Completed |
| 9 | We recommend that the Chief Financial Officer require project officers to review and submit approvals or disapprovals of General Services Administration rent invoices each month. | The agencies POs and EPA Real Estate specialists will continue to do their monthly reviews of the invoices and leases, and contact GSA directly when there are discrepancies with the invoice and/or occupancy agreements. In addition, the agency now requires POs to acknowledge receipt of emails providing invoices from the GSA system Rent-on-the-Web. | Completed |

**Disagreements**

| No. | Recommendation | Agency Explanation/Response | Proposed Alternative |
|---|---|---|---|
| 10 | We recommend that the Assistant Administrator for Environmental Information and Chief Information | The Office of Environmental Information and The Office of Administration and Resources Management are in the process | N/A |

| | | | |
|---|---|---|---|
| | Officer develop and implement controls to remove an individual's PIV card access rights to computer rooms with financial and mixed-financial applications when that individual no longer requires access. | of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | |
| 11 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer as required by EPA's Information Security – Interim Physical and Environmental Protection Procedures v1.9 (CIO-2150.3-P-11.1), dated August 6, 2012, perform quarterly reviews of access to computer rooms with financial and mixed-financial applications, to determine whether individuals require physical access to the equipment in the computer room to complete their job responsibilities. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |
| 12 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer implement a process to provide access to and monitor individuals who occasionally need access to a computer room with financial and mixed-financial applications but not to the computer equipment. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |
| 13 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer maintain an | The Office of Environmental Information and The Office of Administration and Resources Management are in the process | N/A |

| | | | |
|---|---|---|---|
| | inventory of all Personal Identity Verification cards with access to computer rooms with financial and mixed-financial applications that are not assigned to individuals and remove access when cards are discovered missing. | of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | |
| 14 | We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer implement controls to enforce the required verification of individuals' identity every time individuals enter the computer rooms. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |
| 15 | We recommend that the Assistant Administrator for the Office Administration and resources Management perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation. | The Office of Environmental Information and The Office of Administration and Resources Management are in the process of coordinating a meeting with the OIG to discuss Findings 10-15. At this time, we respectfully disagree with the findings until we can have a clarifying discussion. | N/A |

## CONTACT INFORMATION

If you have any questions regarding this response, please contact OCFO's Audit Follow-up Coordinator, Benita Deane, at 202-564-2079.

cc: David Bloom
Charles Sheehan
Kevin Christensen
Richard Eyermann
Howard Osborne
Jeanne Conklin
Meshell Jones-Peeler
John O'Connor
Malena Brookshire
Greg Luebbering
Sherri' L. Anthony
Rudy Brevard
Wanda Arrington
Margaret Hiatt
Robert L Smith
Bobbie P. Trent Jr.
Benita Deane

# *Distribution*

The Administrator
Deputy Administrator
Special Advisor, Office of the Administrator
Chief of Staff
Chief of Operations
Chief Financial Officer
Assistant Administrator for Administration and Resources Management
Assistant Administrator for Land and Emergency Management
Principal Deputy Assistant Administrator for Administration and Resources Management
Principal Deputy Assistant Administrator and Deputy Chief Information Officer for Environmental Information
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Director, Office of Continuous Improvement, Office of the Administrator
Deputy Chief Financial Officer
Associate Chief Financial Officer
Controller, Office of the Chief Financial Officer
Deputy Controller, Office of the Chief Financial Officer
Director, Office of Budget, Office of the Chief Financial Officer
Director, Office of Planning, Analysis and Accountability, Office of the Chief Financial Officer
Director, Office of Technology Solutions, Office of the Chief Financial Officer
Director, Office of Resource and Information Management, Office of the Chief Financial Officer
Director, Research Triangle Park Finance Center, Office of the Chief Financial Officer
Director, Cincinnati Finance Center, Office of the Chief Financial Officer
Director, Office of Grants and Debarment, Office of Administration and Resources Management
Director, Office of Acquisition Solutions, Office of Administration and Resources Management
Director, Office of Administration, Office of Administration and Resources Management
Director, Office of Resources, Operations and Management, Office of Administration and Resources Management
Deputy Director, Office of Resources, Operations and Management, Office of Administration and Resources Management
Director, Office of Superfund Remediation and Technology Innovation, Office of Land and Emergency Management
Director, Office of Information Technology Operations, Office of Environmental Information
Director, Office of Information Security and Privacy, Office of Environmental Information
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Administration and Resources Management
Audit Follow-Up Coordinator, Office of Environmental Information
Audit Follow-Up Coordinator, Office of Land and Emergency Management
Audit Follow-Up Coordinator, Office of Grants and Debarment, Office of Administration and Resources Management