U.S. ENVIRONMENTAL PROTECTION AGENCY

## OFFICE OF INSPECTOR GENERAL

*Operating efficiently and effectively*

# EPA’s Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements

**Report No. 20-F-0033** **November 19, 2019**

## Abbreviations

| | |
|---|---|
| EPA | U.S. Environmental Protection Agency |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| FY | Fiscal Year |
| NIST | National Institute of Standards and Technology |
| OCFO | Office of the Chief Financial Officer |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| OMS | Office of Mission Support |
| PII | Personally Identifiable Information |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SPII | Sensitive Personally Identifiable Information |
| U.S.C. | United States Code |

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U.S. Environmental Protection Agency
Office of Inspector General

# At a Glance

20-F-0033
November 19, 2019

### Why We Did This Audit

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.*

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# *EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements*

## EPA Receives an Unmodified Opinion for FY 2019 and 2018

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2019 and 2018 (restated), 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 needs to improve its financial statement preparation process.

We noted the following significant deficiencies:

- The EPA improperly recorded e-Manifest receivables and earned revenue.
- The EPA misclassified e-Manifest user fee revenue.
- The EPA understated its contract accrued liabilities.
- The EPA needs to improve the process to disable user accounts for financial and mixed financial systems.
- The EPA's Office of the Chief Financial Officer needs to protect personally identifiable information on its server used to transfer data with vendors.

## 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 all 17 recommendations and has either completed corrective actions or provided an estimated time frame for completion.

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

OFFICE OF
INSPECTOR GENERAL

November 19, 2019

**MEMORANDUM**

**SUBJECT:** EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements
Report No. 20-F-0033

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

**TO:** David Bloom, Acting Chief Financial Officer

Donna Vizian, Principal Deputy Assistant Administrator
Office of Mission Support

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2019 and 2018 (restated) consolidated financial statements. The project number for this audit was OA&E-FY19-0201. We are reporting one internal control material weakness and five 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 the recommendations in this report and, therefore, no further response is required. If you nonetheless choose to provide a response, your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

Attachments

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## Inspector General's Report on EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements



## Attachments



*- continued -*

# Appendices

# Inspector General's Report on EPA's Fiscal Years 2019 and 2018 (Restated) 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, 2019, and September 30, 2018 (restated), 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 Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *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 from 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 Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since the 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, 2019 and 2018, in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter – Restatement FY 2018*

As described in Note 37, the EPA made certain restatements in its FY 2018 financial statements to correct misstatements for a capitalized lease and contract accruals. Our opinion is not modified with respect to these corrections.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Required Supplementary Steward Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis sections be presented to supplemental EPAs financial statements. Such information, although not a part of the basic consolidated financial statements, is required by OMB and the Federal Accounting Standards Advisory Board who consider it to be an essential part of the financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during the audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## 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. 19-03. 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 over financial reporting 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, which we discuss below, involving the internal control and its operation that we consider to be significant deficiencies. We consider one of these matters to be a material weakness. These issues are summarized below and detailed in Attachment 1.

### Material Weakness

#### FINANCIAL STATEMENT PREPARATION

#### EPA Needs to Improve Its Financial Statement Preparation Process

We found multiple instances whereby the agency had major misstatements of its financial transactions and financial statements. The OMB requires that information in the financial statements be presented in accordance with Generally Accepted Accounting Principles. Agency personnel initially failed to make the appropriate adjustments to the financial statements, believing their accounting was accurate. Failure to correct the errors resulted in the agency's misstating its financial statements, requiring a restatement. Furthermore, failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

## Significant Deficiencies

### E-Manifest Accounts Receivables and Revenue

#### EPA Improperly Recorded e-Manifest Receivables and Earned Revenue

The EPA did not properly record $15,682,808 of e-Manifest receivables during FY 2019. Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize exchange revenue when goods or services are provided to the public or another government entity at a price. The EPA did not establish proper accounting models to record account receivables for e-Manifest fees, interest and penalties or to recognize earned revenue from federal versus nonfederal sources at the transaction level. As a result, the EPA is noncompliant with accounting standards because account receivables and earned revenue are understated during the year. Consequently, interest, penalties, and federal revenue are misstated in the financial statements.

#### EPA Misclassified e-Manifest User Fee Revenue

The EPA misclassified $10.7 million of user fees collected for services provided as nonexchange revenue instead of exchange revenue. Federal accounting standards require the recognition of exchange revenue when a government entity provides goods or services to the public or another government entity and when each party sacrifices value and receives value in return. However, the agency recognized $10.7 million as nonexchange revenue because it had not updated its accounting posting model. As a result, there was a high risk that the EPA would continue to misclassify user fee revenues and would potentially overstate its net cost of operations. Further, such overstatement inaccurately presented the EPA's ability to sustain program operation costs through user fee revenues.

### ACCRUED LIABILITIES

#### EPA Understated Its Contract Accrued Liabilities

We found that the EPA understated its FY 2018 contract accrued liabilities by $59 million. EPA policy states that accrual estimates should closely reflect the actual liabilities outstanding at the end of the reporting period. The misstatement occurred because the EPA relied on 1 month of subsequent disbursements to proof its accrual estimate, even though contract payments for FY 2018 liabilities continued throughout FY

2019. Consequently, the EPA's FY 2018 understatement of accruals also resulted in an overstatement of its FY 2019 contract expenses.

## INFORMATION TECHNOLOGY

### EPA Needs to Improve Process to Disable User Accounts for Financial and Mixed Financial Systems

The Office of the Chief Financial Officer (OCFO) and the Office of Mission Support (OMS) did not consistently remove user access to financial and mixed financial systems when employees were separated or terminated from the EPA. Removing each departing employee access to information technology infrastructure is critical to protecting systems and data. Federal and EPA directives require that user access to systems be removed when access is no longer needed. However, account managers for the systems were not consistently notified to remove access when employees no longer worked for the agency. As a result, former agency employees could inappropriately access critical financial and mixed financial systems and had the ability to inappropriately use or disclose EPA's data.

### OCFO Needs to Protect Personally Identifiable Information on Its Server Used to Transfer Data with Vendors

The OCFO lacks controls to protect personally identifiable information (PII) and sensitive PII (SPII) stored on a file transfer server that is used to exchange data with EPA vendors. Federal and EPA directives require the EPA to secure this type of information. However, the OCFO did not encrypt, restrict access rights or remove files containing PII and SPII on the file transfer server. Without proper security and access controls, PII and SPII collected by EPA are vulnerable to unauthorized access and a breach of privacy that could lead to identity theft.

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 2019. 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. 19-03, 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, that were not reported in the agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB Bulletin No. 19-03 defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control over financial reporting 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.

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 *Codification of Statements on Auditing Standards*, AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin No.19-03, 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, regulations contracts and grant agreements 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, *Implementation Guidance for the Federal Financial Management Improvement Act,* dated January 9, 2009, to determine whether there was any 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, regulations, contracts or grant agreements related to the agency's financial management systems that came to our attention during the course of the audit. In its representations to us, the EPA reported one incident of potential violations of the Antideficiency Act regarding a U.S. Government Accountability Office opinion related to the potential violation. 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 (as detailed in Attachment 2) that impacted our audit objectives in the following areas:

- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA materially overstated earned revenue.
- The EPA improperly increased accounts receivable and related revenue.
- 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 need improvement.
- The EPA's OCFO lack internal controls when assuming responsibility for account management procedures of financial systems.
- The EPA need controls to monitor direct access to its accounting system.
- The EPA need to perform a documented evaluation on upgrading equipment used to implement physical environmental controls at the National Computer Center.

This report is intended solely for the information and use of the management of the EPA, the 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 Directorate
Office of Audit and Evaluation
Office of Inspector General
U.S. Environmental Protection Agency
November 19, 2019

**Attachment 1**

# *Internal Control Material Weakness and Significant Deficiencies*

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## 1—EPA Needs to Improve Its Financial Statement Preparation Process

We found multiple instances whereby the agency had major misstatements of its financial transactions and financial statements. The OMB requires that information in the financial statements be presented in accordance with Generally Accepted Accounting Principles. Agency personnel initially failed to make the appropriate adjustments to the financial statements, believing their accounting was accurate. Failure to correct the errors resulted in the agency's misstating its financial statements, requiring a restatement. Furthermore, failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

OMB Circular A-136, *Financial Reporting Requirements*, Section II.3, requires that information in the financial statements be presented in accordance with Generally Accepted Accounting Principles, which include the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS). The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. Management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal controls. Management is to clearly document internal control, all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The standard for control activities additionally requires accurate and timely recording of transactions and events.

We found multiple instances whereby the agency had major misstatements of its financial transactions and financial statements. Specifically, we found that the agency misreported a capitalized lease; contract accruals; expenses incurred for Superfund sites, including unbilled costs and unearned revenue; and other revenue:

- <u>Capitalized Lease.</u> In fiscal year (FY) 2016, we reported that the agency erroneously reclassified the real property capital lease as an operating lease without making a proper determination. SFFAS 5, *Accounting for Liabilities of The Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, provide specific requirements for classifying a lease as capital. In FY 2019, the agency performed a review of its capital lease. Initially, the agency decided to record remaining future payments on its capitalized lease as a lease expense, thereby reclassifying it as an operating lease, even though the terms of the lease had not changed since its inception. The agency later corrected the lease liability and affected accounts, and it posted an adjustment.

- <u>Contract Accruals.</u> In FY 2018, we informed the agency that it had understated its contract accruals. The agency maintained that its amounts were correct. While the agency did post an adjustment to correct some of the difference, the contract accrual was still understated, as discussed in Significant Deficiency 4, which is titled "EPA Understated Its Contract Accrued Liabilities."

- Superfund Unbilled Oversight Costs. During our analysis of the agency's manual adjustments to unearned revenue, we noticed a restated amount posted for FY 2018 and material adjustments to FY 2019. When we inquired about these adjustments, agency staff indicated that they were changing the financial statements to reflect a new accounting model used for special accounts. However, our analysis indicated that the agency was not properly matching revenue with expenses incurred, in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The agency also failed to provide sufficient documentation to determine the validity of actions taken, affecting our ability to conclude that the entries made were accurately recorded.

- Other. We found other discrepancies in the agency's financial statements. Specifically, in the November 14, 2019, version of the financial statements, the agency recorded negative revenue of $371 million. This material change was the result of late journal entries. After we inquired about this negative balance, agency staff indicated that they would make corrections.

Agency personnel initially failed to make the appropriate adjustments to the financial statements, believing their accounting was accurate. In each case, the agency's initial accounting for the transactions was in error, as was its intended corrections. It was only after we conducted an account analysis of the activity and questioned the agency's actions that staff made adjustments to correct the errors. Had it not been for the intensive inquiry by our auditors, major and material errors would have impacted the financial statements. These issues highlight the need for the agency to strengthen its processes so that data are accurate; comply with federal accounting standards; and are readily available on a timely basis to prepare the financial statements.

Failure to correct the errors resulted in the agency misstating its FY 2018 financial statements, requiring a restatement. Furthermore, failure to properly record accounting transactions and exercise due diligence in the preparation of the agency's financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

## Recommendations

We recommend that the Chief Financial Officer:

1. Evaluate and improve the EPA's process for preparing financial statements.

2. Provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendations. The agency's estimated completion date for corrective actions is July 31, 2020, for Recommendation 1 and February 29, 2020, for Recommendation 2.

## 2—EPA Improperly Recorded e-Manifest Receivables and Earned Revenue

The EPA did not properly record $15,682,808 of e-Manifest receivables during FY 2019.[1] Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize exchange revenue when goods or services are provided to the public or another government entity at a price. The EPA did not establish proper accounting models to record account receivables for e-Manifest fees, interest and penalties or to recognize earned revenue from federal versus nonfederal sources at the transaction level. As a result, the EPA is noncompliant with accounting standards because account receivables and earned revenue are understated during the year. Consequently, interest, penalties, and federal revenue are misstated in the financial statements.

SFFAS 1, *Accounting for Selected Assets and Liabilities,* states:

> A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, … or goods or services provided. … [Further,] [r]eceivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.

In addition:

> Interest [receivable] should be recognized on outstanding accounts receivable and other U.S. government claims against persons and entities in accordance with provisions in 31 U.S.C. 3717, Interest and Penalty Claims. … Interest receivable from federal entities should be accounted for and reported separately from interest receivable from the public.

SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states:

> Exchange revenue and gains are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return.

The EPA did not create appropriate accounting models to record e-Manifest accounts receivable or to recognize revenue when costs were incurred. We found three collection transactions during our sample testing that reduced accounts receivable in General Ledger account 13100044, "Billed Emanifest [sic] Receipts Public." However, no prior receivable had been recorded for these transactions. Upon further review of activity during the fiscal year, we identified $15,682,808 of receivables that were not properly recorded.

[1] The e-Manifest system is the EPA's national system for electronically tracking hazardous waste shipments.

The Office of Land Emergency Management compiles invoice data based on the electronic manifest documents received from waste handlers and transmits invoices from the e-Manifest system to individual facilities. However, the e-Manifest system is not integrated with Compass Financials; therefore, no financial data for the invoiced amounts or earned revenue for services provided are recorded in Compass at the transaction level. Facilities receive the invoices and remit payments, which are recorded in Compass. The EPA records a standard voucher at the end of each month to record receivables and recognize revenue, but this standard voucher is recorded solely for financial reporting purposes, not to record individual receivable and earned revenue transactions. Although the standard voucher, combined with the collection entries, offsets the receivables and recognizes earned revenue, the receivables and earned revenue are still not recorded at the transaction level. The EPA is therefore not compliant with federal accounting standards during the year, and accounts are misstated until the monthly standard voucher is posted.

We also found that penalties, interest and federal revenue are also not properly recorded in Compass. According to the Office of Land Emergency Management, interest and penalties are assessed automatically within the e-Manifest system and are combined with the amount of fees due in invoices. Finally, the EPA does not differentiate its reporting of earned revenue from federal versus nonfederal sources. According to information provided by Office of Land Emergency Management, e-Manifest collections are from both federal and nonfederal vendors. However, this activity was not accounted for separately in the agency's accounting system, which misstates earned revenue due to the failure to differentiate between federal versus nonfederal sources.

By not creating proper accounting models for e-Manifest transactions to record accounts receivable and earned revenue at the transaction level, account receivables and earned revenue are understated during the year, and interest, penalties and federal revenue are misstated in the EPA's financial statements. Furthermore, the EPA is not in compliance with either SFFAS 1, which requires the recognition of a receivable when a legal claim exists, or SFFAS 7, which requires revenue recognition when the goods or services were provided.

## Recommendations

We recommend that the Chief Financial Officer:

3. Update the accounting models to properly record collections and not reduce an account receivable account.

4. Establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level.

5. Establish accounting models to properly classify and record interest, fines, penalties and fees.

6. Establish accounting models to properly record receivables, collections and earned revenue from federal versus nonfederal vendors.

## Agency Comments and OIG Evaluation

The EPA agreed with our findings and recommendations. The agency's estimated completion date for corrective actions is September 30, 2021.

## 3—EPA Misclassified e-Manifest User Fee Revenue

The EPA misclassified $10.7 million of user fees collected for services provided as nonexchange revenue instead of exchange revenue. Federal accounting standards require the recognition of exchange revenue when a government entity provides goods or services to the public or another government entity and when each party sacrifices value and receives value in return. However, the agency recognized $10.7 million as nonexchange revenue because it had not updated its accounting posting model. As a result, there was a high risk that the EPA would continue to misclassify user fee revenues and would potentially overstate its net cost of operations. Further, such overstatement inaccurately presented the EPA's ability to sustain program operation costs through user fee revenues.

SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* states:

> Exchange revenue and gains are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises when a Government entity provides something of value to the public or another Government entity at a price.

This standard also states that "[e]xchange revenue includes most user charges other than taxes." In addition, according to the Hazardous Waste Electronic Manifest Establishment Act (e-Manifest Act), 42 U.S.C. § 6939g(c)(2), the EPA is required to recover the full cost of providing system-related services through the established user fees.

In FY 2019, the OCFO misclassified four vouchers—with a total of $10.7 million of e-Manifest[2] user fees collected for services provided—as nonexchange revenue instead of exchange revenue. Table 1 sets forth the user fee summary totals recorded as nonexchange revenue in the EPA's general ledger.

**Table 1: User fee vouchers posted as nonexchange revenue**

| Voucher number | Date | Amount |
|---|---|---|
| RAS19081AJS | 3/27/19 | $5,981,552.10 |
| RAS19125TWJ | 4/10/19 | 1,008,967.00 |
| RAS19146CYL | 5/24/19 | 1,986,986.64 |
| RAS19159TWJ | 6/6/19 | 1,761,742.40 |
| | **Total** | **$10,739,248.14** |

Source: Office of Inspector General analysis.

According to OCFO staff, they initially believed that the revenue received from e-Manifest user fees was not equal in value to the services the agency provided to the public. After we discussed our finding with OCFO staff, however, they agreed that the fees should have been recorded as

[2] The e-Manifest is the EPA's national system for electronically tracking hazardous waste shipments.

exchange revenue. In response to our finding, the staff said that they will change their accounting posting model to correctly record the e-Manifest user fees as exchange revenue.

If the agency did not change the accounting posting model, the EPA could have continued to misclassify user fee revenues and potentially overstated its net cost of operations. Further, such overstatement would inaccurately present the EPA’s ability to sustain the program’s operations and recover its full cost through user fee revenues, as required by the e-Manifest Act.

Based on our finding, the OCFO updated the voucher posting model to record e-Manifest user fees as exchange revenue. In addition, the OCFO reclassified the $10.7 million as exchange revenue. Since the agency has already acted on our finding, we make no recommendations.

# 4—EPA Understated Its Contract Accrued Liabilities

We found that the EPA understated its FY 2018 contract accrued liabilities by $59 million. EPA policy states that accrual estimates should closely reflect the actual liabilities outstanding at the end of the reporting period. The misstatement occurred because the EPA relied on 1 month of subsequent disbursements to proof its accrual estimate, even though contract payments for FY 2018 liabilities continued throughout FY 2019. Consequently, the EPA's FY 2018 understatement of accruals also resulted in an overstatement of its FY 2019 contract expenses.

Statement of Federal Financial Accounting Standard No. 5, *Accounting for Liabilities of the Federal Government*, requires that all liabilities be recognized when incurred, regardless of whether they are covered by available budgetary resources. In addition, the EPA's Resource Management Directive System No. 2540-04-P4, *Recognizing Year-End Accrued Liabilities*, states that "[w]hile the amounts recorded as accruals are estimates of liabilities, reasonable efforts should be made to develop a methodology that will closely reflect the actual amount outstanding at the end of the reporting period."

The EPA recorded $67 million as its contract accrued liability as of September 30, 2018. At that time, we estimated that the EPA's contract accrual should have been approximately $116 million, a difference of $49 million. We discussed our finding with the EPA and reported an audit difference of $49 million during our FY 2018 audit. The EPA decided not to record the audit difference.

In FY 2018, the EPA changed its contract accrual methodology. To support the reasonableness of its new methodology, the EPA calculated a proof of its contract accrual for FY 2018. The EPA's initial proof was based on FY 2018 contract payments disbursed during the first month of FY 2019. However, we found that EPA payments on contracts for work performed in FY 2018 continued throughout FY 2019. As a result, the contract accrual should have been approximately $126 million, which means the EPA understated the accrual amount by $59 million.

After we discussed these findings with the EPA, the agency agreed that its new accrual methodology did not closely reflect the actual expenses for the reporting period. The EPA therefore decided to restate its FY 2018 financial statements by posting a $49 million adjustment. Subsequently, the EPA updated its contract accrual methodology for FY 2019. However, based on the actual disbursements, we estimate that the FY 2018 restated financial statements are still understated by approximately $10 million.

By understating the FY 2018 accrued liabilities, the EPA overstated its FY 2019 contract expenses.

## Recommendations

We recommend that the Chief Financial Officer:

7. Adjust the fiscal year 2018 contract accrued liabilities by $9,853,030.26.

8. Perform a proof of the contract accrual methodology using actual expenses to verify the accuracy of the EPA's accruals.

## Agency Comments and OIG Evaluation

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

# 5—EPA Needs to Improve Process to Disable User Accounts for Financial and Mixed Financial Systems

The OCFO and the OMS did not consistently remove user access to financial and mixed financial systems when employees were separated or terminated from the EPA. Removing each departing employee access to information technology infrastructure is critical to protecting systems and data. Federal and EPA directives require that user access to systems be removed when access is no longer needed. However, account managers for the systems were not consistently notified to remove access when employees no longer worked for the agency. As a result, former agency employees could inappropriately access critical financial and mixed financial systems and had the ability to inappropriately use or disclose EPA's data.

### *Federal and EPA Requirements for Termination of Access Control*

National Institute of Standards and Technology's (NIST's) Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, Access Control-2, states that each federal agency or organization:

- "Creates, enables, modifies, disables, and removes information system accounts in accordance with" organization-defined procedures or conditions.
- "Notifies account managers … When users are terminated or transferred."

Section AC-2 of the EPA's *Information Security – Access Control Procedure* (CIO-2150-P-01.2, dated September 21, 2015) states:

> When a user's official association with the EPA or authorization to access EPA information systems is terminated, all accounts associated with that user are disabled immediately. Such accounts include network access, e-mail access, etc.

### *EPA Did Not Remove User Access for Separated Employees*

The OCFO and the OMS did not always follow procedures to enforce access controls procedures to notify account managers when users are separated from the agency. We reviewed user access to four systems; some financial and some mixed financial systems:

- Three under the purview of the OCFO—the Automated Standard Application for Payments, Compass Financials and the Grants Payment Allocation System.
- One under the purview of the OMS—the Integrated Grants Management System.

For these four systems, we interviewed the three account managers and found they had differing prompts for disabling user accounts:

- One removes or disables user accounts via direct notification, while the other removes or disables user accounts via indirect notification.
- One relies upon annual reviews to certify that users still need system access, even though EPA policy requires system access to be removed immediately.

As a result, eight former EPA employees who separated from the agency from May 1, 2018, through May 31, 2019, retained access to one financial and two mixed financial systems we reviewed (Table 2).

**Table 2: Active accounts for former employees who separated from the EPA from May 1, 2018, through May 31, 2019**

| System name | System purpose | Separated employees with active accounts |
|---|---|---|
| Automated Standard Application for Payments | This Department of the Treasury system is used by federal agencies to enroll recipient organizations, authorize payments and manage accounts. | 2[3] |
| Compass Financials | This web application provides the tools needed to manage, budget and track expenditures. | 1 |
| Integrated Grants Management System | This system exchanges data with Grants.gov, the central portal for applicants to apply for federal grants. The system receives electronic applications and makes them available to EPA employees for review, approval, and funding and post-award management. | 4 |
| | **Total separated employees with access** | **7** |

Source: OIG analysis.

If the EPA does not take immediate action to remove system access when employees separate or are terminated from the agency, these active accounts could be used to gain unauthorized access to the agency's financial and mixed financial systems, leaving data vulnerable to unauthorized use and disclosure.

## Recommendations

We recommend that the Chief Financial Officer:

9. Implement a process to timely notify the Compass Financials and Automated Standard Application for Payment user account administrators of individuals who are separated or terminated from the EPA and remove their access to these systems.

10. Remove user access of the separated Compass Financial user identified with an active account.

We recommend that the Assistant Administrator for Mission Support:

11. Implement a process to timely notify the Integrated Grants Management System user account administrator of individuals who separate from the EPA and remove their access to this system.

12. Remove user access of the separated Integrated Grants Management System users identified with active accounts.

[3] Two former employees separated effective March 30, 2019. These former employees were included in the analysis because user access was not disabled until April 22, 2019.

## Agency Comments and OIG Evaluation

The EPA agreed with our recommendations and provided acceptable corrective actions and milestone dates. Specifically:

- For Recommendation 9, the agency stated that it had an internal control process that provided automated notifications to terminate access when users separated from the agency, but this process failed in the spring of 2019. Management indicated that it is currently using a manually executed report and will update the internal controls so that access to the EPA network is revoked when employees are separated.

- For Recommendation 10, the agency indicated that it removed the Compass access for the employees identified in the finding.

- For Recommendation 11, the agency indicated that it will identify specific areas where improvement is necessary in the deprovisioning process of user accounts and licenses. The agency said that it will then implement, where appropriate, a technical solution for these improvements.

- For Recommendation 12, the agency indicated that it has removed the IGEMS access for the employees identified in the finding.

Recommendations 9 and 11 are resolved with corrective actions pending. The agency provided documentation supporting that corrective actions to address Recommendations 10 and 12 have been completed. Therefore, Recommendations 10 and 12 are completed. The EPA's full response to our draft report is in Appendix II.

## 6—OCFO Needs to Protect Personally Identifiable Information on Its Server Used to Transfer Data with Vendors

The OCFO lacks controls to protect PII and SPII stored on a file transfer server that is used to exchange data with EPA vendors. Federal and EPA directives require the EPA to secure this type of information. However, the OCFO did not encrypt, restrict access rights or remove files containing PII and SPII on the file transfer server. Without proper security and access controls, PII and SPII collected by EPA are vulnerable to unauthorized access and a breach of privacy that could lead to identity theft.

> **PII:** Information used to distinguish, trace or identify an individual's identity, such as name, date of birth and home address.
>
> **SPII:** A subset of PII, this information includes Social Security numbers or comparable identification numbers, as well as passport, biometric, medical or financial data.

### *Federal and EPA Standards Require Protection of Information*

NIST Special Publication 800-53 specifies the following controls for protecting PII:

- *System and Communications Protection-28, Protection of Information at Rest.* This control addresses the confidentiality and/or integrity of information at rest, which refers to the state of information when it is located on storage devices as specific components of information systems. Pursuant to this control, "Organizations have the flexibility to either encrypt all information on storage devices (i.e., full disk encryption) or encrypt specific data structures (e.g., files, records, or fields)."

- *Access Control-6, Least Privilege*. This control provides, "The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions." This control is also defined in the EPA's *Information Security – Access Control Procedure*.

> The ***principle of least privilege*** is the principle where users have the minimum system access necessary to perform their work.

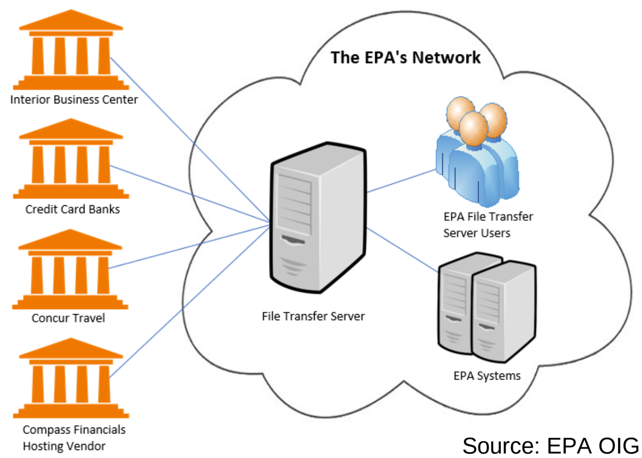
The EPA's *Protecting Sensitive Personally Identifiable Information (SPII)*, Chief Information Officer Directive No. 2151-P-10.0, dated December 19, 2016, provides that security and controls are required to protect SPII due to the harm it could cause if an information system is breached. This procedure states system owners are responsible for properly destroying copies and files containing SPII after 90 days. In addition, pursuant to this directive, all employees, must:

- "Ensure all such SPII has been erased, returned, or destroyed within 90 days, or request approval … for continued use."
- "Encrypt documents containing SPII properly ... and document the encryption."

### *EPA File Transfer Server Does Not Protect Sensitive Information*

The OCFO uses a file transfer server to exchange financial and other information with its external service providers. This server and the exchanged data are controlled by the EPA (Figure 1). When PII and SPII are exchanged, they should be protected from unauthorized access. However, the OCFO lacked internal controls to verify that employees (1) implemented information system security controls required by NIST and (2) followed the EPA's *Information Security – Access Control Procedure* and the EPA's *Protecting Sensitive Personally Identifiable Information (SPII).*

**Figure 1: File Transfer Server**




Source: EPA OIG.

The OCFO did not limit access to PII and SPII or encrypt SPII. Specifically, OCFO employees did not:

- Prevent people with access to the file transfer server from viewing SPII. For example, we learned during an interview with the technician who maintains the server for the OCFO that this person could view SPII on the server. However, the technician does not need access to the SPII for work purposes.

- Follow the EPA's *Information Security – Access Control Procedure*, which requires each user to have only the minimum system access needed to accomplish assigned organizational missions and business functions. The OCFO thought access to SPII was restricted by information technology based on assigned user groups; however, we found that access to view SPII was granted to all users of the server. As such, the OCFO process does not limit access to PII and SPII.

> ***User groups*** help simplify access to a computer system, whereby users assigned to the same "group" have the same system access and ability to perform the same tasks.

- Erase SPII when it was no longer needed for current operations. Consequently, the server contained bank files from calendar year 2013 and calendar year 2019 that contain the EPA's travel, purchase and fleet credit card information, including names, expiration dates and credit card numbers. The server also stored tax information, including the names and social security numbers of EPA contractors, from calendar years 2012 through 2017.

All 139 user accounts of the file transfer server could view the server's SPII because of this lack of control. The OCFO could have protected the SPII by encrypting the data, restricting which users could access the data and erasing the data from the file transfer server after the data had been transferred to the system of record.

The OCFO indicated that it would work with its service provider, the Office of Mission Support, to either remove or restrict user access by September 20, 2019. However, as of September 24, 2019, the system access rules were not changed to restrict user access to the server. The Office of Mission Support representative who is responsible for maintaining the file transfer server told us that the OCFO had not submitted a request for any rule changes. OMS also added that there are information technology staff in the OCFO who can update access rights. The OCFO also said that it would work with its support team to implement the agency's file retention policy and transfer the files containing PII and SPII to a secure location by December 13, 2019.

## Recommendations

We recommend that the Chief Financial Officer:

13. Implement internal controls to comply with mandatory information system security controls to protect Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII) stored on the file transfer server as specified by the National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, April 2013.

14. Implement internal controls to comply with CIO's Directive No.: 2151-P-10.0, *Protecting Sensitive Personally Identifiable Information (SPII)*, dated December 19, 2016, for the PII and SPII stored on the server used to exchange information with EPA vendors.

15. Take immediate action to verify that the user accounts on the file transfer server, with access to the PII and SPII, need the access to the file transfer server and remove the user accounts of personnel who do not need access to the server.

16. Take immediate action to update the user account access group rules to restrict what PII and SPII users can view on the file transfer server used to exchange information with EPA vendors.

17. Take immediate action to verify that employees are complying with the EPA record retention procedures for the PII and SPII that is currently stored on the file transfer server used to exchange information with EPA vendors.

## Agency Comments and OIG Evaluation

The EPA agreed with our recommendations and provided acceptable corrective actions and milestone dates. Specifically:

- For Recommendation 13, the agency indicated that it will remove the files from the server within 5 days. Further the agency will use a tool to alert staff that the files have been removed.

- For Recommendation 14, the agency indicated that it will develop a process to annually recertify user access to the file transfer server. Further, the agency will generate a report to validate and verify group access to the file transfer server.

- For Recommendation 15, the agency indicated that it has implemented steps to recertify all users. Further, the agency will remove user accounts of personnel who do not need access to the file transfer server.

- For Recommendation 16, the agency indicated that it would review all access from the file transfer server and take the necessary actions to either remove or restrict access.

- For Recommendation 17, the agency indicated that it will not retain files with PII and SPII on the file transfer server. The file transfer server is intended as a mechanism to transfer files between agency systems and external destinations. The agency will transfer files from the file transfer server to a secure location.

We consider Recommendations 13, 14, 15, 16 and 17 resolved with corrective actions pending. The EPA’s full response to our draft report is in Appendix II.

# *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 2019, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, continued to encourage senior managers to evaluate the OIG's recommendations thoroughly, develop suitable and attainable corrective actions, and implement the corrective actions in the agreed upon time frame. 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 2019 to ensure that corrective action dates were being met and required certification memorandums were being submitted. The EPA said that OCFO efforts significantly helped with the EPA's responses to the OIG's two *Semiannual Reports to Congress* in FY 2018, which were issued in the spring and fall of 2018.

- The agency provided a session on *Financial Audits and Audit Outcomes* at the FY 2019 OCFO Technical Conference held in the spring. Participants attended from all EPA offices.

- The agency continued to hold quarterly meetings with Agency Audit Follow-Up Coordinators to discuss issues and concerns, as well as to emphasize adherence to corrective action due dates and the need to keep the Management Audit Tracking System current. The EPA asked the OIG to participate in the agency's spring quarterly meeting, and the EPA said that our participation, provided it with 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. However, the following table outlines the status of past significant deficiency findings that have not been resolved to date.

**Table 3: Significant deficiency issues not fully resolved**

| |
|---|
| **EPA Did Not Capitalize Lab Renovation Costs**<br>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 indicated continued agreement with its 1999 legal opinion regarding EPA construction accounting 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 expected completion date to February 28, 2018. On July 18, 2018, the Office of General Counsel stated that determining whether renovation work should be funded out of program agency dollars or Buildings and Facilities funds is very fact-specific; therefore, providing global examinations was not feasible. |

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| **EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement**<br>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 2019 audit, we found that the agency made significant progress to correct the differences between the amount of personal property recorded in the agency's property management system (Sunflower) and the amount of physical inventory. While the agency has taken steps to correct weaknesses, not all corrective actions implemented are completely effective. For example, the agency was unable to provide supporting documentation for the investigations conducted by the Board of Survey, which is part of the EPA's Facilities Management and Services Division that serves as a fact-finding body to determine the circumstances and conditions of EPA property that is declared lost, damaged or destroyed. |
| **EPA Materially Overstated Earned Revenue**<br>During FY 2018, the EPA did not properly eliminate internal Working Capital Fund earned revenue of $147 million. Based on our findings, we recommended that the Chief Financial Officer update the EPA's standard operating procedures for Working Capital Fund elimination entries to include verification of entries and proper ending balances. During FY 2019, we found that the EPA updated its standard operating procedures to include verification of entries and proper ending balances; however, the EPA's FY 2019 Working Capital Fund elimination entry did not properly eliminate Working Capital Fund earned revenue balances. Therefore, the EPA's corrective action was not totally effective. |
| **Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center**<br>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. While we have noted some improvements in the Cincinnati Finance Center's timely receipt of legal documents, we still identified instances of untimely receipt during FYs 2015 through 2019. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate whether the agency timely receives legal source documents in FY 2020. |
| **EPA Improperly Increased Accounts Receivable and Related Revenue**<br>During FY 2018, we found that the EPA improperly increased accounts receivable based on the cash received rather than the amount stipulated in the legal claim. Based on our findings, we recommended the agency adjust accounts receivable only for amounts stipulated in settlement agreements. The EPA considers this recommendation completed; however, we found during the FY 2019 audit that the EPA recorded an accounts receivable based on the cash received rather than the amount stipulated in the legal document. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate the agency's recording of accounts receivable. |
| **EPA Should Improve Its Efforts to Resolve Long-Standing Cash Differences with Treasury**<br>During our FY 2018 audit, we found that the EPA had not resolved $2.2 million in long-standing cash differences between the EPA and Treasury balances. Based on our finding, we recommended 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 agreed with our finding and recommendation. According to the agency, corrective action was completed on September 13, 2019. As of November 2019, we were awaiting additional supporting documentation from the agency, and we had not assessed the effectiveness of the agency's corrective action. |
| **Financial Management System User Account Management Needs Improvement**<br>During our FY 2009 audit, we found that the EPA had not established policies that clearly define incompatible functions and associated processes to facilitate the proper separation of duties within the financial system application. Based on our findings, we recommended in our FY 2009 report that the OCFO verify 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 |

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| 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. In FY 2019, the agency provided us with a separation of duties waiver and a list of individuals requesting access in accordance with EPA procedures, but the agency did not provide us the required list of mitigating controls. We asked the EPA for additional documents to support the completion of the corrective action. The EPA did not provide further information. Therefore, this recommendation is unresolved. |
| **OCFO Lacks Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems**<br>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 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. The agency agreed with our finding and recommendations. In FY 2019, the OCFO extended the completion date for the first recommendation to December 16, 2019, and the second recommendation to the second quarter of FY 2020. |
| **EPA Needs Controls to Monitor Direct Access to the Compass Financials Database**<br>During our FY 2016 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 May 1, 2019, corrective action status report, the agency was 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 Perform a Documented Evaluation on Upgrading Equipment Used to Implement Physical Environmental Controls at the National Computer Center**<br>During FY 2018, we found that the EPA did not implement controls to enforce the required verification of each person's identity every time anyone enters the agency's computer rooms. Additionally, we found that equipment supporting the physical and environmental controls for the computer room at the National Computer Center has not been maintained or reviewed to see if it still meets the needs of the computer center. Based on our findings, we recommended that the Office of Mission Support:<br>• Implement controls to enforce the required verification of each person's identity prior to allowing individuals to access the agency's computer rooms.<br>• Perform a review of system requirements and evaluate the suitability of existing technology to replace or implement updates to the National Computer Center computer room's surveillance system and generators. Update or replace, if warranted, the equipment based on the results of the evaluation.<br>The Office of Mission Support provided a corrective action date of March 31, 2020, for the first recommendation. We considered the first recommendation resolved with corrective actions pending. For the second recommendation, the agency provided documentation to support that it evaluated the video surveillance coverage of the National Computer Center computer room and established a process to refill the fuel tanks for the generators. Additionally, the agency provided confirmation that its generators' fuel tanks have a run time that exceeds the requirement for continuous uptime. Therefore, the second recommendation is resolved. |

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 | 10 | Evaluate and improve the EPA's process for preparing financial statements. | R | Chief Financial Officer | 7/31/20 | |
| 2 | 10 | Provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. | R | Chief Financial Officer | 2/29/20 | |
| 3 | 12 | Update the accounting models to properly record collections and not reduce an account receivable account. | R | Chief Financial Officer | 9/30/21 | |
| 4 | 12 | Establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level. | R | Chief Financial Officer | 9/30/21 | |
| 5 | 12 | Establish accounting models to properly classify and record interest, fines, penalties and fees. | R | Chief Financial Officer | 9/30/21 | |
| 6 | 12 | Establish accounting models to properly record receivables, collections and earned revenue from federal versus nonfederal vendors. | R | Chief Financial Officer | 9/30/21 | |
| 7 | 16 | Adjust the fiscal year 2018 contract accrued liabilities by $9,853,030.26. | C | Chief Financial Officer | 11/8/19 | $9.853 |
| 8 | 16 | Perform a proof of the contract accrual methodology using actual expenses to verify the accuracy of the EPA's accruals. | C | Chief Financial Officer | 11/7/19 | |
| 9 | 19 | Implement a process to timely notify the Compass Financials and Automated Standard Application for Payment user account administrators of individuals who are separated or terminated from the EPA and remove their access to these systems. | R | Chief Financial Officer | 1/31/20 | |
| 10 | 19 | Remove user access of the separated Compass Financial user identified with an active account. | C | Chief Financial Officer | 10/31/19 | |
| 11 | 19 | Implement a process to timely notify the Integrated Grants Management System user account administrator of individuals who separate from the EPA and remove their access to this system. | R | Assistant Administrator for Mission Support | 6/30/20 | |
| 12 | 19 | Remove user access of the separated Integrated Grants Management System users identified with active accounts. | C | Assistant Administrator for Mission Support | 11/4/19 | |
| 13 | 23 | Implement internal controls to comply with mandatory information system security controls to protect Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII) stored on the file transfer server as specified by the National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, April 2013. | R | Chief Financial Officer | 1/31/20 | |

**RECOMMENDATIONS**

| Rec. No. | Page No. | Subject | Status[1] | Action Official | Planned Completion Date | Potential Monetary Benefits (in $000s) |
|---|---|---|---|---|---|---|
| 14 | 23 | Implement internal controls to comply with CIO's Directive No.: 2151-P-10.0, *Protecting Sensitive Personally Identifiable Information (SPII)*, dated December 19, 2016, for the PII and SPII stored on the server used to exchange information with EPA vendors. | R | Chief Financial Officer | 12/30/19 | |
| 15 | 23 | Take immediate action to verify that the user accounts on the file transfer server, with access to the PII and SPII, need the access to the file transfer server and remove the user accounts of personnel who do not need access to the server. | R | Chief Financial Officer | 11/22/19 | |
| 16 | 23 | Take immediate action to update the user account access group rules to restrict what PII and SPII users can view on the file transfer server used to exchange information with EPA vendors. | R | Chief Financial Officer | 11/22/19 | |
| 17 | 23 | Take immediate action to verify that employees are complying with the EPA record retention procedures for the PII and SPII that is currently stored on the file transfer server used to exchange information with EPA vendors. | R | Chief Financial Officer | 12/13/19 | |

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

# *EPA's FYs 2019 and 2018 Consolidated Financial Statements*

# EPA's Fiscal Year 2019 and 2018
# Consolidated Financial Statements (With Restatements)

## Financial Section

# Table of Contents

**Principal Financial Statements**

**United States Environmental Protection Agency**
**Consolidated Balance Sheet**
**As of September 30, 2019 and 2018 (Restated)**
**(Dollars in Thousands)**

| | 2019 | Restated 2018 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental: | | |
| Fund Balance With Treasury (Note 2) | $ 10,056,926 | $ 9,184,092 |
| Investments (Note 4) | 5,997,657 | 5,498,047 |
| Accounts Receivable, Net (Note 5) | 34,802 | 17,849 |
| Other (Note 6) | 210,591 | 212,509 |
| Total Intragovernmental | 16,299,976 | 14,912,497 |
| Cash and Other Monetary Assets (Note 3) | 10 | 10 |
| Accounts Receivable, Net (Note 5) | 500,886 | 458,456 |
| Loans Receivable, Net (Note 7) | 263 | - |
| Property, Plant and Equipment, Net (Note 9) | 671,207 | 687,393 |
| Other (Note 6) | 7,714 | 3,288 |
| **Total Assets** | **$ 17,480,056** | **$ 16,061,644** |
| **LIABILITIES** | | |
| Intragovernmental: | | |
| Accounts Payable and Accrued Liabilites (Note 8) | $ 136,825 | $ 130,462 |
| Debt Due to Treasury (Note 10) | 266 | - |
| Custodial Liability (Note 12) | 36,494 | 26,544 |
| Other (Notes 13 and 37) | 177,294 | 125,495 |
| Total Intragovernmental (Note 37) | 350,879 | 282,501 |
| Accounts Payable and Accrued Liabilities (Notes 8 and 37) | 540,235 | 522,989 |
| Pensions and Other Actuarial Liabilities (Note 15) | 42,044 | 43,679 |
| Environmental Cleanup Costs (Note 20) | 32,810 | 32,958 |
| Cashout Advances, Superfund (Notes 16 and 37) | 3,453,124 | 3,305,023 |
| Commitments and Contingencies (Note 17) | - | - |
| Payroll and Benefits Payable (Note 31) | 203,985 | 202,019 |
| Other (Notes 13 and 37) | 140,549 | 136,069 |
| Total Liabilites | 4,763,626 | 4,525,238 |
| **NET POSITION** | | |
| Unexpended Appropriations - Funds from Dedicated Collections (Note 18) | (1,264) | 2,790 |
| Unexpended Appropriations - Other Funds (Note 37) | 8,929,585 | 8,058,744 |
| Cumulative Results of Operations - Funds from Dedicated Collections (Note 18) | 3,290,710 | 2,966,236 |
| Cumulative Results of Operations - Other Funds (Note 37) | 497,399 | 508,636 |
| Total Net Position | 12,716,430 | 11,536,406 |
| **Total Liabilities and Net Position** | **$ 17,480,056** | **$ 16,061,644** |

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, 2019 and 2018 (Restated)**
**(Dollars in Thousands)**

| | 2019 | Restated 2018 |
|---|---|---|
| **COSTS** | | |
| Gross Costs (Note 37) | $ 8,883,930 | $ 8,694,112 |
| Earned Revenue | 458,873 | 660,708 |
| **NET COST OF OPERATIONS** (Notes 34 and 37) | **$ 8,425,057** | **$ 8,033,404** |

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, 2019**
**(Dollars in Thousands)**

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State Tribal Assistance Agreements | Other | Totals |
|---|---|---|---|---|---|---|---|
| Costs: | | | | | | | |
| Gross Costs | $ 2,650,992 | $ 89,019 | $ 709,019 | $ 1,392,940 | $ 3,876,041 | $ 398,223 | $ 9,116,234 |
| WCF Elimination | - | - | - | - | - | (232,304) | (232,304) |
| Total Costs | 2,650,992 | 89,019 | 709,019 | 1,392,940 | 3,876,041 | 165,919 | 8,883,930 |
| Less: | | | | | | | |
| Earned Revenue | 79,874 | - | 5,963 | 299,231 | - | 305,887 | 690,955 |
| WCF Elimination | - | - | - | - | - | (232,082) | (232,082) |
| Total Earned Revenue | 79,874 | - | 5,963 | 299,231 | - | 73,805 | 458,873 |
| **NET COST OF OPERATIONS** | **$ 2,571,118** | **$ 89,019** | **$ 703,056** | **$ 1,093,709** | **$ 3,876,041** | **$ 92,114** | **$ 8,425,057** |

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

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State Tribal Assistance Agreements | Other | Totals |
|---|---|---|---|---|---|---|---|
| Costs: | | | | | | | |
| Gross Costs | $ 2,859,581 | $ 93,896 | $ 711,350 | $ 1,328,447 | $ 3,553,001 | $ 359,779 | $ 8,906,054 |
| WCF Elimination | - | - | - | - | - | (211,942) | (211,942) |
| Total Costs | 2,859,581 | 93,896 | 711,350 | 1,328,447 | 3,553,001 | 147,837 | 8,694,112 |
| Less: | | | | | | | |
| Earned Revenue | 173,244 | - | 5,177 | 422,277 | - | 272,396 | 873,094 |
| WCF Elimination | - | - | - | - | - | (212,386) | (212,386) |
| Total Earned Revenue | 173,244 | - | 5,177 | 422,277 | - | 60,010 | 660,708 |
| **NET COST OF OPERATIONS** (Note 37) | **$ 2,686,337** | **$ 93,896** | **$ 706,173** | **$ 906,170** | **$ 3,553,001** | **$ 87,827** | **$ 8,033,404** |

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

**United States Environmental Protection Agency**
**Consolidated Statement of Changes in Net Position**
**For the Fiscal Year Ending September 30, 2019**
**(Dollars in Thousands)**

| | Funds from Dedicated Collections | All Other Funds | Consolidated Total |
|---|---|---|---|
| **Cumulative Results of Operations:** | | | |
| **Net Position - Beginning of Period** | $ 2,966,236 | $ 508,636 | $ 3,474,872 |
| | | | |
| **Budgetary Financing Sources:** | | | |
| Appropriations Used (Note 37) | 4,054 | 8,190,426 | 8,194,480 |
| Nonexchange Revenue - Securities Investment (Note 33) | 134,699 | - | 134,699 |
| Nonexchange Revenue - Other (Note 33) | 270,253 | (58) | 270,195 |
| Transfers In/Out | 15,608 | 21,330 | 36,938 |
| Transfers In/Out - Nonmonetary | - | 142 | 142 |
| Trust Fund Appropriations | 1,083,758 | (1,083,758) | - |
| Total Budgetary Financing Sources | 1,508,372 | 7,128,082 | 8,636,454 |
| | | | |
| **Other Financing Sources (Non-Exchange)** | | | |
| Imputed Financing Sources (Note 30) | 16,635 | 85,205 | 101,840 |
| Total Other Financing Sources | 16,635 | 85,205 | 101,840 |
| | | | |
| Net Cost of Operations | $ (1,200,533) | $ (7,224,524) | $ (8,425,057) |
| | | | |
| Net Change | 324,474 | (11,237) | 313,237 |
| | | | |
| **Cumulative Results of Operations** | **$ 3,290,710** | **$ 497,399** | **$ 3,788,109** |

| | Funds from Dedicated Collections | All Other Funds | Consolidated Total |
|---|---|---|---|
| **Unexpended Appropriations:** | | | |
| | | | |
| **Net Postition - Beginning of Period** | $ 2,790 | $ 8,058,744 | $ 8,061,534 |
| | | | |
| **Budgetary Financing Sources:** | | | |
| Appropriations Received | - | 9,288,440 | 9,288,440 |
| Appropriation Transfers-In/Out | - | 2,717 | 2,717 |
| Other Adjustments (Note 32) | - | (229,890) | (229,890) |
| Appropriations Used (Note 37) | (4,054) | (8,190,426) | (8,194,480) |
| Total Budgetary Financing Sources | (4,054) | 870,841 | 866,787 |
| | | | |
| **Total Unexpended Appropriations** | **(1,264)** | **8,929,585** | **8,928,321** |
| | | | |
| **TOTAL NET POSITION** | **$ 3,289,446** | **$ 9,426,984** | **$ 12,716,430** |

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

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

| | Funds from Dedicated Collections | All Other Funds | Consolidated Total |
|---|---|---|---|
| **Cumulative Results of Operations:** | | | |
| **Net Position - Beginning of Period** | $ 2,638,364 | $ 572,065 | $ 3,210,429 |
| Adjustment: | | | |
| (a) Changes in Accounting Principles | - | - | - |
| (b) Corrections of Errors (Note 37) | - | 12,994 | 12,994 |
| Beginning Balances, as Adjusted | 2,638,364 | 585,059 | 3,223,423 |
| **Budgetary Financing Sources:** | | | |
| Appropriations Used (Note 37) | 4,144 | 7,931,651 | 7,935,795 |
| Nonexchange Revenue - Securities Investment (Note 33) | 80,893 | - | 80,893 |
| Nonexchange Revenue - Other (Note 33) | 244,969 | - | 244,969 |
| Transfers In/Out | (4,763) | 23,976 | 19,213 |
| Trust Fund Appropriations | 1,000,646 | (1,094,046) | (93,400) |
| Total Budgetary Financing Sources (Note 37) | 1,325,889 | 6,861,581 | 8,187,470 |
| **Other Financing Sources (Non-Exchange)** | | | |
| Imputed Financing Sources (Note 30) | 14,598 | 82,785 | 97,383 |
| Total Other Financing Sources | 14,598 | 82,785 | 97,383 |
| Net Cost of Operations (Note 37) | $ (1,012,615) | $ (7,020,789) | $ (8,033,404) |
| Net Change (Note 37) | 327,872 | (76,423) | 251,449 |
| **Cumulative Results of Operations** (Note 37) | **$ 2,966,236** | **$ 508,636** | **$ 3,474,872** |

| | Funds from Dedicated Collections | All Other Funds | Consolidated Total |
|---|---|---|---|
| **Unexpended Appropriations:** | | | |
| **Net Postition - 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 32) | - | (173,967) | (173,967) |
| Appropriations Used (Note 37) | (4,144) | (7,931,651) | (7,935,795) |
| Total Budgetary Financing Sources (Note 37) | (907) | 756,667 | 755,760 |
| **Total Unexpended Appropriations** (Note 37) | **2,790** | **8,058,744** | **8,061,534** |
| **TOTAL NET POSITION** (Note 37) | **$ 2,969,026** | **$ 8,567,380** | **$ 11,536,406** |

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, 2019 and 2018**
**(Dollars in Thousands)**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Account | Budgetary | Non-Budgetary Credit Reform Financing Account |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated Balance From Prior Year Budget Authority, Net (discretionary and mandatory) | $ 4,714,826 | $ 1,461,572 | $ 4,479,928 | $ - |
| Appropriations (discretionary and mandatory) | 10,801,690 | - | 10,225,913 | - |
| Borrowing Authority (discretionary and mandatory) | - | 1,083,500 | - | 2,500,000 |
| Spending Authority (discretionary and mandatory) | 557,467 | 5 | 610,290 | - |
| **Total Budgetary Resources** | **$ 16,073,983** | **$ 2,545,077** | **$ 15,316,131** | **$ 2,500,000** |
| **STATUS OF BUDGETARY RESOURCES** | | | | |
| New Obligations and Upward adjustments (total) | $ 10,613,226 | $ 2,524,163 | $ 10,823,821 | $ 1,038,428 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | 5,273,498 | 20,914 | 4,210,746 | 1,461,572 |
| Unapportioned, Unexpired accounts | 917 | - | 194,768 | - |
| Expired Unobligated Balance, End of Year | 186,342 | - | 86,796 | - |
| Unobligated Balance, End of Year (total): | 5,460,757 | 20,914 | 4,492,310 | 1,461,572 |
| **Total Status of Budgetary Resources** | **$ 16,073,983** | **$ 2,545,077** | **$ 15,316,131** | **$ 2,500,000** |
| **OUTLAYS, NET** | | | | |
| Outlays, Net (total) (discretionary and mandatory) | $ 9,648,346 | $ 264 | $ 9,484,562 | $ - |
| Distributed Offsetting Receipts (-) (Note 28) | (1,584,783) | - | (1,399,483) | - |
| Agency Outlays, Net (discretionary and mandatory) | $ 8,063,563 | $ 264 | $ 8,085,079 | $ - |

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, 2019 and 2018**
**(Dollars in Thousands)**

| | 2019 | 2018 |
|---|---|---|
| **Revenue Activity:** | | |
| Sources of Cash Collections: | | |
| Fines and Penalties | $ 352,092 | $ 78,596 |
| Other | (4,359) | 23,087 |
| Total Cash Collections | 347,733 | 101,683 |
| Accrual Adjustment | 8,912 | 2,467 |
| **Total Custodial Revenue (Note 23)** | $ 356,645 | $ 104,150 |
| **Disposition of Collections:** | | |
| Transferred to Others (General Fund) | $ 347,711 | $ 101,615 |
| Increases/Decreases in Amounts to be Transferred | 8,934 | 2,535 |
| **Total Disposition of Collections** | $ 356,645 | $ 104,150 |
| **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 2019 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. The Statement of Custodial Activity and the Statement of Budgetary Resources are presented on a combined basis. The financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

### B. Basis of Presentation

The 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. Annual appropriations for the Science and Technology (S&T), Environmental Programs and Management (EPM) and for the Office of Inspector General (OIG) are 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 the Hazardous Waste Electronic Manifest System Fund to recover the full cost of providing the hazardous waste electronic manifest fund system related services.

The EPA receives two-year appropriated funds to carry out the Frank R. Lautenberg Chemical Safety for the 21$^{st}$ Century Act. Under the Act, the Agency is authorized collect users fees (up to $25 million annually) from chemical manufacturers and processors. Fees collected will defray costs for new chemical reviews and a range of TSCA implementation activities for existing chemicals.

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 are disbursed. The Agency received two-year appropriations in fiscal years 2019 and 2018 to finance the administration portion of the program.

EPA re-estimates the risk on each individual loan 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 U.S. Department of the 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 U.S. 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 began to fully utilize this receipt account on January 31, 2019.

### VI. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

### VII. 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 the 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 an 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 was 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 was 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 and Restatements

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*. Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison. For detailed information on the restatements of the FY 2018 Consolidated Financial Statements, refer to Note 37, Restatements.

### 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. Puerto Rico Insolvency

In February 2016, the Puerto Rico Aqueduct and Sewer Authority (PRASA) requested a restructuring of the Clean Water (CW) and Drinking Water (DW) 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. Since that time, the forbearance agreement was extended multiple times with a final expiration date of July 31, 2019.

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. Negotiations concluded on July 26, 2019, when the Puerto Rico CW and DW SRF programs closed on loan agreements that restructure 200 delinquent loans held by PRASA and total approximately $571 million in principal. The restructuring agreements supersede the forbearance and ensure the repayment of PRASA's SRF loans. The restructuring also means that PRASA will once again be eligible to apply for financial assistance from the PR SRFs.

### U. 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.

## V. 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 June 28, 2019. As a result, Net Adjustments to Unobligated Balance Brought Forward, Oct. 1 has been omitted in the Statement of Budgetary Resources.

**(Dollars in Thousands)**

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

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Entity Assets | Non-Entity Assets | Total | Entity Assets | Non-Entity Assets | Total |
| **Trust Funds:** | | | | | | |
| Superfund | $ 77,906 | $ - | $ 77,906 | $ 140,013 | $ - | $ 140,013 |
| LUST | 21,902 | - | 21,902 | 10,425 | - | 10,425 |
| Oil Spill & Misc. | 12,109 | - | 12,109 | 8,822 | - | 8,822 |
| **Revolving Funds:** | | | | | | |
| FIFRA/Tolerance | 58,133 | - | 58,133 | 47,864 | - | 47,864 |
| Working Capital | 129,185 | - | 129,185 | 128,909 | - | 128,909 |
| Credit Reform Financing | - | - | - | - | - | - |
| E-Manifest | 8,029 | - | 8,029 | 4,294 | - | 4,294 |
| WIFIA | | - | | - | - | - |
| NRDA | 1,551 | - | 1,551 | 2,057 | - | 2,057 |
| **Appropriated** | 9,236,309 | - | 9,236,309 | 8,348,172 | - | 8,348,172 |
| **Other Fund Types** | 507,871 | 3,929 | 511,800 | 489,727 | 3,809 | 493,536 |
| **Total** | **$10,052,997** | **$ 3,929** | **$10,056,926** | **$ 9,180,283** | **$ 3,809** | **$ 9,184,092** |

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:** | **2019** | **2018** |
|---|---|---|
| **Unobligated Amounts in Fund Balance:** | | |
| Available for Obligation | $ 5,294,411 | $ 4,405,970 |
| Unavailable for Obligation | 187,260 | 86,796 |
| Net Receivables from Invested Balances | (5,096,874) | (4,758,627) |
| Balances in Treasury Trust Fund (Note 35) | 14,912 | 1,807 |
| Obligated Balance not yet Disbursed | 9,160,730 | 8,974,558 |
| Non-Budgetary FBWT | 496,487 | 473,588 |
| **Total** | **$ 10,056,926** | **$ 9,184,092** |

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 2019 and FY 2018, 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, 2019 and September 30, 2018, the balance in the imprest fund was $10 thousand.

**(Dollars in Thousands)**

## Note 4. Investments

As of September 30, 2019 and 2018, 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 2019 | $ 6,024,413 | 32,170 | 5,414 | 5,997,657 | $ 5,997,657 |
| Non-Marketable | FY 2018 | $ 5,537,630 | 44,298 | 4,715 | 5,498,047 | $ 5,498,047 |

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.

**(Dollars in Thousands)**

## Note 5. Accounts Receivable, Net

Accounts Receivable as of September 30, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|---|---|---|
| **Intragovernmental:** | | |
| Accounts & Interest Receivable | $ 34,802 | $ 17,849 |
| Less: Allowance for Uncollectible | - | - |
| **Total** | **$ 34,802** | **$ 17,849** |
| **Non-Federal:** | | |
| Unbilled Accounts Receivable | $ 109,545 | $ 234,731 |
| Accounts & Interest Receivable | 2,573,004 | 2,385,341 |
| Less: Allowance for Uncollectible | (2,181,663) | (2,161,616) |
| **Total** | **$ 500,886** | **$ 458,456** |

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, 2019 and 2018, consist of the following:

| | 2019 | 2018 |
|---|---|---|
| **Intragovernmental:** | | |
| Advances to Federal Agencies | $ 210,498 | $ 212,334 |
| Advances for Postage | 93 | 175 |
| **Total** | **$ 210,591** | **$ 212,509** |
| **Non-Federal:** | | |
| Travel Advances | $ 90 | $ 119 |
| Other Advances | 7,607 | 2,954 |
| Inventory Purchased for Resale | 17 | 215 |
| **Total** | **$ 7,714** | **$ 3,288** |

## Note 7. Loans Receivable, Net

Loans Receivable disbursed from obligations made prior to FY 1992 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 a cost in the year the loan is disbursed. The net loan present value is the gross loan receivable less the subsidy present value. EPA does not have any loans obligated prior to 1992.

EPA administers the WIFIA Direct Loans program. In fiscal year 2019 and 2018, the Agency received borrowing authority of $920 million and $2.5 billion for the non-subsidy portion of loan proceeds disbursed, respectively, for a total of $3.42 billion in borrowing authority. The cumulative loan limit for the WIFIA Loan Program through fiscal year 2019 is $17.1 billion. For the fiscal year ended September 30, 2019 and 2018, the Agency closed $2.5 billion and $1 billion in WIFIA loans, respectively.

**(Dollars in Thousands)**

Interest on the loans is accrued based on the terms of the loan agreement. For the fiscal years ended September 30, 2019 and 2018, the WIFIA program has incurred $7.3 and $4.0 million in administrative expenses, respectively.

**Obligated after FY 1991**

| Direct Loan Program | 2019 Loans Receivable, Gross | Interest Receivable | Foreclosed Property/ Allowance for Loan Losses | Allowance for Subsidy Cost | Value of Assets Related to Direct Loans, Net |
|---|---|---|---|---|---|
| WIFIA | $ 261 | - | - | 2 | $ 263 |

**Total Amount of Direct Loans Disbursed (Post-1991)**

| Direct Loan Program | 2019 | 2018 |
|---|---|---|
| WIFIA | $ 261 | - |

**Subsidy Expense for Direct Loans by Program and Component**
**Subsidy Expense for New Direct Loans Disbursed**

| Direct Loan Program | 2019 Interest Differential | Defaults | Fees and Other Collections | Other Subsidy Costs | Total |
|---|---|---|---|---|---|
| WIFIA | $ - | - | - | 2 | $ 2 |

**Modifications and Reestimates**

| Direct Loan Program | 2019 Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates |
|---|---|---|---|---|
| WIFIA | $ - | 4 | - | $ 4 |

**Budget Subsidy Rates for Direct Loans for the Current Year Cohort**

| Direct Loan Program | 2019 Interest Differential | Defaults | Fees and Other Collections | Other Subsidy Costs | Total |
|---|---|---|---|---|---|
| WIFIA | 0% | 0% | 0% | .69% | .69% |

The subsidy rates disclosed pertain to the current year's cohort. The rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursement of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

**(Dollars in Thousands)**

| **Schedule for Reconciling Subsidy Cost Allowance Balances Beginning Balance, Changes and Ending Balance** | **2019** | **2018** |
|---|---|---|
| Beginning Balance of the Subsidy Allowance | $ - | $ - |
| Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component | | |
| Default Costs (Net of Recoveries) | - | - |
| Fees and Other Collecitons | - | - |
| Other Subsidy Costs | 2 | 2 |
| **Total of the Above Subsidy Expense Components** | 2 | 2 |
| Adjustments | | |
| Loan Modifications | - | - |
| Foreclosed Property Acquired | - | - |
| Loans Written Off | - | - |
| Subsidy Allowance Amortization | - | - |
| Other | - | - |
| **Ending Balance of the Subsidy Cost Allowance Before Reestimates** | - | - |
| Add or Subtract Subsidy Reestimates by Component | | |
| Interest Rate Reestimate | - | - |
| Technical/Default Reestimate | - | - |
| **Total of the Above Reestimate Components** | - | - |
| **Ending Balance of the Subsidy Cost Allowance** | $ 2 | $ 2 |

The economic assumptions of the WIFIA upward and downward adjustments were a reassessment of risk levels as well as estimated changes in future cash flows on loans. Actual interest rates used for FY 2019 loan disbursements were lower than the interest rate assumptions used during the budget formulation process at loan origination.

## Note 8. Accounts Payable and Accrued Liabilities (Restated)

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2019 and 2018 (Restated):

| | **2019** | **Restated 2018** |
|---|---|---|
| **Intragovernmental:** | | |
| Accounts Payable | $ 5,719 | $ 3,902 |
| Liability for Allocation | 226 | - |
| Accrued Liabilities | 130,880 | 126,560 |
| **Total** | **$ 136,825** | **$ 130,462** |

**(Dollars in Thousands)**

| | | 2019 | | Restated 2018 |
|---|---|---|---|---|
| **Non-Federal:** | | | | |
| Accounts Payable | $ | 68,012 | $ | 67,003 |
| Advances Payable | | (2,454) | | (1,355) |
| Interest Payable | | 5 | | 5 |
| Grant Liabilities | | 325,335 | | 288,526 |
| Other Accrued Liabilities | | 149,337 | | 168,810 |
| **Total** | **$** | **540,235** | **$** | **522,989** |

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, 2019 and 2018, General PP&E consisted of the following:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Acquisition Value | Accumulated Depreciation | Net Book Value | Acquisition Value | Accumulated Depreciation | Net Book Value |
| EPA-Held Equipment | $ 304,453 | $ (212,886) | $ 91,567 | $ 299,732 | $ (203,434) | $ 96,298 |
| Software (production) | 439,787 | (398,613) | 41,174 | 441,571 | (365,206) | 76,365 |
| Software (development) | 27,046 | - | 27,046 | 7,908 | - | 7,908 |
| Contractor Held Equip. | 44,707 | (28,593) | 16,114 | 40,437 | (26,706) | 13,731 |
| Land and Buildings | 794,192 | (303,239) | 490,953 | 774,146 | (286,224) | 487,922 |
| Capital Leases | 24,485 | (20,132) | 4,353 | 24,485 | (19,316) | 5,169 |
| **Total** | **$ 1,634,670** | **$ (963,463)** | **$ 671,207** | **$ 1,588,279** | **$ (900,886)** | **$ 687,393** |

## Note 10. Debt Due to Treasury

All debt is classified as not covered by budgetary resources, except for direct loan and guaranteed loan financing account debt to Treasury and that portion of other debt covered by budgetary resources at the Balance Sheet date.

EPA borrows funds from The Bureau of Public Debt right before funds are disbursed to the borrower for the non-subsidy portion of WIFIA loans. As of September 30, 2019, the EPA had debt due to Treasury of $266 thousand consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program. In FY 2018, the EPA did not borrow funds to finance the WIFIA Direct Loan Program as there were no disbursements of loan proceeds.

## Note 11. Stewardship Property, Plant and 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

**(Dollars in Thousands)**

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, 2019 and 2018, the Agency possessed the following land and land rights:

| | 2019 | 2018 |
|---|---|---|
| **Superfund Sites with Easements:** | | |
| Beginning Balance | $ 39 | $ 39 |
| Additions | 1 | - |
| Withdrawals | - | - |
| Ending Balance | $ 40 | $ 39 |
| **Superfund Sites with Land Acquired:** | | |
| Beginning Balance | $ 32 | $ 34 |
| Additions | - | - |
| Withdrawals | (1) | (2) |
| Ending Balance | $ 31 | $ 32 |

## 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, 2019, and 2018, custodial liability is approximately $36,494 thousand and $26,544 thousand, respectively.

## Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2019:

| | Covered by Budgetary Resources | Not Covered by Resources | Total |
|---|---|---|---|
| **Current** | | | |
| Employer Contributions & Payroll Taxes | $ 19,161 | $ - | $ 19,161 |
| WCF Advances | 3,504 | - | 3,504 |
| Other Advances | 6,062 | - | 6,062 |
| Advances HRSTF Cashout | 82 | - | 82 |
| Deferred HRSTF Cashout | 117,256 | - | 117,256 |
| Liability for Deposit Funds | - | - | - |
| **Non-Current** | | | |
| Unfunded FECA Liability | - | 9,229 | 9,229 |
| Unfunded Unemployment Liability | - | - | - |
| Payable to Treasury Judgement Fund | - | 22,000 | 22,000 |
| **Total Intragovernmental** | $ 146,065 | $ 31,229 | $ 177,294 |

**(Dollars in Thousands)**

| | | | |
|---|---|---|---|
| **Other Liabilities - Non-Federal** | | | |
| **Current** | | | |
| Unearned Advances, Non-Federal | $ 134,076 | $ - | $ 134,076 |
| Liability for Deposit Funds, Non-Federal | 3,769 | - | 3,769 |
| Capital Lease Liability | - | 343 | 343 |
| **Non-Current** | | | |
| Capital Lease Liability | - | 2,361 | 2,361 |
| **Total Non-Federal** | $ 137,845 | $ 2,704 | $ 140,549 |

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

| | Covered by Budgetary Resources | Not Covered by Resources | Total |
|---|---|---|---|
| **Current** | | | |
| Employer Contributions & Payroll Taxes | $ 17,574 | $ - | $ 17,574 |
| WCF Advances | 1,651 | - | 1,651 |
| Other Advances | 6,161 | - | 6,161 |
| Advances HRSTF Cashout | 60,048 | - | 60,048 |
| Deferred HRSTF Cashout | 9,069 | - | 9,069 |
| Liability for Deposit Funds | (1) | - | (1) |
| **Non-Current** | | | |
| Unfunded FECA Liability | - | 8,906 | 8,906 |
| Unfunded Unemployment Liability | - | 87 | 87 |
| Payable to Treasury Judgement Fund | - | 22,000 | 22,000 |
| **Total Intragovernmental** | $ 94,502 | $ 30,993 | $ 125,495 |
| | | | |
| **Other Liabilities - Non-Federal** | | | |
| **Current** | | | |
| Unearned Advances, Non-Federal | $ 127,132 | $ - | $ 127,132 |
| Liability for Deposit Funds, Non-Federal | 5,942 | - | 5,942 |
| Capital Lease Liability (Restated) | - | 291 | 291 |
| **Non-Current** | | | |
| Capital Lease Liability (Restated) | - | 2,704 | 2,704 |
| **Total Non-Federal** | $ 133,074 | $ 2,995 | $ 136,069 |

## Note 14. Leases

The value of assets held under Capital Leases as of September 30, 2019 and 2018 (restated), are as follows:

### A. Capital Leases:

| | 2019 | Restated 2018 |
|---|---|---|
| **Summary of Assets Under Capital Lease:** | | |
| Real Property | $ 24,485 | $ 24,485 |
| Personal Property | - | - |
| **Total** | **24,485** | **24,485** |
| Accumulated Amortization | $ 20,132 | $ 19,316 |

**(Dollars in Thousands)**

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**<br>**Fiscal Year** | **Capital Leases** |
|---|---|
| 2020 | $ 769 |
| 2021 | 769 |
| 2022 | 769 |
| 2023 | 769 |
| 2024 | 769 |
| After five years | 256 |
| **Total Future Minimum Lease Payments** | 4,101 |
| Less: Imputed Interest | (1,397) |
| **Net Capital Lease Liability** | 2,704 |
| **Liabilities not Covered by Budgetary Resources** | $ 2,704 |

The capital lease payments have been adjusted to reflect payments in the lease agreement. Per the lease agreement, yearly lease payments of $4,215 thousand are due for 20 years from 1995 until 2015. Upon exercise of a 10-year renewal, the yearly lease payment will be $769 thousand from 2015 until 2025. Note 37 provides additional information about the restatement of lease data.

### 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** |
|---|---|
| 2020 | $ 36 |
| **Total Future Minimum Lease Payments** | $ 36 |

## 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, 2019 and 2018, was $42,044 thousand and $43,679 thousand, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2019 present value of these estimated outflows is calculated using a discount rate of 2.610 percent in the first year, and 2.610 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

## Note 16. Cashout Advances, Superfund (Restated)

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, 2019 and 2018 (restated), cash-out advances total $3,453,124 thousand and $3,305,023 thousand, 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, 2019 and 2018, 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, 2019, EPA has received 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. The amounts estimated related to the Gold King Mine are $2 billion but they are only reasonably possible, and the final outcomes are not probable.

### B. Flint, Michigan

The EPA has received claims from over 7,000 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. There is no estimated loss amounts related to the water health crisis and 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, 2019, 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. Judgement 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, 2019, 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, 2019 and $2.5 million in the period ending September 2018.

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 $8.3 million in the period ending September 2018 and $8.3 million in the period ending September 2019.

(Dollars in Thousands)

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

| | Environmental Services | LUST | Superfund | Other Funds from Dedicated Collections | Total Funds from Dedicated Collections |
|---|---|---|---|---|---|
| **Balance sheet as of September 30, 2019** | | | | | |
| Assets | | | | | |
| Fund Balance with Treasury | $ 491,972 | $ 21,902 | $ 77,906 | $ 95,702 | $ 687,482 |
| Investments | - | 773,397 | 5,224,260 | - | 5,997,657 |
| Accounts Receivable, Net | - | 92,029 | 357,602 | 1,198 | 450,829 |
| Other Assets | - | 176 | 56,705 | 7,255 | 64,136 |
| Total Assets | 491,972 | 887,504 | 5,716,473 | 104,155 | 7,200,104 |
| Other Liabilities | - | 99,012 | 3,733,012 | 78,635 | 3,910,659 |
| Total Liabilities | - | 99,012 | 3,733,012 | 78,635 | 3,910,659 |
| Unexpended Appropriations | - | - | (2) | (1,262) | (1,264) |
| Cumulative Results of Operations | 491,972 | 788,492 | 1,983,465 | 26,781 | 3,290,710 |
| Total Liabilities and Net Position | 491,972 | 887,504 | 5,716,475 | 104,154 | 7,200,105 |
| **Statement of Net Cost for the Fiscal Year Ended September 30, 2019** | | | | | |
| Gross Program Costs | - | 89,019 | 1,392,940 | 82,167 | 1,564,126 |
| Less: Earned Revenues | - | - | 299,231 | 64,362 | 363,593 |
| Net Costs of Operations | $ - | $ 89,019 | $ 1,093,709 | $ 17,805 | $ 1,200,533 |
| **Statement of Changes in Net Position for the Fiscal Year Ended September 30, 2019** | | | | | |
| Net Position, Beginning of Period | $ 469,191 | $ 623,356 | $ 1,856,334 | $ 20,145 | $ 2,969,026 |
| Nonexchange Revenue - Securities Investments | - | 16,183 | 117,318 | 1,198 | 134,699 |
| Nonexchange Revenue | 22,781 | 237,962 | 6,197 | 3,314 | 270,254 |
| Other Budgetary Finance Sources | - | - | 1,080,982 | 18,384 | 1,099,366 |
| Other Financing Sources | - | 10 | 16,341 | 283 | 16,634 |
| Net Cost of Operations | - | (89,019) | (1,093,709) | (17,805) | (1,200,533) |
| Change in Net Position | 22,781 | 165,136 | 127,129 | 5,374 | 320,420 |
| Net Position | $ 491,972 | $ 788,492 | $ 1,983,463 | $ 25,519 | $ 3,289,446 |

(Dollars in Thousands)

| | Environmental Services | LUST | Superfund | Other Funds from Dedicated Collections | Total Funds from Dedicated Collections |
|---|---|---|---|---|---|
| **Balance sheet as of September 30, 2018** | | | | | |
| 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 | 54,723 | 7,614 | 62,546 |
| Total Assets | 469,194 | 718,382 | 5,378,961 | 92,969 | 6,659,506 |
| Other Liabilities | 3 | 95,026 | 3,522,627 | 72,824 | 3,690,480 |
| Total Liabilities | 3 | 95,026 | 3,522,627 | 72,824 | 3,690,480 |
| Unexpended Appropriations | - | - | (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 | 5,378,961 | 92,969 | 6,659,506 |
| **Statement of Net Cost for the Fiscal Year 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 Costs of Operations | $ - | $ 93,897 | $ 906,170 | $ 12,548 | $ 1,012,615 |
| **Statement of Changes in Net Position for the Fiscal Year 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 |

## A. Funds from Dedicated Collections

### 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).

***v. Hazardous Waste Electronic Manifest System***

The Hazardous Waste Electronic Manifest System Fund, authorized in 2014, receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System.

## Note 19. Cost of Stewardship Land

EPA had two Stewardship-Superfund Real Estate Actions in FY19.

The first action was for site: Santaquin City, Utah. It was for release of lien and an affidavit asserting a new lien. This allowed the City to proceed with the construction of a road, with EPA maintaining its security interest on a portion of the property. Because Santaquin City Corporation will continue to own the land, and EPA would be owed all proceeds of a sale only when Santaquin eventually disposes the portion of the property that EPA would have a 100% interest, no cash transaction took place (apart from the sum of $1 that Santaquin is providing as consideration for EPA's release of its lien). This action was effectuated via the signing of the Quit Claim Deed, signed on May 21, 2019.

The second action was for site: Crossley Farm Superfund Site; Hereford Township, Berks County, Pennsylvania. EPA authorized the Army Corps of Engineers to acquire a 30-year easement for the continuation of remedial actions and maintenance on the Crossley Farm Superfund site. Pennsylvania state recently revised their Hazardous Site Cleanup Act (HSCA) order that applies to the location to confine restrictions. The revision left out the access road to the site which is now private property. The easement will allow unfettered access to the site as necessary. The Authorization was signed on May 8, 2019.

## Note 20. 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 30 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, 2019, the EPA has one 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 30 sites for which it is required to fund the environmental cleanup. As of September 30, 2019, the estimated costs for site clean-up were $32.8 million unfunded, and $551 thousand funded, respectively. In 2018 the estimated costs for site clean-up were $33.0 million unfunded, and $1.1 million 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 2019, the estimate for unfunded clean-up cost decreased by $0.2 million from the FY 2018 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 21. 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, 2019 and 2018, the total remaining state credits have been estimated at $21.3 million, and $21.4 million, respectively.

## Note 22. 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, 2019, the EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $6.3 million. As of September 30, 2018, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $6.7

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 23. 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.

| | 2019 | 2018 |
|---|---|---|
| **Fines, Penalties and Other Miscellaneous Receipts** | $ 356,645 | $ 104,150 |
| **Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:** | | |
| Accounts Receivable | $ 166,089 | $ 158,990 |
| Less: Allowance for Uncollectible Accounts | (129,680) | (131,494) |
| **Total** | **$ 36,409** | **$ 27,496** |

### Note 24. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2019 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2019 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2019 has not yet been published. We expect it will be published by early 2020, 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, 2018 are listed immediately below (dollars in millions):

| FY 2018 | Budgetary Resources | Obligations | Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| **Statement of Budgetary Resources** | $ 17,816 | $ 11,862 | $ 1,399 | $ 9,485 |
| **Reported in the Budget of the U.S. Government** | $ 17,720 | $ 11,853 | $ 1,399 | $ 9,477 |

### Note 25. 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, 2019, and 2018:

| | 2019 | 2018 |
|---|---|---|
| Net Adjustments to Unobligated Balance Brought Forward, Oct 1. | $ 226,028 | $ 232,751 |
| Temporarily Not Available - Rescinded Authority | (4,592) | (11,217) |
| Permanently Not Available: | | |
| Rescinded Authority | (210,529) | (148,848) |
| Cancelled Authority | (19,588) | (24,200) |
| **Total Permanently Not Available** | **$ (230,117)** | **$ (173,048)** |

(Dollars in Thousands)

## Note 26. 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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Unexpired Unobligated Balance | $ 5,295,329 | $ 5,867,574 |
| Expired Unobligated Balance | 186,342 | 86,796 |
| **Total** | **$ 5,481,671** | **$ 5,954,370** |

## Note 27. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2019 and 2018, were $12.7 billion and $10.0 billion, respectively.

## Note 28. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2019 and 2018, the following receipts were generated from these activities:

| | 2019 | 2018 |
|---|---|---|
| Trust Fund Recoveries | $ 73,266 | $ 40,664 |
| Special Fund Environmental Services | 22,778 | 24,558 |
| Trust Fund Appropriation | 1,455,299 | 1,292,678 |
| Miscellaneous Receipt and Clearing Accounts | 33,440 | 41,583 |
| **Total** | **$ 1,584,783** | **$ 1,399,483** |

(Dollars in Thousands)

## Note 29. Transfers-In and Out, Statement of Changes in Net Position

### A. Appropriations Transfers, In/Out:

For September 30, 2019 and 2018, 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, 2019, and 2018:

| | 2019 | 2018 |
|---|---|---|
| Net Transfers from Invested Funds | $ 1,572,990 | $ 1,306,784 |
| Transfer to the Department of Transportation | 89,000 | 142,400 |
| Transfers to Another Agency | 2,884 | 1,004 |
| Allocations Rescinded | - | 6,600 |
| **Total of Nets Transfers on The Statement of Budgetary Resources** | **$ 1,664,874** | **$ 1,456,788** |

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

For September 30, 2019 and 2018, 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, 2019, and 2018:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Type of Transfer/Funds:** | **Funds From Dedicated Collections** | **Other Funds** | **Funds From Dedicated Collections** | **Other Funds** |
| Transfers-in (out) nonexpenditure, Earmark to Science and Technology and Office of The Inspector General funds | $ (2,776) | $ 24,048 | $ (23,976) | $ 23,976 |
| Transfers-in (out) nonexpenditure, Oil Spill | 18,209 | - | 18,209 | - |
| Transfers-in (out) nonexpenditure, e-Manifest | 8 | - | - | - |
| Transfers-in (out), TSCA | - | (2,718) | - | - |
| National Resource Damage Assessment | 167 | - | 1,004 | - |
| **Total Transfer in (out) without Reimbursement, Budgetary** | **$ 15,608** | **$ 21,330** | **$ (4,763)** | **$ 23,976** |

(Dollars in Thousands)

## Note 30. 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 2019 were $81.1 million. For FY 2018, the estimates were $73.0 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 2019 total imputed costs were $16.8 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 2019, entries for Judgment Fund payments totaled $3.9 million. For FY 2018, entries for Judgment Fund payments totaled $2.3 million.

## Note 31. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years September 30, 2019, and 2018, consist of the following:

| | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|---|---|---|---|
| **FY 2019 Payroll and Benefits Payable** | | | |
| Accrued Funded Payroll and Benefits | $ 50,890 | $ - | $ 50,890 |
| Withholdings Payable | 10,582 | - | 10,582 |
| Employer Contributions Payable - Thrift Savings Plan | 810 | - | 810 |
| Accrued Unfunded Annual Leave | - | 141,703 | 141,703 |
| **Total - Current** | **$ 62,282** | **$ 141,703** | **$ 203,985** |

**(Dollars in Thousands)**

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

## Note 32. 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 2019 | Other Funds 2018 |
|---|---|---|
| Cancelled General Authority | $ 229,890 | $ 173,967 |
| **Total Other Adjustments** | **$ 229,890** | **$ 173,967** |

## Note 33. 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, 2019 and 2018 consists of the following items:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Funds from Dedicated Collections | All Other Funds | Funds from Dedicated Collections | All Other Funds |
| Interest on Trust Fund | $ 134,699 | - | $ 80,893 | $ - |
| Tax Revenue, Net of Refunds | 237,963 | - | 210,731 | - |
| Fines and Penalties Revenue | 6,195 | - | 6,598 | - |
| Special Receipt Fund Revenue | 26,095 | (58) | 27,640 | - |
| **Total Nonexchange Revenue** | **$ 404,952** | **(58)** | **$ 325,862** | **$ -** |

(Dollars in Thousands)

## Note 34. Reconciliation of Net Cost of Operations to Budget

| | Intra-governmental | With the Public | Total 2019 |
|---|---|---|---|
| **NET COST** | **$ 1,209,171** | **$ 7,215,886** | **$ 8,425,057** |
| **Components of Net Cost That Are Not Part of Net Outlays:** | | | |
| Property, Plant and Equipment Depreciation | - | (77,679) | (77,679) |
| Property, Plant and Equipment Disposal & Revaluation | - | (1,160) | (1,160) |
| Year-end Credit Reform Subsidy Re-estimates | 4 | - | 4 |
| Other | - | 62,120 | 62,120 |
| **Increase/(Decrease) in Assets:** | | | |
| Accounts Receivable | 16,953 | 42,430 | 59,383 |
| Loans Receivable | - | 263 | 263 |
| Investments | 499,610 | - | 499,610 |
| Other Assets | (1,918) | 4,426 | 2,508 |
| **(Increase)/Decrease in Liabilites:** | | | |
| Accounts Payable and Accrued Liabilites | (6,364) | (17,245) | (23,609) |
| Debt Due to Treasury | (266) | - | (266) |
| Pensions and Other Actuarial Liabilites | - | 1,635 | 1,635 |
| Environmental Cleanup Costs | - | 148 | 148 |
| Cashout Advances, Superfund | - | (148,101) | (148,101) |
| Commitments and Contingiencies | - | - | - |
| Payroll and Benefits Payable | - | (1,966) | (1,966) |
| Other Liabilites | (51,799) | (4,481) | (56,280) |
| **Other Financing Sources:** | | | |
| Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency | 81,061 | - | 81,061 |
| Transfer Out (In) Without Reimbursement | 2,256,131 | - | 2,256,131 |
| Other Imputed Financing | 20,779 | - | 20,779 |
| **Total Components of Net Cost That Are Not Part of Net Outlays** | **4,023,362** | **7,076,276** | **11,099,638** |
| **Components of Net Outlays That Are Not Part of Net Cost:** | | | |
| Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates | - | - | - |
| Acquistions of Capital Leases | - | - | - |
| Acquisition of Inventory | - | 194 | 194 |
| Acquisition of Other Assets | - | 21,059 | 21,059 |
| Other | - | (2,908,309) | (2,908,309) |
| **Total Components of Net Outlays That Are Not Part of Net Cost** | **-** | **(2,887,056)** | **(2,887,056)** |
| **Other Temporary Timing Differences** | **-** | **(148,755)** | **(148,755)** |

(Dollars in Thousands)

| | | | |
|---|---|---|---|
| **NET OUTLAYS** | **$ 4,023,362** | **$ 4,040,465** | **$ 8,063,827** |

## Note 35. 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, 2019 and 2018. 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 2019** | **EPA** | **Treasury** | **Combined** |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ 3,003 | $ 3,003 |
| Total Undistributed Balance | - | 3,003 | 3,003 |
| Interest Receivable | - | 5,413 | 5,413 |
| Investments, Net | 4,962,820 | 277,526 | 5,240,346 |
| **Total - Assets** | **$ 4,962,820** | **$ 285,942** | **$ 5,248,762** |
| | | | |
| **Liabilities and Equity** | | | |
| Equity | 4,962,820 | 285,942 | 5,248,762 |
| **Total Liabilities and Equity** | 4,962,820 | 285,942 | 5,248,762 |
| | | | |
| **Receipts** | | | |
| Corporate Environmental | - | - | - |
| Cost Recoveries | - | 444,806 | 444,806 |
| Fines and Penalties | - | 2,504 | 2,504 |
| Total Revenue | - | 447,310 | 447,310 |
| Appropriations Received | - | 1,083,758 | 1,083,758 |
| Interest Income | - | 117,318 | 117,318 |
| **Total Receipts** | - | 1,648,386 | 1,648,386 |
| | | | |
| **Outlays** | | | |
| Transfers to/from EPA, Net | 1,592,858 | (1,592,858) | - |
| **Total Outlays** | 1,592,858 | (1,592,858) | - |
| **Net Income** | **$ 1,592,858** | **$ 55,528** | **$ 1,648,386** |

**(Dollars in Thousands)**

In FY 2019, 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, 2019 and 2018, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of $52 billion and $5.0 billion, respectively.

| **SUPERFUND FY 2018** | **EPA** | **Treasury** | **Combined** |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ 1,807 | $ 1,807 |
| Total Undistributed 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 and 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 and 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 | (1,324,412) | - |
| **Total Outlays** | 1,324,412 | (1,324,412) | - |
| **Net Income** | **$ 1,324,412** | **$ 81,741** | **$ 1,406,153** |

**(Dollars in Thousands)**

## B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2019 and 2018, 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 2019** | **EPA** | **Treasury** | **Combined** |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ 11,909 | $ 11,909 |
| Total Undistributed Balance | - | 11,909 | 11,909 |
| Interest Receivable | - | - | - |
| Investments, Net | 92,029 | 681,367 | 773,396 |
| **Total - Assets** | **$ 92,029** | **$ 693,276** | **$ 785,305** |
| | | | |
| **Liabilities and Equity** | | | |
| Equity | 92,029 | 693,276 | 785,305 |
| **Total Liabilities and Equity** | 92,029 | 693,276 | 785,305 |
| | | | |
| **Receipts** | | | |
| Highway TF Tax | - | 213,944 | 213,944 |
| Airport TF Tax | - | 11,971 | 11,971 |
| Inland TF Tax | - | 15 | 15 |
| Total Revenue | - | 225,930 | 225,930 |
| Interest Income | - | 16,183 | 16,183 |
| **Total Receipts** | - | 242,113 | 242,113 |
| | | | |
| **Outlays** | | | |
| Transfers to/from EPA, Net | 93,441 | (93,441) | - |
| **Total Outlays** | 93,441 | (93,441) | - |
| **Net Income** | **$ 93,441** | **$ 148,672** | **$ 242,113** |

**(Dollars in Thousands)**

| **LUST FY 2018** | **EPA** | **Treasury** | **Combined** |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ - | $ - |
| Total Undistributed Balance | - | - | - |
| Interest Receivable | - | 72 | 72 |
| Investments, Net | 87,588 | 532,500 | 620,088 |
| **Total - Assets** | **$ 87,588** | **$ 532,572** | **$ 620,160** |
| | | | |
| **Liabilities and Equity** | | | |
| Equity | 87,588 | 532,572 | 620,160 |
| **Total Liabilities and 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** |

## Note. 36 Reclassification of Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position for the FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows EPA's financial statements and the EPA's reclassified statements prior to the elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2018 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transaction with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

United States Environmental Protection Agency
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| Reclassification of Balance Sheet to Line Items used for the Government-wide Balance Sheet as of September 30, 2019 | | | |
|---|---|---|---|
| **FY 2019 EPA Balance Sheet** | | **Line Items Used to Prepare the FY 2019 Government-wide Balance Sheet** | |
| **Financial Statement Line** | **Amounts** | **Amounts** | **Reclassified Statement Line** |
| **ASSETS** | | | **ASSETS** |
| **Intra-Governmental Assets** | | | **Intra-Governmental Assets** |
| FBWT | 10,056,926 | 10,056,926 | FBWT |
| | | 5,992,244 | Federal Invesments |
| Investments, Net | 5,997,657 | 5,413 | Interest Receivable - Investments |
| *Total Invesments, Net* | 5,997,657 | 5,997,657 | *Total Reclassified Investments, Net* |
| Accounts Receivable | 34,802 | 13,501 | Accounts Receivable |
| *Total Accounts Receivable* | 34,802 | 13,501 | *Total Reclassified - A/R* |
| Other | 210,591 | 210,591 | Advances to Others and Prepayments |
| *Total Other* | 210,591 | 210,591 | *Total Reclassified Other* |
| **Total Intra-Governmental Assets** | **16,299,976** | **16,278,675** | **Total Intra-Governmental Assets** |
| Cash and Other Monetary Assets | 10 | 10 | Cash and Other Monetary Assets |
| Accounts Receivable, Net | 500,886 | 500,716 | Accounts and Taxes Receivable, Net |
| Direct Loans, Net | 263 | 263 | Loans Receivable, Net |
| Inventory and Related Property, Net | 17 | 17 | Inventory and Related Property, Net |
| General PP&E | 671,207 | 645,437 | PP&E, Net |
| Other | 7,697 | 19,887 | Other |
| **Total Assets** | **17,480,056** | **17,445,005** | **Total Assets** |
| | | | |
| **LIABILITIES** | | | **LIABILITIES** |
| **Intra-Governmental Liabilities** | | | **Intra-Governmental Liabilities** |
| Accounts Payable | 136,825 | 161,026 | Accounts Payable |
| Debt | 266 | 266 | Debt |
| Other - Custodial Liability | 36,494 | 45,248 | Other - Custodial Liability |
| Other - Miscellaneous Liabilities | 177,294 | 24,793 | Benefit Program Contributions Payable |
| | - | 126,433 | Advances from Others & Deferred Credits |
| | - | 2,981 | Other Liabilities |
| *Total Other - Miscellaneous Liabilites* | 177,294 | 154,207 | *Total Reclassified Other - Miscellaneous Liablities* |
| ***Total Intra-Governmental Liabilites*** | **350,879** | **360,747** | ***Total Intra-Governmental Liabilites*** |
| Accounts Payable | 540,235 | 66,757 | Accounts Payable |
| Federal Employee and Veteran Benefits | 42,044 | 43,872 | Federal Employee and Veteran Benefits |
| Environmental and Disposal Liabilities | 32,810 | 32,810 | Environmental and Disposal Liabilities |
| Contingent Liabilites | - | - | Contingent Liabilites |
| Advances and Deferred Revenue | 3,453,124 | - | |
| Miscellaneous Liabilities | 344,534 | 4,391,803 | Other Liabilities |
| *Total Miscellaneous Liabilites* | 344,534 | 4,535,242 | *Total Reclassified Miscellaneous Liablities* |
| **Total Liabilites** | **4,763,626** | **4,895,989** | **Total Liabilites** |
| | | | |

(Dollars in Thousands)

| **NET POSITION** | | | **NET POSITION** |
|---|---|---|---|
| Unexpended Appropriations - Funds from Dedicated Collections | (1,264) | 2,120,704 | Net Position - Funds from Dedicated Collections |
| Unexpended Appropriations - Other Funds | 8,929,585 | 10,428,312 | Net Position - Funds Other Than Those From Dedicated Collections |
| Cumulative Results of Operations - Funds from Dedicated Collections | 3,171,087 | - | |
| Cumulative Results of Operations - All Other | 496,905 | - | |
| Total Net Position | 12,596,313 | 12,549,016 | |
| **Total Liabilites & Net Position** | **17,359,939** | **17,445,005** | **Total Liabilites & Net Position** |

| **Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2019** | | | |
|---|---|---|---|
| **FY 2019 EPA SNC** | | **Line Items Used to Prepare the FY 2019 Government-wide SNC** | |
| **Financial Statement Line** | **Amounts** | **Amounts** | **Reclassified Statement Line** |
| **Gross Costs** | 8,883,930 | | ***Non-Federal Costs*** |
| | - | 7,635,954 | Non-Federal Gross Costs |
| | - | 7,635,954 | ***Total Non-Federal Costs*** |
| | | | ***Intragovernmental Costs*** |
| | - | 357,395 | Benefits Program Costs |
| | - | 101,839 | Imputed Costs |
| | - | 834,250 | Buy/Sell Costs |
| | - | 21,154 | Purchase of Assets |
| | - | 8 | Borrowing and Other Interest Expense |
| | - | (1,007) | Other Expenses (w/o Reciprocals) |
| | - | 1,313,639 | ***Total Intragovernmental Costs*** |
| ***Total Gross Costs*** | 8,883,930 | 8,949,593 | ***Total Reclassified Gross Costs*** |
| **Earned Revenue** | 349,935 | 338,073 | Non-Federal Earned Revenue |
| | | | ***Intragovernmental Revenue*** |
| | 108,938 | 108,829 | Buy/Sell Revenue |
| | - | 21,154 | Purchase of Assets Offset |
| | - | 134,698 | Federal Securities Interest Revenue Including Associated Gain/Losses Exchange |
| | - | 1 | Borrowing and Other Interest Revenue |
| | - | 19 | Accrual of Custodial Collections Yet to be Transferred to a TAS Other Than The General Fund |
| | - | 264,701 | ***Total Intragovernmental Earned Revenue*** |
| ***Total Earned Revenue*** | 458,873 | 602,774 | ***Total Reclassified Earned Revenue*** |
| **NET COST** | **8,425,057** | **8,346,819** | **NET COST** |

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**(Dollars in Thousands)**

| **Reclassification of Statement on Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2019** | | | |
|---|---|---|---|
| **FY 2019 EPA SCNP** | | **Line Items Used to Prepare the FY 2019 Government-wide SCNP** | |
| **Financial Statement Line** | **Amounts** | **Amounts** | **Reclassified Statement Line** |
| **UNEXPENDED APPROPRIATIONS** | | | **UNEXPENDED APPROPRIATIONS** |
| Unexpended appropriations, Beginning Balance | 8,061,534 | 8,120,376 | Net Position Beginning of Period |
| Corrections of Errors | - | (82,569) | Corrections of Errors |
| | | (37,547) | Corrections of Errors - Years Preceeding the Prior Year |
| ***Total Correction of Errors*** | - | (120,116) | ***Total Correction of Errors*** |
| Appropriations Received | 9,288,440 | 9,058,323 | Appropriations Received as Adjusted |
| Other Adjustments | (227,173) | - | Other Adjustments |
| Appropriations Used | (8,194,480) | (8,253,323) | Appropriations Used |
| **Total Unexpended Appropriations** | **8,928,321** | | |
| **CUMULATIVE RESULTS OF OPERATIONS** | | | |
| Cumulative Results, Beginning Balance | 3,474,872 | 3,434,403 | Cumulative Results, Beginning Balance |
| Appropriations Used | 8,194,480 | 8,253,323 | Appropriations Used |
| | | | **Non-Federal Non-Exchange Revenues** |
| Nonexchange Revenue - Securities Investment | 134,699 | - | |
| Nonexchange | - | - | |
| Nonexchange Revenue - Other | 270,195 | 57,531 | Other Taxes and Receipts |
| | 404,894 | 57,531 | **Total Non-Federal Non-Exchange Revenues** |
| | - | 2 | Borrowings and Other Interest Revenue |
| | - | 225,930 | Other Taxes and Receipts |
| Transfers In/Out w/o Reimbursement-Budgetary | 36,938 | 18,209 | Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources |
| | 142 | 142 | Transfers-in wthout reimbursement |
| | - | - | Transfers-out wthout reimbursement |
| *Total Transfers In/Out w/o Reimbursement-Budgetary* | 142 | 142 | *Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary* |
| Imputed Financing Sources | 101,840 | 101,840 | Imputed Financing Sources (Federal) |
| | - | (1,226) | Non-entity collections transferred to the General Fund of the U.S. Government |
| | - | 421 | Accrual or non-entity amounts to be collected and transferred to the General Fund of the U.S. Government |
| Total Financing Sources | **101,982** | **101,177** | |
| Net Cost of Operations | **(8,425,057)** | **(8,346,819)** | Net Cost of Operations |
| **Ending Balance - Cumulative Results of Operations** | **3,788,109** | **3,743,756** | |
| **Total Net Position** | **12,716,430** | **12,549,016** | **Total Net Position** |

## Note 37. Restatements

Capital Lease

EPA performed a review of its capital lease in FY 2019. The review revealed that the lease liability schedule did not align with the lease agreement because of the following:

1. The lease agreement required a change in payment upon exercise of a 10-year renewal option
2. In 2015, the agency exercised the 10-year renewal option, but the lease schedule did not reflect the new payment

To address these findings, the EPA revised the capital lease schedule to agree with the terms of the lease agreement. The agency corrected the lease liability payment schedule and made corrections to the accumulated amortization schedule for the leasehold asset.

As a result of these corrections, the agency restated FY 2018 financial statements. The changes impacted the FY 2018 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

Contract Accrual

During a review in FY 2019, EPA determined that the amount accrued for contracts in FY 2018 was understated by approximately $59 million. To address this finding, EPA restated its FY 2018 financial statements. The changes impacted the FY 2018 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

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## 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 2019:

| | 2019 | 2018 |
|---|---|---|
| **Asset Category** | | |
| Buildings | $ 131,059 | $ 136,407 |
| EPA Held Equipment | - | 120 |
| Vehicles | - | - |
| Total Deferred Maintenance | $ 131,059 | $ 136,527 |

In Fiscal Year 2019, 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 (Unaudited)

**United States Environmental Protection Agency**
**For the Fiscal Year Ending September 30, 2019**
**(Dollars in Thousands)**

| | Environmental Programs & Management | Leaking Underground Storage Tanks | Science & Technology | Superfund | State Tribal Assistance Agreements | Other | Totals |
|---|---|---|---|---|---|---|---|
| **BUDGETARY RESOURCES** | | | | | | | |
| Unobligated Balance From Prior Year Budget Authority, Net | $ 454,823 | $ 11,233 | $ 137,615 | $ 3,411,496 | $ 402,241 | $1,758,990 | $ 6,176,398 |
| Appropriations (discretionary and mandatory) | 2,602,978 | 93,441 | 707,073 | 1,592,437 | 4,542,863 | 1,262,898 | 10,801,690 |
| Borrowing Authority (discretionary and mandatory) | - | - | - | - | - | 1,083,500 | 1,083,500 |
| Spending Authority From Offsetting Collection | 123,718 | - | 23,200 | 96,591 | - | 313,963 | 557,472 |
| **Total Budgetary Resources** | $ 3,181,519 | $ 104,674 | $ 867,888 | $ 5,100,524 | $4,945,104 | $4,419,351 | $ 18,619,060 |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | | |
| New Obligations and Upward adjustments (total) | $ 2,702,112 | $ 98,173 | $ 720,888 | $ 1,495,522 | $4,068,669 | $4,052,025 | $ 13,137,389 |
| Unobligated Balance, End of Year: | | | | | | | |
| Apportioned, Unexpired Accounts | 314,672 | 6,501 | 128,540 | 3,605,002 | 876,435 | 363,262 | 5,294,412 |
| Unapportioned, Unexpired accounts | - | - | - | - | - | 917 | 917 |
| Expired Unobligated Balance, End of Year | 164,735 | - | 18,460 | - | - | 3,147 | 186,342 |
| Unobligated Balance, End of Year (total): | 479,407 | 6,501 | 147,000 | 3,605,002 | 876,435 | 367,326 | 5,481,671 |
| **Total Status of Budgetary Resources** | $ 3,181,519 | $ 104,674 | $ 867,888 | $ 5,100,524 | $4,945,104 | $4,419,351 | $ 18,619,060 |
| **OUTLAYS, NET** | | | | | | | |
| Outlays, Net (total) (discretionary and mandatory) | $ 2,503,735 | $ 89,432 | $ 674,801 | $ 1,363,556 | $3,826,088 | $1,190,998 | $ 9,648,610 |
| Distributed Offsetting Receipts (-) | - | - | - | (1,528,564) | - | (56,219) | (1,584,783) |
| Agency Outlays, Net (discretionary and mandatory) | $ 2,503,735 | $ 89,432 | $ 674,801 | $ (165,008) | $3,826,088 | $1,134,779 | $ 8,063,827 |

**United States Environmental Protection Agency**
**Required Supplemental Stewardship Information (Unaudited)**
**For the Fiscal Year Ended September 30, 2019**
**(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 2019, the full cost of the Agency's Research and Development activities totaled over $525M. Below is a breakout of the expenses (dollars in thousands):[1]

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Programmatic Expenses | $ 535,352 | $ 541,190 | $ 532,153 | $ 492,648 | $ 469,769 |
| Allocated Expenses | $ 78,028 | $ 82,646 | $ 103,451 | $ 54,684 | $ 55,339 |

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 FY19 WIFIA appropriation of $68 million could potentially spur up to $11 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):

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Construction Grants | $ 17,462 | $ 11,344 | $ 8,686 | $ - | $ 843 |
| Clean Water SRF | $ 1,715,630 | $ 1,459,820 | $ 1,247,919 | $ 1,422,613 | $ 1,708,175 |
| Drinking Water SRF | $ 1,268,360 | $ 1,213,201 | $ 994,297 | $ 890,460 | $ 1,016,071 |
| Other Infrastructure Grants | $ 96,439 | $ 62,011 | $ 44,916 | $ 48,198 | $ 24,243 |
| Allocated Expenses | $ 590,595 | $ 529,815 | $ 480,415 | $ 438,823 | $ 499,466 |
| WIFIA[2] | $ - | $ - | $ 30,000 | $ 63,000 | $ 68,000 |

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 administratve 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):

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Training and Awareness Grants | $ 27,047 | $ 29,116 | $ 22,090 | $ 19,351 | $ 21,072 |
| Fellowships | 6,579 | 4,630 | 2,077 | 1,460 | 442 |
| Allocated Expenses | 5,146 | 5,336 | 4,073 | 2,525 | 2,831 |
| Total | $ 38,772 | $ 39,082 | $ 28,240 | $ 23,336 | $ 24,345 |

Appendix II

# *Agency Response to Draft Report*

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

November 19, 2019

OFFICE OF THE
CHIEF FINANCIAL OFFICER

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Draft Audit Report, Project No. OA&E-FY19-0201, "*EPA's Fiscal Years 2019 and 2018 (Restated) Consolidated Financial Statements*," dated November 18, 2019

**FROM:** David A. Bloom, Acting Chief Financial Officer
Office of the Chief Financial Officer

**TO:** Charles J. Sheehan, Acting Inspector General
Office of Inspector General

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 all seventeen of the recommendations.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

**Agreements**

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion Date |
|---|---|---|---|
| 1 | Evaluate and improve the EPA's process for preparing financial statements. | The agency makes every effort to continually review and improve its processes for financial statement reporting, including the implementation of new financial statements preparation software in FY 2019. | July 31, 2020 |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion Date |
|---|---|---|---|
| | | The agency will continue to review its processes for preparing financial statements and identify process improvements to further strengthen the preparation process. | |
| 2 | Provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. | The agency makes every effort to provide supporting documentation for adjustments and corrections; however, we will review with staff the need to include more of the supporting analysis and rationale behind the adjustments made and the accounting basis for them. The OIG has verbally told the agency that supporting documentation has improved over the last year, but we will continue to work with the OIG on any specific instances for which they feel additional documentation is needed. | February 29, 2020 |
| 3 | Update the accounting models to properly record collections and not reduce an account receivable account. | The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level. | September 30, 2021 |
| 4 | Establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level. | The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level. | September 30, 2021 |
| 5 | Establish accounting models to properly classify and record interest, fines, penalties and fees. | The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level. | September 30, 2021 |
| 6 | Establish accounting models to properly record receivables, collections and earned revenue from federal versus nonfederal vendors. | The OCFO will work with the Office of Land and Emergency Management to review the business process for e-Manifest financial activities and develop a plan for recording the related activities at the transactional level. | September 30, 2021 |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion Date |
|---|---|---|---|
| 7 | Adjust the fiscal year 2018 contract accrued liabilities by $9,853,030.26. | The agency has made an additional adjustment to contract accrued liabilities by $9,853,030.26 in the final FY 2019 financial statement. | Completed November 8, 2019 |
| 8 | Perform a proof of the contract accrual methodology using actual expenses to verify the accuracy of the EPA's accruals. | The agency performed the proof as requested. | Completed November 7, 2019 |
| 9 | Implement a process to timely notify the Compass Financials and Automated Standard Application for Payment user account administrators of individuals who are separated or terminated from the EPA and remove their access to these systems. | OCFO/OTS has an internal control process for an automated notification to terminate access, which failed in the spring of 2019. We are currently using a manually executed report and will update the internal controls to ensure system access is revoked when employees are separated. As a compensating control, during the off-boarding of employees, EPA network access is revoked, and a valid network user account ID and password are required for access to Compass.<br><br>The two ASAP users were an unusual situation, and access removal was completed on April 18, 2019. The Director of the Finance Center that manages ASAP will continue to notify the ASAP account manager of terminations or separations. | January 31, 2020 |
| 10 | Remove user access of the separated Compass Financial user identified with an active account. | OCFO/OTS has removed Compass access of the identified user. | Completed October 31, 2019 |
| 11 | Implement a process to timely notify the Integrated Grants Management System user account administrator of individuals who separate from the EPA and remove their access to this system. | OMS/OGD will work directly with OMS/EI, OMS/ARM/OHR and OMS/ORBO to determine specific areas where improvement is necessary in the deprovisioning process of user accounts and licenses. OMS/ARM/OGD, along with its partners, will then identify and implement, where appropriate, a technical | June 30, 2020 |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion Date |
|---|---|---|---|
| | | solution for these improvements. The target date for developing and fully implementing all improvements is June 30, 2020. | |
| 12 | Remove user access of the separated Integrated Grants Management System users identified with active accounts. | As of November 4, 2019, OMS/ARM/OGD has removed IGMS access for the identified users. | Completed November 4, 2019 |
| 13 | Implement internal controls to comply with mandatory information system security controls to protect Personally Identifiable Information (PII) and Sensitive Personally Identifiable Information (SPII) stored on the file transfer server as specified by the National Institute of Standards and Technology (NIST), Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, April 2013. | In coordination with OMS/EI, OCFO/OTS disabled the non-secure connection (ftp) port access on Wednesday, September 11, 2019, preventing any future transfer of information. OCFO/OTS will only allow a secure transfer method (SSH File Transfer Protocol, also known as Secure FTP) to transfer the files to and from the file transfer server.<br><br>In accordance with security controls identified in the National Institute of Standards and Technology, Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, April 2013, OTS will monitor the file transfer server on a bi-weekly basis to ensure that the PII and SPII files are transferred to a secure location within 5 days or less. In addition, OTS will work with OMS to create an automatic monitoring script by January 31, 2020, to generate a report that OTS/AMD staff will use to validate and confirm that no files older than 5 days remain on the file transfer server. | January 31, 2020 |
| 14 | Implement internal controls to comply with CIO's Directive No.: 2151-P-10.0, *Protecting Sensitive Personally Identifiable Information (SPII)*, dated December 19, 2016, for the PII and SPII stored on the | Access to the file transfer server is controlled by file-level roles and privileges. All EPA users of the referenced server are required to be inside the EPA network, therefore additional encryption on the file transfer server is not required due to the controlled access | December 30, 2019 |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion Date |
|---|---|---|---|
| | server used to exchange information with EPA vendors. | previously mentioned. Additionally, external connections are made over a point-to-point connection, and all traffic flows through either an IPSec tunnel or VPN, which terminates within the NCC. OCFO/OTS will continue to verify their compliance to protect the PII and the SPII stored on the server used to exchange information with EPA vendors.<br><br>OCFO/OTS has also implemented steps to recertify all users. By November 22, 2019, OCFO/OTS will remove user accounts who do not need access to the file transfer server.<br><br>In compliance with CIO Directive No.: 2151-P-10.0, Protecting Sensitive Personally Identifiable Information (SPII), 12/19/2016, OTS implemented a process to recertify all users on an annual basis. The recertification process involves users submitting a form identifying their roles associated with accessing files on the file transfer server. In addition, OTS will work with OMS to generate a monthly report by December 30, 2019 that OTS/AMD staff will use to validate and verify group access on the file transfer server. OTS expects to complete the initial recertification by November 22, 2019. | |
| 15 | Take immediate action to verify that the user accounts on the file transfer server, with access to the PII and SPII, need the access to the file transfer server and remove the user accounts of personnel who do not need access to the server. | OCFO/OTS has implemented steps to recertify all users. OCFO/OTS will remove user accounts of personnel who do not need access to the file transfer server by November 22, 2019. | November 22, 2019 |

| No. | Recommendation | High-Level Intended Corrective Action(s) | Estimated Completion Date |
|---|---|---|---|
| 16 | Take immediate action to update the user account access group rules to restrict what PII and SPII users can view on the file transfer server used to exchange information with EPA vendors. | OCFO/OTS will work with OMS/EI to review all access from the file transfer server and take necessary actions to either remove or restrict access by November 22, 2019 as appropriate. | November 22, 2019 |
| 17 | Take immediate action to verify that employees are complying with the EPA record retention procedures for the PII and SPII that is currently stored on the file transfer server used to exchange information with EPA vendors. | OCFO/OTS will not retain files with PII and SPII on the file transfer server. The file transfer server is intended as a mechanism for file transfers between OCFO/OTS systems and external destinations. OCFO/OTS will work with OMS/EI to transfer files from the file transfer server to a secure location by December 13, 2019. | December 13, 2019 |

CONTACT INFORMATION

If you have any questions regarding this response, please contact OCFO's Audit Follow-up Coordinator, Andrew LeBlanc, at 202-564-1761.

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**Appendix III**

# *Distribution*

The Administrator
Assistant Deputy Administrator
Associate Deputy Administrator
Chief of Staff
Deputy Chief of Staff
Chief Financial Officer
Assistant Administrator for Mission Support
Assistant Administrator for Land and Emergency Management
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Associate Administrator for Policy, Office of the Administrator
Director, Office of Continuous Improvement, Office of the Administrator
Associate Chief Financial Officer
Associate Chief Financial Officer for Policy
Principal Deputy Assistant Administrator for Mission Support
Associate Deputy Assistant Administrator for Mission Support
Deputy Assistant Administrator for Administration and Resources Management, Office of Mission Support
Deputy Assistant Administrator for Environmental Information and Chief Information Officer, Office of Mission Support
Principal Deputy General Counsel
Principal Deputy Assistant Administrator for Land and Emergency Management
Deputy Assistant Administrator for Land and Emergency Management
Director, Office of Budget, Office of the Chief Financial Officer
Controller, Office of the Controller, Office of the Chief Financial Officer
Deputy Controller, Office of the Controller, Office of the Chief Financial Officer
Director, Office of Planning, Analysis and Accountability, Office of the Chief Financial Officer
Director, Office of Resource and Information Management, Office of the Chief Financial Officer
Director, Office of Technology Solutions, 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
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Director, Administrative IT Staff, Office of Mission Support
Director, Information Security and Management Staff, Office of Mission Support
Director, Office of Acquisition Solutions, Office of Mission Support
Director, Office of Grants and Debarment, Office of Mission Support
Director, Office of Administration, Office of Mission Support
Director, Office of Human Resources, Office of Mission Support
Director, Office Information Technology Operations, Office of Mission Support
Director, Office Information Security and Privacy, Office of Mission Support

Deputy Director, Office of Grants and Debarment, Office of Mission Support
Senior Debarring Official, Office of Grants and Debarment, Office of Mission Support
Senior Associate Director for Grants Competition, Office of Grants and Debarment, Office of Mission Support
Director, Office of Superfund Remediation and Technology Innovation, Office of Land and Emergency Management
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Budget, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of the Controller, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Technology Solutions, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Mission Support
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