

# Fiscal Year **2020**

## Agency Financial Report



# ABOUT THIS REPORT

The U.S. Environmental Protection Agency (EPA) Fiscal Year 2020 Agency Financial Report (AFR) provides an overview of the financial and performance results for the fiscal year (FY) spanning October 1, 2019 through September 30, 2020.

The information, data, and analyses provided in this AFR assists the President, Congress, and the American people in assessing the agency's yearly activities and accomplishments towards its mission of protecting human health and the environment.

The FY 2020 AFR includes the EPA's FY 2020 Financial Statements Audit Report and the Agency's FY 2020 Management Integrity Act Report, including the Administrator's statement assuring the soundness of the agency's internal controls.

The AFR includes information in accordance with the Chief Financial Officers (CFO) Act and Office of Management and Budget (OMB)

Circular A-136, Financial Reporting Requirements, and fulfills the requirements set forth in OMB Circular A-11, Preparation, Submission and Execution of the Budget, and the Government Performance and Results Act Modernization Act of 2010 (GPRAMA).

The AFR is one of two annual reports on the EPA's programmatic and financial activities. The financial information within the AFR will be supplemented by the EPA's Annual Performance Report (APR), which will present the agency's FY 2020 performance results as measured against the targets established in its FY 2020 Performance Plan and Budget and the goals established in its FY 2018–2022 Strategic Plan. The EPA's FY 2020 APR will be included with the agency's FY 2022 Congressional Budget Justification submission and will be posted on the agency's website.

The AFR and APR combined will present a complete overview of the agency's activities, accomplishments, progress, and financial information for each fiscal year. Both prior year reports are available on the EPA's internet at: <http://www.epa.gov/planandbudget/results>.

## How the Report Is Organized

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The EPA's FY 2020 AFR is organized into three sections to provide clear insight into the agency's financial results.

### **Section I—Management's Discussion and Analysis**

This section contains an overview on the EPA's mission and organizational structure; a summary of performance results; an analysis of the financial statements and stewardship data; information on systems, legal compliance, and controls; and other management initiatives.

### **Section II—Financial Section**

This section includes the agency's independently audited financial statements, which comply with the CFO Act, the related Independent Auditors' Report and other information on the agency's financial management.

### **Section III—Other Accompanying Information**

This section contains additional material as specified under OMB Circular A-136, *Financial Reporting Requirements*, and the Reports Consolidation Act of 2000. The subsection titled

“Management Integrity and Challenges” describes the EPA's progress toward strengthening management practices to achieve program results and presents OIG's list of top management challenges and the agency's response.

## **Appendices**

The appendices include links to relevant information on the agency website and a glossary of acronyms and abbreviations.

# Table of Contents

<b>ABOUT THIS REPORT.....</b>	<b>1</b>
<b>Message from the Administrator.....</b>	<b>5</b>
<b>SECTION I - Management's Discussion and Analysis .....</b>	<b>8</b>
ABOUT EPA .....	9
History and Purpose .....	9
Mission.....	9
Organization .....	10
Regional Map .....	11
Collaborating with Partners and Stakeholders .....	11
<b>FY 2020 PROGRAM PERFORMANCE .....</b>	<b>12</b>
<b>FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION .....</b>	<b>13</b>
Sound Financial Management: Good for the Environment, Good for the Nation .....	13
Financial Condition and Results.....	16
Financial Management for the Future .....	20
Limitations of the Principal Financial Statements .....	20
<b>IMPROVING MANAGEMENT AND RESULTS .....</b>	<b>21</b>
Office of Inspector General Audits, Evaluations, and Investigations .....	21
Grants Management.....	21
<b>ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE.....</b>	<b>22</b>
Federal Managers' Financial Integrity Act (FMFIA) .....	22
The Digital Accountability and Transparency Act .....	23
Federal Financial Management Improvement Act (FFMIA) .....	24
Fiscal Year 2020 Annual Assurance Statement.....	25
<b>SECTION II - Financial Section.....</b>	<b>26</b>
Message from the Deputy Chief Financial Officer .....	27
EPA'S FISCAL YEARS 2020 AND 2019 CONSOLIDATED FINANCIAL STATEMENTS .....	29
AUDIT OF EPA'S FISCAL YEARS 2020 AND 2019 CONSOLIDATED FINANCIAL STATEMENTS .....	85
<b>SECTION III - Other Accompanying Information .....</b>	<b>116</b>
<b>MANAGEMENT INTEGRITY AND CHALLENGES.....</b>	<b>117</b>
Overview of EPA's Efforts .....	117
<b>2020 KEY MANAGEMENT CHALLENGES .....</b>	<b>118</b>
Office of Inspector General-Identified Key Management Challenges .....	118



Agency Response to Office of Inspector General-Identified Management Challenges .....	164
<b>PROGRESS IN ADDRESSING FY 2020 WEAKNESSES .....</b>	<b>172</b>
Material Weakness .....	172
Summary of Financial Statement Audit.....	173
Summary of Management Assurances.....	173
<b>REAL PROPERTY .....</b>	<b>174</b>
<b>PAYMENT INTEGRITY .....</b>	<b>175</b>
I. Payment Reporting .....	177
II. Recapture of Improper Payments Reporting.....	178
III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative .....	182
IV. Fraud Reduction.....	182
<b>CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION .....</b>	<b>184</b>
<b>BIENNIAL REVIEW OF USER FEES .....</b>	<b>187</b>
<b>GRANT PROGRAM.....</b>	<b>189</b>
<b>SECTION IV - Appendixes.....</b>	<b>192</b>
<b>APPENDIX A PUBLIC ACCESS .....</b>	<b>193</b>
<b>APPENDIX B ACRONYMS AND ABBREVIATIONS.....</b>	<b>195</b>

# Message from the Administrator

November 16, 2020

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

It is my privilege to present you with U.S. Environmental Protection Agency's Fiscal Year 2020 Agency Financial Report. This report outlines the EPA's use of taxpayer resources to advance the administration's environmental priorities, ensuring accountability and demonstrating our financial integrity. I am proud to report that this marks the 21<sup>st</sup> consecutive year that the agency has earned a clean, unmodified financial audit opinion from its independent auditors – an achievement that speaks to the dedication, professionalism and integrity of the agency's career staff.



This year also marks the 50<sup>th</sup> anniversary of the creation of the EPA. As an agency and a nation, we have made remarkable strides since our inception to ensure a clean environment for our citizens. The United States continues to be a global leader with respect to access to safe drinking water and clean air, and over the last four years, we have accelerated cleaning up and returning land to communities. We also have made great progress in removing burdensome regulation to help the economy thrive and create more jobs for American workers. In addition, the agency's decisions are now providing more clarity and certainty to the states, tribes and local governments that implement the EPA's rules and rely on the EPA's guidance. This past fiscal year, the EPA used its resources to move forward with its mission and help local, state and tribal governments clean our nation's water, land and air.

In January, the EPA activated – for the first time in history – its Emerging Viral Pathogens Guidance for Antimicrobial Pesticides as part of our response to the COVID-19 public health emergency; it was an unprecedented move for unprecedented times. Under this guidance, manufacturers are empowered and incentivized to proactively show the EPA, ahead of an outbreak, how their products are effective against harder-to-kill viruses. Once approved by our agency, these companies can make claims that their product is expected to be effective against the novel COVID-19 – providing assurance to the American public. Since March, under our expedited review process new EVP claim submissions are reviewed in one to two weeks instead of several months. Also, in March the agency released its initial List N: Disinfectants for Use Against SARS-CoV-2. Starting with 35 products, this list now includes over 500 wipes, sprays and other products that are verified as effective against this virus. We also implemented an expedited review pathway for products with residual viral efficacy over extended periods – one of the most innovative areas of the antimicrobial marketplace today. Since the start of the public health emergency, our enforcement office has worked to keep over 7 million unapproved products out of commerce, keeping Americans safe.

Ensuring that drinking water and wastewater services are fully operational and safe has proved to be another critical aspect of containing COVID-19. It's important for the American public to know that both their drinking water is safe to consume and their wastewater is appropriately treated. The EPA is working with our state, local and tribal partners to ensure that the 165,000 public water and wastewater treatment facilities in this country continue to protect public health and the environment. Today, more than 93 percent of community water systems meet all federal health-based standards, all the time. The two State Revolving Funds continue to assist our implementing partners in rebuilding aging water

infrastructure. As part of our continued commitment to local communities, the revolving nature of the Drinking Water and Clean Water SRFs, combined with substantial contributions from our state partners, has greatly expanded the scope and impact of federal investment. The EPA estimates for every federal dollar contributed to date, communities have received more than \$3 of water infrastructure investments in return.

The *Water Infrastructure Finance and Innovation Act* credit program has spurred new investment of \$15 billion for water infrastructure by extending \$7 billion in credit assistance. More than \$2.6 billion was spent to improve drinking water, including by reducing lead and emerging contaminants. In addition, the WIFIA funds were used for various sewer overflow control projects, and more than \$1.2 billion was allocated for water reuse and recycling projects. All told, between the WIFIA and the SRFs, the EPA has helped states and communities finance more than \$40 billion in clean water infrastructure since the beginning of your term in office.

We continue to work to identify and, if necessary, address potential emerging sources of drinking water contamination. The EPA is aggressively implementing the Per- and Polyfluoroalkyl Substances Action Plan – the EPA’s first multi-media, multi-program, national research, management and risk communication plan to address these emerging chemicals of concern.

We also continue to support geographic programs where the EPA has a unique and critical role. We are investing \$320 million for the Great Lakes and \$4.8 million for South Florida to support environmental monitoring, cleanup and protection. As a result, in part to the South Florida funding, more than 30,000 septic tanks have been eliminated, helping homes and businesses in the Florida Keys transition to more advanced wastewater treatment.

Clean water infrastructure is just one aspect of the EPA’s infrastructure investment agenda. The cleanup and redevelopment of contaminated lands also play a crucial role in revitalizing communities throughout the country. We are in the process of cleaning up some of the nation’s largest, most complex contaminated sites and returning them to communities for productive use. The EPA has deleted all or part of 27 Superfund sites from the National Priorities List in FY 2020, which ended in September, meaning the cleanup work is complete and the land is safe for redevelopment. During the first term of the Trump Administration, the EPA deleted all or part of 82 sites from the NPL, matching the deletion total of the previous administration’s two terms.

When discussing the Superfund program, it is important to remember that annual appropriations are just one source of funding to help facilitate the cleanup and restoration of contaminated lands. In 2020, the Superfund Enforcement Program secured more than \$461 million (as of August 31, 2020) in private party commitments for cleanup and cost recovery and billed more than \$98 million (as of August 31, 2020) for the EPA’s oversight of the process. These funds, paid by potentially responsible parties, enable the agency to make substantial progress in cleaning up sites and reducing significant exposure risks.

Brownfields work is spurring capital investment in economically distressed areas, leading to diversified economies, increased job opportunities and restored fiscal health in communities. This provides communities with a greater capacity to focus on innovating solutions to environmental problems. Leveraging Brownfields work in Opportunity Zones, which represent some of our nation’s most distressed communities, can help attract public and private capital to further advance economic, environmental and public health gains. In May 2020, the EPA awarded \$65.6 million in Brownfields grants to 151 communities, where more than 75 percent of those communities could potentially assess or clean up Brownfield sites within census tracts designated as Opportunity Zones. Opportunity Zones are designated economically distressed census tracts where public and private investments can support revitalization for environmental justice communities.

In FY 2020, the EPA also took measures to improve air quality and reduce emissions. When it comes to reducing air pollution, we are moving forward with common sense reforms that will help more areas reach attainment of the National Ambient Air Quality Standards established under the *Clean Air Act*. In addition, we are helping communities comply with visibility obligations by improving the efficiency and effectiveness of the *Clean Air Act*'s State Implementation Plan process and working to reduce the SIP backlog. In FY 2020, the EPA acted on more than 370 SIPs – 180 of which were backlogged. Not only is this good for the health and well-being of American citizens, but also supports economic growth. This reduction of backlogged SIPs builds on our nation's strides toward cleaner air. Between 1970 and 2019, the combined emissions of six key pollutants dropped by 77 percent, while the U.S. economy grew 285 percent.

A top priority in FY 2020 has been to ensure that chemicals used in commerce and sold in the marketplace are safe for public use. The allocation of \$66 million of appropriated funds to the Chemical Risk Review and Reduction Program is helping to fulfill the agency's statutory requirements as mandated by the *Toxic Substances Control Act* to conduct risk evaluations and take actions on those chemicals that pose unreasonable risks to human health and the environment. Furthermore, TSCA was amended in 2016 to provide the EPA with the authority to collect fees from certain chemical manufacturers (including importers) and processors to support a portion of TSCA implementation costs. As such, the TSCA Service Fee Fund, which became effective on October 18, 2018, collected \$5,567,940 in FY 2020, which is an increase from \$2,797,188 collected in FY 2019. This allows the program to enhance and accelerate the review of chemicals to ensure they are safe. We anticipate collecting more fees in FY 2021 as the program continues to scale.

In FY 2020, the EPA also finalized 25 deregulatory actions, many of which involved modernizing decades-old regulations and bringing them up to date. These actions are estimated to save Americans nearly \$4.9 billion every year while continuing to implement and enforce the environmental laws enacted by Congress. The agency also continues to implement its agency-wide EPA Lean Management System, which has resulted in more effective and efficient operations. In addition, in our continued support of the President's Management Agenda and the Cross-Agency Priority goals, we are saving taxpayers money by adopting federal shared services, modernizing legacy systems and turning the old ones off and reducing burden to the public by implementing electronic contract invoice submission and tracking.

I am pleased to provide this report knowing that the EPA's financial and performance data is a reliable, complete and accurate reflection of our efforts to continue improving financial management, performance, transparency and accountability. My assurance statement, as required under the *Federal Managers' Financial Integrity Act*, appears in Section 1, "Management's Discussion and Analysis," of this report. Section III of this report identifies areas that need improvement by the assessment, including our management challenges as identified by the Office of Inspector General. We will use their findings and recommendations as a guide to strive for continuous improvement. More results for FY 2020 will be highlighted in the upcoming FY 2022 Annual Performance Plan and Budget.

It is my honor to work among colleagues who have devoted their careers to protecting human health and the environment. The agency's accomplishments are the result of our collective commitment to the EPA's 50-year-old mission and our enduring responsibility to help create a safer, cleaner and healthier environment for all Americans.

Most Respectfully,

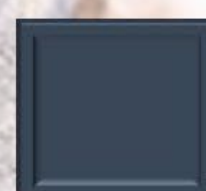
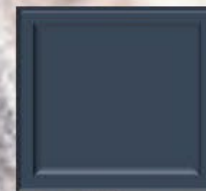
A handwritten signature in black ink, appearing to read "A. Wheeler", written over a horizontal line.

Andrew R. Wheeler  
Administrator



# Section I

## Management's Discussion and Analysis



# ABOUT EPA

## History and Purpose

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The American people deserve a clean, healthy, and safe environment where they live, work, and play. Established in 1970 as the negative impact and hazards of environmental pollution became increasingly evident, the EPA has worked for over four decades to identify, evaluate, and execute sustainable solutions to existing and emerging environmental concerns.

The EPA incorporates environmental research, monitoring, standard-setting, and enforcement functions under the guidance of a single agency. As a result, the agency ensures environmental protection remains an integral part of all U.S. policies, whether related to economic growth, natural resource use, energy, transportation, agriculture, or human health.

Since its inception, the EPA has made great strides in providing a cleaner, safer, and healthier environment for all Americans and future generations. Focused cleanup efforts have helped remedy the mistakes of the past, while the EPA's continuous help work to monitor and regulate pollutants, evaluate new chemicals, and inspire better decision-making to safeguard our environmental future.

The EPA is committed to collaboration. Identifying and addressing the complex environmental issues affecting the nation and the world requires consistent, efficient cooperation and communication among a diverse group of partnerships, ranging from state, tribal, and local governments to foreign governments and international organizations throughout the world.

Everyone has a role to play in creating a healthy, sustainable environment. By serving as the primary federal source of rigorously researched, scientific information on the environment, the EPA motivates individuals and organizations to better recognize and engage in environmental protection and develop lasting solutions domestically and internationally.

## Mission

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### *What EPA Does*

- ✓ *Enforce environmental laws*
- ✓ *Responds to the release of hazardous substances*
- ✓ *Gives grants to states, local communities, and tribes*
- ✓ *Studies environmental issues*
- ✓ *Sponsors partnerships*

The mission of the EPA is to protect human health and the environment.

To accomplish this mission, the EPA depends upon the most accurate scientific information to identify human health and environmental concerns that affect policy decisions and enforcement actions. The EPA works to ensure all communities, individuals, businesses, and state, local and tribal governments have access to accurate sufficient information to effectively participate in delivering a cleaner, safer, and healthier environment. The EPA will continue to effectively and efficiently serve the American people and conduct business with transparency in a manner worthy of the public's trust and confidence.

## Organization

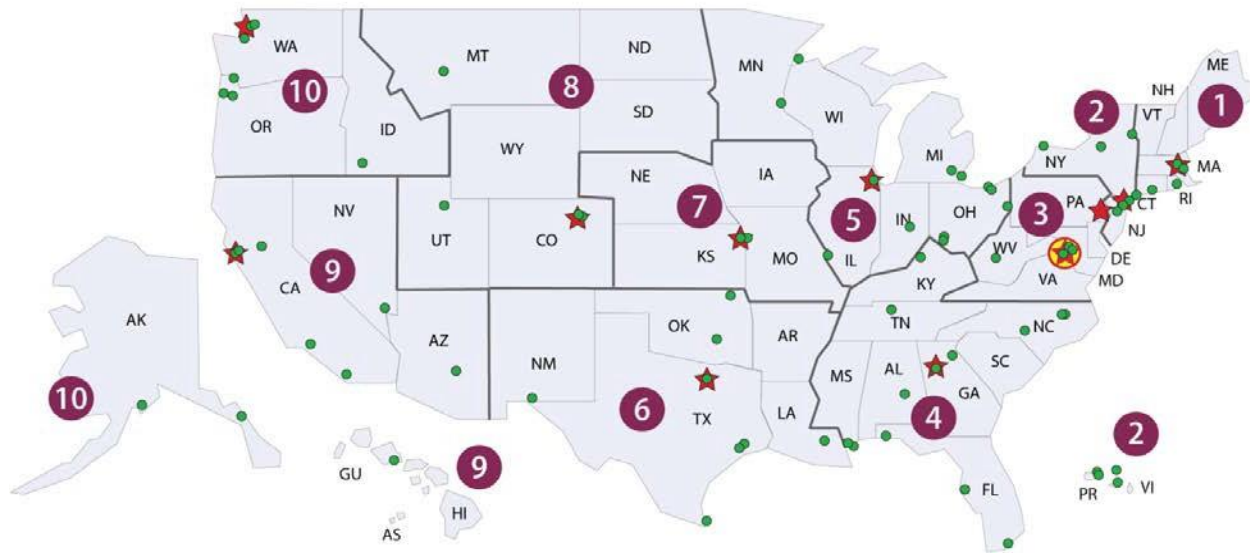
The EPA's headquarters is located in Washington, D.C. Together, the EPA's headquarters offices, 10 regional offices, and more than a dozen laboratories and field offices across the country employ a diverse, highly educated, and technically trained workforce of roughly 14,000 people.





## Regional Map

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### EPA Offices and Facilities



EPA National Headquarters



EPA Regional Headquarters



EPA Regional and Program Laboratories and Facilities

## Collaborating with Partners and Stakeholders

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The idea that environmental protection is a shared responsibility between the states, tribes, and the federal government is embedded in our environmental laws, which in many cases provide states and tribes the opportunity and responsibility for implementing environmental protection programs. More than 45 years after the creation of the EPA and the enactment of a broad set of federal environmental protection laws, most states, and to a lesser extent territories and tribes, are authorized to implement environmental programs within their jurisdictions. The EPA understands that improvements to protecting human health and the environment cannot be achieved by any actor operating alone, but only when the states, tribes, and the EPA, in conjunction with affected communities, work together in a spirit of trust, collaboration, and partnership.

Effective environmental protection is best achieved when the EPA and its state and tribal partners work from a foundation of transparency, early collaboration – including public participation – and a spirit of shared accountability for the outcomes of this joint work. This foundation involves active platforms for public participation, including building the capacity for the most vulnerable community stakeholders to provide input.



# FY 2020 PROGRAM PERFORMANCE

Detailed FY 2020 performance results will be presented in the EPA's *FY 2020 Annual Performance Report (APR)*. The EPA will include its *FY 2020 APR* with its *FY 2022 Annual Performance Plan and Budget*. These reports, along with FY 2020 performance results will be posted at <http://www.epa.gov/planandbudget> concurrent with the publication of the *FY 2022 President's Budget*.

# FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

## Sound Financial Management: Good for the Environment, Good for the Nation

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The financial management overview below highlights some of the EPA's most significant financial achievements carried out during the agency's efforts to execute its mission to protect human health and the environment during FY 2020:

- **Agency Financial Statements.** For the 21<sup>st</sup> consecutive year, the EPA's OIG issued a "clean" audit opinion, unmodified, in the agency's financial statements. This accomplishment underlines the EPA's consistency in timely, reliable, and accurate financial information that is reported in all material aspects.
- **Anti-Deficiency Act.** In FY20, the EPA did not report any Anti-Deficiency Act violations. In FY 19, the EPA submitted a report of violations of the voluntary services prohibition that occurred at various points between 2011 and 2016. Since reporting, the agency has continued implementing corrective actions, including updated policies and training related to voluntary services.
- **Water Infrastructure Finance and Innovation Act.** In March of this year, the Office of the Chief Financial Officer developed and successfully implemented a new module in Compass. This web application provides the tools we use to effectively manage, budget and track expenditures, which manage and provide a more detailed and accurate accounting of Water Infrastructure loans. To demonstrate the magnitude of this effort, in FY 2020, there were \$2.1 billion obligated loans and \$221 million disbursed loans. We look forward to continuing success next fiscal year.
- **EPA's Lean Management System.** The EPA implemented an agencywide initiative of continuous improvement systems to assess and increase the efficiency of various financial and non-financial processes, including Superfund Billing; Internal Control Reviews; Conference Spending reporting; Governmentwide Treasury Account Symbol Submissions; and Freedom of Information Act requests. These lean management approaches, which identify and solve problems as they occur, have resulted in more streamlined processes and increased transparency.
- **Payment Integrity Information Act Reporting.** Sustained low improper payment rates remain the norm across the EPA's various payment resources. The Office of the Inspector General's audit of the EPA's FY 2019 improper payment reporting determined the EPA was in full compliance with IPERA, marking the seventh consecutive year of compliance for the EPA. With the passage of the new Payment Integrity Information Act of 2019, the agency has successfully updated its payment integrity program to incorporate the law's new requirements.
- **Superfund Billing.** Another notable effort OCFO leads the improvement of the agency's Superfund Cost Recovery Program. In FY 2019, a group of subject matter experts came together to design a new and more efficient billing methodology. The new billing process was put into place in FY 2020. Because of its success in improving efficiencies, the agency has been able to send out over 100 Superfund bills compared to FY 2019. This totaled an additional \$20 million in the amount billed to primary responsible parties. Such accomplishments make us reasonably optimistic that we will be able to continue success in FY 2021.
- **Working Capital Fund Financial Statements.** The EPA's Working Capital Fund provides common administrative services to the EPA and other federal agencies, where the costs of goods and services provided are charged to users on a fee-for-service basis. In FY20, the WCF began its 24<sup>th</sup> year of operation. The WCF is not mandated to be audited by a third-party; however, the EPA's WCF has contracted with an external Certified Public Accounting firm to conduct an annual audit.

For the 17<sup>th</sup> consecutive year, the EPA's WCF received a clean opinion, indicating its financial statements were presented fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles.

- **CARES Act.** The Coronavirus Aid, Relief, and Economic Security Act provided the EPA with \$7.23 million to prevent, prepare, and respond to COVID-19, domestically and/or internationally. The funds helped the agency to continue protecting human health and the environment during the global pandemic. Specifically, the EPA's CARES Act resources funded cleaning and disinfecting the EPA of equipment and facilities, maintaining the operational continuity of the EPA programs and related activities. This provided research on methods to reduce the risks from environmental transmission of Coronavirus via contaminated surfaces or materials, and, additionally, expedited registration and other actions related to pesticides to address Coronavirus.
- **Digital Accountability & Transparency Act.** The Office of Inspector General conducted an audit on the EPA's FY19 First Quarter financial and award data. The DATA Act audit guide is defined as being of higher, moderate or lower quality based on the highest error rate found in testing completeness, accuracy and timeliness of data submitted. While the audit discovered reporting errors, and some issues with documentation of policies and procedures, overall, the EPA was found to have "higher" quality data as defined by the DATA Act audit guide issued by the Council of the Inspectors General on Integrity and Efficiency. Moreover, the audit found that the EPA complied with requirements of the DATA Act, submitted financial and award data to the Treasury Broker in a timely fashion, and implemented data standards as defined by the OMB and Treasury.
- **OCFO Technical Training Conference.** In June 2020, the Office of the Chief Financial Officer held its annual Technical Training Conference for the EPA employees virtually. The conference offered a range of professional development and Continuing Learning Credit courses related to the agency's various financial tools and processes. A record of 599 students registered for courses to learn something new and expand their skills. Furthermore, each course was captured via a recording ensuring employees agencywide have these courses available as resources until next year's conference.
- **Shared Services (G-Invoicing & E-Invoicing).** The EPA continues to make great strides in providing a more shared services approach to our financial tools and processes.
  - **G-Invoicing.** The EPA has been working with federal agencies to implement the Government Invoicing solution to transition all interagency buy/sell activities for over 1,400 open agreements. During this change in business process, the agency will continue improving the quality of Intragovernmental Transactions, while also maintaining our core mission in the most effective and efficient manner.
  - **E-Invoicing/Invoice Processing Platform.** In October 2019, the agency launched the Invoice Processing Platform as an electronic invoicing system for all invoices that are currently processed through the Contract Payment System. IPP is a web-based system used to efficiently manage government invoicing from contract award through payment notification, and provides a secure online platform that vendors use to submit invoices, while centralizing all invoice transaction data and documents in one place. As of January 1, 2020, all contract vendors doing business with the EPA were required to enroll in IPP and the agency has been matching vendors in IPP on a rolling basis so that they can utilize the system to submit invoices. The EPA continues to work with our vendors to help facilitate a smooth transition and is in the process of modifying contracts to include the IPP invoicing requirements in the EPA contracts and adding the clause to all new contracts.
- **Office of Inspector General & Government Accountability Office Audit Tracker.** In response to the Good Accounting Obligation Act, we also conducted analyses on unimplemented recommendations and corrective actions to help the agency with reaching resolutions, and developed agencywide performance metrics on these items to keep senior leadership informed of potential issues or the need for mediation. In an ongoing effort to continue to improve

communication throughout the audit community, GAO and the OIG, OCFO developed an Audit Community SharePoint site to provide agency stakeholders with a forum for obtaining audit guidance, updates and hot topics. In addition, the Agency will publish a report listing the status of open, closed, or unimplemented recommendations made by the OIG and the GAO with the FY 2022 Congressional Budget Justification.

- **U.S. EPA Toxic Substances Control Act Service Fee Fund.** The Toxic Substances Control Act provides the EPA with authority to collect fees from certain chemical manufacturers and processors to defray a portion of TSCA implementation costs. Furthermore, the EPA is required to track the costs it incurs in implementing TSCA Sections 4, 5, 6, and 14, including both direct and indirect costs. As such, in the first audit conducted by the Office of Inspector General of the agency's TSCA Service Fee Fund from its inception on June 22, 2016 through September 30, 2018, the agency received a clean opinion.



## Financial Condition and Results

Financial statements are formal financial records that document the EPA's activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, and other potential liabilities; or other reportable financial activities.

The EPA prepares four consolidated statements (a balance sheet, a statement of net cost, a statement of changes in net position, and a statement of custodial activity) and one combined statement, the Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of the EPA's financial situation. The complete statements with accompanying notes, as well as the auditors' opinion, are available in Section II of this report.

The balance sheet displays assets, liabilities, and net position as of September 30, 2020, and September 30, 2019. The statement of net cost shows the EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of the EPA's financial condition—assets, liabilities, net position, and net cost of operations. The balance sheet trend chart depicts the agency's financial activity levels since FY 2018.

### Key Terms

**Assets:** What EPA owns and manages.

**Liabilities:** Amounts EPA owes because of past transactions or events.

**Net position:** The difference between EPA's assets and liabilities.

**Net cost of operations:** The difference between the costs incurred by EPA's programs and EPA's revenues.

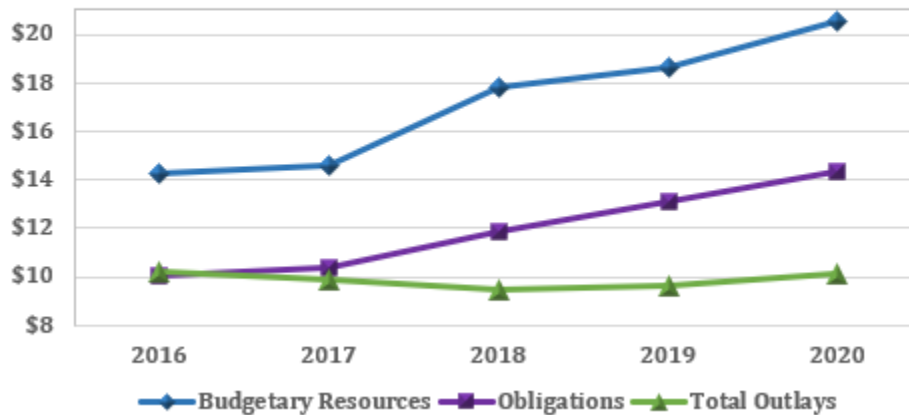
**Balance Sheet Trend**  
(dollars in billions)



## EPA Resources and Spending

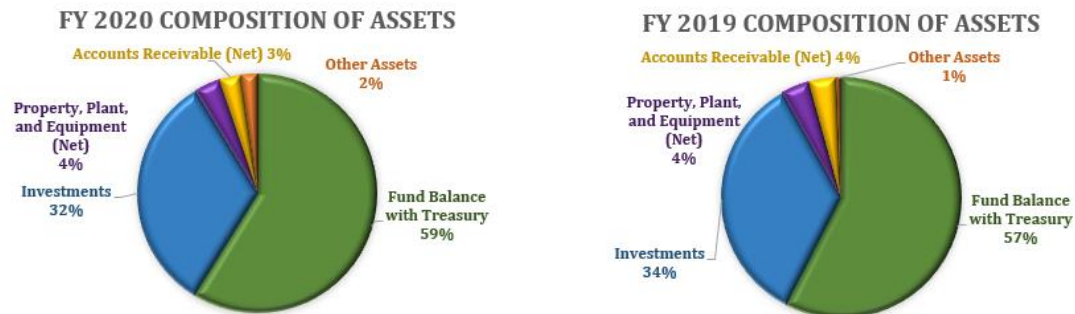
The figure below depicts the EPA's aggregate budgetary resources (congressional appropriations and some agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last five fiscal years. The Statement of Budgetary Resources in Section II provides more information on the makeup of the agency's resources.

**EPA Financial Trends**  
(dollars in billions)



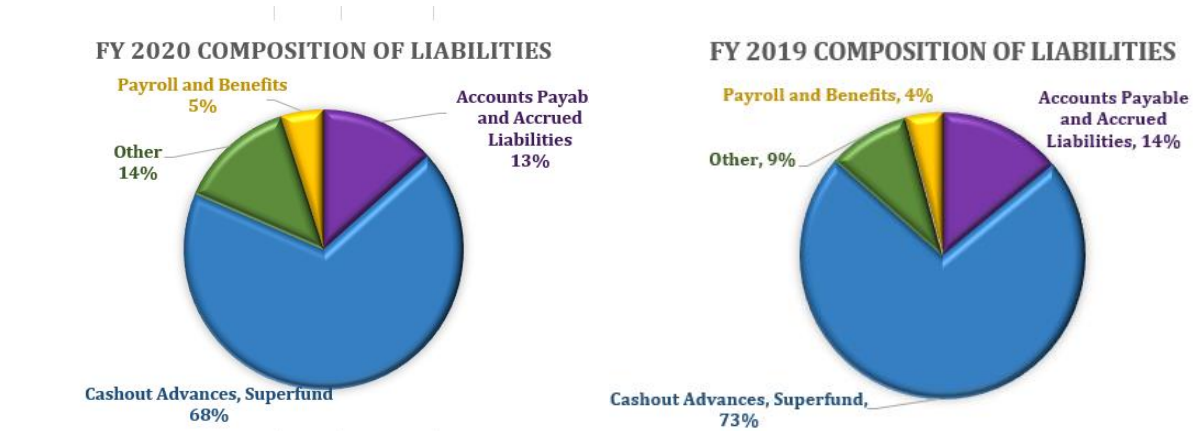
## Assets—What EPA Owns and Manages

The EPA's assets totaled \$18.41 billion at the end of FY 2020, a decrease of \$0.93 billion from the FY 2019 level. In FY 2020, approximately 91 percent of the EPA's assets fall into two categories: fund balance with Treasury and investments. All of the EPA's investments are backed by U.S. government securities. The graph below compares the agency's FY 2020 and FY 2019 assets by major categories.



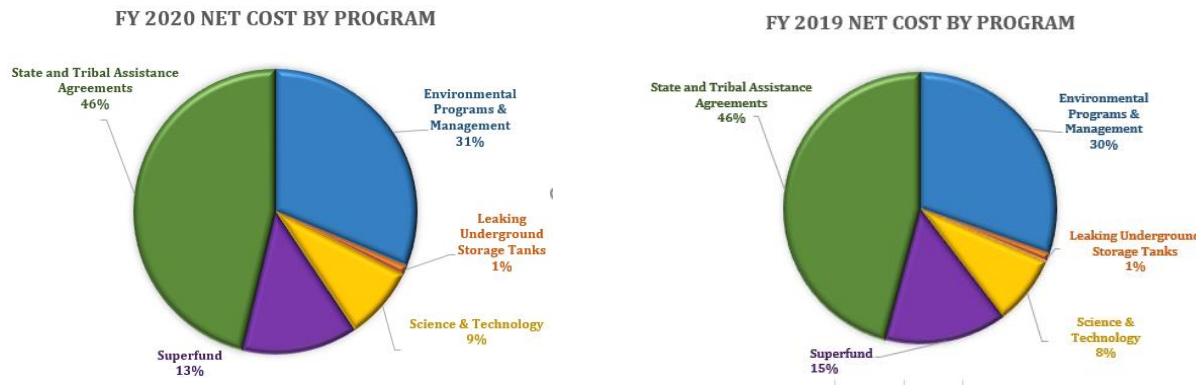
### Liabilities—What EPA Owes

The EPA's liabilities were \$5.09 billion at the end of FY 2020, a decrease of \$0.21 million from the FY 2019 level. In FY 2020, the EPA's largest liability (68 percent) was Superfund unearned revenue, which the agency uses to pay for cleanup of contaminated sites under the Superfund program. Additional categories include payroll and benefits payable, salaries, pensions and other actuarial liabilities, the EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which the EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The graphs compare FY 2020 and FY 2019 liabilities by major categories.



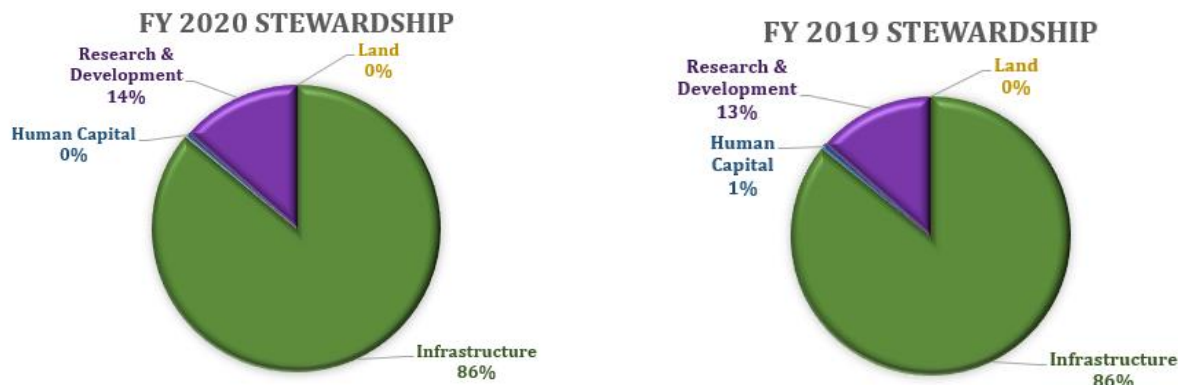
### Net Cost of Operations—How EPA Used Its Funds

The graph that follows show how the EPA's funds are expended among five expenditure accounts in FY 2020 and FY 2019.



## Stewardship Funds

The EPA serves as a steward on behalf of the American people. The chart below presents four categories of stewardship: land, research and development, infrastructure, and human capital. In FY 2020, The EPA devoted a total of \$3.9 billion to its stewardship activities.



Per the Federal Accounting Standards Advisory Board (FASAB), stewardship investments consist of expenditures made by the agency for the long-term benefit of the nation that do not result in the federal government acquiring tangible assets.

- The largest infrastructure programs are the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs that provide grant funds to states for water infrastructure projects, such as the construction of wastewater and drinking water treatment facilities. States lend the majority of these funds to localities or utilities to fund the construction and or upgrade of facilities (some may also be used for loan forgiveness or given as grants). Loan repayments then revolve at the State level to fund future water infrastructure projects. The EPA's budget included nearly \$2.76 billion in FY 2020 appropriated funds for the SRFs for states' use. In addition, states lent billions of dollars from funds they received as repayments from previous State Revolving Fund (SRF) loans. These funds provide assistance to public drinking water and wastewater systems for the enhancement of water infrastructure, allowing for cleaner water bodies and crucial access to safer drinking water for millions of people.
- Research and development activities enable the EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for the EPA's regulatory work, including regulations to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- Land includes contaminated sites to which the EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, the EPA may acquire easements that are in good and usable condition. These easements may also serve to isolate the site and restrict usage while the cleanup is taking place.
- The agency's investment in human capital through 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.



## Financial Management for the Future

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During times of environmental challenges, sound stewardship of the EPA's financial resources continues to be critical to the agency's ability to protect the environment and human health locally, nationally, and internationally. Reliable, accurate, and timely financial information is essential to ensure cost-effective decisions for addressing land, water, air and ecosystem issues. To strengthen the EPA's financial stewardship capabilities, the agency focuses on the fundamental elements of financial management: people and systems.

**People:** The EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges. Staff members are trained in financial analysis and forecasting to understand financial data and what it means. The EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources.

**Systems:** The EPA's core financial system, called Compass, is based on a commercial-off-the-shelf software solution that addresses the agency's most critical business needs. Compass has improved the EPA's financial stewardship by strengthening accountability, data integrity, and internal controls, on the following business areas:

- General ledger
- Accounts payable
- Accounts receivable
- Property
- Project cost
- Intra-governmental transactions
- Budget execution

Compass provides core budget execution and accounting functions and facilitates more efficient transaction processing. The system posts updates to ledgers and tables as transactions are processed and generates source data for the preparation of financial statements and budgetary reports. Compass is integrated with 15 agency systems that support diverse functions, such as budget planning, execution, and tracking; recovery of Superfund site-specific cleanup costs; property inventory; agency travel; payroll; document and payment tracking; and research planning. Compass is a Web-based, open architecture application managed at the CGI Federal Phoenix Data Center, a certified shared service provider.

## Limitations of the Principal Financial Statements

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The EPA prepared the principal financial statements to report the financial position and results of its operations of the reporting entity, pursuant to the requirements of 31 U.S.C. 3515 (b). The EPA has prepared the statements from the books and records of the entity in accordance with federal generally accepted accounting principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. government.

# IMPROVING MANAGEMENT AND RESULTS

## Office of Inspector General Audits, Evaluations, and Investigations

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OIG contributes to the EPA's mission to protect human health and the environment by assessing the efficiency and effectiveness of the agency's program management and results. OIG ensures that agency resources are used as intended, develops recommendations for improvements and cost savings, and provides oversight and advisory assistance in helping the EPA carry out its objectives. The OIG detects and prevents fraud, waste and abuse to help the agency protect human health and the environment more efficiently and cost effectively. The OIG performs its mission through independent oversight of the programs and operations of the EPA. The OIG also contributes to the oversight integrity of and public confidence in the agency's programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies.

In FY 2020, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 290 recommendations accounting for over \$83.0 million in potential savings and recoveries;
- 127 actions taken by the agency for improvement from OIG recommendations; and
- 279 criminal, civil, or administrative enforcement actions.

## Grants Management

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The EPA has two major grants management metrics, one for grant competition, the other for grants closeout. The EPA's Policy for Competition of Assistance Agreements establishes requirements for the competition of assistance agreements (grants, cooperative agreements, and fellowships) to the maximum extent practicable. The Agency tracks the percentage of new grant awards that are competed according to the policy. For FY 2020, the agency exceeded the grant competition target by 5%.

EPA tracks the closeout of grants through two measures, one for grants for which the project period expired within the previous fiscal year and one for older grants for which the project period expired prior to the last fiscal year. For FY 2020, EPA closed out 90% of the awards that expired

Grants Management Performance Measures for EPA			
Performance Measure	Target	Progress in FY 2020	Progress in FY 2019
Percentage of grants closed out	90%	90% closure of grants that expired in 2019	87.3 % closure of grants that expired in 2018
	99%	99.5% closure of grants that expired in 2018 and earlier	98% closure of grants that expired in 2017 and earlier
Percentage of new grants subject to the competition policy that are competed	90%	95%	95%

# ACCOUNTABILITY: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## **Federal Managers' Financial Integrity Act (FMFIA)**

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FMFIA requires agencies to conduct on-going evaluations of their internal controls and financial management systems and report the results to the President and Congress.

The EPA evaluated its internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The agency operates a comprehensive internal control program, which ensures compliance with the requirements of FMFIA and other laws and regulations. Each year, the EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's overall statement of assurance on the adequacy of the EPA's internal controls over operations and financial management systems.

In FY 2020, the EPA did not identify any new material weaknesses related to effectiveness and efficiency of operations. The agency has one existing material weakness related to the financial statement preparation process. The agency has established a plan of action to evaluate and improve its financial statement preparation process and to provide accurate and reliable supporting documentation for adjustments and corrections. The agency anticipates all corrective actions will be implemented and validated in FY 2021. Section III of this report provides details about the EPA's corrective actions underway. The EPA remains committed to eliminating its weaknesses and continues to emphasize the importance of maintaining effective internal controls in order to comply with FMFIA and other applicable laws and regulations.

### ***Internal Controls Over Financial Reporting***

The agency has evaluated the key internal controls spanning its financial processes. Based on this evaluation, no new material weaknesses were identified. Subsequent to the agency's review, the EPA's OIG identified no new material weaknesses during the FY 2020 financial statement audit.

### ***Internal Controls Over Financial Management Systems***

The Federal Financial Management Improve Act requires agencies to ensure that financial management systems consistently provide reliable data that comply with government-wide principles, standards, and requirements. Based on the agency's evaluation of its financial management systems, no material weaknesses were identified. The assessment included a review of the agency's core financial system, Compass Financials, as well as those considered as financially related or mixed systems that support or interface with the core financial system. The EPA has determined that its financial management systems substantially comply with FFMIA requirements.

Based on the results of the agency's and the OIG's FY 2020 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of the EPA's internal controls over financial management systems.

## The Digital Accountability and Transparency Act

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The DATA Act of 2014 was designed to increase the standardization and transparency of federal spending. It requires agencies to report data, consistent with data standards established by OMB and the Department of the Treasury, for publication on USASpending.gov.

In FY 2017, the EPA certified compliance with OMB guidance and provided reasonable assurance that internal controls support the reliability and validity of account-level and award-level data reported on USASpending.gov. This level of assurance in the internal controls was enabled through three elements of the EPA DATA Act submission process: 1) establishment of the DATA Act Evaluation and Approval Repository Tool; 2) multi-level approval process; and 3) documentation of all associated warnings in its statement of assurance.

The DEAR Tool was designed to transform data to meet the data standards, pre-validate all of the warnings and edits that would be triggered when submitting the information to the DATA Act broker, and to standardize and fully document the multi-level approval process, culminating in the Senior Accountable Official approval.

The multi-level approval process within the DATA Act submission process allowed all parties of the approval process to be briefed and fully comprehend the issues present and documented within the files. The approval process consists of three “lock-downs” of the data starting with the case manager, who is responsible for overseeing the review of the warnings and edits associated with the DATA Act. Next, the Office Director (SES) is briefed on the analysis of the DATA Act files, which includes an explanation as to why particular warnings could not be fully resolved. The final briefing is to give the appropriate assurance to the SAO and to address questions or concerns prior to certification so the files fully comply with the law.

The Statement of Assurance is the central piece of information for the agency to document its data issues that triggered the DATA Act warnings but remain unresolved. The EPA’s approach was to address all data issues that could easily be resolved with changes to the host financial system or the DEAR, and fully document the cause of the warnings within the Statement of Assurance. This includes issues that could not be addressed in a timely manner. Therefore, the EPA used the Statement of Assurance as the document to illustrate recognition of flaws and understanding of the issues in the larger context of the DATA Act submission.

In FY 2020, the agency continued to provide accurate and timely data for the DATA Act. The agency has continually worked to resolve data issues as they have arisen during submissions or in the form of warnings. Additionally, in FY 2020, the Department of the Treasury increased the reporting frequency to monthly in which the EPA has adapted its business process to be compliant with the new requirements.

## **Federal Financial Management Improvement Act (FFMIA)**

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FFMIA requires that agencies implement and maintain financial management systems that comply with 1) federal financial management system requirements, 2) applicable federal accounting standards, and 3) the U.S. Standard General Ledger (USSGL). Annually, agency heads are required to assess and report on whether these systems comply with FFMIA.

The EPA's FY 2020 assessment included the following:

- A-123 review found no significant deficiencies.
- An Office of Inspector General's (OIG) FY 2020 report identified items within the information security program as a management challenge. The report states:
  - The agency needs to develop and maintain an up-to-date inventory of the software and associated licenses used within the organization. The agency implemented a dashboard and review process that leverages existing capabilities and provides a current inventory of approved software for network endpoints.
  - The agency needs to establish a control to validate that agency personnel are creating the required plans of action and milestones (POA&M) for weaknesses identified from vulnerability testing but not remediated within the agency's established timeframes per the EPA's information security procedures. The agency has a documented POA&M monitoring, validation and verification process. The process is used for all sources of vulnerabilities to include those from vulnerability scanning. The agency checks monthly a sampling of vulnerabilities for POA&M need and establishment.
  - The agency needs to implement file integrity and data loss prevention tools to support the EPA's incident response program. The agency implemented a host-based tool that provides integrity controls. The capabilities have been integrated into the agency's incident response processes. The agency implemented a network-based tool that provides data loss prevention capabilities for cloud related on-premise and cloud services traffic. The tool provides indications of possible unauthorized data movement on the network and in the cloud. The agency developed a playbook to integrate related capabilities into incident response processes.
- The agency conducted other systems-related activities, including:
  - Third-party control assessments
  - Network scanning for vulnerabilities
  - Annual certification for access to the agency's accounting system

## Fiscal Year 2020 Annual Assurance Statement

The U.S. Environmental Protection Agency's management is responsible for managing risk and maintaining effective internal control to meet the objectives of the *Federal Managers' Financial Integrity Act*.

In accordance with Section 2 of the FMFIA and the Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the EPA assessed the effectiveness of its internal control to support the effectiveness and efficiency of operations, reliable financial reporting and compliance with applicable laws and regulations. Section 4 of the FMFIA and the *Federal Financial Management Improvement Act of 1996* requires management to ensure financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, the agency evaluated whether financial management systems substantially comply with the FMFIA requirements.

The EPA did not identify any new material weaknesses during Fiscal Year 2020. The agency continued to make progress in addressing one previously identified weakness related to the financial statement preparation process and expects to implement and validate all corrective actions in FY 2021. More information on the previously identified material weakness is provided in Section III, "*Other Accompanying Information*," of the Agency Financial Report.

Although no new material weaknesses were identified, the agency will continue to monitor its programmatic, financial and administrative controls to ensure compliance with laws and regulations.

Based on the results of the EPA's assessments and recent program improvements, I can provide reasonable assurance that the agency's internal control over operations were operating effectively and financial management systems conform to government-wide standards as of September 30, 2020. The agency's internal control over financial reporting were operating effectively as well.



Andrew R. Wheeler  
Administrator

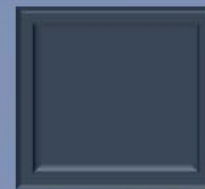


Date



# Section II

## Financial Section



# Message from the Deputy Chief Financial Officer



I am pleased to present the U.S. Environmental Protection Agency's Fiscal Year 2020 Agency Financial Report. This report summarizes the EPA's financial results and presents its audited financial statements and the EPA's FY 2020 Assurance Statement and Financial Statement Audit Report. In addition, this report outlines the EPA's FY 2020 accomplishments and provides a snapshot of our innovations and improvements in effectively using taxpayers' dollars to finance and fulfill our mission to protect human health and the environment.

FY 2020 marks the 21<sup>st</sup> consecutive year that the EPA achieved an unmodified "clean" audit opinion on its financial statements. As one of the few federal agencies to have achieved this outcome, we are extremely proud of this milestone. It is an honor to work alongside the dedicated staff who

have maintained the financial integrity of this agency year after year. In addition, in the first audit conducted by the Office of Inspector General of the agency's Toxic Substances Control Act Service Fee Fund from its inception on June 22, 2016, through September 30, 2018, and a review of the financial statements from the agency's Hazardous Waste Electronic Manifest System Fund for FY 2018, the agency received clean opinions on both audits.

In FY 2020, the Office of the Chief Financial Officer has continued to seek efficiencies and continuous improvement in providing accurate and effective financial management. This involved reviewing and enhancing our internal processes, applying the principles of the EPA's Enterprise Lean Management System, known as ELMS, and also leveraging the agency's financial system, Compass, by activating additional, specialized accounting functions called modules. These functions can improve accuracy and controls, as well as reduce manual entry, but often configuration is complex and converting existing records and aligning with interfaces to other systems pose challenges. In FY 2020, we put two new functions in place in Compass to provide more effective and efficient accounting for agency resources. We also worked with agency partners to improve multiple internal processes, including Superfund billing and the management of agency response to Office of Inspector General and Governmental Accountability Office reports.

In 2017, the agency received funding for a new loan program, the *Water Infrastructure Finance and Innovation Act* program, which offers innovative and flexible financing for water system improvements. The EPA manages these loans directly and the scope is substantial, with \$2.1 billion in loans obligated and \$221 million disbursed in the two years since the first loan. In FY 2020, the OCFO worked with the Office of Water to configure, test and implement the credit module for the WIFIA loans, which will be vital to effectively managing the continued growth of the portfolio.


Another area of significant progress has focused on efficiently and accurately completing the Governmentwide Treasury Account Symbol reporting on time every month by leveraging Compass functionality. The GTAS reporting touches every aspect of the general ledger and means accounting model updates as well as ensuring all new data and data previously brought into the accounting system meets certain additional standards. Late in FY 2020, we transitioned to using the Compass generated report and expect continued improvement going forward.

This past year, the OCFO worked to improve our audit processes, partnering with agency offices to increase communication and coordination between leadership and the audit community in responding to the GAO and the EPA's OIG. We conducted analyses on unimplemented recommendations and corrective actions to help the agency with reaching resolution and tracked agencywide performance metrics integrated into ELMS on these items to keep senior leadership informed of potential issues or the need for mediation.

In pursuit of further transparency and more efficient coordination agencywide, my office modernized the Enterprise Audit Management System, a database where all audit and corrective actions information are tracked, and also made tailored reports available to agency leadership and stakeholders to ensure visibility into early results and potential issues. To improve communication throughout the agency's audit community, the OCFO developed an Audit Community SharePoint site to provide agency stakeholders with a forum for obtaining audit guidance, updates and hot topics.

Another notable effort my office is leading is to improve the agency's Superfund Cost Recovery program. In FY 2019, a group of subject matter experts came together to design a new and more efficient billing methodology. The new billing process was put into place in FY 2020 and because of its success in improving efficiency, the agency has been able to send out 48 more Superfund bills than in FY 2019, totaling an additional \$4 million in the amount billed to primary responsible parties, and has reduced the process timeframe from a targeted goal of 100 days to an average of 72 days.

Throughout FY 2020, the EPA has continued its efforts to provide more efficient agency operations to increase certainty, compliance and effectiveness and improve agency operations, service delivery and regulatory relief. As the Deputy Chief Financial Officer, I have made it a top priority to standardize the agency's financial business practices and modernize our information technology systems. My office continues to participate in the ELMS to help identify areas for improvement and strengthen our ability to maintain the highest financial management standards. Significant effort has been made to strengthen our partnerships and expand our communication to stakeholders with the goal of finding ways to improve our processes to enhance operational efficiency and ease of use.



David A. Bloom  
Deputy Chief Financial Officer  
November 16, 2020

**EPA'S FISCAL YEARS 2020 AND 2019  
CONSOLIDATED FINANCIAL STATEMENTS  
(WITH RESTATEMENT)**

## Table of Contents

<b>Principal Financial Statements .....</b>	<b>31</b>
<b>Notes to Financial Statements .....</b>	<b>38</b>
Note 1. Summary of Significant Accounting Policies .....	38 - 45
Note 2. Fund Balance with Treasury (FBWT) .....	45 - 46
Note 3. Cash and Other Monetary Assets .....	46
Note 4. Investments .....	46 - 47
Note 5. Accounts Receivable, Net .....	47
Note 6. Other Assets .....	47
Note 7. Direct Loans Receivable, Net .....	48 - 50
Note 8. Accounts Payable and Accrued Liabilities .....	51
Note 9. General Property Plant and Equipment .....	51 - 52
Note 10. Debt Due to Treasury .....	52
Note 11. Stewardship Property, Plant and Equipment .....	53
Note 12. Custodial Liability .....	53
Note 13. Other Liabilities .....	54 - 55
Note 14. Leases .....	55 - 56
Note 15. FECA Actuarial Liabilities .....	56
Note 16. Cashout Advances, Superfund (Restated) .....	56
Note 17. Commitments and Contingencies .....	57 - 58
Note 18. Funds from Dedicated Collections (Unaudited) (Restated) .....	59 - 61
Note 19. Environmental Cleanup Costs .....	62
Note 20. State Credits .....	62 - 63
Note 21. Preauthorized Mixed Funding Agreements .....	63
Note 22. Custodial Revenues and Accounts Receivable .....	63
Note 23. Reconciliation of President's Budget to the Statement of Budgetary Resources .....	63
Note 24. Recoveries and Resources Not Available, Statement of Budgetary Resources .....	64
Note 25. Unobligated Balances Available .....	64
Note 26. Undelivered Orders at the End of the Period .....	64
Note 27. Offsetting Receipts .....	65
Note 28. Transfers-In and Out, Statement of Changes in Net Position .....	65 - 66
Note 29. Imputed Financing .....	66
Note 30. Payroll and Benefits Payable .....	67
Note 31. Other Adjustments, Statement of Changes in Net Position .....	67
Note 32. Non-Exchange Revenue, Statement of Changes in Net Position .....	68
Note 33. Reconciliation of Net Cost of Operations to Budget (Restated) .....	69 - 71
Note 34. Amounts Held by Treasury (Unaudited) .....	72 - 75
Note 35. COVID-19 Activity .....	75
Note 36. Reclassified Financial Statements for Government-wide Reporting .....	75 - 80
Note 37. Restatement .....	80
<b>Required Supplementary Information (Unaudited) .....</b>	<b>81 - 84</b>
Deferred Maintenance .....	81
Supplemental Statement of Budgetary Resources .....	84



## Principal Financial Statements

### United States Environmental Protection Agency Consolidated Balance Sheet As of September 30, 2020 and 2019 (Restated) (Dollars in Thousands)

	<u>2020</u>	<u>Restated 2019</u>
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 10,823,112	\$ 10,056,926
Investments (Note 4)	5,969,666	5,997,657
Accounts Receivable, Net (Note 5)	51,872	34,802
Other (Note 6)	<u>198,268</u>	<u>210,591</u>
Total Intragovernmental	17,042,918	16,299,976
 Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	503,725	500,886
Direct Loans Receivable, Net (Note 7)	196,470	263
Property, Plant and Equipment, Net (Note 9)	659,668	671,207
Other (Note 6)	<u>8,209</u>	<u>7,714</u>
<b>Total Assets</b>	<b><u>\$ 18,411,000</u></b>	<b><u>\$ 17,480,056</u></b>
 <b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	\$ 152,014	\$ 136,825
Debt Due to Treasury (Note 10)	221,652	266
Custodial Liability (Note 12)	72,018	36,494
Other (Note 13)	<u>158,195</u>	<u>177,294</u>
Total Intragovernmental	603,879	350,879
 Accounts Payable and Accrued Liabilities (Note 8)	525,173	540,235
Pensions and Other Actuarial Liabilities (Note 15)	50,451	42,044
Environmental Cleanup Costs (Note 19)	38,383	32,810
Cashout Advances, Superfund (Note 16 and 37)	3,472,784	3,573,240
Commitments and Contingencies (Note 17)	38	-
Payroll and Benefits Payable (Note 30)	253,254	203,985
Other (Note 13)	<u>149,681</u>	<u>140,549</u>
<b>Total Liabilities</b>	<b><u>5,093,643</u></b>	<b><u>4,883,742</u></b>
 <b>NET POSITION</b>		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	(189)	(1,264)
Unexpended Appropriations - Other Funds	9,600,037	8,929,585
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18 and 37)	3,307,079	3,170,594
Cumulative Results of Operations - Other Funds	<u>410,430</u>	<u>497,399</u>
Total Net Position	<u>13,317,357</u>	<u>12,596,314</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 18,411,000</u></b>	<b><u>\$ 17,480,056</u></b>

**United States Environmental Protection Agency**  
**Consolidated Statement of Net Cost**  
**For the Fiscal Years Ending September 30, 2020 and 2019**  
**(Dollars in Thousands)**

	<u>2020</u>	<u>Restated 2019</u>
<b>COSTS</b>		
Gross Costs	\$ 9,335,328	\$ 8,883,930
Earned Revenue (Note 37)	<u>514,164</u>	<u>338,757</u>
<b>NET COST OF OPERATIONS</b> (Note 33 and 37)	<b><u>\$ 8,821,164</u></b>	<b><u>\$ 8,545,173</u></b>

**United States Environmental Protection Agency**  
**Statement of Net Cost by Major Program**  
**For the Fiscal Year Ending September 30, 2020**  
**(Dollars in Thousands)**

	<u>Environmental Programs &amp; Management</u>	<u>Leaking Underground Storage Tanks</u>	<u>Science &amp; Technology</u>	<u>Superfund</u>	<u>State &amp; Tribal Assistance Agreements</u>	<u>Other</u>	<u>Totals</u>
Costs:							
Gross Costs	\$ 2,721,796	\$ 97,770	\$ 721,616	\$ 1,505,864	\$ 3,999,283	\$ 563,190	\$ 9,609,519
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,191)</u>	<u>(274,191)</u>
Total Costs	<u>2,721,796</u>	<u>97,770</u>	<u>721,616</u>	<u>1,505,864</u>	<u>3,999,283</u>	<u>288,999</u>	<u>9,335,328</u>
Less:							
Earned Revenue	26,615	-	6,978	362,342	-	392,420	788,355
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(274,191)</u>	<u>(274,191)</u>
Total Earned Revenue	<u>26,615</u>	<u>-</u>	<u>6,978</u>	<u>362,342</u>	<u>-</u>	<u>118,229</u>	<u>514,164</u>
<b>NET COST OF OPERATIONS</b>	<b><u>\$ 2,695,181</u></b>	<b><u>\$ 97,770</u></b>	<b><u>\$ 714,638</u></b>	<b><u>\$ 1,143,522</u></b>	<b><u>\$ 3,999,283</u></b>	<b><u>\$ 170,770</u></b>	<b><u>\$ 8,821,164</u></b>

**United States Environmental Protection Agency**  
**Statement of Net Cost by Major Program**  
**For the Fiscal Year Ending September 30, 2019 (Restated)**  
**(Dollars in Thousands)**

	<u>Environmental Programs &amp; Management</u>	<u>Leaking Underground Storage Tanks</u>	<u>Science &amp; Technology</u>	<u>Superfund</u>	<u>State &amp; Tribal Assistance Agreements</u>	<u>Other</u>	<u>Totals</u>
Costs:							
Gross Costs	\$ 2,650,992	\$ 89,019	\$ 709,019	\$ 1,392,940	\$ 3,876,041	\$ 398,223	\$ 9,116,234
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(232,304)</u>	<u>(232,304)</u>
Total Costs	<u>2,650,992</u>	<u>89,019</u>	<u>709,019</u>	<u>1,392,940</u>	<u>3,876,041</u>	<u>165,919</u>	<u>8,883,930</u>
Less:							
Earned Revenue (Note 37)	79,874	-	5,963	179,115	-	305,887	570,839
WCF Elimination	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(232,082)</u>	<u>(232,082)</u>
Total Earned Revenue	<u>79,874</u>	<u>-</u>	<u>5,963</u>	<u>179,115</u>	<u>-</u>	<u>73,805</u>	<u>338,757</u>
<b>NET COST OF OPERATIONS (Note 37)</b>	<b><u>\$ 2,571,118</u></b>	<b><u>\$ 89,019</u></b>	<b><u>\$ 703,056</u></b>	<b><u>\$ 1,213,825</u></b>	<b><u>\$ 3,876,041</u></b>	<b><u>\$ 92,114</u></b>	<b><u>\$ 8,545,173</u></b>

**United States Environmental Protection Agency**  
**Consolidated Statement of Changes in Net Position**  
**For the Fiscal Year Ending September 30, 2020**  
**(Dollars in Thousands)**

	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Cumulative Results of Operations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 3,170,594	\$ 497,399	\$ 3,667,993
<b>Budgetary Financing Sources:</b>			
Other Adjustments (Note 31)	(1,072)	-	(1,072)
Appropriations Used	(3)	8,458,703	8,458,700
Nonexchange Revenue - Securities Investment (Note 32)	90,116	-	90,116
Nonexchange Revenue - Other (Note 32)	239,795	-	239,795
Transfers In/Out	(26,636)	42,081	15,445
Transfers In/Out - Nonmonetary	544	(325)	219
Trust Fund Appropriations	<u>1,076,535</u>	<u>(1,071,007)</u>	<u>5,528</u>
Total Budgetary Financing Sources	1,379,279	7,429,452	8,808,731
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed Financing Sources (Note 29)	9,131	52,818	61,949
Other Financing Sources	<u>415</u>	<u>(415)</u>	<u>-</u>
Total Other Financing Sources	9,546	52,403	61,949
Net Cost of Operations	\$ (1,252,340)	\$ (7,568,824)	\$ (8,821,164)
Net Change	<u>136,485</u>	<u>(86,969)</u>	<u>49,516</u>
<b>Cumulative Results of Operations</b>	<b><u>\$ 3,307,079</u></b>	<b><u>\$ 410,430</u></b>	<b><u>\$ 3,717,509</u></b>
	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Unexpended Appropriations:</b>			
<b>Net Position - Beginning of Period</b>	\$ (1,264)	\$ 8,929,585	\$ 8,928,321
<b>Budgetary Financing Sources:</b>			
Appropriations Received	-	9,148,119	9,148,119
Appropriation Transfers-In/Out	-	-	-
Other Adjustments (Note 31)	1,072	(18,964)	(17,892)
Appropriations Used	<u>3</u>	<u>(8,458,703)</u>	<u>(8,458,700)</u>
Total Budgetary Financing Sources	1,075	670,452	671,527
<b>Total Unexpended Appropriations</b>	<b><u>(189)</u></b>	<b><u>9,600,037</u></b>	<b><u>9,599,848</u></b>
<b>TOTAL NET POSITION</b>	<b><u>\$ 3,306,890</u></b>	<b><u>\$ 10,010,467</u></b>	<b><u>\$ 13,317,357</u></b>

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

	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Cumulative Results of Operations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 2,966,236	\$ 508,636	\$ 3,474,872
<b>Budgetary Financing Sources:</b>			
Appropriations Used	4,054	8,190,426	8,194,480
Nonexchange Revenue - Securities Investment (Note 32)	134,699	-	134,699
Nonexchange Revenue - Other (Note 32)	270,253	(58)	270,195
Transfers In/Out	15,608	21,330	36,938
Transfers In/Out - Nonmonetary	-	142	142
Trust Fund Appropriations	<u>1,083,758</u>	<u>(1,083,758)</u>	<u>-</u>
<b>Total Budgetary Financing Sources</b>	<b>1,508,372</b>	<b>7,128,082</b>	<b>8,636,454</b>
<b>Other Financing Sources (Non-Exchange)</b>			
Imputed Financing Sources (Note 29)	<u>16,635</u>	<u>85,205</u>	<u>101,840</u>
<b>Total Other Financing Sources</b>	<b>16,635</b>	<b>85,205</b>	<b>101,840</b>
 Net Cost of Operations (Note 37)	 \$ (1,320,649)	 \$ (7,224,524)	 \$ (8,545,173)
 Net Change	 <u>204,358</u>	 <u>(11,237)</u>	 <u>193,121</u>
<b>Cumulative Results of Operations (Note 37)</b>	<b><u>\$ 3,170,594</u></b>	<b><u>\$ 497,399</u></b>	<b><u>\$ 3,667,993</u></b>
	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Consolidated Total</b>
<b>Unexpended Appropriations:</b>			
<b>Net Position - Beginning of Period</b>	\$ 2,790	\$ 8,058,744	\$ 8,061,534
<b>Budgetary Financing Sources:</b>			
Appropriations Received	-	9,288,440	9,288,440
Appropriation Transfers-In/Out	-	2,717	2,717
Other Adjustments (Note 31)	-	(229,890)	(229,890)
Appropriations Used	<u>(4,054)</u>	<u>(8,190,426)</u>	<u>(8,194,480)</u>
<b>Total Budgetary Financing Sources</b>	<b>(4,054)</b>	<b>870,841</b>	<b>866,787</b>
 <b>Total Unexpended Appropriations</b>	 <b><u>(1,264)</u></b>	 <b><u>8,929,585</u></b>	 <b><u>8,928,321</u></b>
<b>TOTAL NET POSITION</b>	<b><u>\$ 3,169,330</u></b>	<b><u>\$ 9,426,984</u></b>	<b><u>\$ 12,596,314</u></b>



**United States Environmental Protection Agency**  
**Combined Statement of Budgetary Resources**  
**For the Fiscal Years Ending September 30, 2020 and 2019**  
**(Dollars in Thousands)**

	<b>2020</b>		<b>2019</b>	
		Non- Budgetary Credit Reform Financing Account		Non- Budgetary Credit Reform Financing Account
	<u>Budgetary</u>		<u>Budgetary</u>	
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance From Prior Year Budget				
Authority, Net (discretionary and mandatory)	\$ 5,808,190	\$ 20,914	\$ 4,714,826	\$ 1,461,572
Appropriations (discretionary and mandatory)	10,737,950	-	10,801,690	-
Borrowing Authority (discretionary and mandatory)	-	3,576,684	-	1,083,500
Spending Authority (discretionary and mandatory)	<u>398,507</u>	<u>5,805</u>	<u>557,467</u>	<u>5</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 16,944,647</u></b>	<b><u>\$ 3,603,403</u></b>	<b><u>\$ 16,073,983</u></b>	<b><u>\$ 2,545,077</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
New Obligations and Upward adjustments (total)	\$ 11,304,380	\$ 2,988,163	\$ 10,613,226	\$ 2,524,163
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,446,701	615,240	5,273,498	20,914
Unapportioned, Unexpired accounts	4,562	-	917	-
Expired Unobligated Balance, End of Year	<u>189,004</u>	<u>-</u>	<u>186,342</u>	<u>-</u>
Unobligated Balance, End of Year (total):	<u>5,640,267</u>	<u>615,240</u>	<u>5,460,757</u>	<u>20,914</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 16,944,647</u></b>	<b><u>\$ 3,603,403</u></b>	<b><u>\$ 16,073,983</u></b>	<b><u>\$ 2,545,077</u></b>
<b>OUTLAYS, NET AND DISBURSEMENTS, NET</b>				
Outlays, Net (total) (discretionary and mandatory)	\$ 10,092,803		\$ 9,648,346	
Distributed Offsetting Receipts (-) (Note 27)	<u>(1,369,396)</u>		<u>(1,584,783)</u>	
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 8,723,407</u>		<u>\$ 8,063,563</u>	
Disbursements, Net (total) (mandatory)		<u>\$ 221,381</u>		<u>\$ 264</u>

**United States Environmental Protection Agency**  
**Statement of Custodial Activity**  
**For the Fiscal Years Ending September 30, 2020 and 2019**  
**(Dollars in Thousands)**

	<u>2020</u>	<u>2019</u>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Fines and Penalties	\$ 171,950	\$ 352,092
Other	<u>(16,486)</u>	<u>(4,359)</u>
Total Cash Collections	155,464	347,733
Accrual Adjustment	<u>13,714</u>	<u>8,912</u>
<b>Total Custodial Revenue (Note 22)</b>	<b>\$ <u>169,178</u></b>	<b>\$ <u>356,645</u></b>
<b>Disposition of Collections:</b>		
Transferred to Others (General Fund)	\$ 155,055	\$ 347,711
Increases/Decreases in Amounts to be Transferred	<u>14,123</u>	<u>8,934</u>
<b>Total Disposition of Collections</b>	<b>\$ <u>169,178</u></b>	<b>\$ <u>356,645</u></b>
<b>Net Custodial Revenue Activity</b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**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 2020 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. Department of 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<sup>st</sup> Century Act. Under the Act, the Agency is authorized to 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 Toxic Substances Control Act Service Fee Fund (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 2020 and 2019 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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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 this program. 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 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. The 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 Treasury through the Government-Wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

## **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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**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 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. 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.



**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

The FIFRA and PRIA funds receive funding through fees collected for services provided and interest on invested funds and can obligate collections up to the amount of anticipated collections within the fiscal year on the approved letter of apportionment. The Hazardous Waste Electronic Manifest System Fund receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System and can obligate collections up to the amount of anticipated collections on the approved letter of apportionment. 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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**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 and Science and Technology appropriations, 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 fifteen 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 (FAR). 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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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 five 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 periodically based on the collection of loan receivables.

#### **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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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.

**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 (NRDA) 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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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.

On August 18, 2020, the Puerto Rico CW SRF program signed a \$163 million loan with PRASA to provide funding for 28 wastewater projects. The loan offers a 30-year amortization, with a 1.0% annual interest rate payable on January 1 and July 1 of each year.

The Puerto Rico DW SRF program expects to soon sign a \$46 million loan with PRASA to provide funding to 5 drinking water projects. The loan offers a 30-year amortization, with a 1.0% annual interest rate payable on January 1 and July 1 of each year.

**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 August 27, 2020. As a result Net Disbursements for Non-Budgetary Credit Reform Financing Account has been added to the Statement of Budgetary Resources.

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

Fund Balance with Treasury as of September 30, 2020 and 2019 consists of the following:

	<b>2020</b>			<b>2019</b>		
	<b>Entity Assets</b>	<b>Non-Entity Assets</b>	<b>Total</b>	<b>Entity Assets</b>	<b>Non-Entity Assets</b>	<b>Total</b>
<b>Trust Funds:</b>						
Superfund	\$ 152,246	\$ -	\$ 152,246	\$ 77,906	\$ -	\$ 77,906
LUST	28,191	-	28,191	21,902	-	21,902
Oil Spill & Misc.	12,643	-	12,643	12,109	-	12,109
<b>Revolving Funds:</b>						
FIFRA/Tolerance	52,574	-	52,574	58,133	-	58,133
Working Capital	87,215	-	87,215	129,185	-	129,185
Credit Reform Financing	-	-	-	-	-	-
E-Manifest	10,790	-	10,790	8,029	-	8,029
WIFIA	6	-	6	2	-	2
NRDA	1,916	-	1,916	1,551	-	1,551
<b>Appropriated</b>	9,936,774	-	9,936,774	9,236,309	-	9,236,309
<b>Other Fund Types</b>	535,447	5,310	540,757	507,871	3,929	511,800
<b>Total</b>	<b><u>\$10,817,802</u></b>	<b><u>\$ 5,310</u></b>	<b><u>\$10,823,112</u></b>	<b><u>\$10,052,997</u></b>	<b><u>\$ 3,929</u></b>	<b><u>\$10,056,926</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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.

<b>Status of Fund Balances:</b>	<u><b>2020</b></u>	<u><b>2019</b></u>
<b>Unobligated Amounts in Fund Balance:</b>		
Available for Obligation	\$ 6,094,950	\$ 5,294,411
Unavailable for Obligation	191,669	187,260
Net Receivables from Invested Balances	(5,033,099)	(5,096,874)
Balances in Treasury Trust Fund (Note 34)	19,840	14,912
Obligated Balance not yet Disbursed	9,025,670	9,160,730
Non-Budgetary FBWT	<u>524,082</u>	<u>496,487</u>
<b>Total</b>	<b><u>\$ 10,823,112</u></b>	<b><u>\$ 10,056,926</u></b>

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 September 30, 2020 and 2019, 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, 2020 and 2019, the balance in the imprest fund was \$10 thousand.

**Note 4. Investments**

As of September 30, 2020 and 2019, investments related to Superfund and LUST consist of the following:

		<u><b>Cost</b></u>	<u><b>Amortized (Premium) Discount</b></u>	<u><b>Interest Receivable</b></u>	<u><b>Investments, Net</b></u>	<u><b>Market Value</b></u>
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2020	\$ 5,828,179	(135,189)	6,298	5,969,666	\$ 5,969,666
Non-Marketable	FY 2019	\$ 6,024,413	32,170	5,414	5,997,657	\$ 5,997,657

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



**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

from dedicated collections. The cash receipts collected from the public for dedicated collection funds are deposited in the 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 Treasury. Because the EPA and the 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 Treasury to make future benefit payments or other expenditures. When the EPA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

**Note 5. Accounts Receivable, Net**

Accounts Receivable as of September 30, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
<b>Intragovernmental:</b>		
Accounts & Interest Receivable	\$ 54,470	\$ 34,802
Less: Allowance for Uncollectible	(2,598)	-
<b>Total</b>	<u><u>\$ 51,872</u></u>	<u><u>\$ 34,802</u></u>
<b>Non-Federal:</b>		
Unbilled Accounts Receivable	\$ 130,449	\$ 109,545
Accounts & Interest Receivable	2,556,734	2,573,004
Less: Allowance for Uncollectible	(2,183,458)	(2,181,663)
<b>Total</b>	<u><u>\$ 503,725</u></u>	<u><u>\$ 500,886</u></u>

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, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
<b>Intragovernmental:</b>		
Advances to Federal Agencies	\$ 198,229	\$ 210,498
Advances for Postage	39	93
<b>Total</b>	<u><u>\$ 198,268</u></u>	<u><u>\$ 210,591</u></u>
<b>Non-Federal:</b>		
Travel Advances	\$ 77	\$ 90
Other Advances	7,844	7,607
Inventory Purchased for Resale	288	17
<b>Total</b>	<u><u>\$ 8,209</u></u>	<u><u>\$ 7,714</u></u>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 7. Direct Loans Receivable, Net**

Direct Loans Receivable 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 2020 and 2019, the Agency received borrowing authority of \$3.6 billion and \$2.5 billion respectively for the non-subsidy portion of loan proceeds disbursed. The cumulative loan limit for the WIFIA Loan Program through fiscal year 2020 is \$28.6 billion. For the fiscal year ended September 30, 2020 and 2019, the Agency closed \$3.2 billion and \$2.5 billion in WIFIA loans, respectively.

Interest on the loans is accrued based on the terms of the loan agreement. For the fiscal years ended September 30, 2020 and 2019, the WIFIA program has incurred \$9.7 and \$7.3 million in administrative expenses, respectively.

**Obligated after FY 1991**

<b>Direct Loan Program</b>	<b>2020 Loans Receivable, Gross</b>	<b>Interest Receivable</b>	<b>Foreclosed Property/ Allowance for Loan Losses</b>	<b>Allowance for Subsidy Cost</b>	<b>Value of Assets Related to Direct Loans, Net</b>
WIFIA	\$ 220,970	-	-	(24,500)	\$ 196,470

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

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

<b>Direct Loan Program</b>	<b>2020</b>	<b>2019</b>
WIFIA	\$ 220,970	261

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

<b>Direct Loan Program</b>	<b>2020 Interest Differential</b>	<b>Defaults</b>	<b>Fees and Other Collections</b>	<b>Other Subsidy Costs</b>	<b>Total</b>
WIFIA	\$ -	-	-	(1,043)	\$ (1,043)

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

	<b>2019 Interest Differential</b>	<b>Defaults</b>	<b>Fees and Other Collections</b>	<b>Other Subsidy Costs</b>	<b>Total</b>
<b>Direct Loan Program</b>					
WIFIA	\$ -	-	-	2 \$	2

**Modifications and Reestimates**

	<b>2020 Total Modifications</b>	<b>Interest Rate Reestimates</b>	<b>Technical Reestimates</b>	<b>Total Reestimates</b>
<b>Direct Loan Program</b>				
WIFIA	\$ -	-	(23,459) \$	(23,459)

	<b>2019 Total Modifications</b>	<b>Interest Rate Reestimates</b>	<b>Technical Reestimates</b>	<b>Total Reestimates</b>
<b>Direct Loan Program</b>				
WIFIA	\$ -	-	4 \$	4

**Total Direct Loans Subsidy Expense**

<b>Direct Loan Program</b>	<b>2020</b>	<b>2019</b>
WIFIA	\$ 1,043	-

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

	<b>2020 Interest Differential</b>	<b>Defaults</b>	<b>Fees and Other Collections</b>	<b>Other Subsidy Costs</b>	<b>Total</b>
<b>Direct Loan Program</b>					
WIFIA	0%	.75%	0%	0%	.75%

	<b>2019 Interest Differential</b>	<b>Defaults</b>	<b>Fees and Other Collections</b>	<b>Other Subsidy Costs</b>	<b>Total</b>
<b>Direct Loan Program</b>					
WIFIA	0%	.80%	0%	0%	.80%

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 re-estimates.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Schedule for Reconciling Subsidy Cost Allowance Balances**

**Beginning Balance, Changes and Ending Balance**

	<b>2020</b>	<b>2019</b>
Beginning Balance of the Subsidy Allowance	\$ 2	\$ -
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	-	-
Fees and Other Collections	-	-
Other Subsidy Costs	<u>(1,043)</u>	<u>2</u>
<b>Total of the Above Subsidy Expense Components</b>	<b>(1,043)</b>	<b>2</b>
Adjustments		
Loan Modifications	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	-	-
Other	<u>-</u>	<u>-</u>
<b>Ending Balance of the Subsidy Cost Allowance Before Reestimates</b>	<b>-</b>	<b>-</b>
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	<u>(23,459)</u>	<u>-</u>
<b>Total of the Above Reestimate Components</b>	<b>(23,459)</b>	<b>-</b>
<b>Ending Balance of the Subsidy Cost Allowance</b>	<b>\$ <u>(24,500)</u></b>	<b>\$ <u>2</u></b>

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 2020 loan disbursements were lower than the interest rate assumptions used during the budget formulation process at loan origination.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 8. Accounts Payable and Accrued Liabilities**

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<b>Intragovernmental:</b>		
Accounts Payable	\$ 7,001	\$ 5,719
Liability for Allocation	-	226
Accrued Liabilities	<u>145,013</u>	<u>130,880</u>
<b>Total</b>	<b><u>\$ 152,014</u></b>	<b><u>\$ 136,825</u></b>
	<u>2020</u>	<u>2019</u>
<b>Non-Federal:</b>		
Accounts Payable	\$ 52,693	\$ 68,012
Advances Payable	(3,787)	(2,454)
Interest Payable	5	5
Grant Liabilities	317,258	325,335
Other Accrued Liabilities	<u>159,004</u>	<u>149,337</u>
<b>Total</b>	<b><u>\$ 525,173</u></b>	<b><u>\$ 540,235</u></b>

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, 2020, General PP&E Cost consisted of the following:

	<u>2020</u>						
	<u>EPA- Held Equipment</u>	<u>Software (production)</u>	<u>Software (development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
<b>Balance, Beginning of Year</b>	<b>\$ 304,453</b>	<b>\$ 439,787</b>	<b>\$ 27,046</b>	<b>\$ 44,707</b>	<b>\$ 794,192</b>	<b>\$ 24,485</b>	<b>\$ 1,634,670</b>
Additions	36,393	-	18,794	1,581	18,184	-	74,952
Dispositions	(19,777)	-	-	(5,633)	(10,056)	-	(35,466)
Revaluations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,760)</u>	<u>-</u>	<u>-</u>	<u>(6,760)</u>
<b>Balance, End of Year</b>	<b><u>\$ 321,069</u></b>	<b><u>\$ 439,787</u></b>	<b><u>\$ 45,840</u></b>	<b><u>\$ 33,895</u></b>	<b><u>\$ 802,320</u></b>	<b><u>\$ 24,485</u></b>	<b><u>\$ 1,667,396</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

As of September 30, 2020, General PP&E Accumulated Depreciation consisted of the following:

	<b>2020</b>						
	<b><u>EPA-Held Equipment</u></b>	<b><u>Software (production)</u></b>	<b><u>Software (development)</u></b>	<b><u>Contractor Held Equipment</u></b>	<b><u>Land and Buildings</u></b>	<b><u>Capital Leases</u></b>	<b><u>Total</u></b>
<b>Balance, Beginning of Year</b>	\$ 212,886	\$ 398,613	\$ -	\$ 28,593	\$ 303,239	\$ 20,132	\$ 963,463
Dispositions	(18,780)	-	-	-	-	-	(18,780)
Revaluations	-	-	-	(2,825)	-	-	(2,825)
Depreciation Expense	23,889	21,889	-	716	18,560	816	65,870
<b>Balance, End of Year</b>	<b>\$ <u>217,995</u></b>	<b>\$ <u>420,502</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>26,484</u></b>	<b>\$ <u>321,799</u></b>	<b>\$ <u>20,948</u></b>	<b>\$ <u>1,007,728</u></b>

As of September 30, 2020, General PP&E, Net consisted of the following:

	<b>2020</b>						
	<b><u>EPA-Held Equipment</u></b>	<b><u>Software (production)</u></b>	<b><u>Software (development)</u></b>	<b><u>Contractor Held Equipment</u></b>	<b><u>Land and Buildings</u></b>	<b><u>Capital Leases</u></b>	<b><u>Total</u></b>
<b>Balance, End of Year, Net</b>	<b>\$ <u>103,074</u></b>	<b>\$ <u>19,285</u></b>	<b>\$ <u>45,840</u></b>	<b>\$ <u>7,411</u></b>	<b>\$ <u>480,521</u></b>	<b>\$ <u>3,537</u></b>	<b>\$ <u>659,668</u></b>

**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, 2020 and 2019, the EPA had debt due to Treasury consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program of:

	<b>2019</b>			<b>2020</b>	
	<b><u>Beginning Balance</u></b>	<b><u>Net Borrowing</u></b>	<b><u>Ending Balance</u></b>	<b><u>Net Borrowing</u></b>	<b><u>Ending Balance</u></b>
Debt to the Treasury	\$ -	\$ 266	\$ 266	\$ 221,386	\$ 221,652

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**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 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, 2020 and 2019, the Agency possessed the following land and land rights:

	<b>2020</b>	<b>2019</b>
<b>Superfund Sites with Easements:</b>		
Beginning Balance	\$ 40	\$ 39
Additions	3	1
Withdrawals	-	-
Ending Balance	<u>\$ 43</u>	<u>\$ 40</u>
<b>Superfund Sites with Land Acquired:</b>		
Beginning Balance	\$ 31	\$ 32
Additions	1	-
Withdrawals	-	(1)
Ending Balance	<u>\$ 32</u>	<u>\$ 31</u>

**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, 2020 and 2019, custodial liability is approximately \$72,018 and \$36,494 thousand, respectively.



**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 13. Other Liabilities**

Other Liabilities consist of the following as of September 30, 2020:

	<b><u>Covered by Budgetary Resources</u></b>	<b><u>Not Covered by Resources</u></b>	<b><u>Total</u></b>
<b>Current</b>			
Employer Contributions & Payroll Taxes	\$ 23,764	\$ -	\$ 23,764
WCF Advances	1,154	-	1,154
Other Advances	14,843	-	14,843
Advances HRSTF Cashout	81	-	81
Deferred HRSTF Cashout	86,619	-	86,619
<b>Non-Current</b>			
Unfunded FECA Liability	-	9,225	9,225
Unfunded Unemployment Liability	-	97	97
Direct Loans Subsidy Liability	-	412	412
Payable to Treasury Judgement Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b><u>\$ 126,461</u></b>	<b><u>\$ 31,734</u></b>	<b><u>\$ 158,195</u></b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances, Non-Federal	\$ 141,368	\$ -	\$ 141,368
Liability for Deposit Funds, Non-Federal	5,944	-	5,944
Capital Lease Liability	-	399	399
<b>Non-Current</b>			
Capital Lease Liability	-	1,970	1,970
<b>Total Non-Federal</b>	<b><u>\$ 147,312</u></b>	<b><u>\$ 2,369</u></b>	<b><u>\$ 149,681</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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

	<b><u>Covered by Budgetary Resources</u></b>	<b><u>Not Covered by Resources</u></b>	<b><u>Total</u></b>
<b>Current</b>			
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
<b>Non-Current</b>			
Unfunded FECA Liability	-	9,229	9,229
Payable to Treasury Judgement Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b><u>\$ 146,065</u></b>	<b><u>\$ 31,229</u></b>	<b><u>\$ 177,294</u></b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances, Non-Federal	\$ 134,076	\$ -	\$ 134,076
Liability for Deposit Funds, Non-Federal	3,769	-	3,769
Capital Lease Liability	-	343	343
<b>Non-Current</b>			
Capital Lease Liability	-	2,361	2,361
<b>Total Non-Federal</b>	<b><u>\$ 137,845</u></b>	<b><u>\$ 2,704</u></b>	<b><u>\$ 140,549</u></b>

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

**Note 14. Leases**

The value of assets held under Capital Leases as of September 30, 2020 and 2019, are as follows:

**Capital Leases:**

	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Summary of Assets Under Capital Lease:</b>		
Real Property	\$ 24,485	\$ 24,485
Personal Property	-	-
<b>Total</b>	<b><u>24,485</u></b>	<b><u>24,485</u></b>
Accumulated Amortization	<b><u>\$ 20,948</u></b>	<b><u>\$ 20,132</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(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**

<b><u>Fiscal Year</u></b>	<b><u>Capital Leases</u></b>
2021	\$ 786
2022	786
2023	786
2024	785
2025	<u>262</u>
<b>Total Future Minimum Lease Payments</b>	3,405
Less: Imputed Interest	<u>(1,036)</u>
<b>Net Capital Lease Liability</b>	<u>2,369</u>
<b>Liabilities not Covered by Budgetary Resources</b>	<u>\$ 2,369</u>

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 \$786 thousand from 2015 until 2025.

**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, 2020 and 2019, was \$50,451 thousand and \$42,044 thousand, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2020 present value of these estimated outflows is calculated using a discount rate of 2.414 percent in the first year, and 2.414 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, 2020 and 2019, cash-out advances total \$3,472,784 thousand and \$3,573,240 (Restated) thousand, respectively. See Note 37 for the restatement of the 2019 balance.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**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, 2020, there were \$38 thousand of accrued liabilities for commitments and potential loss contingencies. As of September 30, 2019, there was 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 June 30, 2020, 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 are 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, 2020, 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. Secondly, in January 2020, the CDPHE found several violations of Colorado hazardous waste laws after

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

inspecting an EPA lab where Region 8 and OECA's NEIC are co-located. \$38 thousand of the penalty amount has been accrued, which is categorized under 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, 2020, 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, 2020 and \$2.5 million in the period ending September 2019.

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 2020 and \$8.3 million in the period ending September 2019.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 18. Funds from Dedicated Collections (Unaudited) (Restated)**

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
<b>Balance sheet as of September 30, 2020</b>					
Assets					
Fund Balance with Treasury	\$ 518,165	\$ 28,191	\$ 152,246	\$ 95,212	\$ 793,814
Investments	-	895,016	5,074,650	-	5,969,666
Accounts Receivable, Net	-	82,281	346,291	27,135	455,707
Other Assets	-	424	44,685	201,757	246,866
Total Assets	<u>518,165</u>	<u>1,005,912</u>	<u>5,617,872</u>	<u>324,104</u>	<u>7,466,053</u>
Other Liabilities	-	89,348	3,768,226	301,589	4,159,163
Total Liabilities	<u>-</u>	<u>89,348</u>	<u>3,768,226</u>	<u>301,589</u>	<u>4,159,163</u>
Unexpended Appropriations	-	-	(2)	(187)	(189)
Cumulative Results of Operations	<u>518,165</u>	<u>916,564</u>	<u>1,849,646</u>	<u>22,702</u>	<u>3,307,077</u>
Total Liabilities and Net Position	<u>518,165</u>	<u>1,005,912</u>	<u>5,617,870</u>	<u>324,104</u>	<u>7,466,051</u>
<b>Statement of Net Cost for the Fiscal Year Ended September 30, 2020</b>					
Gross Program Costs	-	97,770	1,505,864	116,583	1,720,217
Less: Earned Revenues	-	-	362,428	105,449	467,877
Net Costs of Operations	<u>\$ -</u>	<u>\$ 97,770</u>	<u>\$ 1,143,436</u>	<u>\$ 11,134</u>	<u>\$ 1,252,340</u>
<b>Statement of Changes in Net Position for the Fiscal Year Ended September 30, 2020</b>					
Net Position, Beginning of Period	\$ 491,972	\$ 788,492	\$ 1,863,347	\$ 25,519	\$ 3,169,330
Nonexchange Revenue - Securities Investments	-	6,282	83,301	533	90,116
Nonexchange Revenue	26,193	219,210	3,225	(8,833)	239,795
Other Budgetary Finance Sources	-	-	1,033,974	15,697	1,049,671
Other Financing Sources	-	350	9,237	729	10,316
Net Cost of Operations	<u>-</u>	<u>(97,770)</u>	<u>(1,143,436)</u>	<u>(11,134)</u>	<u>(1,252,340)</u>
Change in Net Position	<u>26,193</u>	<u>128,072</u>	<u>(13,699)</u>	<u>(3,008)</u>	<u>137,558</u>
Net Position	<u>\$ 518,165</u>	<u>\$ 916,564</u>	<u>\$ 1,849,648</u>	<u>\$ 22,511</u>	<u>\$ 3,306,888</u>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
<b>Balance sheet as of September 30, 2019 (Restated)</b>					
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	56,709	7,256	64,141
Total Assets	<u>491,972</u>	<u>887,504</u>	<u>5,716,477</u>	<u>104,156</u>	<u>7,200,109</u>
Other Liabilities (Note 37)	-	99,012	3,853,130	78,639	4,030,781
Total Liabilities	<u>-</u>	<u>99,012</u>	<u>3,853,130</u>	<u>78,639</u>	<u>4,030,781</u>
Unexpended Appropriations	-	-	(2)	(1,262)	(1,264)
Cumulative Results of Operations	<u>491,972</u>	<u>788,492</u>	<u>1,863,349</u>	<u>26,779</u>	<u>3,170,592</u>
Total Liabilities and Net Position (Note 37)	<u>491,972</u>	<u>887,504</u>	<u>5,716,477</u>	<u>104,156</u>	<u>7,200,109</u>
<b>Statement of Net Cost for the Fiscal Year Ended September 30, 2019 (Restated)</b>					
Gross Program Costs	-	89,019	1,392,940	82,165	1,564,124
Less: Earned Revenues (Note 37)	-	-	179,115	64,362	243,477
Net Costs of Operations	<u>\$ -</u>	<u>\$ 89,019</u>	<u>\$ 1,213,825</u>	<u>\$ 17,803</u>	<u>\$ 1,320,647</u>
<b>Statement of Changes in Net Position for the Fiscal Year Ended September 30, 2019 (Restated)</b>					
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	281	16,632
Net Cost of Operations (Note 37)	-	(89,019)	(1,213,825)	(17,803)	(1,320,647)
Change in Net Position	<u>22,781</u>	<u>165,136</u>	<u>7,013</u>	<u>5,374</u>	<u>200,304</u>
Net Position (Note 37)	<u>\$ 491,972</u>	<u>\$ 788,492</u>	<u>\$ 1,863,347</u>	<u>\$ 25,519</u>	<u>\$ 3,169,330</u>

**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

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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, 2023, 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.



**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 19. 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, 2020, 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. Secondly, in January 2020, the CDPHE found several violations of Colorado hazardous waste laws after inspecting an EPA lab where Region 8 and OECA's NEIC are co-located. \$38 thousand of the penalty amount has been accrued, which is categorized under probable.

**A. Accrued Clean-up Cost**

The EPA has 30 sites for which it is required to fund the environmental cleanup. As of September 30, 2020, the estimated costs for site clean-up were \$38.4 million unfunded, and \$1,836 thousand funded, respectively. In 2019 the estimated costs for site clean-up were \$32.8 million unfunded, and \$551 thousand funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2020, the estimate for unfunded clean-up cost increased by \$5.6 million from the FY 2019 estimate. This is primarily due to additional anticipated lab cleanup actions in facilities that resulted in estimates of future clean-up costs in various regions to increase.

**Note 20. 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.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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, 2020 and 2019, the total remaining state credits have been estimated at \$20.2 million, and \$21.3 million, respectively.

**Note 21. 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, 2020, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling \$11.5 million. As of September 30, 2019, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling \$6.3 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 22. 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. As of September 30, 2020 and 2019 Custodial Revenues and Accounts Receivable are:

	<u>2020</u>	<u>2019</u>
<b>Fines, Penalties and Other Miscellaneous Receipts</b>	\$ <u>169,178</u>	\$ <u>356,645</u>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:</b>		
Accounts Receivable	\$ 191,307	\$ 166,089
Less: Allowance for Uncollectible Accounts	<u>(141,118)</u>	<u>(129,680)</u>
<b>Total</b>	<u>\$ <b>50,189</b></u>	<u>\$ <b>36,409</b></u>

**Note 23. Reconciliation of President's Budget to the Statement of Budgetary Resources**

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2020 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2020 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2020 has not yet been published. We expect it will be published by early 2021, 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, 2019 are listed immediately below (dollars in millions):

<b>FY 2019</b>	<u><b>Budgetary</b></u>		<u><b>Offsetting</b></u>	
	<u><b>Resources</b></u>	<u><b>Obligations</b></u>	<u><b>Receipts</b></u>	<u><b>Net Outlays</b></u>
<b>Statement of Budgetary Resources</b>	\$ <u>18,619</u>	\$ <u>13,137</u>	\$ <u>1,585</u>	\$ <u>9,648</u>
<b>Reported in the Budget of the U.S. Government</b>	<u>\$ <u>18,424</u></u>	<u>\$ <u>13,086</u></u>	<u>\$ <u>1,585</u></u>	<u>\$ <u>9,647</u></u>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 24. 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 as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<b>Unobligated Balance Brought Forward, Oct 1.</b>	<b><u>\$ 5,460,757</u></b>	<b><u>\$ 4,479,928</u></b>
<b>Adjustments to Budgetary Resources Made During the Current Year</b>		
Downward Adjustments of Prior Year Undelivered Orders	339,024	225,842
Downward Adjustments of Prior Year Delivered Orders	26,546	16,035
Other Adjustments	<u>(18,137)</u>	<u>(6,979)</u>
<b>Total</b>	<b><u>347,433</u></b>	<b><u>234,898</u></b>
<b>Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)</b>	<b><u>\$ 5,808,190</u></b>	<b><u>\$ 4,714,826</u></b>
<b>Temporarily Not Available - Rescinded Authority</b>	<b><u>\$ (2,000)</u></b>	<b><u>\$ (4,592)</u></b>
<b>Permanently Not Available:</b>		
Rescinded Authority	\$ -	\$ 210,529
Cancelled Authority	<u>19,140</u>	<u>19,588</u>
<b>Total Permanently Not Available</b>	<b><u>\$ 19,140</u></b>	<b><u>\$ 230,117</u></b>

**Note 25. 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Unexpired Unobligated Balance	\$ 6,066,503	\$ 5,295,329
Expired Unobligated Balance	<u>189,004</u>	<u>186,342</u>
<b>Total</b>	<b><u>\$ 6,255,507</u></b>	<b><u>\$ 5,481,671</u></b>

**Note 26. Undelivered Orders at the End of the Period**

Budgetary resources obligated for undelivered orders as of September 30, 2020 and 2019, were \$15.8 billion and \$12.7 billion, respectively.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 27. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. As of September 30, 2020 and 2019, the following receipts were generated from these activities:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Trust Fund Recoveries	\$ 237,778	\$ 73,266
Special Fund Services	51,502	22,778
Trust Fund Appropriation	1,076,535	1,455,299
Miscellaneous Receipt and Clearing Accounts	<u>3,581</u>	<u>33,440</u>
<b>Total</b>	<b><u>\$ 1,369,396</u></b>	<b><u>\$ 1,584,783</u></b>

**Note 28. Transfers-In and Out, Statement of Changes in Net Position**

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

As of September 30, 2020 and 2019, 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, 2020 and 2019:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Net Transfers from Invested Funds	\$ 1,396,692	\$ 1,572,990
Transfer to the Department of Transportation	101,700	89,000
Transfers to Another Agency	<u>809</u>	<u>2,884</u>
<b>Total of Net Transfers on the Statement of Budgetary Resources</b>	<b><u>\$ 1,499,201</u></b>	<b><u>\$ 1,664,874</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

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

For September 30, 2020 and 2019, 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, 2020 and 2019:

	2020		2019	
	Funds From Dedicated		Funds From Dedicated	
Type of Transfer/Funds:	<u>Collections</u>	<u>Other Funds</u>	<u>Collections</u>	<u>Other Funds</u>
Transfers-in (out) nonexpenditure, Earmark to Science and Technology and Office of the Inspector General funds	\$ (42,748)	\$ 42,081	\$ (2,776)	\$ 24,048
Transfers-in (out) nonexpenditure, Oil Spill	19,581	-	18,209	-
Transfers-in (out) nonexpenditure, e-Manifest	23	-	8	-
Transfers-in (out), TSCA	(5,528)	-	-	(2,718)
PRIA	389	-	-	-
National Resource Damage Assessment	1,647	-	167	-
<b>Total Transfer in (out) without Reimbursement, Budgetary</b>	<b><u><u>\$ (26,636)</u></u></b>	<b><u><u>\$ 42,081</u></u></b>	<b><u><u>\$ 15,608</u></u></b>	<b><u><u>\$ 21,330</u></u></b>

**Note 29. 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 2020 were \$28.1 million. For FY 2019, the estimates were \$81.1 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 2020 total imputed costs were \$29.7 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 2020, entries for Judgment Fund payments totaled \$4.1 million. For FY 2019, entries for Judgment Fund payments totaled \$3.9 million.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 30. Payroll and Benefits Payable**

Payroll and benefits payable to the EPA employees for the fiscal years ending September 30, 2020 and 2019, consist of the following:

	<b><u>Covered by Budgetary Resources</u></b>	<b><u>Not Covered by Budgetary Resources</u></b>	<b><u>Total</u></b>
<b>FY 2020 Payroll and Benefits Payable</b>			
Accrued Funded Payroll and Benefits	\$ 36,385	\$ -	\$ 36,385
Withholdings Payable	30,297	-	30,297
Employer Contributions Payable - Thrift Savings Plan	1,792	-	1,792
Accrued Unfunded Annual Leave	-	184,780	184,780
<b>Total - Current</b>	<b><u>\$ 68,474</u></b>	<b><u>\$ 184,780</u></b>	<b><u>\$ 253,254</u></b>

	<b><u>Covered by Budgetary Resources</u></b>	<b><u>Not Covered by Budgetary Resources</u></b>	<b><u>Total</u></b>
<b>FY 2019 Payroll and Benefits Payable</b>			
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
<b>Total - Current</b>	<b><u>\$ 62,282</u></b>	<b><u>\$ 141,703</u></b>	<b><u>\$ 203,985</u></b>

**Note 31. 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 Adjustments, Statement of Changes in Net Position for the years ended September 30, 2020 and 2019, consist of the following:

	<b><u>Other Funds 2020</u></b>	<b><u>Other Funds 2019</u></b>
Cancelled General Authority	\$ 18,964	\$ 229,890
<b>Total Other Adjustments</b>	<b><u>\$ 18,964</u></b>	<b><u>\$ 229,890</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 32. Non-Exchange Revenue, Statement of Changes in Net Position**

Non-Exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for the fiscal years ended September 30, 2020 and 2019:

	<b>2020</b>		<b>2019</b>	
	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>	<b>Funds from Dedicated Collections</b>	<b>All Other Funds</b>
Interest on Trust Fund	\$ 90,116	\$ -	\$ 134,699	\$ -
Tax Revenue, Net of Refunds	219,210	-	237,963	-
Fines and Penalties Revenue	3,239	-	6,195	-
Special Receipt Fund Revenue	17,346	-	26,095	(58)
<b>Total Nonexchange Revenue</b>	<b>\$ <u>329,911</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>404,952</u></b>	<b>\$ <u>(58)</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 33. Reconciliation of Net Cost of Operations to Budget (Restated)**

**For the Fiscal Year 2020:**

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2020</u>
<b>NET COST</b>	<b>\$ 1,331,109</b>	<b>\$ 7,490,055</b>	<b>\$ 8,821,164</b>
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Property, Plant and Equipment Depreciation	-	68,599	68,599
Property, Plant and Equipment Disposal & Revaluation	-	(1,373)	(1,373)
Year-end Credit Reform Subsidy Re-estimates	(23,459)	-	(23,459)
Other	-	57,917	57,917
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	17,070	2,840	19,910
Loans Receivable	-	196,206	196,206
Investments	(27,990)	-	(27,990)
Other Assets	(12,323)	495	(11,828)
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable and Accrued Liabilities	(15,188)	15,062	(126)
Debt Due to Treasury	(221,385)	-	(221,385)
Pensions and Other Actuarial Liabilities	-	(8,408)	(8,408)
Environmental Cleanup Costs	-	(5,573)	(5,573)
Cashout Advances, Superfund	-	100,456	100,456
Commitments and Contingencies	-	(38)	(38)
Payroll and Benefits Payable	-	(49,269)	(49,269)
Other Liabilities	19,100	(9,132)	9,968
<b>Other Financing Sources:</b>			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	28,090	-	28,090
Transfer Out (In) Without Reimbursement	15,509	-	15,509
Other Imputed Financing	<u>33,859</u>	<u>-</u>	<u>33,859</u>
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>1,144,392</b>	<b>7,857,837</b>	<b>9,002,229</b>
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	567	567
Acquisition of Other Assets	-	15,915	15,915
Other	-	474,408	474,408
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	<b><u>-</u></b>	<b><u>490,890</u></b>	<b><u>490,890</u></b>
<b>Other Temporary Timing Differences</b>	<b>-</b>	<b>(769,712)</b>	<b>(769,712)</b>
<b>NET OUTLAYS</b>	<b><u>\$ 1,144,392</u></b>	<b><u>\$ 7,579,015</u></b>	<b><u>\$ 8,723,407</u></b>



**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**For the Fiscal Year 2019: (Restated)**

	<b>Intra- governmental</b>	<b>With the Public</b>	<b>Total 2019</b>
<b>NET COST</b> (Note 37)	<b>\$ 1,209,171</b>	<b>\$ 7,336,002</b>	<b>\$ 8,545,173</b>
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
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
<b>Increase/(Decrease) in Assets:</b>			
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
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable and Accrued Liabilities	(6,364)	(17,245)	(23,609)
Debt Due to Treasury	(266)	-	(266)
Pensions and Other Actuarial Liabilities	-	1,635	1,635
Environmental Cleanup Costs	-	148	148
Cashout Advances, Superfund (Note 37)	-	(268,217)	(268,217)
Commitments and Contingencies	-	-	-
Payroll and Benefits Payable	-	(1,966)	(1,966)
Other Liabilities	(51,799)	(4,481)	(56,280)
<b>Other Financing Sources:</b>			
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	<u>20,779</u>	<u>-</u>	<u>20,779</u>
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>4,023,362</b>	<b>7,076,276</b>	<b>11,099,638</b>
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	194	194
Acquisition of Other Assets	-	21,059	21,059
Other	-	(2,908,309)	(2,908,309)
<b>Total Components of Net Outlays That Are Not Part of Net Cost</b>	<b><u>-</u></b>	<b><u>(2,887,056)</u></b>	<b><u>(2,887,056)</u></b>
<b>Other Temporary Timing Differences</b>	<b>-</b>	<b>(149,019)</b>	<b>(149,019)</b>
<b>NET OUTLAYS</b>	<b><u>\$ 4,023,362</u></b>	<b><u>\$ 4,040,201</u></b>	<b><u>\$ 8,063,563</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The reconciliation explains the relationship between the net cost of operations and net outlays by presenting components of net cost that are not part of net outlays (e.g. depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities), components of net outlays that are not part of net cost (e.g. acquisition of capital assets), other temporary timing difference (e.g. prior period adjustments due to correction of errors). The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**Note 34. 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, 2020 and 2019. 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.

<b>SUPERFUND FY 2020</b>	<b><u>EPA</u></b>	<b><u>Treasury</u></b>	<b><u>Combined</u></b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 5,759	\$ 5,759
Total Undistributed Balance	-	5,759	5,759
Interest Receivable	-	6,298	6,298
Investments, Net	4,863,644	204,708	5,068,352
<b>Total - Assets</b>	<b><u>\$ 4,863,644</u></b>	<b><u>\$ 216,765</u></b>	<b><u>\$ 5,080,409</u></b>
<b>Liabilities and Equity</b>			
Equity	4,863,644	216,765	5,080,409
<b>Total Liabilities and Equity</b>	<b><u>4,863,644</u></b>	<b><u>216,765</u></b>	<b><u>5,080,409</u></b>
<b>Receipts</b>			
Cost Recoveries	-	237,778	237,778
Fines and Penalties	-	4,278	4,278
Total Revenue	-	242,056	242,056
Appropriations Received	-	1,076,535	1,076,535
Interest Income	-	83,302	83,302
<b>Total Receipts</b>	<b><u>-</u></b>	<b><u>1,401,893</u></b>	<b><u>1,401,893</u></b>
<b>Outlays</b>			
Transfers to/from EPA, Net	1,548,747	(1,548,747)	-
<b>Total Outlays</b>	<b><u>1,548,747</u></b>	<b><u>(1,548,747)</u></b>	<b><u>-</u></b>
<b>Net Income</b>	<b><u>\$ 1,548,747</u></b>	<b><u>\$ (146,854)</u></b>	<b><u>\$ 1,401,893</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

In FY 2020, the EPA received an appropriation of \$1.1 billion for Superfund. Treasury's Bureau of the 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, 2020 and 2019, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of \$5.1 billion and \$5.2 billion, respectively.

	<u><b>EPA</b></u>	<u><b>Treasury</b></u>	<u><b>Combined</b></u>
<b>SUPERFUND FY 2019</b>			
<b>Undistributed Balances</b>			
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
<b>Total - Assets</b>	<u><b>\$ 4,962,820</b></u>	<u><b>\$ 285,942</b></u>	<u><b>\$ 5,248,762</b></u>
<b>Liabilities and Equity</b>			
Equity	4,962,820	285,942	5,248,762
<b>Total Liabilities and Equity</b>	<u><b>4,962,820</b></u>	<u><b>285,942</b></u>	<u><b>5,248,762</b></u>
<b>Receipts</b>			
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
<b>Total Receipts</b>	<u><b>-</b></u>	<u><b>1,648,386</b></u>	<u><b>1,648,386</b></u>
<b>Outlays</b>			
Transfers to/from EPA, Net	1,592,858	(1,592,858)	-
<b>Total Outlays</b>	<u><b>1,592,858</b></u>	<u><b>(1,592,858)</b></u>	<u><b>-</b></u>
<b>Net Income</b>	<u><b>\$ 1,592,858</b></u>	<u><b>\$ 55,528</b></u>	<u><b>\$ 1,648,386</b></u>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

**B. LUST**

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2020 and 2019, 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.

<b>LUST FY 2020</b>	<b><u>EPA</u></b>	<b><u>Treasury</u></b>	<b><u>Combined</u></b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 14,081	\$ 14,081
Total Undistributed Balance	-	14,081	14,081
Investments, Net	82,270	812,746	895,016
<b>Total - Assets</b>	<b><u>\$ 82,270</u></b>	<b><u>\$ 826,827</u></b>	<b><u>\$ 909,097</u></b>
<b>Liabilities and Equity</b>			
Equity	82,270	826,827	909,097
<b>Total Liabilities and Equity</b>	<b><u>82,270</u></b>	<b><u>826,827</u></b>	<b><u>909,097</u></b>
<b>Receipts</b>			
Highway TF Tax	-	207,604	207,604
Airport TF Tax	-	11,575	11,575
Inland TF Tax	-	31	31
Total Revenue	-	219,210	219,210
Interest Income	-	6,282	6,282
<b>Total Receipts</b>	<b><u>-</u></b>	<b><u>225,492</u></b>	<b><u>225,492</u></b>
<b>Outlays</b>			
Transfers to/from EPA, Net	101,700	(101,700)	-
<b>Total Outlays</b>	<b><u>101,700</u></b>	<b><u>(101,700)</u></b>	<b><u>-</u></b>
<b>Net Income</b>	<b><u>\$ 101,700</u></b>	<b><u>\$ 123,792</u></b>	<b><u>\$ 225,492</u></b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

<b>LUST FY 2019</b>	<b><u>EPA</u></b>	<b><u>Treasury</u></b>	<b><u>Combined</u></b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 11,909	\$ 11,909
Total Undistributed Balance	-	11,909	11,909
Investments, Net	92,029	681,367	773,396
<b>Total - Assets</b>	<b><u>\$ 92,029</u></b>	<b><u>\$ 693,276</u></b>	<b><u>\$ 785,305</u></b>
<b>Liabilities and Equity</b>			
Equity	92,029	693,276	785,305
<b>Total Liabilities and Equity</b>	<b><u>92,029</u></b>	<b><u>693,276</u></b>	<b><u>785,305</u></b>
<b>Receipts</b>			
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
<b>Total Receipts</b>	<b><u>-</u></b>	<b><u>242,113</u></b>	<b><u>242,113</u></b>
<b>Outlays</b>			
Transfers to/from EPA, Net	93,441	(93,441)	-
<b>Total Outlays</b>	<b><u>93,441</u></b>	<b><u>(93,441)</u></b>	<b><u>-</u></b>
<b>Net Income</b>	<b><u>\$ 93,441</u></b>	<b><u>\$ 148,672</u></b>	<b><u>\$ 242,113</u></b>

**Note 35. COVID-19 Activity**

On March 27, 2020, President Donald Trump signed into law The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the economic fallout of the COVID-19 pandemic in the United States. The EPA received a supplemental appropriation of \$7,230 thousand to support Environmental Program Management, Science and Technology, Building and Facilities, and Superfund program efforts related to the virus. Additional COVID-19 activities are discussed in Section I, Management's Discussion and Analysis, *Financial Analysis and Stewardship Information*; and Section III, Other Accompanying Information, *Agency Response to Office of Inspector General-Identified Management Challenges*.

**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 2019 FR can be found here: <https://www.fiscal.treasury.gov/reports-statements/> and a copy of the 2020 FR will be posted to this site as soon as it is released.

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

The term “intragovernmental” is used in this note to refer to amounts that result from other components of the Federal Government.

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**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

Reclassification of Balance Sheet to Line Items used for the Government-wide Balance Sheet as of September 30, 2020							
FY 2020 EPA Balance Sheet		Line Items Used to Prepare the FY 2020 Government-wide Balance Sheet					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and Other	Total	Reclassified Financial Statement Line
<b>ASSETS</b>							<b>ASSETS</b>
<b>Intra-Governmental Assets</b>							<b>Intra-Governmental Assets</b>
FBWT	10,823,112	11,065,168	242,056	-	-	10,823,112	FBWT
		5,963,368	-	-	-	5,963,368	Federal Investments
Investments, Net	5,969,666	6,298	-	-	-	6,298	Interest Receivable - Investments
<i>Total Investments, Net</i>	5,969,666	5,969,666	-	-	-	5,969,666	<i>Total Reclassified Investments, Net</i>
Accounts Receivable	51,872	4,979,904	4,945,914	27,929	-	6,061	Accounts Receivable
<i>Total Accounts Receivable</i>	51,872	4,979,904	4,945,914	27,929	-	6,061	<i>Total Reclassified - A/R</i>
Other	198,268	243,241	-	44,974	-	198,267	Advances to Others and Prepayments
<i>Total Other</i>	198,268	243,241	-	44,974	-	198,267	<i>Total Reclassified Other</i>
<b>Total Intra-Governmental Assets</b>	<b>17,042,918</b>	<b>22,257,979</b>	<b>5,187,970</b>	<b>72,903</b>	<b>-</b>	<b>16,997,106</b>	<b>Total Intra-Governmental Assets</b>
Cash and Other Monetary Assets	10	10	-	-	-	10	Cash and Other Monetary Assets
Accounts Receivable, Net	503,725	503,725	-	-	-	503,725	Accounts and Taxes Receivable, Net
Direct Loans, Net	196,470	196,470	-	-	-	196,470	Loans Receivable, Net
Inventory and Related Property, Net	288	288	-	-	-	288	Inventory and Related Property, Net
General PP&E	659,668	681,334	-	-	-	681,334	General PP&E, Net
Other	7,921	7,921	-	-	-	7,921	Other
<b>Total Assets</b>	<b>18,411,000</b>	<b>23,647,727</b>	<b>5,187,970</b>	<b>72,903</b>	<b>-</b>	<b>18,386,854</b>	<b>Total Assets</b>
<b>LIABILITIES</b>							<b>LIABILITIES</b>
<b>Intra-Governmental Liabilities</b>							<b>Intra-Governmental Liabilities</b>
Accounts Payable	152,014	5,159,503	4,967,412	45,745	-	146,346	Accounts Payable
Debt	221,652	221,652	-	-	-	221,652	Debt
Other - Custodial Liability	72,018	71,610	-	-	-	71,610	Other - Custodial Liability
Other - Miscellaneous Liabilities	158,195	56,654	-	27,158	-	29,496	Benefit Program Contributions Payable
	-	104,490	-	-	-	104,490	Advances from Others & Deferred Credits
	-	5,381	-	-	-	5,381	Other Liabilities
<i>Total Other - Miscellaneous Liabilities</i>	158,195	166,525	-	27,158	-	139,367	<i>Total Reclassified Other - Miscellaneous Liabilities</i>
<b>Total Intra-Governmental Liabilities</b>	<b>603,879</b>	<b>5,619,290</b>	<b>4,967,412</b>	<b>72,903</b>	<b>-</b>	<b>578,975</b>	<b>Total Intra-Governmental Liabilities</b>
Accounts Payable	525,173	49,723	-	-	-	49,723	Accounts Payable
Federal Employee and Veteran Benefits	50,451	235,230	-	-	-	235,230	Federal Employee and Veteran Benefits
Environmental and Disposal Liabilities	38,383	38,383	-	-	-	38,383	Environmental and Disposal Liabilities
Contingent Liabilities	38	-	-	-	-	-	Contingent Liabilities
Advances and Deferred Revenue	3,472,784	4,157,749	-	-	-	4,157,749	
Miscellaneous Liabilities	402,935	-	-	-	-	-	Other Liabilities
<i>Total Miscellaneous Liabilities</i>	402,935	4,481,085	-	-	-	4,481,085	<i>Total Reclassified Miscellaneous Liabilities</i> <sup>48</sup>
<b>Total Liabilities</b>	<b>5,093,643</b>	<b>10,100,375</b>	<b>4,967,412</b>	<b>72,903</b>	<b>-</b>	<b>5,060,060</b>	<b>Total Liabilities</b>



**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

<b>NET POSITION</b>							<b>NET POSITION</b>
Unexpended Appropriations - Funds from Dedicated Collections	(189)	(870)	-	-	-	(870)	Net Position - Funds from Dedicated Collections
Unexpended Appropriations - Other Funds	9,600,037	9,596,928	-	-	-	9,596,928	Net Position - Funds Other Than Those From Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections	3,307,079	2,521,500	220,558	-	-	2,300,942	
Cumulative Results of Operations - All Other	410,430	1,429,794	-	-	-	1,429,794	
Total Net Position	13,317,357	13,547,352	220,558	-	-	13,326,794	
<b>Total Liabilities &amp; Net Position</b>	<b>18,411,000</b>	<b>23,647,727</b>	<b>5,187,970</b>	<b>72,903</b>	<b>-</b>	<b>18,386,854</b>	<b>Total Liabilities &amp; Net Position</b>

<b>Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2020</b>							
<b>FY 2020 EPA SNC</b>		<b>Line Items Used to Prepare the FY 2020 Government-wide SNC</b>					
<b>Financial Statement Line</b>	<b>Amounts</b>	<b>Dedicated Collections Combined</b>	<b>Dedicated Collections Eliminations</b>	<b>All Other Amounts (with Eliminations)</b>	<b>Eliminations Between Dedicated and Other</b>	<b>Total</b>	<b>Reclassified Statement Line</b>
<b>Gross Costs</b>	9,335,328						<i>Non-Federal Costs</i>
	-	7,886,866	-	-	-	7,886,866	Non-Federal Gross Costs
	-	7,886,866	-	-	-	7,886,866	<b>Total Non-Federal Costs</b>
							<i>Intragovernmental Costs</i>
	-	403,800	-	-	-	403,800	Benefits Program Costs
	-	5,666	-	-	-	5,666	Imputed Costs
	-	919,646	-	-	-	919,646	Buy/Sell Costs
	-	15,469	-	-	-	15,469	Purchase of Assets
	-	6,471	-	-	-	6,471	Borrowing and Other Interest Expense
	-	317,266	-	274,191	-	43,075	Other Expenses (w/o Reciprocals)
	-	1,668,318	-	274,191	-	1,394,127	<b>Total Intragovernmental Costs</b>
<b>Total Gross Costs</b>	9,335,328	9,555,184	-	274,191	-	9,280,993	<b>Total Reclassified Gross Costs</b>
<b>Earned Revenue</b>	514,164	936,860	237,778	274,191	-	424,891	Non-Federal Earned Revenue
							<i>Intragovernmental Revenue</i>
	-	73,450	-	-	-	73,450	Buy/Sell Revenue
	-	15,469	-	-	-	15,469	Purchase of Assets Offset
	-	(26)	-	-	-	(26)	Borrowing and Other Interest Revenue
	-	88,893	-	-	-	88,893	<b>Total Intragovernmental Earned Revenue</b>
<b>Total Earned Revenue</b>	514,164	1,025,753	237,778	274,191	-	513,784	<b>Total Reclassified Earned Revenue</b>
<b>NET COST</b>	<b>8,821,164</b>	<b>8,529,431</b>	<b>(237,778)</b>	<b>-</b>	<b>-</b>	<b>8,767,209</b>	<b>NET COST</b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(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, 2020							
FY 2020 EPA SCNP		Line Items Used to Prepare the FY 2020 Government-wide SCNP					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations Between Dedicated and Other	Total	Reclassified Statement Line
<b>UNEXPENDED APPROPRIATIONS</b>							<b>UNEXPENDED APPROPRIATIONS</b>
Unexpended appropriations, Beginning Balance	8,928,321	8,925,580	-	-	-	8,925,580	Net Position Beginning of Period
Appropriations Received	9,148,119	9,129,155	-	-	-	9,129,155	Appropriations Received as Adjusted
Other Adjustments	(17,892)	1	-	-	-	1	Other Adjustments
Appropriations Used	(8,458,700)	(8,458,677)	-	-	-	(8,458,677)	Appropriations Used
<b>Total Unexpended Appropriations</b>	<b>9,599,848</b>						
<b>CUMUL. RESULTS OF OPERATIONS</b>							
Cumulative Results, Beginning Balance	3,667,993	3,639,072	(21,498)	-	-	3,660,570	Net Position, Beginning of Period
Other Adjustments	(1,072)	-	-	-	-	-	Other Budgetary Financing Sources
Appropriations Used	8,458,700	8,458,677	-	-	-	8,458,677	Appropriations Used
							<b>Non-Federal Non-Exchange Revenues</b>
Nonexchange Revenue - Securities Investment	90,116	90,116	-	-	-	90,116	Nonexchange Revenue - Securities Investment
Nonexchange	-	202,243	4,278	-	-	197,965	
Borrowings and other interest revenue	-	2,511	-	-	-	2,511	Borrowings and other interest revenue
Nonexchange Revenue - Other	239,795	219,210	-	-	-	219,210	Other Taxes and Receipts
	329,911	514,080	4,278	-	-	509,802	<b>Total Non-Federal Non-Exchange Revenues</b>
	-	-	-	-	-	-	Borrowings and Other Interest Revenue
	-	-	-	-	-	-	Other Taxes and Receipts
Transfers In/Out w/o Reimbursement-Budgetary	15,445	20,371	-	-	-	20,371	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
	-	857	-	-	-	857	Expenditure transfers-in of financing sources
	219	219	-	-	-	219	Transfers-in without reimbursement
	-	-	-	-	-	-	Transfers-out without reimbursement
<i>Total Transfers In/Out w/o Reimbursement-Budgetary</i>	<i>219</i>	<i>219</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>219</i>	<i>Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary</i>
Imputed Financing Sources	61,949	(152,907)	-	-	-	(152,907)	Imputed Financing Sources (Federal)
Trust Fund Appropriations	5,528	5,666	-	-	-	5,666	Non-entity collections transferred to the General Fund of the U.S. Government
	-	(14,648)	-	-	-	(14,648)	Accrual of collections yet to be trans. to the Gen. Fund
	-	9,337	-	-	-	9,337	Other non-budgetary financing sources
<b>Total Financing Sources</b>	<b>67,696</b>	<b>(152,333)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(152,333)</b>	
<b>Net Cost of Operations</b>	<b>(8,821,164)</b>	<b>(8,529,431)</b>	<b>237,778</b>	<b>-</b>	<b>-</b>	<b>(8,767,209)</b>	<b>Net Cost of Operations</b>

**United States Environmental Protection Agency**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended September 30, 2020 and 2019**  
**(Dollars in Thousands)**

Ending Balance - Cumulative Results of Operations	3,717,509	3,951,293	220,558	-	-	3,730,735	
Total Net Position	13,317,357	13,547,352	220,558	-	-	13,326,794	Total Net Position

**Note 37. Restatements**

During FY 2020, EPA determined that \$120 million of Superfund Cashout Advances had been incorrectly classified as earned revenue when it should have been unearned. To address this finding, EPA has restated its FY 2019 financial statements.

This change impacts the FY 2019 Cashout Advances, Superfund on the Balance Sheet, Earned Revenue and Net Cost of Operations on the Statement of Net Cost and Statement of Net Cost by Major Program, and Net Cost of Operations and Cumulative Results of Operations for Funds From Dedicated Collections on the Statement of Changes in Net Position.

## Required Supplementary Information (Unaudited)

### United States Environmental Protection Agency September 30, 2020 and 2019 (Dollars in Thousands)

#### Deferred Maintenance

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

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

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

The deferred maintenance as of Fiscal Year 2020:

	<u>2020</u>	<u>2019</u>
<b>Asset Category</b>		
Buildings	\$ <u>128,924</u>	\$ <u>131,059</u>
Total Deferred Maintenance	\$ <u><u>128,924</u></u>	\$ <u><u>131,059</u></u>

In Fiscal Year 2020, 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:**

<b>Policy</b>	<b>Explanation</b>
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:**

<b>Policy</b>	<b>Explanation</b>
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:**

<b>Policy</b>	<b>Explanation</b>
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 <i>system critical</i> or <i>minor</i> . 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, 2020 (Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State Tribal Assistance Agreements	Other	Totals
<b>BUDGETARY RESOURCES</b>							
Unobligated Balance From Prior Year Budget Authority, Net	\$ 579,104	\$ 9,283	\$ 168,700	\$ 3,717,494	\$ 944,436	\$ 410,087	\$ 5,829,104
Appropriations (discretionary and mandatory)	2,676,794	91,941	718,699	1,452,372	4,546,232	1,251,912	10,737,950
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	3,576,684	3,576,684
Spending Authority From Offsetting Collection	3,570	-	37,849	16,968	-	345,925	404,312
<b>Total Budgetary Resources</b>	<u>\$ 3,259,468</u>	<u>\$ 101,224</u>	<u>\$ 925,248</u>	<u>\$ 5,186,834</u>	<u>\$ 5,490,668</u>	<u>\$ 5,584,608</u>	<u>\$ 20,548,050</u>
<b>STATUS OF BUDGETARY RESOURCES</b>							
New Obligations and Upward adjustments (total)	\$ 2,768,443	\$ 95,806	\$ 781,408	\$ 1,582,736	\$ 4,446,151	\$ 4,617,999	\$ 14,292,543
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	322,580	5,418	126,459	3,603,662	1,044,517	959,305	6,061,941
Unapportioned, Unexpired accounts	-	-	-	436	-	4,126	4,562
Expired Unobligated Balance, End of Year	168,445	-	17,381	-	-	3,178	189,004
Unobligated Balance, End of Year (total):	<u>491,025</u>	<u>5,418</u>	<u>143,840</u>	<u>3,604,098</u>	<u>1,044,517</u>	<u>966,609</u>	<u>6,255,507</u>
<b>Total Status of Budgetary Resources</b>	<u>\$ 3,259,468</u>	<u>\$ 101,224</u>	<u>\$ 925,248</u>	<u>\$ 5,186,834</u>	<u>\$ 5,490,668</u>	<u>\$ 5,584,608</u>	<u>\$ 20,548,050</u>
<b>OUTLAYS, NET</b>							
Outlays, Net (total) (discretionary and mandatory)	\$ 2,530,374	\$ 97,583	\$ 715,669	\$ 1,477,163	\$ 4,019,331	\$ 1,252,683	\$ 10,092,803
Distributed Offsetting Receipts (-)	-	-	-	(1,314,314)	-	(55,082)	(1,369,396)
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 2,530,374</u>	<u>\$ 97,583</u>	<u>\$ 715,669</u>	<u>\$ 162,849</u>	<u>\$ 4,019,331</u>	<u>\$ 1,197,601</u>	<u>\$ 8,723,407</u>
Disbursements, Net (total) (mandatory)						<u>\$ 221,381</u>	

**AUDIT OF EPA'S FISCAL YEARS 2020  
AND 2019 CONSOLIDATED FINANCIAL  
STATEMENTS**





U.S. ENVIRONMENTAL PROTECTION AGENCY

**OFFICE OF INSPECTOR GENERAL**

*Operating efficiently and effectively*

# **EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements**

Report No. 21-F-0014

November 16, 2020

## 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
GAO	U.S. Government Accountability Office
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
U.S.C.	United States Code

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

**EPA Inspector General Hotline**

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# At a Glance

## 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 Office of Inspector General 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.*

### This report addresses a top EPA management challenge:

- *Fulfilling mandated reporting requirements.*

Address inquiries to our public affairs office at (202) 566-2391 or [OIG\\_WEBCOMMENTS@epa.gov](mailto:OIG_WEBCOMMENTS@epa.gov).

List of [OIG reports](#).

## EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements

### EPA Receives an Unmodified Opinion for FYs 2020 and 2019

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2020 and 2019 (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.**

### Significant Deficiencies Noted

We noted the following significant deficiencies:

- The EPA continues to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes.
- The EPA improperly recorded adjustments totaling over \$141 million of unearned revenue.

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

We did not note any significant noncompliance with laws, regulations, contracts, and grant agreements.

### Recommendations and Planned Agency Corrective Actions

The EPA agreed with our recommendations but disagreed with some of the OIG statements made about the first significant deficiency listed above. The EPA disagreed that it was unable to detect errors and did not exercise due diligence. The Agency also disagreed that it did not properly detect a \$4 billion error. We stand by our position that the lack of due diligence is evidenced by the errors we found during this audit and that if the EPA had adequately prepared and reviewed the adjustment, the error would not have been entered into the EPA's accounting system.



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

OFFICE OF  
INSPECTOR GENERAL

November 16, 2020

**MEMORANDUM**

**SUBJECT:** EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements  
Report No. 21-F-0014

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

A handwritten signature in black ink, appearing to read "Paul C. Curtis", is placed to the right of the "FROM:" line.

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

Attached is our report on the U.S. Environmental Protection Agency's fiscal years 2020 and 2019 (restated) consolidated financial statements. The project number for this audit was OA&E-FY20-0206. We are reporting two significant deficiencies. Attachment 1 contains details on the significant deficiencies. We did not note any instances of noncompliance. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report.

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

The report will be available at [www.epa.gov/oig](http://www.epa.gov/oig).

Attachments

1. Significant Deficiencies
2. Status of Prior Audit Report Recommendations
3. Status of Current Recommendations and Potential Monetary Benefits

# Table of Contents

## Inspector General's Report on EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements

Report on the Financial Statements .....	1
Required Supplementary Information .....	2
Report on Internal Control over Financial Reporting.....	3
Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements.....	5
Prior Audit Coverage.....	6
Agency Response and OIG Assessment.....	6

## Attachments

1. Significant Deficiencies .....	8
<b><u>FINANCIAL STATEMENT PREPARATION</u></b>	
EPA Needs to Improve Its Financial Statement Preparation Processes.....	9
<b><u>REVENUE</u></b>	
EPA Recorded Improper Adjustments to Superfund Special Account Unearned Revenue in FYs 2020 and 2019 .....	12
2. Status of Prior Audit Report Recommendations .....	14
3. Status of Current Recommendations and Potential Monetary Benefits .....	17

## Appendices

I. EPA's FYs 2020 and 2019 (Restated) Consolidated Financial Statements .....	18
II. Agency Response to Draft Report.....	74
III. Distribution .....	80

# **Inspector General's Report on EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements**

The Administrator  
U.S. Environmental Protection Agency

## **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the U.S. Environmental Protection Agency, which comprise the consolidated balance sheets, as of September 30, 2020, and September 30, 2019 (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 consolidated financial statements in accordance with accounting principles generally accepted in the United States; 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 consolidated financial statements based upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States; 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 Bulletin 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 consolidated financial statements are free from material misstatement.

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 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, 2020 and 2019, in conformity with accounting principles generally accepted in the United States.

### ***Emphasis of Matter—Restatement Fiscal Year 2019***

As described in Note 37, the EPA made certain restatements in its fiscal year 2019 financial statements to correct misstatements for Superfund cashout advances. Our opinion is not modified with respect to these corrections.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States require that the information in the 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 the OMB and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of the financial reporting that places the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, in accordance with auditing standards generally accepted in the United States, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements and complying with OMB audit guidance, but not for the purpose of expressing an opinion on effectiveness of EPA's 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 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, or 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 over financial reporting 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 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. 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. These issues are summarized below and detailed in Attachment 1.



## Significant Deficiencies

### **FINANCIAL STATEMENT PREPARATION**

#### **EPA Needs to Improve Its Financial Statement Preparation Processes**

We found that the EPA continues to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes. The OMB requires that information in the financial statements be presented in accordance with generally accepted accounting principles. During its financial statement preparation process, however, the EPA did not detect and correct multiple misstatements and adjustment errors before they were entered into the EPA's accounting system or statements. Not properly recording financial adjustments and not exercising due diligence in the preparation of the financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

### **REVENUE**

#### **EPA Recorded Improper Adjustments to Superfund Special Account Unearned Revenue in FYs 2020 and 2019**

During our audit of the EPA's FYs 2020 and 2019 financial statements, we found that the EPA improperly recorded adjustments totaling over \$141 million of unearned revenue. The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events. A \$120 million error, which impacted both the FYs 2020 and 2019 financial statements, occurred because the Agency omitted relevant data in its analysis of its FY 2019 Superfund oversight accrual. A \$21.5 million error, which impacted unearned revenue in the FY 2020 financial statement, occurred because the Agency posted the adjustment to a wrong account and incorrectly impacted unearned revenue. The EPA did not adequately consider the effect that the adjustments would have on the FY 2020 financial statements. Both errors could have been found and corrected if the Agency performed a more complete analysis of its financial statement adjustments. When the EPA does not properly analyze the effect of adjustments, it could materially misstate its financial position and impact the reliability of its financial statements.

Attachment 2 contains the status of issues reported in prior years' reports on the EPA's consolidated financial statements. The issues included in Attachment 2 should be considered among the EPA's significant deficiencies for FY 2020. 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 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 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 the Agency's 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 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, or 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.

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 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.

#### ***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.
- Originating offices did not forward accounts receivable source documents in a timely manner to the finance center.
- The EPA materially overstated earned revenue.
- The EPA should improve its efforts to resolve its long-standing cash differences with the U.S. Treasury.
- The EPA improperly recorded e-Manifest receivables and earned revenue.
- The EPA needs to improve its financial statement preparation process.

### **Agency Response and OIG Assessment**

The EPA agreed with our recommendations but disagreed with some of the OIG statements made about the first significant deficiency discussed above and in Attachment 1. The EPA disagreed that it was unable to detect errors and did not exercise due diligence. The Agency also disagreed that it did not properly detect a \$4 billion error. We stand by our position that the lack of due diligence is evidenced by the errors we

found during this audit and that if the EPA had adequately prepared and reviewed the adjustment, the error would not have been entered into the EPA's accounting system.

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  
Office of Inspector General  
U.S. Environmental Protection Agency  
November 9, 2020

# ***Significant Deficiencies***

## **Table of Contents**

### **FINANCIAL STATEMENT PREPARATION**

<b>1</b>	<b>EPA Needs to Improve Its Financial Statement Preparation Processes.....</b>	<b>9</b>
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### **REVENUE**

<b>2</b>	<b>EPA Recorded Improper Adjustments to Superfund Special Account Unearned Revenue in FYs 2020 and 2019 .....</b>	<b>12</b>
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## 1—EPA Needs to Improve Its Financial Statement Preparation Processes

We found that the EPA continues to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes. The OMB requires that information in the financial statements be presented in accordance with generally accepted accounting principles. During its financial statement preparation process, however, the EPA did not detect and correct multiple misstatements and adjustment errors before they were entered into the EPA's accounting system or statements. Not properly recording financial adjustments and not exercising due diligence in the preparation of the financial statements compromise 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 the generally accepted accounting principles for federal entities issued by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards. In addition, the GAO's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government, one of which is the standard for control activities. Under this standard, 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 reported in previous audits the need for the EPA to improve its financial statement preparation process, as detailed in Attachment 2. However, we continue to find misstatements and adjustment errors in the EPA's financial statement preparation processes. During our audit of the EPA's FY 2020 consolidated financial statements, we found the following misstatements and adjustment errors:

- **Incorrect adjustments.** The EPA incorrectly recorded an adjustment totaling approximately \$4 billion in its accounting system. The error occurred because the EPA's preparation, analysis, and review of the adjustment before it was entered into the EPA's accounting system did not detect or prevent the adjustment from being entered incorrectly. The Agency subsequently recorded a financial statement adjustment to mitigate the impact of the error.
- **Misstated unearned revenue.** The EPA misstated Superfund special account unearned revenue balances by \$120 million. The EPA made incorrect entries related to the removal of the Superfund special account oversight accrual from its FY 2019 financial statements.
- **Negative unexpended appropriations.** The EPA made errors totaling approximately \$1.3 million that caused a negative balance in the "Unexpended Appropriations – Funds

from Dedicated Collections” line item in its FY 2020 balance sheet. The negative amounts were the result of uncorrected errors that affect the equity accounts.

- **Financial statement preparation errors.** We found 26 errors in the EPA’s FY 2020 draft financial statements. On multiple occasions, the EPA did not assign the correct accounts to line items in the footnote disclosures, reported incorrect amounts, omitted account activity, and was not consistent with prior year audited financial statements.

During audits of the EPA’s component financial statements, we found the following misstatements and errors:

- **Toxic Substances Control Act Service Fee Fund financial statements for the period from inception (June 22, 2016) through September 30, 2018.** We found that the EPA overstated its expenses from other appropriations by \$8.4 million. The EPA made errors in multiple iterations of its calculation for expenses from other appropriations. Management did not have an adequate review process in place to ensure proper reporting of costs incurred against other appropriations to support Toxic Substances Control Act Service Fee Fund activities.
- **FY 2019 Pesticide Registration Improvement Act Fund financial statements.** We found multiple instances where the EPA misstated its adjustments and financial statements. We found that the Agency misreported contract expenses by approximately \$156,000, and statement of budgetary resources by approximately \$48,000. We also found that the EPA incorrectly calculated its payroll accrual.
- **FY 2019 Hazardous Waste Electronic Manifest System Fund financial statements.** We found that the EPA misreported accounts receivable and earned revenue by approximately \$151,000, and accrued liabilities by approximately \$183,000. We also found various errors totaling at least \$110,000.

The EPA did not detect and correct, during its financial statement preparation processes, the errors and misstatements stated above. After we conducted account analyses of the activity and questioned the Agency, staff stated that the EPA will prepare additional adjustments and revise the current adjustments to correct the errors and misstatements we found. These issues highlight the need for the EPA to strengthen its processes so that amounts and accounts are accurate and properly posted in its accounting system, as well as to comply with federal accounting standards.

Failure to properly record financial adjustments and exercise due diligence in the preparation and management review of the financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

## **Recommendation**

We recommend that the chief financial officer:

1. Develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.

## **Agency Response and OIG Assessment**

The EPA agreed with our recommendation; however, the EPA disagreed that it was unable to detect errors and did not exercise due diligence. The Agency also disagreed that it did not properly detect a \$4 billion error. We stand by our position that the lack of due diligence is evidenced by the errors we found during this audit and that if the EPA had adequately prepared and reviewed the adjustment, the error would not have been entered into the EPA's accounting system.



## 2—EPA Recorded Improper Adjustments to Superfund Special Account Unearned Revenue in FYs 2020 and 2019

During our audit of the EPA’s FYs 2020 and 2019 financial statements, we found that the EPA improperly recorded adjustments totaling over \$141 million of unearned revenue. The GAO’s *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events. A \$120 million error, which impacted both the FYs 2020 and 2019 financial statements, occurred because the Agency omitted relevant data in its analysis of its FY 2019 Superfund oversight accrual. A \$21.5 million error, which impacted unearned revenue in the FY 2020 financial statements, occurred because the Agency posted the adjustment to a wrong account and incorrectly impacted unearned revenue. The EPA did not adequately consider the effect that the adjustments would have on the FY 2020 financial statements. Both errors could have been found and corrected if the Agency performed a more complete analysis of its financial statement adjustments. When the EPA does not properly analyze the effect of adjustments, it could materially misstate its financial position and impact the reliability of its financial statements.

OMB Circular A-136, *Financial Reporting Requirements*, Section II.3, requires that information in the financial statements be presented in accordance with the generally accepted accounting principles for federal entities issued by the Federal Accounting Standards Advisory Board’s Statement of Federal Financial Accounting Standards. In addition, the GAO’s *Standards for Internal Control in the Federal Government* defines the five components of internal control in government, one of which is the standard for control activities. Under this standard, 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 that the EPA improperly recorded adjustments in its FY 2020 draft financial statements and its FY 2019 financial statements, as summarized in Table 1.

**Table 1: Adjustments incorrectly affecting unearned revenue in fiscal year 2020 draft financial statements**

Fiscal year affected	Description of error	Dollar amount
2019 and 2020	The Agency incorrectly impacted unearned revenue while removing the Superfund oversight accrual in FY 2019. The issue carried over into FY 2020.	\$119,923,132.53
2020	The Agency made a FY 2020 draft financial statement adjustment as a result of an OIG FY 2019 finding. The adjustment improperly impacted unearned revenue when it should have impacted a receivable account.	21,498,292.10
<b>TOTAL</b>		<b>\$141,421,424.63</b>

Source: OIG analysis of EPA data. (EPA OIG table)

In FY 2019, the Agency changed the way it accounted for Superfund special account activity. Following the Agency’s accounting change, it decided to remove the Superfund oversight

accrual from its financial system. However, the FY 2019 adjustments of approximately \$120 million to remove the Superfund oversight accrual were not accurate.

In FY 2020, the EPA recorded two improper adjustments totaling over \$141 million:

- **A repeat of the approximately \$120 million error from the incorrect Superfund oversight accrual prior year adjustments in FY 2019.** Since the Agency was no longer posting the Superfund special account oversight accrual, this adjustment was incorrect.
- **An approximately \$21.5 million receivable adjustment in the unearned revenue account.** The adjustment resulted from an incomplete accounting entry that the OIG identified in FY 2019. The Agency did not make the adjustment in FY 2019 and then recorded an incorrect adjustment in its FY 2020 draft financial statements, decreasing unearned revenue when it should have decreased a receivable account to eliminate intragovernmental activity.

The EPA did not detect the \$120 million or the \$21.5 million error during its financial statement preparation processes. These errors occurred because the Agency performed incomplete analyses of the Superfund oversight accrual and other financial statement adjustments. When the EPA does not properly analyze the effect of adjustments, it could materially misstate its financial position and impact the reliability of its financial statements.

## **Recommendation**

We recommend that the chief financial officer:

2. Develop a plan to evaluate and improve the EPA's process for preparing adjustments, including an analysis of the impact of adjustments on general ledger accounts, and improve the management review process to ensure general ledger impact is proper in the financial statements.

## **Agency Response and OIG Assessment**

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

## ***Status of Prior Audit Report Recommendations***

The EPA explained to us that it continued to strengthen its audit and evaluation management practices and procedures to address the OIG's audit and evaluation findings in a timely manner and to complete corrective actions expeditiously and effectively. In FY 2020, 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 and evaluation management procedures:

- Worked closely with Agency audit follow-up coordinators during FY 2020 to ensure that estimated milestone dates for planned corrective actions were being met and the required certification memorandums were being submitted. Efforts by the Office of the Chief Financial Officer were critical, significantly helping the OIG to accurately portray the status of recommendations and associated corrective actions in our spring and fall *Semiannual Report to Congress*.
- Continuously provides monthly reporting for the agencywide metric on the number of planned corrective actions that were not completed by their estimated milestone date. The intended purpose is to facilitate the implementation of Agency corrective actions to OIG recommendations and decrease the number of late corrective actions.
- Developed an OIG and GAO tracker intended to provide Agency senior management with visibility on OIG and GAO audits and evaluations. The tracker includes the most recent audit and evaluation information. It is updated by the OCFO and distributed by the Office of the Administrator monthly.
- Established the *OIG GAO Audit Community* SharePoint site that serves as a “one-stop-shop” resource for the Agency's audit follow-up coordinators and liaisons. This collaborative site includes audit and evaluation resources and reference materials, such as standard operating procedures, audit templates, frequently asked questions, reporting links and deadlines, and other useful information.
- Provided training during the OCFO Technical Series on the Agency's audit and evaluation processes. The training included an update on existing and new processes for OIG audit and evaluation work, specifically work completed under the *Quality Standards for Inspection and Evaluation*, also called the “Blue Book.”
- Held periodic meetings with Agency audit follow-up coordinators and liaisons to discuss issues and concerns, emphasize adherence to corrective action milestone dates, and reaffirm the need to keep the Management Audit Tracking System current.
- Began establishing a new tracking tool, called the Enterprise Audit Management System, that will enable the Agency to track active OIG and GAO audits and evaluations and to

post information about audit and evaluation follow-up activities. This new tool will accommodate data entry, tracking, and reporting for all phases of the audit and evaluation life cycles.

The OCFO continues its commitment to improve the Agency's audit and evaluation management practices and to engage early with the OIG on audit and evaluation findings to develop effective corrective actions that address OIG recommendations; however, we continue to identify significant deficiencies that remain outstanding in our financial statement audits. The table below describes the recommendations from previous financial statement audits that remain either unresolved or unimplemented.

**Significant deficiency issues not fully resolved or implemented**

<p><b>EPA Did Not Capitalize Lab Renovation Costs</b></p> <p>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 initially due in September 2017; however, the Agency revised the estimated milestone 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 examples was not feasible. The Office of General Counsel has no further information to provide and believes its review is complete. The OIG will continue to report the issue as not fully resolved.</p>
<p><b>EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement</b></p> <p>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 were 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. Because of the FY 2020 coronavirus pandemic, the Agency was unable to physically access and provide us with supporting documentation related to the Board of Survey investigations. As a result, we are unable to assess the effectiveness of the Agency's corrective actions.</p>
<p><b>Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center</b></p> <p>In FY 2014, we found that the EPA and the U.S. Department of Justice did not forward accounts receivable source documents to the Cincinnati 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 finance center's timely receipt of legal documents, we still identified instances of untimely receipt in FYs 2015 through 2020. Therefore, the Agency's corrective actions are not completely effective, and we will continue to evaluate whether the finance center receives legal source documents in a timely manner in FY 2021.</p>

**EPA Materially Overstated Earned Revenue**

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. During FY 2020, we found again that the EPA's Working Capital Fund elimination entry did not properly eliminate Working Capital Fund earned revenue balances. Therefore, the EPA's corrective action was not completely effective.

**EPA Should Improve Its Efforts to Resolve Long-Standing Cash Differences with Treasury**

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. During our FY 2020 audit, the EPA provided supporting documentation related to its corrective actions. The support provided was not sufficient to show that the EPA cleared the FY 2018 long-standing differences. We also continue to find recurring differences in FY 2020. Therefore, we do not consider the corrective actions complete.

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

During our FY 2019 audit, we found that the EPA did not properly record \$15,682,808 of e-Manifest receivables in FY 2019. 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. Furthermore, the EPA is not in compliance with either Statement of Federal Financial Accounting Standards 1, which requires the recognition of a receivable when a legal claim exists, or Statement of Federal Financial Accounting System 7, which requires revenue recognition when the goods or services were provided. We recommended that the chief financial officer update the accounting models to properly record collections and not reduce an account receivable account; establish accounting models to properly record e-Manifest accounts receivable and recognize earned revenue at the transaction level; establish accounting models to properly classify and record interest, fines, penalties, and fees; and establish accounting models to properly record receivables, collections, and earned revenue from federal versus nonfederal vendors. The EPA agreed with our findings and recommendations. The Agency's estimated completion date for corrective actions is September 30, 2021.

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

During our FY 2019 audit, we found multiple instances whereby the Agency had major misstatements of its financial transactions and financial statements. We recommended that the chief financial officer evaluate and improve the EPA's process for preparing financial statements and provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. The EPA agreed with our findings and recommendations. The Agency's estimated completion date for corrective actions was July 31, 2020, for Recommendation 1 and February 29, 2020, for Recommendation 2. During FY 2020, we identified multiple instances in other FY 2019 financial statement audits whereby the Agency had major misstatements of its financial transactions and financial statements. Therefore, we do not consider these corrective actions complete.

Source: OIG analysis.

## ***Status of Current Recommendations and Potential Monetary Benefits***

RECOMMENDATIONS						
Rec. No.	Page No.	Subject	Status *	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	11	Develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.	R	Chief Financial Officer	7/31/21	** \$1,072
2	13	Develop a plan to evaluate and improve the EPA's process for preparing adjustments, including an analysis of the impact of adjustments on general ledger accounts, and improve the management review process to ensure general ledger impact is proper in the financial statements.	C	Chief Financial Officer	11/9/20	\$141,421

\* C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

\*\* The negative unexpended appropriations consists of approximately \$1.072 million from Federal Insecticide, Fungicide, and Rodenticide Act funds and \$199,450 from Hazardous Waste Electronic Manifest System funds. We are reporting monetary benefits for the Federal Insecticide, Fungicide, and Rodenticide Act funds in this report, and the Hazardous Waste Electronic Manifest System amount will be reported separately in the fiscal year 2019 e-Manifest component financial statement audit.

***EPA's FYs 2020 and 2019 (Restated)  
Consolidated Financial Statements***

**EPA's Fiscal Year 2020 and 2019  
Consolidated Financial Statements (With Restatement)**

**Financial Section**

## Agency Response to Draft Report



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

November 13, 2020

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### MEMORANDUM

**SUBJECT:** Response to the Office of Inspector General Draft Audit Report, Project No. OA&E-FY20-0206, *"EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements,"* dated November 10, 2020

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

**DAVID  
BLOOM**

Digitally signed by DAVID  
BLOOM  
Date: 2020.11.13 15:03:47  
-05'00'

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

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 U.S. Environmental Protection 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 possible.

### AGENCY'S OVERALL POSITION

The EPA concurs with the Office of Inspector General's recommendations but disagrees with some of the OIG statements made.

### AGENCY RESPONSE TO OIG STATEMENTS

#### OIG STATEMENT

During its financial statement preparation process, however, the EPA did not detect and correct multiple misstatements and adjustment errors before they were entered into the EPA's accounting system or statements. Not properly recording financial adjustments and not exercising due diligence in the preparation of the financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

#### AGENCY RESPONSE

The agency disagrees that it was unable to detect errors and did not exercise due diligence in the preparation of the financial statements. Considering the hundreds of adjustments that are required for the financial statements every fiscal year, occasional errors are an expected risk, and that is why the agency has internal controls in place to mitigate that risk. Due diligence and



application of existing internal controls led to the discovery and correction of errors and prevented any misrepresentation of the agency's financial position.

#### OIG STATEMENT

The EPA incorrectly recorded an adjustment totaling approximately \$4 billion in its accounting system. The error occurred because the EPA's preparation, analysis, and review of the material adjustment before it was entered into the EPA's accounting system did not detect or prevent the material adjustment from being entered incorrectly. After being informed of the error, the Agency subsequently recorded a financial statement adjustment to mitigate the impact of the error.

#### AGENCY RESPONSE

As the agency stated in its response to a previous finding on this adjustment, agency staff independently detected and quickly corrected this error, which was due to a transposition of debits and credits. While we did make the error, staff followed procedures in checking work and that allowed the error to be properly detected and corrected prior to the issuance of the first draft of the financial statements. Therefore, there was no impact to the financial statements.

#### OIG STATEMENT

During audits of the EPA's component financial statements, we found the following misstatements and errors:

- **Toxic Substances Control Act Service Fee Fund financial statements for the period from inception (June 22, 2016) through September 30, 2018.** We found that the EPA overstated its expenses from other appropriations by \$8.4 million. The EPA made errors in multiple iterations of its calculation for expenses from other appropriations. Management did not have an adequate review process in place to ensure proper reporting of costs incurred against other appropriations to support Toxic Substances Control Act Service Fee Fund activities.
- **FY 2019 Pesticide Registration Improvement Act Fund financial statements.** We found multiple instances where the EPA misstated its adjustments and financial statements. We found that the Agency misreported contract expenses by approximately \$156,000, and statement of budgetary resources by approximately \$48,000. We also found that the EPA incorrectly calculated its payroll accrual.
- **FY 2019 Hazardous Waste Electronic Manifest System Fund financial statements.** We found that the EPA misreported accounts receivable and earned revenue by approximately \$151,000, and accrued liabilities by approximately \$183,000. We also found various errors totaling at least \$110,000.

#### AGENCY RESPONSE

The agency concurs with the misstatements identified in the component financial statements and is working on implementing stronger internal control over the component financial statement preparation process. Having said that, the overall impact of the identified misstatements total \$9.048 million which is not material to the consolidated financial statements of the EPA.

<b>Component</b>	<b>Dollar Amount of Misstatement</b>	<b>Material to EPA Financial Statements</b>
Toxic Substances Control Act Service Fee Fund	\$8.4 M	No
FY 2019 Pesticide Registration Improvement Act Fund	\$0.156 M \$0.048 M	No
FY 2019 Hazardous Waste Electronic Manifest System Fund	\$0.151 M \$0.183 M \$0.110 M	No
<b>Total</b>	<b>\$9.048 M</b>	

#### OIG STATEMENT

The EPA did not detect and correct, during its financial statement preparation processes, the errors and misstatements stated above. After we conducted account analyses of the activity and questioned the Agency, staff stated that the EPA will prepare additional adjustments and revise the current adjustments to correct the errors and misstatements we found. Had it not been for the intensive inquiry by our auditors, material errors would have impacted the financial statements.

#### AGENCY RESPONSE

There was one material error cited by the OIG, a \$120 million misstated Superfund special account unearned revenue balance. To prevent this type of error, in addition to the improvements and updates to “Standard Procedures for the Processing of Vouchers in Compass” described below, the review process for adjustments will now include analysis of the complete general ledger impact of adjustments to ensure the proper general ledger impact in the financial statements is achieved.

#### AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

<b>No.</b>	<b>Recommendation</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion Date</b>
1	Develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.	Concur. The agency agrees that it will strengthen and improve the preparation and management review of the financial statements and adjustments and has already developed and implemented a plan to do so. The following corrective actions have been completed or are in progress: <ul style="list-style-type: none"> <li>Updated the “Standard Procedures for the Processing of Vouchers in Compass” to improve the process for</li> </ul>	July 31, 2021

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
		<p>preparing adjustments. Adjustments over \$10 million will now require an additional level of management review. On top adjustments to the financial statements will require review and approval by management before being processed. <i>(Completed November 2020)</i></p> <ul style="list-style-type: none"> <li>Reviewed with staff the need to include more of the supporting analysis and rationale behind the adjustments made and the accounting basis for them. <i>(Completed February 2020)</i></li> <li>Regular reviews of journal vouchers to ensure they are clearly and sufficiently supported. <i>(On-going)</i></li> <li>Regular financial statements team meetings to cross train and resolve potential issues. <i>(On-going)</i></li> <li>Full implementation of CaseWare financial statement preparation software which increases efficiency and provides additional format controls and footnote cross checks that were not available previously. <i>(Completed March 2020)</i></li> <li>Annual staff training on CaseWare. <i>(Completed July 2020)</i></li> <li>Annual project plan for financial statement preparation process. <i>(Completed July 2020)</i></li> <li>Developed Standard Operating Procedures for financial statement preparation and reviewer checklist. <i>(Completed July 2020)</i></li> <li>Established a senior level call bi-weekly between the DCFO, Controller and OIG senior management to address concerns early in the audit process. <i>(On-going)</i></li> <li>Lessons learned to be discussed at conclusion of audit and process improvement plans developed. <i>(January/February 2021)</i></li> </ul>	

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
		<ul style="list-style-type: none"> <li>Off cycle A-123 review of SOPs. (January/February 2021)</li> </ul>	
2	Develop a plan to evaluate and improve the EPA's process for preparing adjustments, including an analysis of the impact of adjustments on general ledger accounts, and improve the management review process to ensure general ledger impact is proper in the financial statements.	Concur. The agency has already developed and implemented a plan to improve the process as stated above. In addition, the agency updated the "Standard Procedures for the Processing of Vouchers in Compass" as a process improvement for preparing adjustments. Adjustments over \$10 million will now require an additional level of management review. Additionally, on top adjustments to the financial statements will require review and approval by management before being processed. Any adjustment materially affecting accounts and/or balances of the finance centers will be coordinated for review. The review process for adjustments will now include analysis of the complete general ledger impact of adjustments.	November 9, 2020

#### **CONTACT INFORMATION**

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

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# Section III

## Other Accompanying Information





# MANAGEMENT INTEGRITY AND CHALLENGES

## Overview of EPA's Efforts

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Management challenges and internal control weaknesses represent vulnerabilities in program operations that may impair the EPA's ability to achieve its mission and threaten the agency's safeguards against fraud, waste, abuse and mismanagement. These areas are identified through internal agency reviews and independent reviews by the EPA's external evaluators, such as the Office of Management and Budget, the Government Accountability Office and the EPA's Office of Inspector General. This section of the AFR discusses in detail two components related to challenges and weaknesses: 1) key management challenges identified by EPA's OIG, followed by the agency's response and 2) a brief discussion of the EPA's progress in addressing its FY 2020 material weaknesses.

Under the FMFIA, all federal agencies must provide reasonable assurance that internal controls are adequate to support the achievement of their intended mission, goals and objectives. (See Section I, "Management Discussion and Analysis," for the Administrator's Statement of Assurance.) Additionally, agencies must report any material weaknesses identified through internal and/or external reviews and their strategies to remedy the problems. Material weaknesses are vulnerabilities that could significantly impair or threaten fulfillment of the agency's programs or mission. In FY 2020, no new material weaknesses were identified by OIG or the agency. (See following subsection for a discussion of the EPA's progress in addressing its material weakness.)

The agency's senior managers remain committed to maintaining effective and efficient internal controls to ensure that program activities are carried out in accordance with applicable laws and agency policy and procedures. The agency will continue to address its remaining weaknesses and report on its progress.



# 2020 KEY MANAGEMENT CHALLENGES

## Office of Inspector General-Identified Key Management Challenges

The Reports Consolidation Act of 2000 requires the OIG to report on the agency's most serious management and performance challenges, known as the key management challenges. Management challenges represent vulnerabilities in program operations and their susceptibility to fraud, waste, abuse or mismanagement. For FY 2020, the OIG identified eight challenges. The table below includes issues the OIG identified as key management challenges facing the EPA, the years in which the OIG identified the challenge, and the relationship of the challenge to the agency's goals in its strategic plan. (<http://epa.gov/planandbudget/strategicplan.html>).

OIG-identified key management challenges for the EPA	FY 2019	FY 2020
<b>Oversight of States, Territories, and Tribes Authorized to Accomplish Environmental Goals:</b> The EPA has made important progress, but OIG's work continues to identify challenges throughout agency programs and regions, and many of OIG's recommendations to establish consistent baselines and monitor programs are still not fully implemented.	•	•
<b>Enhancing Information Technology Security to Combat Cyber Threats</b> ( <i>formerly Limited Capability to Respond to Cyber Security Attacks</i> ): Though the EPA continues to initiate actions to further strengthen or improve its information security program, the agency lacks a holistic approach to managing accountability over its contractors and lacks follow-up on corrective actions taken.	•	•
<b>Workforce Planning/Workload Analysis:</b> The EPA needs to identify its workload needs so that it can more effectively prioritize and allocate limited resources to accomplish its work.	•	•
<b>Mandated Reporting Requirements:</b> The agency faces challenges in tracking and submitting reports mandated by law that contain key program information for Congress, the EPA Administrator and the public.	•	•
<b>Data Quality for Program Performance and Decision-Making:</b> Poor data quality negatively impacts the EPA's effectiveness in overseeing programs that directly impact public health.	•	
<b>The EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect Their Health and the Environment:</b> In 2018, the EPA Administrator identified Risk Communication as a top priority. Our recent reports indicate risk communication challenges across many EPA programs.	•	•
<b>Maintaining Operations During Pandemic and Natural Disaster Responses.</b> The EPA needs to maintain human health and environmental protections, business operations, and employee safety during the coronavirus pandemic and future natural disasters		•
<b>Complying with Key Internal Control Requirements.</b> The EPA faces the following overarching challenges in implementing and operating internal controls that establish and maintain an effective work environment		•
<b>Integrating and Leading Environmental Justice Across the Agency and Government.</b> The EPA needs to enhance its consideration of environmental justice across programs and regions and provide leadership in this area		•



U.S. ENVIRONMENTAL PROTECTION AGENCY  
**OFFICE OF INSPECTOR GENERAL**



**FYs 2020–2021**  
**U.S. Environmental**  
**Protection Agency**

# Top Management Challenges



## Abbreviations

C.F.R.	Code of Federal Regulations
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IT	Information Technology
OIG	Office of Inspector General
OPM	U.S. Office of Personnel Management
U.S.C.	United States Code

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

#### EPA Inspector General Hotline

1200 Pennsylvania Avenue, NW (2431T)  
Washington, D.C. 20460  
(888) 546-8740  
(202) 566-2599 (fax)  
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Learn more about our [OIG Hotline](#).

### EPA Office of Inspector General

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# At a Glance

## What Are Management Challenges?

According to the GPRA Modernization Act of 2010 (GPRA stands for Government Performance and Results Act), “major management challenges”—hereafter referred to as *top management challenges*—are programs or management functions within or across agencies that have greater vulnerability to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

Per the Reports Consolidation Act of 2000, each fiscal year the Office of Inspector General identifies top management challenges for the U.S. Environmental Protection Agency.

In each of our audit and evaluation reports, we will note in the “At a Glance” page, as well as on the first page of the report, which management challenges the report addresses, if applicable.

Address inquiries to our public affairs office at (202) 566-2391 or [OIG\\_WEBCOMMENTS@epa.gov](mailto:OIG_WEBCOMMENTS@epa.gov).

[List of OIG reports.](#)

## EPA’s FYs 2020–2021 Top Management Challenges

### What We Found

**Identifying and resolving top management challenges is essential to the EPA’s protection of human health and the environment.**

The EPA faces significant challenges in accomplishing its mission in FYs 2020 and 2021, and perhaps beyond. The challenges that we previously identified in the FY 2019 management challenges report (Report No. [19-N-0235](#), issued July 15, 2019) remain, but new circumstances have created additional challenges that may prevent the Agency from fulfilling its responsibilities and meeting its goals. Our work, the work of the U.S. Government Accountability Office, and Agency documents and statements point to eight categories of challenges:

- 1. Maintaining Operations During Pandemic and Natural Disaster Responses.** The EPA needs to maintain human health and environmental protections, business operations, and employee safety during the coronavirus pandemic and future natural disasters.
- 2. Complying with Key Internal Control Requirements.** The EPA faces the following overarching challenges in implementing and operating internal controls that establish and maintain an effective work environment:
  - a. Developing **internal control risk assessments**.
  - b. Ensuring **quality data**.
  - c. Creating effective operational **policies and procedures**.
- 3. Overseeing States, Territories, and Tribes Responsible for Implementing EPA Programs.** The EPA faces a challenge in improving its oversight of and the results received from state, territory, and tribal environmental programs.
- 4. Improving Workforce/Workload Analyses to Accomplish EPA’s Mission Efficiently and Effectively.** The EPA needs ongoing and comprehensive workload analyses to adequately respond to and prepare for future staffing gaps and shortages in essential positions.
- 5. Enhancing Information Technology Security to Combat Cyberthreats.** Without enhanced information technology security, the EPA remains vulnerable to existing and emerging cyberthreats.
- 6. Communicating Risks to Allow the Public to Make Informed Decisions About Its Health and the Environment.** The EPA needs to provide individuals and communities with sufficient information to make informed decisions to protect their health and the environment.
- 7. Fulfilling Mandated Reporting Requirements.** The EPA must meet its congressionally mandated report requirements.
- 8. Integrating and Leading Environmental Justice Across the Agency and Government.** The EPA needs to enhance its consideration of environmental justice across programs and regions and provide leadership in this area.



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

THE INSPECTOR GENERAL

July 21, 2020

**MEMORANDUM**

**SUBJECT:** EPA's FYs 2020–2021 Top Management Challenges  
Report No. 20-N-0231

**FROM:** Sean W. O'Donnell 

**TO:** Andrew Wheeler, Administrator

As required by the Reports Consolidation Act of 2000, the Office of Inspector General is providing the issues we consider to be the U.S. Environmental Protection Agency's top management challenges.

The Inspector General Act of 1978, as amended, directs inspectors general to provide leadership to agencies through audits, evaluations, and investigations, as well as additional analyses of agency operations. According to the GPRA Modernization Act of 2010 (GPRA stands for Government Performance and Results Act), "major management challenges"—which we refer to as *top management challenges*—are programs or management functions within or across agencies that have greater vulnerability to waste, fraud, abuse, and mismanagement, where a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

Annually, our office publicly reports on top management challenges, whereby we reassess the major challenges that affect and influence EPA operations. The enclosed management challenges report reflects findings and themes resulting from many such efforts conducted by the EPA OIG this past year. Drawing high-level EPA attention to these key issues is an essential component of the OIG's mission. This report summarizes what we consider to be the most serious management and performance challenges facing the Agency. It also assesses the Agency's progress in addressing those challenges. This report and its findings will be an important foundation for charting the path of future OIG audits and investigations.

For this report, the OIG conducted a survey of all EPA headquarters offices and discussed management challenges in outreach meetings with Agency offices to request feedback on how these challenges affect the EPA's business and operations. To develop this year's management challenges, we considered, among other sources, information provided by the EPA in addition to the work of the OIG, the U.S. Government Accountability Office, and public statements by EPA leaders to the press and Congress. These challenges will guide our future assignments as we work to assist the EPA in achieving its goals to protect human health and the environment.

In this report, we retained the management challenges that we identified in fiscal year 2019. We introduced the challenge of responding to the coronavirus pandemic and other disasters, as well as an overarching internal control challenge that encompasses program and regional office risk assessments, data quality, and policies and procedures. We also introduced as a top management challenge the integration and enhancement of environmental justice issues across the Agency and government. We would be pleased to discuss these matters with you and address any questions you may have.

# ***Table of Contents***

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## **Challenges**

<b>1</b>	<b>Maintaining Operations During Pandemic and Natural Disaster Responses .....</b>	<b>1</b>
<b>2</b>	<b>Complying with Key Internal Control Requirements .....</b>	<b>9</b>
<b>3</b>	<b>Overseeing States, Territories, and Tribes Responsible for Implementing EPA Programs .....</b>	<b>15</b>
<b>4</b>	<b>Improving Workforce/Workload Analyses to Accomplish EPA's Mission Efficiently and Effectively .....</b>	<b>20</b>
<b>5</b>	<b>Enhancing Information Technology Security to Combat Cyberthreats .....</b>	<b>24</b>
<b>6</b>	<b>Communicating Risks to Allow the Public to Make Informed Decisions About Its Health and the Environment .....</b>	<b>27</b>
<b>7</b>	<b>Fulfilling Mandated Reporting Requirements .....</b>	<b>32</b>
<b>8</b>	<b>Integrating and Leading Environmental Justice Across the Agency and Government .....</b>	<b>34</b>



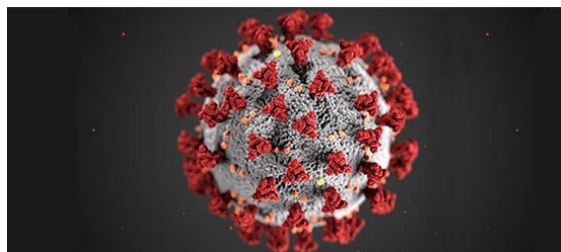
## **CHALLENGE: Maintaining Operations During Pandemic and Natural Disaster Responses**

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### **CHALLENGE FOR THE AGENCY**

**The U.S. Environmental Protection Agency must adapt to protect human health and the environment amid the coronavirus pandemic and natural disasters.** The Agency's mission to protect human health and the environment comes into sharp focus as the Agency continues to respond to the 2020 coronavirus pandemic—that is, the SARS-CoV-2 virus and resultant COVID-19 disease. At the same time, EPA response and support capabilities need to be available to support natural disaster response during the 2020 hurricane and wildfire seasons. The Agency's responsibilities for implementing federal environmental laws also continue, even as resources and capabilities shift throughout these overlapping events.



(Centers for Disease Control and Prevention image)

This cross-cutting challenge touches on other EPA management challenges, such as the EPA's oversight of states, territories, and tribes; risk communication; and workforce analyses. This challenge also raises new risks in monitoring preexisting contracting and grant funds, as well as those funds directly helping to alleviate the crises.

### **Risk to EPA's Mission Achievement: Successful Implementation of Programs**

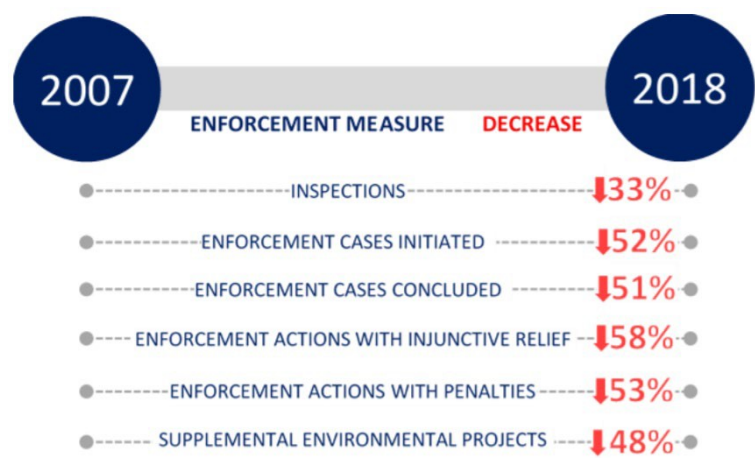
Achieving the EPA's mission relies on effective implementation of federal environmental laws and regulations, which are designed to protect human health and the environment. Appropriate regulations and effective enforcement are key to combating and deterring violations of law, including fraud.

**Fraud Identification.** Inspections of recent imports have identified products marketed with unsubstantiated and dangerous claims of being able to protect against the SARS-CoV-2 virus. Companies are also fraudulently claiming that their products are approved or endorsed by the EPA or contain EPA-approved disinfectants for use against the SARS-CoV-2 virus. The prevalence of fraud related to EPA programs and operations will most likely increase as fraudsters identify new ways to exploit consumers frightened by the coronavirus pandemic. In an April 2020 news release, EPA Administrator Andrew Wheeler stated that the EPA takes seriously its responsibility to protect Americans from fraudulent surface disinfectants and that he has met with online retailers and others to ask for their help in preventing imposter products from coming to market. The Office of Inspector General's Office of Investigations has opened many cases involving fraudulent disinfectant products to protect the integrity of the EPA's programs and the American people.

**Disinfectant Approval.** One of the EPA’s most immediate responses to the coronavirus pandemic has involved approving disinfectants that can kill the SARS-CoV-2 virus on surfaces. The EPA has also developed a list of products that are registered to destroy viruses known to be as difficult—if not more difficult—to kill than the SARS-CoV-2 virus. In addition, to address pesticide supply chain shortages, the EPA is temporarily allowing companies to change—without prior EPA approval, as is typically required—the suppliers of certain active ingredients in approved products.

**Regulatory Program Implementation.** During the coronavirus pandemic, the EPA has made many adjustments to programs and operations by, for example, issuing regulatory waivers and making exceptions to regulatory requirements, policy, and internal controls. However, these adjustments create new risks that the Agency will not identify or address noncompliance. The EPA has implemented a temporary enforcement policy that curtails several routine regulatory monitoring and enforcement activities during the coronavirus pandemic. In the face of these adaptations, the EPA must maintain a robust regulatory and enforcement program to ensure environmentally protective practices and to address environmental violations and deter noncompliance. Reduction in regulatory and enforcement activity places the EPA’s mission at greater risk and threatens the Agency’s overall mission to protect human health and the environment.

On May 20, 2020, Administrator Wheeler testified before Congress that, since March 16, 2020, the Agency has opened 52 criminal enforcement cases, charged ten defendants, concluded 122 civil enforcement actions, initiated another 115 civil enforcement actions, secured \$21.5 million in Superfund response commitments, billed more than \$20 million in Superfund oversight costs, and attained commitments from parties for cleanup of 68,000 cubic yards of contaminated soil and water.<sup>1</sup> However, we observed in a March 31, 2020 interim report that the



The EPA’s enforcement measures decreased when comparing FYs 2007 and 2018. (OIG graphic)

EPA’s enforcement activities and its resources for conducting routine regulatory enforcement work have declined over time.<sup>2</sup> In fact, based on our analysis of the information available in the Agency’s database, the number of civil administrative cases the EPA initiated continued the downward trend that we observed in our interim report.

**Program Oversight.** As described in the management challenge “Overseeing States, Territories, and Tribes Responsible for Implementing EPA Programs,” states, territories, and tribes often act as the

<sup>1</sup> *Oversight of the Environmental Protection Agency, before the Senate Committee on Environment and Public Works, 116<sup>th</sup> Congress (2020)* (statement of Andrew Wheeler, EPA administrator).

<sup>2</sup> *OIG, EPA’s Compliance Monitoring Activities, Enforcement Actions, and Enforcement Results Generally Declined from Fiscal Years 2006 Through 2018*, Report No. [20-P-0131](#), March 31, 2020.



frontline implementers of federal environmental laws on the EPA's behalf. As a result of the coronavirus pandemic and natural disasters, these entities face financial and personnel challenges that may limit their ability to adequately implement federal requirements. The OIG is reviewing the EPA's ability to conduct emergency response during the coronavirus pandemic.<sup>3</sup>

In addition, during responses to natural disasters, the EPA and the Federal Emergency Management Agency encounter not only personnel shortages, but also utility and infrastructure damage that may render drinking water and wastewater treatment inoperable for a period of time.<sup>4</sup> Infrastructure damage inhibits the federal government's ability to assess environmental conditions and accurately communicate those conditions to the public in a timely fashion. The EPA has recognized this challenge, emphasizing the additional pressure placed on drinking water utilities during the coronavirus pandemic. In a March 27, 2020 press release, Administrator Wheeler said, "Having fully operational drinking water and wastewater services is critical to containing COVID-19 and protecting Americans from other public health risks. Our nation's water and wastewater employees are everyday heroes who are on the frontline of protecting human health and the environment every single day."<sup>5</sup> Additional



An EPA response team meets for a safety briefing before assessing sites in Tampa, Florida. (EPA photo)

planning, assistance, and oversight by the EPA is necessary to support states, territories, tribes, and local utilities that are facing a strain on their resources amid the coronavirus pandemic and when natural disasters hit. The OIG will review the EPA's assistance to tribal drinking water facilities in the face of the coronavirus pandemic.<sup>6</sup>

**Environmental Justice Considerations.** Data from the Centers for Disease Control and Prevention show higher rates of hospitalization or death among non-Hispanic Black persons, Hispanics and Latinos, and American Indians/Alaska Natives. On June 9, 2020, the House Energy and Commerce Subcommittee on Environment and Climate Change held a hearing titled "*Pollution and Pandemics: COVID-19's Disproportionate Impact on Environmental Justice Communities.*" The subcommittee agreed that

<sup>3</sup> OIG Notification Memorandum, *Survey of EPA On-Scene Coordinators and Managers Regarding COVID-19*, Project No. [OA&E-FY20-0240](#), June 15, 2020.

<sup>4</sup> OIG, *EPA Region 6 Quickly Assessed Water Infrastructure after Hurricane Harvey but Can Improve Emergency Outreach to Disadvantaged Communities*, Report No. [19-P-0236](#), July 16, 2019; and OIG, *Region 4 Quickly Assessed Water Systems After Hurricane Irma but Can Improve Emergency Preparedness*, Report No. [20-P-0001](#), October 7, 2019.

<sup>5</sup> EPA, "EPA Urges States to Support Drinking Water and Wastewater Operations during COVID-19," [News Release](#), March 27, 2020.

<sup>6</sup> OIG Notification Memorandum, *EPA's Oversight of Tribal Drinking Water Systems*, Project No. [OA&E-FY20-0044](#), May 29, 2020.

environmental justice is a priority highlighted by the coronavirus pandemic. One representative stated that the EPA's deregulatory actions have left many communities wondering who will protect their health and safety. Another representative added that pollution burdens can also have a disproportionate impact on people with chronic underlying health problems and on disadvantaged communities.

In April 2020, the EPA made grants available for public education, training, and emergency planning for environmental justice communities—which are communities that can be disproportionately impacted by negative environmental factors—across the country that have been impacted by the COVID-19 disease. Currently, the OIG is tracking environmental justice issues on several ongoing projects, including our review of the EPA's implementation of Title VI, which prohibits recipients of federal financial assistance from discriminating on the basis of race, color, or national origin when implementing programs and activities.<sup>7</sup> More information can be found under the management challenge “Integrating and Leading Environmental Justice Across the Agency and Government.”

**Contract Oversight.** The OIG has consistently raised concerns about the EPA's oversight of contracts. This oversight responsibility is complicated by new funds and requirements associated with the government's response to the coronavirus pandemic. For example, the EPA faces a new challenge in contract management as a result of Section 3610 of the Coronavirus Aid, Relief, and Economic Security Act, known as the CARES Act. This Act authorizes—but does not require—agencies to reimburse contractors the cost of paid leave for their personnel who are unable to access a government-approved facility or telework because their jobs cannot be performed remotely. Our review of the EPA's plans for implementation of Section 3610 found that the Office of Acquisition Solutions created and provided detailed guidance to EPA contracting personnel and contractors related to reimbursements under Section 3610. Two Office of Acquisition Solutions—issued guidance documents—the Implementation Plan and the Contractor Supplemental Invoice Instructions—specifically capture the purpose of and implementation steps for Section 3610. We did not find any evidence that the EPA's guidance, as revised, was inconsistent with the statute.<sup>8</sup>

Paying contractors under the CARES Act may benefit the economy by keeping contractors and their staff financially solvent. However, if the EPA makes the payments, it risks falling short of funds to meet its mission requirements. The EPA has advised that funds for Section 3610 will come from program offices, which impacts the current fiscal year's program funding. According to the EPA, no additional funds have been provided by Congress to the Agency to reimburse contractors under the Act. Senior resource officials for EPA program offices must therefore determine whether funds are available and whether it is in the best interest of the government to reimburse contractors under a particular contract.

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<sup>7</sup> OIG Notification Memorandum, *Effectiveness of EPA's External Civil Rights Compliance Office in Determining Title VI Compliance in Organizations Receiving EPA Funding (2nd notification)*, Project No. [OA&E-FY19-0357](#), February 13, 2020.

<sup>8</sup> OIG, *EPA's Initial Implementation of CARES Act Section 3610*, Report No. [20-N-0202](#), June 29, 2020.

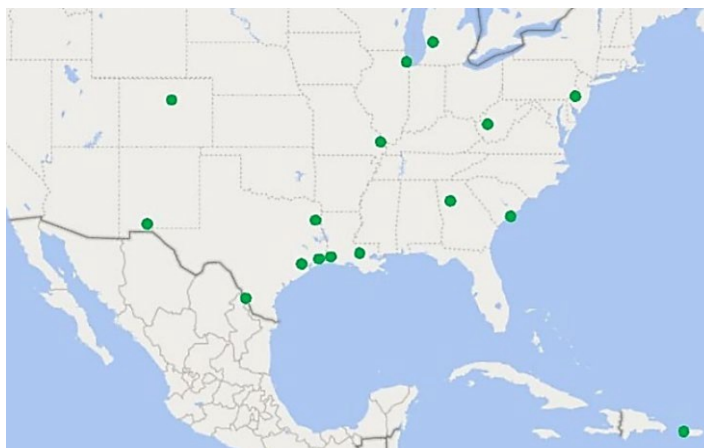
**Risk Communication.** We have previously found that the EPA faces challenges in communicating risks to the public during natural disasters. For example, despite concerns about air quality and other issues in the area of Houston, Texas, after Hurricane Harvey, the EPA did not adequately communicate important information so that all impacted communities received it.<sup>9</sup> In the aftermath of Hurricane Harvey, the EPA’s emergency response staff



From left: English, Spanish, and Vietnamese versions of EPA flyers regarding debris management. (EPA images)

stationed in Houston handed out pamphlets and responded to telephone calls; informed non-English-speaking communities about issues including disposing of hazardous waste; and disinfected drinking water and worked with septic systems after flooding. However, the regional staff did not provide all residents in Houston-area communities sufficient quantities of translated pamphlets, including those in Spanish.<sup>10</sup>

Other OIG reports have also identified risk communication as an Agency challenge, including a March 2020 management alert on ethylene oxide-emitting facilities.<sup>11</sup> The issues we identified in that alert may persist or increase in severity as some of these facilities—particularly those that provide medical sterilization services—are further strained to address coronavirus pandemic-related issues. The lessened regulatory oversight noted above may produce environmental or public health risks, which may warrant additional communication to affected communities. The continuing challenge of communicating risk is described more broadly in this report under the management challenge “Communicating Risks to Allow the Public to Make Informed Decisions About Its Health and the Environment.”



Metropolitan areas in the United States where there is at least one census tract in which ethylene oxide is a significant risk driver for cancer. (OIG-developed image based on the 2014 National Air Toxics Assessment and information from the EPA)

<sup>9</sup> OIG, *EPA Needs to Improve Its Emergency Planning to Better Address Air Quality Concerns During Future Disasters*, Report No. [20-P-0062](#), December 16, 2019.

<sup>10</sup> OIG, *EPA Region 6 Quickly Assessed Water Infrastructure after Hurricane Harvey but Can Improve Emergency Outreach to Disadvantaged Communities*, Report No. [19-P-0236](#), July 16, 2019.

<sup>11</sup> OIG, *Management Alert: Prompt Action Needed to Inform Residents Living Near Ethylene Oxide-Emitting Facilities About Health Concerns and Actions to Address Those Concerns*, Report No. [20-N-0128](#), March 31, 2020.





[Video](#) providing background and findings regarding air quality and other issues in the Houston area after Hurricane Harvey. (OIG video and imagery)

## Risks to EPA’s Operations: Maintaining a Safe and Productive Workforce

When executed, Continuity of Operations plans allow organizations to maintain required business practices when normal operations are not prudent or possible. Including telework in the plan allows a greater number of employees to continue working in those situations. However, navigating a new environment where Continuity of Operations plans are implemented continuously for several months creates new technological and operational challenges to achieve the EPA’s mission and to keep its workforce safe and productive.

**Personal Protective Equipment Procurement and Provision.** As the Agency continues its work during the coronavirus pandemic, it must ensure that its field employees—inspectors, educators, on-scene coordinators, and others—can protect their own safety and the safety of those with whom they interact. This requires the EPA to procure additional personal protective equipment and adapt existing protocols. The OIG will review the EPA’s ability to coordinate emergency response during this time, including whether equipment and other resources were available for on-scene coordinators.<sup>12</sup>

**Cybersecurity Enhancement.** Cybersecurity is a continuing EPA management challenge that has become more critical during the coronavirus pandemic. Continuing EPA



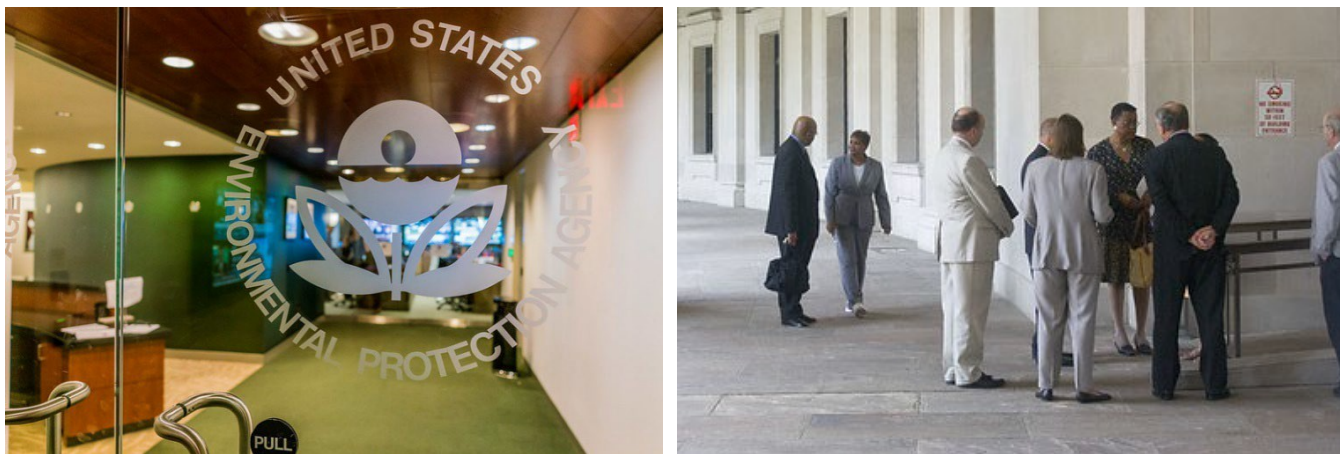
Personal protective equipment at the National Vehicle and Fuel Emissions Laboratory in Ann Arbor, Michigan. (EPA photo)

<sup>12</sup> OIG Notification Memorandum, *Survey of EPA On-Scene Coordinators and Managers Regarding COVID-19*, Project No. [OA&E-FY20-0240](#), June 16, 2020.

operations in the face of the coronavirus pandemic has required the Agency to adapt its network to support a primarily virtual workforce and provide an unprecedented number of remote employees with a reliable, stable means to communicate and access critical applications and data. Information technology help-desk functions can be delayed by an overtaxed IT staff, who must now also deploy and manage new tools and technology.

Unprecedented levels of remote access also increase the risk of security breaches of remotely stored and transmitted data, as well as the introduction of malicious software to the Agency network. In addition, the number of remote employees working at the same time may overtax the information system capacity levels. OIG reviews of the Agency's compliance with the Federal Information Security Modernization Act of 2014 and with the Federal System Security Plan requirements will include determinations of how the Agency's activities have accounted for the challenges raised by the coronavirus pandemic.<sup>13</sup> The continuing challenge of communicating this risk is described more broadly in this report under the management challenge "Enhancing Information Technology Security to Combat Cyberthreats."

**Safe Return to Facilities.** The EPA will need to keep its facilities clean, promote social distancing, and follow protection protocols so that its workforce is safe. Per the associate deputy administrator in a July 16, 2020 email, the EPA has 125 EPA facilities across the country. The federal government has established requirements for returning the federal workforce to its facilities safely, and the EPA began implementing these practices in some locations as early as late May 2020. The OIG will review the EPA's plans for personnel reentering office buildings.<sup>14</sup>



Left to right: EPA office door. Employees gathered outside an EPA headquarters building entrance. (EPA photos)

<sup>13</sup> OIG Notification Memorandum, *FY 2020 EPA's Compliance with the Federal Information Security Modernization Act of 2014*, Project No. [OA&E-FY20-0033](#), May 5, 2020; OIG, *Evaluation of EPA's Information Systems' Compliance with Federal System Security Plans Requirements (2<sup>nd</sup> notification)*, Project No. [OA&E-FY20-0176](#), May 6, 2020.

<sup>14</sup> OIG Notification Memorandum, *EPA's Strategies to Comply with Federal Guidelines for Reopening Facilities Closed Due to the Coronavirus Pandemic*, Project No. [OA&E-FY20-0241](#), July 1, 2020.

## THE AGENCY'S ACTIVITIES

The EPA is addressing each challenge described above. To determine the effectiveness of the EPA's activities, the OIG is tracking and reviewing EPA responses to the coronavirus pandemic and assessing the risks of the EPA's emerging and existing activities to address the pandemic. For example, we initiated a broad research project to assess the EPA's activities across the country, and we began a project designed to broadly review the Agency's internal control activities under the CARES Act.<sup>15</sup>

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<sup>15</sup> OIG Notification Memorandum, *Research for Future Audits and Evaluations Regarding Effects of Coronavirus Pandemic (SARS-CoV-2 Virus and COVID-19 Disease) on EPA Programs and Operations*, Project No. [OA&E-FY20-0212](#), May 7, 2020; OIG Notification Memorandum, *Internal Controls Established to Implement Programs and Activities Funded under the CARES Act*, Project No. [OA&E-FY20-0234](#), June 10, 2020.

## CHALLENGE: Complying with Key Internal Control Requirements



### CHALLENGE FOR THE AGENCY

**Effective internal controls are needed to achieve the Agency's mission and goals.** The EPA's mission is to protect human health and the environment. To achieve that mission, the EPA established three goals:

1. A cleaner, healthier environment.
2. More effective partnerships with EPA stakeholders.
3. Greater certainty, compliance, and effectiveness.<sup>16</sup>

The road to achieving these goals requires effective and efficient implementation of hundreds of EPA programs, projects, and laws. The federal government has rules in place designed to give programs the best chance to achieve their objectives.<sup>17</sup> The establishment and review of internal controls enable the



Source: GAO.

Agency to continuously improve programs and achieve program outcomes for the good of the American public.

Agencies are expected to comply with internal control standards, which are designed to help

them achieve their goals. Robust internal controls provide reasonable assurance that (1) programs achieve their intended results; (2) resources are used in a manner consistent with the Agency's mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported, and used for decision-making.

To improve agency internal controls, the Federal Managers' Financial Integrity Act of 1982 requires the comptroller general to issue *Standards for Internal Control in the Federal Government*.<sup>18</sup> These standards establish five components that provide the overall framework for establishing and maintaining an effective internal control system. These five components cover all aspects of an entity's objectives. Annually, in conformance with the Act, EPA program offices and regions issue statements of assurance that indicate compliance with the requirements.<sup>19</sup> However, the EPA's

#### Five Components of Internal Control

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

<sup>16</sup> EPA, [Working Together: FY 2018–2022 U.S. EPA Strategic Plan](#), February 2018 (Updated September 2019).

<sup>17</sup> Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Controls*, July 16, 2016.

<sup>18</sup> 31 U.S.C. § 3512(c).

<sup>19</sup> The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, also referred to as the Green Book, is constructed around Office of Management and Budget Circular A-123.



programs lack key elements in three out of the five key internal controls: risk assessment, control activities, and information and communication. Without these key components, the EPA risks falling short of achieving Agency and program goals.

## Consistently Assessing Program Risks

In its FY 2019 statements of assurance, the EPA stated that it had complied with the risk assessment requirements; however, our recent work shows that those statements are inaccurate. In a May 2020 OIG report, we found that the EPA was not conducting risk assessments for 20 programs that collectively cost over \$5.7 billion in FY 2018. Without these risk assessments, the EPA cannot be certain it has the proper procedures in place to address internal and external risks to these programs.<sup>20</sup>

This component of internal control provides the basis for developing appropriate risk responses. Management assesses the risks the entity faces from both external and internal sources. Federal agencies are better able to protect operations from fraud, waste, abuse, and mismanagement when it knows the risks and develops plans to mitigate those risks. Specifically, when agency risks are not disclosed, other components of internal control may falter. Without adequate risk assessments, agencies cannot:

### Internal Control Component 2: Risk Assessment

The agency is better able to protect operations from fraud, waste, abuse, and mismanagement when it knows the risks and develops plan to mitigate those risks.

- Clearly plan and execute the oversight and management of the control environment.
- Determine whether control activities are appropriate and sufficient.
- Determine whether the information and communication are accurate.
- Determine whether adequate monitoring is taking place.

## Improving Controls Over Policies and Procedures

The EPA lacks a systematic process for regularly assessing the need for policy and procedure updates. In its 2019 Federal Managers' Financial Integrity Act letter, the EPA's Office of the Chief Financial Officer stated, "Many of the Agency's policies, procedures, and internal controls which cut across payroll, time and attendance, and human resources functions are in need of review and revision." The EPA strategic plan—specifically Objective 3.5, "Improve Efficiency and Effectiveness" under the goal of "Greater Certainty, Compliance, and Effectiveness"—discusses how the EPA will work to alleviate challenges associated with outdated or nonexistent policies. To ensure that the EPA is achieving its goals and objectives and to prevent fraud, waste, and abuse, the process of updating policies and procedures must evolve for the EPA to improve upon business processes and operations to promote transparency, efficiency, and effectiveness.

### Internal Control Component 3: Control Activities

Control activities establish the policies, procedures, and practices required to respond to risks in agency programs. Policies and procedures should be based on agency risks and include steps to mitigate those risks.

<sup>20</sup> OIG, *EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs*, Report No. [20-P-0170](#), May 18, 2020.



Our work continues to identify weaknesses in the Agency's updating of policies and procedures.<sup>21</sup> In 2019, we recommended updating the travel policy, the Freedom of Information Act policy, and the *EPA Leave Manual*. We also recommended that the EPA revise the *Recognition Policy and Procedures Manual*. Our 2018 reports recommended that the Agency update human resources policies and develop an accurate and consistent policy and procedure for its debt waiver process. A 2020 report reiterated issues with the Agency's ability to address debt waivers.<sup>22</sup>

The Agency also continues to face challenges with time-and-attendance processes. To properly administer and report time-and-attendance data, agencies should have internal controls in place that provide reasonable assurance that transactions are accurate and properly approved. Proper recording of time-and-attendance information refers to whether the information is complete, accurate, valid, and in compliance with applicable requirements. While the EPA has implemented corrective actions to improve those processes, our ongoing audit and investigative work continues to highlight such Agency weaknesses and vulnerabilities. These vulnerabilities stem from ineffective and outdated internal controls that allow employees to input—and managers to approve—time-and-attendance data that are incorrect or contrary to Agency policy. Subsequently, some employees have received improper payments, made untimely corrections to time-and-attendance data, or inappropriately charged the wrong leave category. We have identified unauthorized overtime charges, salary overpayments, and individual abuses related to employee time-and-attendance through our audit and investigative work.

In December 2019, we issued an internal control deficiency memorandum, *Time and Attendance Records Not Updated Prior to Payroll Certification Causing Salary Overpayments*, to the Office of the Controller. We identified 13 employees who received debt notices because their timekeepers and supervisors were not adjusting the employees' time-and-attendance data prior to payroll certification when the employees' were absent or unable to do so. In all cases, the 13 employees originally submitted their time-and-attendance data for the pay period as being in a paid status; however, the employees did not work their complete schedule and their time-and-attendance data were not updated or corrected prior to payroll certification. As a result, the employees received salary overpayments.

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<sup>21</sup> This applies to the following OIG reports:

- *EPA Needs to Improve Management and Monitoring of Time-Off Awards*, Report No. [20-P-0065](#), December 30, 2019.
- *Outdated EPA Leave Manual and Control Weaknesses Caused Irregularities in the Office of Air and Radiation's Timekeeping Practices*, Report No. [20-P-0063](#), December 19, 2019.
- *Follow-Up Audit: EPA Took Steps to Improve Records Management*, Report No. [19-P-0283](#), August 27, 2019.
- *Actions Needed to Strengthen Controls over the EPA Administrator's and Associated Staff's Travel*, Report No. [19-P-0155](#), May 16, 2019.
- *Management Alert: EPA Oversight of Employee Debt Waiver Process Needs Immediate Attention*, Report No. [18-P-0250](#), September 12, 2018.
- *Operational Efficiencies of EPA's Human Resources Shared Service Centers Not Measured*, Report No. [18-P-0207](#), May 31, 2018.

<sup>22</sup> OIG, *EPA's Office of the Chief Financial Officer Lacks Authority to Make Decisions on Employee-Debt Waiver Requests*, Report No. [20-P-0194](#), June 15, 2020.

It is critical that the EPA establishes and follows up-to-date policies and procedures to mitigate Agency risks. Not doing so may lead managers to implement individual interpretations of federal guidance and policies, thereby creating inefficiencies and increasing the opportunity for fraud, waste, abuse, or mismanagement. Operating with outdated policies and procedures can lead to Agency efforts that are not aligned with its mission and goals.

## Improving the Quality of Data Collected and Used for Program Decision-Making

We found that the EPA has not fully implemented internal controls for the mandatory EPA Quality Program.<sup>23</sup> The primary goal of the program is to ensure that the Agency's environmental decisions are supported by data of known and documented quality. The lack of controls within the Quality Program reduces the EPA's effectiveness in overseeing programs, making needed management decisions that directly impact public health, preventing significant financial and legal risks, and ultimately achieving its strategic goals. Per the GPRA Modernization Act of 2010,<sup>24</sup> agencies must describe how they will ensure the accuracy and reliability of data used to measure progress toward performance goals. To this end, the EPA has implemented policy and procedural guidance titled *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity, of Information Disseminated by the Environmental Protection Agency*.

### Internal Control Component 4: Information and Communication

Management needs quality data to make program decisions and measure progress. Effective information and communication are vital for an entity to achieve its goals.

The EPA's strategic plan Goal 3, "Greater Certainty, Compliance, and Effectiveness," recognizes that "Environmental decision making across media programs requires access to high-quality data and analytics." To accomplish this, the EPA plans to reduce reporting burden for submitting entities and improve data quality by having Agency programs, states, and tribes establish shared information services and agree to common standards and practices. Without these standardized business processes, the EPA concedes that it cannot achieve its goals.

OIG reports show that poor data quality and data gaps negatively impact the EPA's effectiveness in overseeing programs that directly impact public health, such as managing air quality, drinking water, toxic releases to surface waters, Superfund sites, and environmental education. Data quality issues and data gaps also subject the EPA to significant financial risks and delayed cleanups, while the public sustains prolonged exposure to unsafe substances and restrictions on the use of natural resources. Specifically:



Graphic depicting data gaps. (OIG image)

- We found that the EPA's Regions did not correctly track responsible parties for cleanups, compliance, or significant noncompliance with enforcement agreements or orders at Superfund hazardous waste cleanup sites. As a result, EPA headquarters could not consistently enforce

<sup>23</sup> OIG, *EPA Needs to Address Internal Control Deficiencies in the Agencywide Quality System*, Report No. [20-P-0200](#), June 22, 2020.

<sup>24</sup> "GPRA" stands for Government Performance and Results Act.

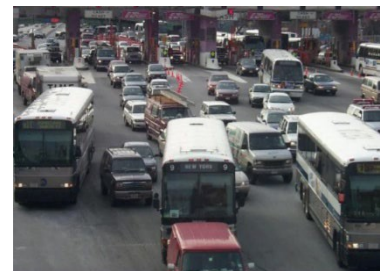
requirements for cleanup parties across the nation, nor could the EPA create or maintain a level playing field. Further, headquarters could not assess the adequacy of regional actions against noncompliant cleanup parties and assist when appropriate.<sup>25</sup>

- In a 2017 audit, we found that the Toxics Release Inventory and the Discharge Monitoring Report Comparison Dashboard had limited utility for identifying possible surface water dischargers. Without this information, the EPA's ability to regulate facilities is limited. Further, the EPA's Pollutant Loading Tool could not identify unpermitted dischargers to surface water based on Toxics Release Inventory data, which means that the EPA and public cannot know when or how much pollution occurs from those dischargers.<sup>26</sup>



Image of a 2005 fire at EQ Resource Recovery Inc. in Romulus, Michigan. (EPA photo)

- In a 2018 audit, we found that the EPA lacked data to determine the effectiveness of state-enhanced vehicle inspection and maintenance programs. Nine states operating enhanced programs did not conduct the required biennial program evaluations to assess the effectiveness of their programs in reducing vehicle emissions. Another four states did not conduct required on-road testing to obtain information on performance of in-use vehicles, and three states did not conduct required reviews and tests due to a lack of clarity in EPA guidance.<sup>27</sup>



Vehicles idled in dense traffic. (EPA photo)

- The EPA's Office of Pesticide Programs did not have outcome measures to determine how well the emergency exemption process maintains human health and environmental safeguards. The office also did not have comprehensive internal controls to manage the emergency exemption data that it collects or consistently communicate that data with its stakeholders. Although the office collected human health and environmental data through its emergency exemption application process, it did not make those data available in its publicly accessible database or use the data to support outcome-based performance measures that capture the scope of each exemption or measure benefits or risks.<sup>28</sup>

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<sup>25</sup> OIG, *While EPA Regions Enforce at Six Superfund Sites Reviewed, Four of Those Sites Remain in Significant Noncompliance, and Nationwide Reporting and Tracking Can Be Improved*, Report No. [20-P-0011](#), October 24, 2019.

<sup>26</sup> OIG, *Analysis of Toxics Release Inventory Data Identifies Few Noncompliant Facilities*, Report No. [18-P-0001](#), October 5, 2017.

<sup>27</sup> OIG, *Collecting Additional Performance Data from States Would Help EPA Better Assess the Effectiveness of Vehicle Inspection and Maintenance Programs*, Report No. [18-P-0283](#), September 25, 2018.

<sup>28</sup> OIG, *Measures and Management Controls Needed to Improve EPA's Pesticide Emergency Exemption Process*, Report No. [18-P-0281](#), September 25, 2018.

## THE AGENCY'S ACTIVITIES

**Risk Assessment.** In response to our May 2020 report on risk assessments (Report No. [20-P-0170](#)), the OCFO stated that it will revise and update the senior managers' and management integrity advisors' online training courses to include relevant information on the GAO's Green Book by December 30, 2020. The OCFO also stated that it will require assistant administrators and regional administrators to certify in their annual assurance letters by August 30, 2021, that all appropriate staff have taken the training. As the EPA risk assessment process matures, it will be better able to identify and mitigate risks to operations. The OIG will monitor the EPA's implementation of the risk assessment process. The annual EPA risk assessments should also consider the risks posed by the OIG-identified management challenges.

**Control Environment.** The Office of Mission Support's Office of Human Resources develops an annual policy agenda based on several factors: (1) changes to law, regulations, and other authorities; (2) senior management decisions; (3) OIG recommendations; and (4) customer feedback. Per the Office of Human Resources, the policies are prioritized, progress on each policy is tracked, and senior management is briefed on a regular basis.

While the EPA continues to implement OIG recommendations to update and improve its processes, our audit and evaluation program continues to highlight Agency weaknesses and vulnerabilities in this area. These vulnerabilities stem from existing policies and procedures that do not reflect current operations or needs and that allow for activities that are incorrect or contrary to other Agency policies. The EPA has been implementing some corrective actions in response to our recommendations. However, many corrective actions are still pending. In response to our audits, the EPA stated that it has an established process in place to identify priorities and updates pertaining to its policies and procedures. Although progress has been made, updating existing policies remains an important challenge. Agency management needs to commit to correcting ongoing problems with the EPA's policies and procedures, including streamlining and formalizing the process, dedicating resources, and making this management challenge a priority.

**Information and Communication.** EPA leadership needs to demonstrate commitment to verify the quality of data and adequately fill data gaps. To demonstrate this commitment, the Agency should have the people and processes in place to deploy Agency data policies and procedures across all programs and to actively manage data to improve quality and completeness. While a move to electronic reporting should ease the Agency's access to data and simplify reporting, the EPA still needs to verify and validate electronically reported data to ensure accuracy, timeliness, and proper format. Neither the EPA nor the OIG can fully assess the data quality or data gaps issues until the EPA executes its shared information services and develops common standards and practices with its partners.

Ongoing and future OIG audits and evaluations will continue to review this issue and how it impacts the EPA's strategic goals and issues, specifically as they relate to air, water, cleanup of hazardous waste sites, and chemicals. These areas and others rely on quality data to achieve Agency objectives.

## **CHALLENGE: Overseeing States, Territories, and Tribes Responsible for Implementing EPA Programs**

### **CHALLENGE FOR THE AGENCY**

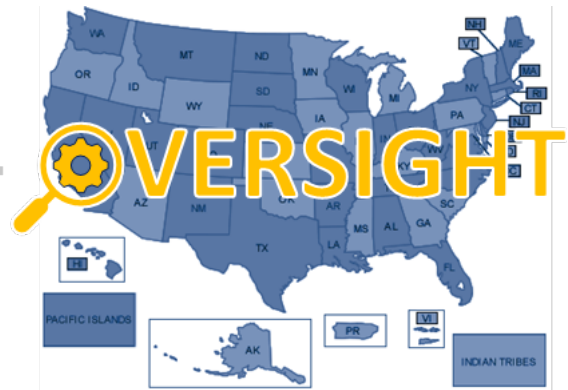
**States, territories, and tribes are key partners in executing the EPA’s mission to protect human health and the environment.** The EPA authorizes

states and certain other entities like territories and tribal governments, collectively referred to as “states,” to implement many environmental laws—such as the Clean Air Act, Clean Water Act, Safe Drinking Water Act, and the Resource Conservation and Recovery Act—if they show that they have the capacity to operate programs consistent with national standards. According to the EPA, states have

assumed more than 96 percent of the delegable authorities under federal law.



Source: OIG graphic.



When the EPA delegates authority for a program to a state, the Agency retains oversight responsibility to provide reasonable assurance that states continue to protect human health and the environment. The EPA must monitor delegated programs to ensure that state implementation meets minimum federal standards. The EPA also retains authority to enforce environmental laws when states do not take appropriate enforcement. EPA headquarters and regional staff perform a variety of formal and informal oversight activities; however, there have been disparities in the effectiveness of delegated programs.

### **Strategic Planning Emphasizes Effective EPA Oversight**

The EPA’s oversight of delegated programs is vital to ensure nationwide protection of human health and the environment. Oversight of delegated programs is thus a key tenet of the *FY 2018–2022 U.S. EPA Strategic Plan*. The plan highlights ways in which the EPA is improving oversight of state environmental programs, including:

- Approving local solutions such as implementation plans and emissions certification applications.
- Restating its oversight role as a coregulator.
- Working with local entities to ensure compliance with the law and establish consistency and certainty for the regulated community.

The EPA updated the *FY 2018–2022 U.S. EPA Strategic Plan* in September 2019. As it pertains to oversight, the most significant change was to Goal 2, as shown in Table 1.



Table 1: Change in Goal 2 of FY 2018–2022 U.S. EPA Strategic Plan

	Original issuance	September 2019 update
Title	Cooperative federalism	More effective partnerships
Purpose	Rebalance the power between Washington [D.C.] and the states to create tangible environmental results for the American people.	Provide certainty to states, localities, tribal nations, and the regulated community in carrying out shared responsibilities and communicating results to all Americans.

Source: EPA OIG analysis of original and revised versions of the *FY 2018–2022 U.S. EPA Strategic Plan*.

In addition, Administrator Wheeler issued an oversight memorandum titled *Principles and Best Practices for Oversight of Federal Environmental Programs Implemented by States and Tribes* on October 30, 2018. The memorandum aims to “provide certainty by setting expectations for state, tribal and federal roles and responsibilities and ensuring decisions are made in a timely fashion.”

External organizations and members of Congress have questioned the effectiveness of the administrator’s strategy based on declining state resources and examples of strained relationships between the EPA and the states, and our audits and evaluations have shown that much remains to be done to support effective implementation. The EPA’s Office of Enforcement and Compliance Assurance Assistant Administrator Susan Parker Bodine has said, “Our goal is to eliminate inefficient duplication with state programs, and to direct federal resources to help achieve the Agency’s core mission of improving air quality, providing for clean and safe water, revitalizing land and preventing contamination, and ensuring the safety of chemicals in the marketplace.”<sup>29</sup>

**Oversight Concerns Persist Across Programs**

Overseeing delegated environmental programs is central to the EPA’s core functions. Congress designed most environmental statutes to be administered by state programs with robust federal oversight. Both states and the EPA make difficult decisions to prioritize limited resources. The OIG and the GAO continue to uncover issues with the EPA’s oversight of state environmental programs. From FYs 2016 through 2020, we have collectively issued at least 19 reports that show the continued prevalence of the issue and the actions the EPA has taken or plans to take.

**Safe Drinking Water Act Implementation.** In 2018 and 2019, we identified multiple issues with state implementation and oversight of drinking water programs. In a 2019 report, we found that the EPA does not have complete and nationally consistent information from states about public water systems’ compliance with public notice requirements.<sup>30</sup> As a result, the EPA cannot fully monitor compliance and oversee the implementation of this program. In July 2018, we concluded that the circumstances and response to the City of Flint, Michigan’s drinking water contamination involved implementation and oversight lapses at the EPA as well as at the state and city levels. Specifically, EPA Region 5 did not

<sup>29</sup> EPA, “EPA Announces 2019 Annual Environmental Enforcement Results,” [News Release](#), February 13, 2020.  
<sup>30</sup> OIG, *EPA Must Improve Oversight of Notice to the Public on Drinking Water Risks to Better Protect Human Health*, Report No. [19-P-0318](#), September 25, 2019.

implement proper management controls that could have facilitated more informed and proactive decisions regarding the city's and state's implementation of the Safe Drinking Water Act requirements, such as the Lead and Copper Rule. Additionally, we found that the EPA did not fully employ its authorities under the Safe Drinking Water Act to require compliance in Flint. As such, our 2018 report recommended that the Agency implement a system for regional drinking water staff, managers, and senior leaders that would incentivize staff to elevate and managers to address important and emerging issues, in accordance with the EPA's January 2016 *Policy on Elevation of Critical Environmental and Public Health Issues*.<sup>31</sup>



Flint River in Flint. Image links to "Further Insight on Flint" [video](#). (OIG imagery and video)

In September 2018, the GAO also issued a report on state implementation and oversight of the drinking water requirements surrounding lead and copper. The GAO reported that few of the largest water systems had publicized inventories of lead services lines. Approximately 43 states informed the EPA that they intend to fulfill the Agency's request to work with water systems to publicize inventories of lead service lines. However, 39 states reported challenges in doing so. The GAO's review found that, as of January 2018, only 12 of the 100 largest water systems had publicized information on the inventory of lead service lines. The Agency had not followed up with all states since 2016 to share information about how to address these challenges. The EPA told the GAO that it was focused on state compliance with drinking water rules and not on following up with information on how states could address challenges. To encourage states to be more transparent to the public and support the Agency's oversight of the Lead and Copper Rule and objectives for safe drinking water, the GAO recommended that the EPA share information on successful approaches it had used to identify and publicize locations of lead service lines with all states.<sup>32</sup> The EPA has since implemented corrective actions and the recommendation is now closed.

<sup>31</sup> OIG, *Management Weaknesses Delayed Response to Flint Water Crisis*, Report No. [18-P-0221](#), July 19, 2018; OIG, *Management Alert: Drinking Water Contamination in Flint, Michigan, Demonstrates a Need to Clarify EPA Authority to Issue Emergency Orders to Protect the Public*, Report No. [17-P-0004](#), October 20, 2016.

<sup>32</sup> GAO, *DRINKING WATER: Approaches for Identifying Lead Service Lines Should Be Shared with All States*, [GAO-18-620](#), September 2018.

**Clean Air Act Implementation.** We have identified issues with the EPA’s oversight of state air programs. In a 2019 report, we concluded that Region 10 should improve its oversight activities to provide reasonable assurance that air particulate matter emissions testing programs conducted in the State of Washington meet federal requirements. Although we only reviewed stack test reports from Washington in EPA Region 10, EPA managers and staff responsible for overseeing the Clean Air Act program at the national level told us that they had observed similar problems in other states and EPA regions.<sup>33</sup>



A smokestack. (EPA photo)

In a September 2018 report, we found that the EPA should collect additional program performance data to better assess the effectiveness of states’ enhanced inspection and maintenance programs for reducing vehicle emissions. Also, while the Agency strengthened its oversight of required annual reports from states about the performance of their vehicle inspection and maintenance programs, it did not



consistently communicate errors in reports back to states.<sup>34</sup>

Dense vehicular traffic in smog. (EPA photo)

## THE AGENCY’S ACTIVITIES

We first reported this management challenge in FY 2008. Since then, the EPA has reviewed some of the inconsistencies in its oversight of state programs. The Agency has also used federal enforcement actions when states did not use their authority to protect human health and the environment. The EPA continues to develop and implement policies to improve consistency in its oversight of delegated programs. According to the Agency, the EPA has dedicated resources to address the oversight management challenge. Actions taken include:

- Implementing a real-time permit review process for the National Pollution Discharge Elimination System under the Clean Water Act.
- Creating a standard operating procedure for Clean Air Act Title V programmatic reviews.
- Developing a national permitting oversight policy that is expected to be finalized during FY 2020.

<sup>33</sup> OIG, *More Effective EPA Oversight Is Needed for Particulate Matter Emissions Compliance Testing*, Report No. [19-P-0251](#), July 30, 2019.

<sup>34</sup> OIG, *Collecting Additional Performance Data from States Would Help EPA Better Assess the Effectiveness of Vehicle Inspection and Maintenance Programs*, Report No. [18-P-0283](#), September 25, 2018.



While the EPA's actions, its Strategic Plan, and policy documents acknowledge state oversight as a legitimate management challenge, the Agency is not likely to fully meet this challenge in the near-term because of resource limitations and the complexity of the issue. Oversight of states is central to the EPA's mission. Our office has nine audits and evaluations related to this management challenge ongoing in FY 2020, and we anticipate additional assignments in FY 2021 that address the EPA's oversight of states.

## **CHALLENGE: Improving Workforce/Workload Analyses to Accomplish EPA’s Mission Efficiently and Effectively**

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### **CHALLENGE FOR THE AGENCY**

#### **Workforce planning affects the EPA’s capability to achieve strategic goals and objectives.**

The EPA has not yet executed the required workforce plan to ensure that the Agency is well-staffed to achieve its goals and objectives of protecting human health and the environment. Workforce planning is an essential task of government agencies, designed to systematically identify and address the gaps between the workforce each agency has today and the one it needs to meet future needs. Workforce planning requirements are issued by the U.S. Office of Personnel Management and defined in 5 C.F.R. Part 250, Subpart B, Strategic Human Capital Management, effective April 11, 2017. The GAO has also identified strategic human capital management as a high-risk area. The GAO states that agencies need to take action to address mission-critical skills gaps within their workforces—a significant factor contributing to many high-risk areas.

The OIG and the GAO have both reported that the EPA has not incorporated workload analysis into its resource allocations. For example, in 2017, the OIG reported that the distribution of Superfund full-time equivalents among EPA Regions did not support the current regional workload. The GAO also reported in 2017 on EPA workload concerns.<sup>35</sup>

**Significant EPA Workforce Trends.** In its FY 2019 Human Capital Operating Plan, the EPA reports that workforce levels declined by 2,447 full-time equivalents from FYs 2015 through 2018. In FY 2018, the percentage of the EPA workforce eligible to retire was 24.1 percent. The EPA states that on average, 4.4 percent of employees retire each year; however, it must be prepared for a large segment of its workforce to retire. In February 2020 testimony before the House Energy and Commerce Committee, Environment and Climate Change Subcommittee, Administrator Wheeler articulated some of EPA’s concerns about workforce trends and some of the ways the EPA is responding:

Right now, as of today, 40 percent of our workforce is eligible to retire. That’s why I hired a new human resources director last year. I actually interviewed the candidate for the human resources position, it was three or four levels below me. I was told that administrators never interview human resource directors. I want to make sure we got the hiring right for the EPA of the future.

The EPA can help address this issue through workforce planning and succession management.

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<sup>35</sup> OIG, *EPA’s Distribution of Superfund Human Resources Does Not Support Current Regional Workload*, Report No. [17-P-0397](#), September 19, 2017; GAO, *GRANTS MANAGEMENT: EPA Partially Follows Leading Practices of Strategic Workforce Planning and Could Take Additional Steps*, [GAO-17-144](#), January 2017.

## Five Phases of Workforce Planning

The OPM set out five phases to workforce planning:

1. Set strategic direction.
2. Analyze workforce, identify skill gaps, and conduct workforce analysis.
3. Develop an action plan.
4. Implement the action plan.
5. Monitor, evaluate, and revise the action plan.

The EPA has not yet initiated many of these phases for developing a workforce plan. Due to the broad implications for accomplishing the EPA's mission, we have included this management challenge since 2012.

Strategic human capital management has been on the GAO's High-Risk List since 2001.<sup>36</sup> Skill gaps across the federal government exist in areas vital to the EPA, such as science, engineering, acquisitions, and cybersecurity. The Agency will be competing for talent with other federal agencies as well as the private sector. This makes it even more critical that the EPA develop and execute workforce plans to address competency gaps and implement succession plans before problems hinder the Agency's mission.

### Phase 1: Set Strategic Direction

The EPA set a strategy related to workforce planning in its strategic plan, which emphasizes that sustainable resource levels and a strong workforce are critical to success. Under Objective 3.5, "Improve Efficiency and Effectiveness," the EPA aims to provide proper leadership and internal operations management to ensure that the Agency is fulfilling its mission. The Agency does not include a long-term performance goal for workforce analysis, but it does discuss this important task:

EPA will ensure its workforce is positioned to accomplish the Agency's mission effectively by providing access to quality training and development opportunities that will improve staff's and managers' skills, knowledge, and performance, and prepare them to capitalize on opportunities that advance progress. EPA will improve its workforce planning and management, strengthen its Senior Executive Service, and focus on developing and maintaining a highly skilled technical workforce.

The EPA ties this objective to its annual plans through the FY 2021 congressional budget justification. In FY 2021, the EPA's congressional budget justification describes how the Agency will leverage workforce planning dashboards to advance human capital priorities by giving managers a strategic view of retirement eligibility, diversity information, occupational series, and grade levels. The dashboards

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<sup>36</sup> GAO, *HIGH-RISK SERIES: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#), March 2019.

assist the EPA with succession planning by helping to identify workforce gaps due to anticipated retirements and attrition trends.

The Agency's strategic and annual plans promise to assist the EPA with workforce planning, but they do not include a comprehensive analysis or identify skills and gaps that would comprise an Agency workforce analysis. Our work has found that the EPA has not fully implemented controls and a methodology to determine workforce levels based upon analysis of the Agency's workload.

## Phase 2: Analyze Workforce, Identify Skill Gaps, and Conduct Workforce Analysis

In the past, the EPA resisted performing an agencywide workforce analysis, instead opting to perform targeted workforce analyses. The OIG did not consider this approach sufficient because of the limited nature of the analyses. In 2017, 5 C.F.R. Part 250 required agencies to develop a Human Capital Operating Plan, which includes agencywide workforce planning.

The EPA is taking steps to comply with the regulation. The number of EPA employees is declining, with 4.4 percent of employees retiring each year. The EPA workforce declined by 2,447 full-time equivalents between 2015 and 2018. In addition, more than 42 percent of current employees are eligible to retire by 2023. According to a June 2018 article in *Government Executive*, the EPA has the second-greatest number of federal employees eligible to retire by 2023.<sup>37</sup> The Department of Housing and Urban Development was first, with 44.6 percent who could retire in 2023. The EPA has an urgent need to identify skill gaps that could result from these impending retirements; however, the EPA does not plan to identify the gaps until FY 2021.

### Phase 2 of workforce planning involves:

- Determining what the current workforce resources are and how they will evolve through turnover.
- Developing specifications for the kinds, numbers, and location of workers and managers needed to accomplish the Agency's strategic requirements
- Determining what gaps exist between the current and projected workforce needs.

## Phase 3: Develop an Action Plan

The Human Capital Operating Plan serves as a tool for Agency leadership to set a clear path for achieving stated human capital strategies, identifying and securing resources, determining time frames and measures to assess progress, and demonstrating how each Human Capital Framework system is being fulfilled. Agencies must update workforce planning and other elements in their Human Capital Operating Plans annually.

Phase 3 of workforce planning involves identifying strategies to close gaps, plans to implement the strategies, and measures for assessing strategic progress. These strategies could include such things as recruiting, training and retraining, restructuring organizations, contracting out, succession planning, and technological enhancements.

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<sup>37</sup> Williams, J. Robert, "The Federal Agencies Where the Most Employees are Eligible to Retire," *Government Executive*, June 18, 2018.

In October 2019, the OPM reviewed the EPA’s Human Capital Operating Plan and identified both required and recommended actions to improve the Agency’s workforce planning.<sup>38</sup> In response to the OPM’s review, the EPA provided a corrective action plan stating that it will finalize a workforce plan by the fourth quarter of FY 2020. The EPA also plans to update the workforce plan in the second quarter of FY 2021 to identify skill gaps and closure strategies for mission-critical occupations.

## Phases 4 and 5: Implement, Monitor, Evaluate and Revise the Action Plan

In the absence of a current workforce plan, the EPA cannot implement a meaningful monitoring, evaluation, and revision process. This final step will bring the workforce planning efforts to life and enable the Agency to meaningfully reduce the risks it currently faces from talent shortfalls or impending talent gaps. In March 2020, Administrator Wheeler told the House Appropriations Committee that the EPA “did not receive enough funding from Congress to fully fund our [full-time equivalent] ceiling of over 14,000 employees.” However, without a workforce plan, it is difficult to determine whether funding is indeed adequate and whether available funding goes to the highest priority needs.

**Phase 4** involves ensuring that human and fiscal resources are in place, roles are understood, and the necessary communication, marketing, and coordination is occurring to execute the plan and achieve the strategic objectives.

**Phase 5** involves monitoring progress against milestones, assessing for continuous improvement purposes, and adjusting the plan to make course corrections and address new workforce issues.

## THE AGENCY’S ACTIVITIES

The EPA stated that it will finalize a workforce plan by the fourth quarter of FY 2020. The EPA also plans to update the workforce plan in the second quarter of FY 2021 to identify skill gaps and closure strategies for mission-critical occupations. The EPA is in the early stages of compliance with OPM requirements, and the OIG will continue to monitor the Agency’s progress.

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<sup>38</sup> OPM, *Agency Compliance and Evaluation, Human Capital Management Evaluation of the U.S. Environmental Protection Agency, Headquarters, July 31–August 15, 2019*, October 9, 2019. The OPM required the EPA to perform actions based on 5 C.F.R. Part 250 and recommended that the Agency follow certain best practices related to workforce planning.

## ***CHALLENGE: Enhancing Information Technology Security to Combat Cyberthreats***

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### **CHALLENGE FOR THE AGENCY**

#### **Cybersecurity requirements provide essential protections for EPA operations.**

Protecting EPA networks and data is as important today as it was in 2001 when we first reported this issue as a management challenge. The EPA's Office of Mission Support is primarily responsible for IT management. Securing networks that connect to the internet is increasingly more challenging, with sophisticated attacks taking place that affect all interconnected parties, including federal networks. Federal agencies need to be vigilant in protecting their networks. Various federal agencies have had numerous attacks on their systems, impacting at least 21.5 million individuals. To reduce these risks for EPA information systems, the EPA needs to be vigilant in monitoring, establishing, and developing ways to mitigate long-range emerging threats.<sup>39</sup>



The Federal Information Security Modernization Act of 2014 governs cybersecurity for federal government IT systems. The Act tasks each agency head with the responsibility for protecting agency information security systems and preventing the unauthorized access, use, disclosure, disruption, modification, or destruction of information. The five federal agencies with a role in ensuring enterprise cybersecurity and responding to cyber incidents are the Federal Bureau of Investigation, Federal Trade Commission, U.S. Department of Homeland Security, U.S. Secret Service, and the National Institute of Standards and Technology. These agencies play cross-cutting roles to support, monitor, or oversee the implementation of cybersecurity practices. The Department of Homeland Security has the primary day-to-day operational role in directing, assisting, and engaging with agencies to implement federal cybersecurity measures.

Since the Act's standards have been put in place, the OIG has reported that the EPA continues to face a challenge in implementing a vigorous cybersecurity program that strengthens its network defenses and data security in a time of ever-increasing threats to federal government networks. Cybersecurity is defined as the protection of internet-connected systems such as hardware, software, and data from cyberthreats. Individuals and enterprises practice cybersecurity to protect against unauthorized access to data centers and other computerized systems. The EPA has not fully implemented information security. The EPA must achieve a strong baseline protection for its network and must focus on how to manage evolving threats, increasing volumes of data, and remote access technologies.

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<sup>39</sup> The GAO has designated information security as a governmentwide high-risk area since 1997. It expanded this high-risk area in 2003 to include protection of critical cyberinfrastructure and in 2015 to include protecting the privacy of personally identifiable information.

## EPA Needs a Process for Overseeing Information Security Programs

Despite continued progress, the EPA has not fully implemented information security throughout the Agency. This area requires continued senior-level emphasis. The EPA relies heavily on program and regional offices and contractor personnel to implement and manage configurations and operations of Agency networked resources. The Agency needs oversight processes to monitor the performance of its information security program and contractors. To assist this oversight, the OIG continuously examines the EPA's use and control of operational resources.

Our audits have noted the need for improvements in many areas, including internal controls to ensure EPA offices comply with required security requirements to protect system data. We reported that the EPA needs to improve controls for implementing the Federal Insecticide, Fungicide, and Rodenticide Act and Pesticide Registration Improvement Act.<sup>40</sup> Specifically, the EPA needs to strengthen (1) automated controls for processing pesticide registration fees, (2) remediation of identified vulnerabilities that could compromise the systems, and (3) database security controls to remove unauthorized users of the system and install critical updates to the software to protect data.

Furthermore, our audits and GAO work continue to note that the EPA faces challenges in addressing outstanding weaknesses within its information security program and in managing contractors that provide key support in operating or managing Agency systems. In this regard, the EPA lacks controls to ensure that responsible parties remediate known security weaknesses by Agency deadlines and that these parties update the Agency's vulnerability management system so senior officials have an agencywide perspective on threats to the EPA's network. Additionally, EPA senior officials are not aware whether contractors with significant information security responsibilities are complying with federal training requirements. Also, the EPA does not have processes to determine which contractors require training and whether the training was completed.

### THE AGENCY'S ACTIVITIES

To address these complex cybersecurity issues, the EPA has made significant strides in developing a policy framework to enable IT systems to adhere to federal information security requirements. For example, the EPA has developed extensive policies and procedures, as well as addressed a significant portion of federal information security requirements and made them available to all headquarters and regional offices. However, the EPA manages the implementation of this policy framework in a decentralized manner. Our audit work also indicates that a lack of centralized oversight and reporting prevents the Agency from realizing a fully implemented information security program capable of effectively managing the remediation of known and emerging security threats.

In response to the FY 2019 management challenge report, the EPA indicated that the Agency is committed to protecting its information and technology assets. The EPA reiterated that it recognizes the prevalence and complexity of the ever-growing cybersecurity attacks and is aware of the impact on

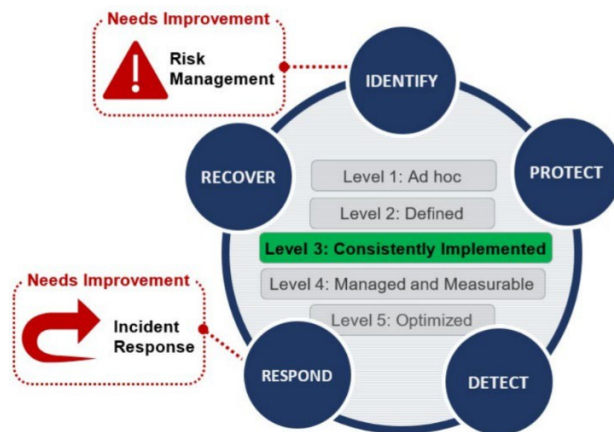
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<sup>40</sup> OIG, *Pesticide Registration Fee, Vulnerability Mitigation and Database Security Controls for EPA's FIFRA and PRIA Systems Need Improvement*, Report No. [19-P-0195](#), June 21, 2019.



the Agency's mission if information assets are compromised. The EPA stated that the Agency has established and implemented adequate processes for monitoring and managing contractor support actions to address concerns associated with this management challenge. The EPA has taken steps to address the OIG audit recommendations. However, actions are still needed to address cybersecurity challenges, as not all recommendations were resolved when we issued the March 2020 report, *EPA Needs to Improve Its Risk Management and Incident Response Information Security Functions*.<sup>41</sup>

The EPA needs to take additional steps to enhance cybersecurity. This includes consulting with respective critical infrastructure sector partners, as appropriate, to develop methods for determining the level and type of cybersecurity framework needed to protect entities within each critical infrastructure sector. The EPA needs to develop the corrective actions and milestones to complete the actions identified in the Office of Pesticide Programs' Pesticide Registration Improvement Act Maintenance Fee Risk Assessment document and associated plan regarding the fee payment and refund posting processes.



OIG assessment of the EPA's Federal Information Security Modernization Act function areas and domains. (EPA OIG graphic)

<sup>41</sup> OIG, *EPA Needs to Improve Its Risk Management and Incident Response Information Security Functions*, Report No. [20-P-0120](#), March 24, 2020.



**CHALLENGE: Communicating Risks to Allow the Public to Make Informed Decisions About Its Health and the Environment**

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**CHALLENGE FOR THE AGENCY**

**EPA risk communication is a vital component of the EPA’s mission of protecting public health and the environment.** The OIG has identified instances across water, air, land, and pesticide programs where the EPA needs more effective risk communication strategies to guide, coordinate, and evaluate its communication efforts to convey hazards. Environmental laws and regulations are designed to protect people from excess pollution, but when the EPA learns that people are at risk of exposure to harmful pollutants, it is essential that the risks are communicated to the public while they are being remediated. Without effective communication to the public about risk, the public may not know about risks or may not have high-quality information about how to protect themselves.



EPA authorized sign warning public of human health dangers. (EPA photo)

The EPA’s mission to protect human health and the environment includes work to ensure that “[a]ll parts of society--communities, individuals, businesses, and state, local and tribal governments--have access to accurate information sufficient to effectively participate in managing human health and environmental risks.” From FYs 2013 through 2020, the OIG has identified issues with the EPA’s actions to inform the public of environmental dangers. Citizens count on the EPA for timely and accurate risk communication messages—from risks

of exposure to ethylene oxide, to unsafe drinking water in Flint, to farmers working near pesticides.

The EPA has not established strategic goals or objectives directly addressing risk communication. The success of the EPA’s goals depends on timely and effective risk communication with the public. Administrator Wheeler underscored risk communication as one of his top priorities in his July 2018 speech to EPA employees stating, “Risk communication goes to the heart of EPA's mission of protecting public health and the environment .....We must be able to speak with one voice and clearly explain to the American people the relevant environmental and health risks that they face, that their families face and that their children face.”

## Communicating Water Pollution Risks

We have identified challenges that the EPA has in adequately communicating risks in surface and drinking water to the public. Our audit report on Flint highlighted issues with risk communication during a drinking water crisis. In April 2014, Flint's water system, which serves drinking water to a population of nearly 100,000 residents, switched from purchasing treated water from the Detroit Water and Sewerage Department (now called Great Lakes Water Authority) to sourcing and treating its own water supply from the Flint River. After Flint switched its drinking water supply, inadequate treatment exposed many of the residents to lead. Emergency authority was available to the EPA to take actions to protect the public from contamination. However, the EPA's communication weaknesses regarding health risks in Flint contributed to a delayed federal response to the water contamination.<sup>42</sup>



Flint Water Plant tower. (OIG photo)

We have also reported that the EPA does not have complete and nationally consistent information on public drinking water systems' compliance with public notice requirement under the Safe Drinking Water Act. As a result, the EPA does not know whether public water systems appropriately notify consumers about drinking water problems and consumers do not know whether their drinking water complies with health-based standards.<sup>43</sup>



Fish advisory sign. (EPA photo)

In addition, our audit and evaluation work has found that some subsistence fishers, including tribes, sport fishers, and other groups, consumed large amounts of contaminated fish without having access to adequate health warnings or fish advisories. Although most states and some tribes had fish advisories in place, this information was often confusing and complex, and it did not effectively reach the affected segments of the population. Although the EPA's risk communication guidance recommends evaluations of fish advisories, we found that fewer than half of states, and no tribes, have evaluated the effectiveness of their fish advisories. We recommended that the EPA take a stronger

leadership role under the Clean Water Act by working with states and tribes to ensure that effective fish advisory information reaches all such segments of the population.<sup>44</sup>

<sup>42</sup> OIG, *Management Weaknesses Delayed Response to Flint Water Crisis*, Report No. [18-P-0221](#), July 19, 2018; OIG, *Management Alert: Drinking Water Contamination in Flint, Michigan, Demonstrates a Need to Clarify EPA Authority to Issue Emergency Orders to Protect the Public*, Report No. [17-P-0004](#), October 20, 2016.

<sup>43</sup> OIG, *EPA Must Improve Oversight of Notice to the Public on Drinking Water Risks to Better Protect Human Health*, Report No. [19-P-0318](#), September 25, 2019.

<sup>44</sup> OIG, *EPA Needs to Provide Leadership and Better Guidance to Improve Fish Advisory Risk Communications*, Report No. [17-P-0174](#), April 12, 2017.

Furthermore, our work showed that, in the aftermath of Hurricane Harvey, the EPA’s emergency response staff stationed in Houston handed out pamphlets, responded to telephone helpline calls, and informed non-English-speaking communities about issues related to disinfecting drinking water and septic systems. However, the regional staff did not provide all residents in Houston-area communities sufficient quantities of translated pamphlets, including those in Spanish.<sup>45</sup>

## Communicating Land Contamination Risks

The EPA faces challenges in communicating with residents about contaminated land. We found that the EPA’s *Cleanups in My Community* website did not contain updated risk information for the Amphenol/Franklin Power Products site in Franklin, Indiana,<sup>46</sup> which means that residents who visited the website did not have current data about the risks in their communities.<sup>47</sup> We identified a case where bags of contaminated mine slag from the Anaconda Co. Smelter Superfund Site were being sold or provided as souvenirs; this use of slag had not been approved by the EPA or the Montana Department of Environmental Quality. Risk communication regarding the bags of slag was needed to protect human health.<sup>48</sup>



EPA and Texas Commission on Environmental Quality command posts in Houston. (EPA photo)



Amphenol/Franklin Power Products site, Franklin, Indiana. (OIG photo)



Formation found at Anaconda Co. Smelter Superfund Site, Anaconda, Montana. (OIG photo)

We also determined that the EPA’s risk communication regarding the unknown risks from the 352 identified pollutants in biosolids was not transparent on the EPA’s website. The EPA’s website, public documents, and biosolids labels did not explain the full spectrum of pollutants in biosolids and the

<sup>45</sup> OIG, *EPA Region 6 Quickly Assessed Water Infrastructure after Hurricane Harvey but Can Improve Emergency Outreach to Disadvantaged Communities*, Report No. [19-P-0236](#), July 16, 2019.

<sup>46</sup> EPA [website](#), *Cleanups in My Community*, last updated June 1, 2020.

<sup>47</sup> OIG, *Management Alert: Certain Risk Communication Information for Community Not Up to Date for Amphenol/Franklin Power Products Site in Franklin, Indiana*, Report No. [19-N-0217](#), June 27, 2019.

<sup>48</sup> OIG, *Management Alert: Unapproved Use of Slag at Anaconda Co. Smelter Superfund Site*, Report No. [20-N-0030](#), November 18, 2019.



uncertainty regarding their safety. Without data to complete risk assessments, the Agency cannot determine whether land-applied biosolids pollutants with incomplete risk assessments are safe.<sup>49</sup>

The EPA's challenges in communicating risk to vulnerable communities extend to agricultural workers, as well. Over two million agricultural workers and pesticide handlers are protected by the Agricultural Worker Protection Standard requirements. The Worker



Tilling soil and injecting biosolids into a farm field near Madison, Wisconsin. OIG image and [video clip](#).

Protection Standard is intended to reduce exposure to pesticides and provide enhanced protection to agricultural workers, pesticide handlers, and their families. We found that the state-led worker protection standard outreach to stakeholders, under a cooperative agreement with the EPA, was incomplete.<sup>50</sup>

## Communicating Air Pollution Risks

In a March 2020 management alert on ethylene oxide-emitting facilities, we identified shortfalls in the EPA's efforts to inform communities about these facilities. The EPA identified communities where exposure to ethylene oxide emissions from 25 "high-priority" chemical plants and commercial sterilizers could contribute to an elevated estimated lifetime cancer risk equal to or greater than 100 in one million, a risk level that the EPA generally considers not sufficiently protective of health. While the EPA or state personnel, or both, had met with residents living near nine of the 25 high-priority



Residential neighborhood in Houston with industrial facilities in the background. (OIG photo)

facilities, communities near 16 facilities had yet to be afforded public meetings or other direct outreach to learn about the health risks and actions being taken to address those risks.<sup>51</sup>

In a December 2019 report about the Agency's air monitoring response to Hurricane Harvey, we found that despite concerns about air quality and other issues in the Houston area after the hurricane, the EPA did not adequately communicate important information so that all impacted communities

<sup>49</sup> OIG, *EPA Unable to Assess the Impact of Hundreds of Unregulated Pollutants in Land-Applied Biosolids on Human Health and the Environment*, Report No. [19-P-0002](#), November 15, 2018.

<sup>50</sup> OIG, *EPA Needs to Evaluate the Impact of the Revised Agricultural Worker Protection Standard on Pesticide Exposure Incidents*, Report No. [18-P-0080](#), February 15, 2018.

<sup>51</sup> OIG, *Management Alert: Prompt Action Needed to Inform Residents Living Near Ethylene Oxide-Emitting Facilities About Health Concerns and Actions to Address Those Concerns*, Report No. [20-N-0128](#), March 31, 2020.

received it. A lack of information hindered residents' ability to make informed and independent decisions to protect their health. Community liaisons and organizations expressed concerns about the lack of printed materials in languages other than English that are spoken in the Houston area.<sup>52</sup>

## THE AGENCY'S ACTIVITIES

This is the second year the OIG has identified risk communication as a management challenge, and the Agency has taken steps to improve its risk communication efforts:

- In November 2019, the Agency hired a senior risk communications advisor whose role is to develop and coordinate consistent risk communication activities across the Agency. The advisor will develop an Agency-level training program on risk communication for project managers, on-scene coordinators, and community involvement coordinators, who frequently communicate risk to the public.
- In September 2019, the Superfund program published risk communication guidance document, titled *Getting Risk Communication Right: Helping Communities Plan at Superfund Sites*. This guidance describes how the EPA is working to improve risk communication and community involvement practices during the post-construction, long-term stewardship phase of Superfund site remediation.
- The EPA's FYs 2018–2022 strategic plan discusses the importance of risk communication with respect to radiation and states that the Agency will focus on education—including formal and informal training—in the areas of health physics, radiation science, radiation risk communications, and emergency response to fill existing and emerging gaps.
- The EPA hosted a National Leadership Summit to focus on per- and polyfluoroalkyl substances in May 2018. The summit brought together state, tribal, and federal partners as well as key stakeholders, including industry, utilities, congressional staff, and nongovernmental organizations. The summit provided an opportunity to share information on ongoing efforts, identify specific near-term actions, and address risk communication challenges.

Despite increased awareness of the importance of risk communication strategies, EPA leadership needs to demonstrate an organizational commitment to correcting problems with such strategies, which are intended to protect human health and the environment. To demonstrate this commitment, the Agency should show that it has the proper resources and processes and has developed adequate risk communication strategies. The EPA cannot fully achieve its mission and fulfill the administrator's priority until it develops strategic goals, objectives, and management controls that explicitly address risk communication so that the public can take action to protect itself from hazards.

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<sup>52</sup> OIG, *EPA Needs to Improve Its Emergency Planning to Better Address Air Quality Concerns During Future Disasters*, Report No. [20-P-0062](#), December 16, 2019.

## CHALLENGE: Fulfilling Mandated Reporting Requirements

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### CHALLENGE FOR THE AGENCY

**Complying with mandatory reporting requirements is essential to providing accountability and information about EPA programs to Congress and the public.** The EPA is responsible for submitting reports to Congress under several environmental statutes. Examples include the quadrennial report to Congress required under the Beaches Environmental Assessment and Coastal Health Act and the triennial report to Congress about the renewable fuel standards program required under the Energy Independence and Security Act of 2007. Mandated reports contain key program information for Congress, the administrator, and the public and can inform future rulemaking and decision-making.



However, the EPA did not issue multiple required congressional reports, as evident in specific OIG recommendations to fulfill legal reporting requirements. We first introduced this management challenge in 2018, after we found that the EPA had failed to submit mandated reports to Congress and the public in five environmental programs between 2010 and 2019. As stated in the GAO's *Standards for Internal Control in the Federal Government*, reliable reporting with respect to the agency's programs, objectives, and performance for both internal and external use is a fundamental component of internal control.

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*When the EPA does not fulfill requirements for statutorily mandated reports, it creates an internal control weakness and the Agency is in violation of the law that requires it to prepare and submit or publish that report. Not submitting required reports also leaves stakeholders uninformed about the Agency's progress towards achieving specific program goals, any challenges experienced during program implementation, and progress toward achieving broader environmental and public health goals.*

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The Agency has said that it did not fulfill these reporting mandates because it viewed them as not the best use of scarce resources, leading to specific recommendations from the OIG to fulfill legal reporting requirements.

### THE AGENCY'S ACTIVITIES

Each year, the Agency prepares a list of mandated reports it views as outdated or duplicative as part of the budget process outlined in Office of Management and Budget Circular A-11, *Preparation, Submission, and Execution of the Budget*.<sup>53</sup> In the FY 2021 budget cycle, the EPA identified 13 reports it

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<sup>53</sup> Office of Management and Budget Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, December 2019.

considered outdated or duplicative, including the reports about the Beaches Environmental Assessment and Coastal Health Act and the conditional registration of pesticides required under Section 29 of the Federal Insecticide, Fungicide, and Rodenticide Act. The EPA informs congressional staff and committees about these “outdated” or “duplicative” reports, as well as its justification for classifying them as such. For the conditional registration of pesticides report, the EPA stated in its justification that the Agency eliminated that report and has not completed such a report in over 20 years. However, absent Congressional legislation to eliminate these reporting requirements, the EPA remains obligated to provide them.

## ***CHALLENGE: Integrating and Leading Environmental Justice Across the Agency and Government***

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### **CHALLENGE FOR THE AGENCY**

**The EPA needs to enhance its consideration of environmental justice across programs and regions and provide leadership in this area for the federal government.**

Across the country, communities of low-income and people of color live adjacent to heavily polluted industries or “hot spots” of chemical pollution. For example, studies show that 70 percent of hazardous waste sites officially listed on the National Priorities List under Superfund are located within one mile of federally assisted housing.<sup>54</sup> These communities bear a disproportionate burden of environmental hazards. In 1994, President Bill Clinton signed Executive Order 12898 requiring federal agencies to:

[M]ake achieving environmental justice part of its mission by identifying and addressing, as appropriate, disproportionately high and adverse human health or environmental effects of its programs, policies, and activities on minority populations and low-income populations.

On June 30, 2020, Administrator Wheeler reaffirmed the EPA’s commitment to environmental justice, stating that the “EPA works day in and day out to provide clean air, water and land, with a particular focus on environmental justice.”<sup>55</sup>

The EPA defines environmental justice as “the fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income, with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies.” Integration of environmental justice principles into all EPA programs and across all regions is necessary to promote environmental justice and to achieve environmental equity across all communities.

Over the past ten years, the OIG and the GAO have consistently found that the EPA needs to improve its execution of environmental laws and regulations in communities that are disproportionately impacted by negative environmental factors. Environmental justice implementation and oversight remain a significant management challenge for the Agency’s ability to adequately protect human health.

To effectively integrate environmental justice across EPA programs, the Agency should focus on strengthening its federal leadership role; continuing to build and employ an environmental justice strategic plan, measures, and grant outreach programs; ensuring the development and



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<sup>54</sup> Shriver Center on Poverty Law and Earthjustice, [Poisonous Homes: The Fight for Environmental Justice in Federally Assisted Housing](#), June 2020.

<sup>55</sup> EPA, “Two Philadelphia Organizations Receive Funding to Support Environmental Justice Projects,” [News Release](#), June 30, 2020.



implementation of a comprehensive, nationwide plan; and considering the impact of all activities on environmental justice communities in actions revoked and taken by the Agency as a whole.

## **EPA Serves in Federal Leadership Role**

The EPA is the chair of the Interagency Working Group on Environmental Justice, established by Executive Order 12898 to coordinate federal environmental justice efforts. In this role, the Agency has both the opportunity and the responsibility to lead other federal government entities in their efforts to fully implement environmental justice requirements.

In 2019, the GAO found that the EPA should strengthen its leadership role in the Interagency Working Group on Environmental Justice. The GAO reported that, while many federal agencies did not establish plans, measures, or consistent reports on their environmental justice activities, the EPA has developed and maintained environmental justice strategic plans, established performance measures to track progress in implementing those plans, and reported progress toward achieving the measures.<sup>56</sup>

However, the GAO recommended that the EPA develop or help develop guidance for other federal agencies on what to include in environmental justice strategic plans and how to assess progress toward environmental justice goals. It also recommended that the EPA establish strategic goals for the federal government's environmental justice efforts in its own organizational documents and update a memorandum of understanding to renew other federal agencies' commitments to the Interagency Working Group. The EPA agreed to all the recommendations, except for establishing strategic goals for the federal government in its own organizational documents. The EPA countered that these goals could be established through other actions.

The EPA's strategic plan for environmental justice, called the EJ 2020 Action Agenda, provides plans and performance measures for attaining its goals and objectives. However, the strategic plan does not always provide specific goals for its measures. For example, one of the measures in the EJ 2020 Action Agenda states that the "EPA will offer [environmental justice] training to all state and local agencies that are delegated/authorized to implement federal environmental laws," but it does not provide details on how many trainings will be conducted.<sup>57</sup> Further, the EPA's environmental justice annual progress reports do not clearly convey the performance measures indicated in the strategic plan, making it difficult to measure progress over time. The EPA is identified as the leader in environmental justice across the government, but there are several critical ways it can improve its leadership and set an example among its peers.

## **Strategic Plan, Measures, and Grant Outreach**

The EPA created the Office of Environmental Equity within the Office of the Administrator in 1992 to help integrate environmental justice into the EPA's work, cultivate strong partnerships to improve on-

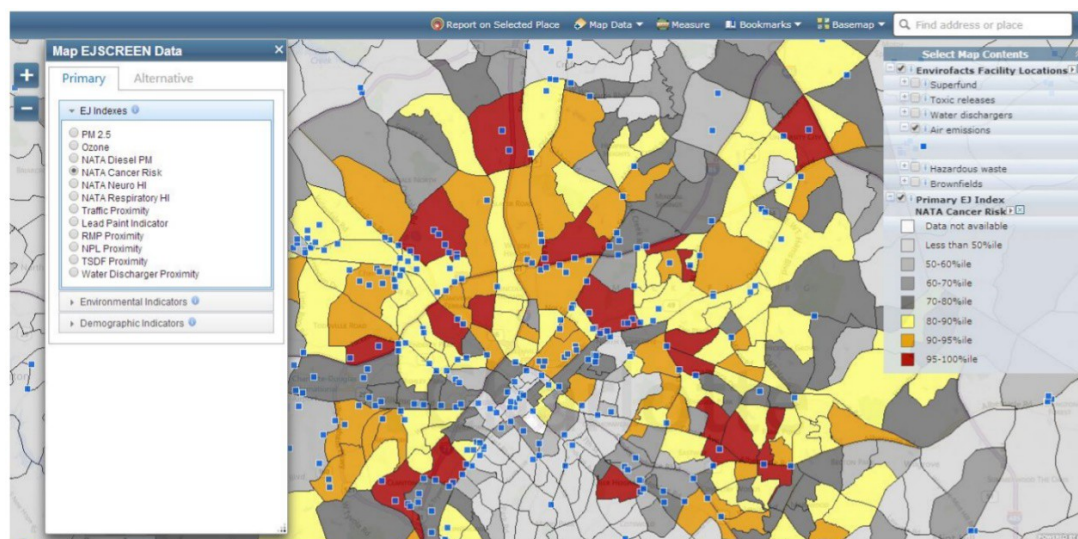
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<sup>56</sup> GAO, *Environmental Justice: Federal Efforts Need Better Planning, Coordination, and Methods to Assess Progress*, [GAO-19-543](#), September 16, 2019.

<sup>57</sup> EPA, *EJ 2020 Action Agenda: The U.S. EPA's Environmental Justice Strategic Plan for 2016–2020*, October 2016.

the-ground results, and chart a path forward to achieve better environmental outcomes and reduce disparities in the nation's most overburdened communities. This office was subsequently renamed the Office of Environmental Justice and, as of 2017, is housed in the EPA's Office of Policy within the Office of the Administrator. The Office of Environmental Justice provides financial and technical assistance to communities working constructively and collaboratively to address environmental justice issues. It also works with local, state, and federal governments; tribal governments; community organizations; business and industry; and academia to establish partnerships designed to protect all people from environmental and health hazards, regardless of race, color, national origin, or income.

To accomplish its mission, the Office of Environmental Justice creates programs, policies, and activities to assist communities in building their capacity to address environmental justice issues. These include helping communities to engage federal agencies, so that the agencies understand environmental justice issues and incorporate the communities' views into agency decisions, as well as providing tools and resources to promote the principles of environmental justice. EPA Regions and the Office of Enforcement and Compliance Assurance use several tools to identify which large facilities should be inspected for air toxics, including EJSCREEN, which is an online mapping and analysis tool developed by the Office of Environmental Justice to help integrate environmental justice into the Agency's work.<sup>58</sup>



Source: EJSCREEN v. 2.0 analysis conducted by the OIG.

## Lack of Integration Across Programs and Regions

Despite being a federal leader in establishing plans and measures and in reporting on its environmental justice efforts, the EPA has additional progress to make in integrating environmental justice concerns across all programs and Regions. The Office of Environmental Justice is not alone in addressing environmental justice in the Agency. The EPA's environmental justice mandate extends to Agency work across all program and regional offices, including:

<sup>58</sup> EPA, *EPA Regions Have Considered Environmental Justice When Targeting Facilities for Air Toxics Inspections*, Report No. [15-P-0101](#), February 26, 2015.

- Setting standards and regulations.
- Facility permitting decisions.
- Grant awards.
- Reviews of proposed federal agency actions.
- Enforcement decisions.

Working to address environmental justice is also a key component of the “Overseeing States, Territories, and Tribes Responsible for Implementing EPA Programs” management challenge. Partnerships are an integral piece of the Agency’s environmental justice program, particularly the efforts of state, tribal, and local governments to advance environmental justice. Environmental justice is also a key component of the FY 2020 management challenge “Maintaining Operations During Pandemic and Natural Disaster Responses.” For example, data from the Centers for Disease Control and Prevention show that the COVID-19 disease has disproportionately impacted African American mortality in many states.

OIG reports show that, with respect to environmental justice, gaps exist in almost all of the EPA’s activities, such as managing air quality, drinking water, toxic releases to surface waters, Superfund sites, emergency response, and environmental education. These reports point to a systemic problem with the Agency’s ability to address environmental justice across all program offices. For the EPA to effectively address environmental justice challenges nationwide, the Agency will need to develop comprehensive environmental justice performance measures for all policies and programs.

In September 2015, we examined the content and implementation of the Agency’s *Guidance on Considering Environmental Justice During the Development of Regulatory Actions*, dated May 2015, and identified deficiencies.<sup>59</sup> Given that regulations carry the force and effect of law, they can have substantial implications for policy implementation. Because of this, environmental justice should be a key consideration in devising and promulgating regulations. Our 2015 report found that adherence to the guidance was inconsistent and voluntary. In addition, we found that the guidance lacked measures and controls to assess when and how it is used in rulemaking, limiting the EPA’s ability to encourage broad, consistent use throughout the Agency and to evaluate the guidance’s impact on rulemaking.

Our work has indicated that the EPA continues to struggle with integrating environmental justice across all programs and Regions. This struggle is particularly evident in the EPA’s emergency response efforts and in its oversight of delegated state programs. Several OIG reports have found that EPA regions struggle with incorporating and considering environmental justice communities when identifying and communicating risk. For example, in July 2018, we found that the residents of Flint were exposed to lead in drinking water due to a delayed and inadequate federal response that failed to identify drinking water risks.<sup>60</sup> We recommended that the EPA implement a system to identify management risks in state drinking water programs that includes environmental justice concerns, among other elements.

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<sup>59</sup> OIG, *EPA Can Increase Impact of Environmental Justice on Agency Rulemaking by Meeting Commitments and Measuring Adherence to Guidance*, Report No. [15-P-0274](#), September 3, 2015.

<sup>60</sup> OIG, *Management Weaknesses Delayed Response to Flint Water Crisis*, Report No. [18-P-0221](#), July 19, 2018.

We also issued two reports following Hurricane Harvey that demonstrated weaknesses in Region 6's ability to properly inform environmental justice communities of air, floodwater, and drinking water risks.<sup>61</sup> We found that health risks to fenceline communities from emission spikes related to Hurricane Harvey were unknown and that public communication of air monitoring results after Hurricane Harvey was limited. As a result, communities—particularly fenceline and environmental justice communities—were unaware of the health risks and data results related to multiple facility startups and shutdowns before, during, and after the hurricane. We recommended that the EPA develop and implement a plan to inform residents in fenceline and nearby communities about adverse health risks resulting from these activities and to limit their exposure to air toxics. We also recommended environmental justice training be conducted for staff who interact with the community, as well as for those who lead the response efforts.

We found similar limitations with respect to the risks of floodwater and drinking water after Hurricane Harvey. Some affected communities did not receive some storm-

related human health and environmental information, or some of this information was not presented in relevant languages, or both. This could have resulted in citizens lacking essential public safety information. We found that improved outreach to these communities could improve the public health of communities impacted by hurricanes and other disasters and enhance Region 6's emergency response capabilities. We recommended that Region 6 personnel gather data on the population and unique challenges of vulnerable communities, revise the pre-landfall hurricane plan to incorporate environmental justice outreach, and provide outreach materials in all prevalent languages.

The OIG continues to assess the Agency's environmental justice activities across programs and Regions. Three in-progress OIG projects will contribute to this work:

- Our civil rights work will address whether the EPA's External Civil Rights Compliance Office has implemented an oversight system to provide reasonable assurance that organizations receiving EPA funds comply with Title VI requirements, which prohibit discrimination on the basis of race, color, or national origin. This work will also address Title VI compliance for all EPA



[Video](#) illustrating air toxic releases in geographic areas and monitor methods used over time. (OIG video)



An aerial view of the flooding caused by Hurricane Harvey in Houston on August 31, 2017. (U.S. Department of Defense photo)

<sup>61</sup> OIG, *EPA Region 6 Quickly Assessed Water Infrastructure after Hurricane Harvey but Can Improve Emergency Outreach to Disadvantaged Communities*, Report No. [19-P-0236](#), July 16, 2019; OIG, *EPA Needs to Improve Its Emergency Planning to Better Address Air Quality Concerns During Future Disasters*, Report No. [20-P-0062](#), December 16, 2019.



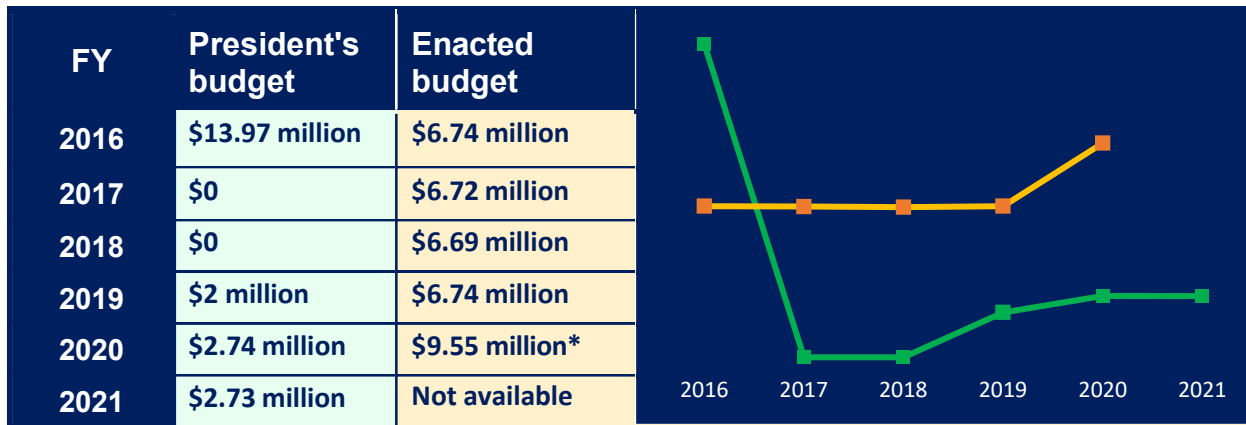
environmental programs, as requested by 22 U.S. senators in a November 22, 2019 congressional request.<sup>62</sup>

- As part of our ongoing work on the EPA's risk communication efforts, we held listening sessions for community members near the USS Lead Superfund site in East Chicago, Indiana; the Coakley Landfill Superfund site in North Hampton, New Hampshire; and the Amphenol Superfund site in Franklin, Indiana. About 70 percent of the more than 1,300 Superfund sites across the country are within one mile of public housing.<sup>63</sup>
- We are also evaluating the EPA's oversight of public water systems in Indian Country, including how the Agency is providing safe drinking water to customers during the coronavirus pandemic.<sup>64</sup>

## THE AGENCY'S ACTIVITIES

The EPA has taken several actions over the past couple of years that threaten to reverse course on its prior environmental justice efforts. Since 2017, the EPA's budget requests for its environmental justice efforts have been significantly reduced from the \$13.97 million requested in FY 2016 (Table 2). Congress rejected the EPA's requests to defund the program and continued to provide funding to this effort.

**Table 2: Environmental justice budgets**



Source: OIG analysis and image.

\*Reflects estimated enacted budget.

<sup>62</sup> OIG Notification Memorandum, *Effectiveness of EPA's External Civil Rights Compliance Office in Determining Title VI Compliance in Organizations Receiving EPA Funding (2<sup>nd</sup> notification)*, Project No. [OA&E-FY19-0357](#), February 13, 2020.

<sup>63</sup> OIG Notification Memorandum, *Communication of Human Health Risks Posed by Sites in the Office of Land and Emergency Management's Programs (2<sup>nd</sup> notification)*, Project No. [OA&E-FY19-0031](#), February 4, 2019.

<sup>64</sup> OIG Notification Memorandum, *EPA's Oversight of Tribal Drinking Water Systems*, Project No. [OA&E-FY20-0044](#), May 29, 2020.

As demonstrated in Table 2, the EPA requested \$2.73 million in environmental justice funding in the FY 2021 President’s Budget, a \$6.82 million reduction compared to the \$9.55 million provided in the FY 2020 Enacted Budget. According to the FY 2021 Justification of Appropriation, the reduction:

[R]eflects a focus on providing financial assistance grants to community-based organizations and technical assistance to low income, minority, and tribal/indigenous populations. This change proposes to eliminate support for the EJ hotline, engagements with vulnerable and overburdened communities, and EJ trainings.

A former EPA assistant associate administrator for environmental justice warned that budget cuts to EPA’s flagship environmental programs “will increase the public health impacts and decrease the economic opportunities” in communities disproportionately affected by pollution and other environmental harms.

According to the EPA’s website, “Environmental justice will be achieved when everyone enjoys the same degree of protection from environmental and health hazards and equal access to the decision-making process to have a healthy environment in which to live, learn, and work.”<sup>65</sup> EPA leadership needs to reaffirm its commitment to Executive Order 12898 by ensuring that environmental justice is integrated into every program and regional office across the Agency. The EPA can make progress toward implementing this Executive Order by proposing budgets that can obtain adequate resources for its environmental justice and civil rights efforts, consistently integrating these principles into all Agency activities, and providing leadership in its role as chair of the Interagency Working Group on Environmental Justice.

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<sup>65</sup> EPA [website](#), *Learn about Environmental Justice*, last updated on November 7, 2018.

## Agency Response to Office of Inspector General-Identified Management Challenges

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### Challenge #1 - Maintaining Operations During Pandemic and Natural Disaster Responses

**Agency Response:** In testimony before the Senate Environment and Public works Committee, Administrator Wheeler stated that ***“EPA is rising to the challenge before us regarding the COVID-19 pandemic. EPA is open for business and is at work meeting our mission of protecting human health and the environment.”*** During this time of COVID-19, the agency continued to carry out management, operational, and statutory responsibilities in the face of the unprecedented challenge represented by the pandemic. The EPA worked with its partners and maintained a robust posture for its Response Support Corps and several Special Teams ready to respond to local and national emergencies and time-critical removals. Through innovation, flexibility where appropriate to allow for easier adaptation to the evolving circumstances posed by the virus, and ongoing systematic implementation of performance management and evaluation, the agency has continued its important work. The EPA recognizes the current COVID-19 pandemic does create new challenges for the agency to successfully respond to its primary mission essential functions and ensure that its employees are able to operate in a safe manner. The agency resilience, robust management systems and a committed workforce ensures the EPA continues to perform its work at a high level.

The EPA will rely on its performance management and evaluation system to monitor progress towards outcomes. The agency established a variety of organizational goals to drive progress toward key mission outcomes. These long-term performance goals articulate clear statements of what the agency wants to achieve to advance its mission and address relevant national problems, needs, challenges, and opportunities. Strategic objectives define the outcome or management impact the agency is trying to achieve. Each strategic objective is tracked through performance goals, indicators, and other evidence. The EPA's FY 2020 Annual Performance Report will describe progress towards the strategic goals and objectives outlined in the FY 2018-2022 EPA Strategic Plan, available at <https://www.epa.gov/planandbudget/strategicplan>. This APR will present results against the annual performance goals and targets in the agency's FY 2020 Annual Performance Plan and Congressional Justification as updated in the FY 2021 APP and CJ.

The EPA is making significant progress toward a broad range of policy outcomes including significant improvements in performance over recent years. The agency will continue progress toward its performance targets through the ongoing application of the EPA Lean Management System to improve the efficiency and cost effectiveness of its operations. ELMS is designed to visualize, examine, and understand factors influencing the agency's ability to sustain its work across offices and programs. The agency leadership is building on ongoing ELMS implementation efforts by working with programs and regional offices to look more comprehensively across agency FTE allocations and identify opportunities to standardize work where possible. Related Kaizen projects include state oversight, the EPA's field presence, state and tribal assistance flexibility, community and infrastructure investments, Freedom of information Act responses, reporting requirements, the EPA laboratories, environmental permitting, and acquisitions.

The agency expects that there will be missed targets for some of the annual performance goals. While a number of likely reasons will be identified including delays in program implementation, the complexity of the environmental challenge, resource/staffing challenges, timing of government appropriations and other factors outside of the agency's control, any impacts associated with the pandemic will be assessed. The agency Chief Operating Officer will engage in discussions with program and regional office leadership on COVID-19 and anticipated potential risks associated with achieving strategic objectives based on performance data for the current year and any anticipated future issues.

In parallel, each regional emergency response program is continuously evaluating the availability of On-Scene Coordinators and Special Teams in light of the COVID-19 pandemic to inform decision-

making of future deployments as necessary. The emergency response program leadership team will, prior to significant personnel deployments, discuss steps which the agency can take to mitigate risk and adhere to the latest field activities guidelines.

The Office of Mission Support continues providing leadership on agency operations in the face of the COVID-19 pandemic: ensuring continuity of operations; ensuring the safety of the workplace through enhanced cleaning and safety protocols; implementing CARES Act Section 3610 contracting provisions; supporting the workforce through implementation of workforce flexibilities; and supporting the agency leadership on the Return to Facilities Plan. OMS' goal and focus are to prevent and/or limit COVID-19 from impeding the mission of the agency despite the significant and far-reaching impacts of the pandemic on the agency and workforce.

Additionally, actions the agency has adapted to continue to protect human health and the environment amid the pandemic are highlighted below:

- Ensuring that all Americans have safe water by working closely with the water sector and the agency's federal and state partners to support drinking water and wastewater services that are essential to helping reduce the spread of COVID-19. The agency focused its efforts on critical threats such as water sector worker absenteeism, supply chain disruptions, and financial impacts – both immediate and long-term.
- Working closely with Centers for Disease Control to jointly develop [guidance](#) for cleaning and disinfecting public spaces, workplaces, businesses, and homes.
- Expanded work under the Emerging Viral Pathogens Guidance for Anti-microbial Pesticides program, where the EPA deployed, for the first time against SARS-CoV-2, expedited review of submissions from companies requesting to add emerging viral pathogen claims to their already registered surface disinfectant labels.
- Working with the Federal Tribal Infrastructure Task Force to identify available federal resources, information, and programs to support tribal water systems.
- Establishing a variety of compliance monitoring guidance documents and innovative processes to ensure a continued field presence, albeit virtual.
- Developing COVID-19 Interim Guidelines for Inspections for conducting inspections during the COVID-19 public health emergency.
- EPA's criminal enforcement program continues to function at a high level in calendar year 2020 and during the COVID-19 crisis.
- Developed key Off-Site Compliance Monitoring Guidance.
- The Office of Civil Enforcement continues to initiate and conclude civil administrative and judicial enforcement actions; issue information requests; conduct settlement discussions and negotiations; and oversee implementation of consent decrees. National policy development continues with additional efficiencies.
- Issuance of the *COVID-19 Temporary Enforcement Policy*, balancing public health considerations while performing mission-critical functions to protect the public from threats to human health and the environment arising from violations of environmental laws.
- Establishment of a framework for addressing the impact of the COVID-19 public health emergency on site remediation enforcement programs. In April 2020, the Office of Land and Emergency Management and the Office of Enforcement and Compliance Assurance issued a joint memorandum titled *Interim Guidance on Site Field Work Decisions Due to Impact of COVID-19*. The interim guidance addresses response field activities, non-field activities, and cleanup enforcement issues at "sites across the country under a range of the EPA authorities including, but not limited to, the Superfund program, RCRA corrective action, TSCA PCB cleanup provisions, the Oil Pollution Act, and the Underground Storage Tank program."
- Developing a plan to maintain Emergency Radiation Air Monitoring Capabilities during a pandemic.
- Understanding Adaptations to Nuclear Power Plant Public Safety Plans through working with state partners and the Federal Emergency Management Agency's Radiological Emergency



Preparedness Program to understand how pandemic considerations were being considered for public health decision-making for a nuclear power plants.

**Responsible Agency Official:** David Bloom, Deputy Chief Financial Officer, Office of the Chief Financial Officer; and Donna Vizian, Principal Deputy Assistant Administrator, Office of Mission Support

## **Challenge #2 - Complying with Key Internal Control Requirements**

**Agency Response:** The EPA continues to comply with key internal control requirements to ensure programs are operating effectively and efficiently. The Government Accountability Office *Standards for Internal Control in the Federal Government* (known as the Green Book) serves as the overall framework for establishing and reporting on the effectiveness of the EPA's internal controls. As outlined in the *FY 2020 Guidance for Strategic Reviews and Internal Controls*, program and regional offices are required to develop an Internal Control Matrix for key programs and processes within their respective organizations. The matrix is based on the Green Book standards and serves as the basis for the Assistant Administrators' and Regional Administrators' attestation to the soundness of internal controls for the organization. Additionally, the matrix describes the risks that may impede the organization from accomplishing its strategic goals and objectives, as outlined in the *FY 2018-2022 EPA Strategic Plan*, and includes the associated controls in place to address the identified risks. When developing the matrix, program and regional offices consider all risk factors—strategic, operational, and fraud—and assess the impact and likelihood to the program if the risk were to occur. Each AA and RA provides a personal statement of assurance that supports the Administrator's statement of assurance on the overall effectiveness of internal controls for the agency. In response to the OIG audit, *EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs*, Report 20-P-0170, May 18, 2020, the Office of the Chief Financial Officer will require staff and senior managers to complete annual on-line training. In FY 2021, the AAs/RAs must certify completion of the training for all appropriate staff in their annual assurance letters.

In reference to improving data quality, under the Clinger Cohen Act (1996), the EPA Chief Information Officer in the Office of Mission Support has delegated authority for information quality including oversight responsibility for the agency's Quality Program, as described in the agency's Quality Policy and Procedure. The agency's Quality Program is decentralized and implemented by the program offices and regions with specific responsibilities for assuring the quality of data produced and used is appropriate for their programmatic decisions. OMS has developed a long-term corrective action plan to address the 15 findings identified in the OIG audit, *EPA Needs to Address Internal Control Deficiencies in the Agencywide Quality System*, Report No. 20-P-0200, June 22, 2020. The plan includes steps to increase effective information and communication.

**Responsible Agency Officials:** Jeanne Conklin, Controller, Office of the Controller; and Jeff Wells, Director, Office of Enterprise Information Programs

## **Challenge #3 - EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals**

**Agency Response:** The EPA continues to make progress in addressing oversight challenges. Since 2017, an EPA workgroup tasked with improving the oversight of state-delegated programs has worked to address the inconsistent application of oversight activities across the regions or environmental programs delegated to states.

The EPA continues to emphasize key tenets in the October 2018 memo, [\*Principles and Best Practices for Oversight of Federal Environmental Programs Implemented by States and Tribes\*](#). Through two pilot programs, the agency is assessing a method to ensure programmatic reviews adhere to the principles outlined in the memo and a core set of standardized work elements designed to effectuate a more

consistent approach to oversight activities. Also, the EPA workgroup continues to collaborate with states to identify opportunities for additional improvements.

Additional activities to address state oversight issues include the following:

- EPA regions continue to organize discussions with states on National Pollution Discharge Elimination System real-time reviews, and Clean Air Act Title V programmatic reviews through the implementation of standardized procedures and templates.
- The agency worked with states to clarify roles and responsibilities on impaired water listings, leading to the drafting of an elevation policy which is expected to be finalized in 2020.
- EPA's Office of Water issued a memo dated June 3, 2019, [Policy for EPA Review and Action on Clean Water Act Program Submittals](#), to ensure that regional review of state submittals under the Clean Water Act adhere to statutory obligations and timelines.
- The agency plans to finalize a national permitting oversight policy to standardize the EPA's process for oversight of permitting programs. The policy, expected to be released this year, creates a framework to guide oversight responsibilities and identifies opportunities for program assistance.
- EPA regions (e.g., Regions 5 and 10) and program offices (e.g., Office of Air and Radiation) worked throughout the year to conduct effective oversight responsibilities.

This management challenge is addressed by the EPA Lean Management System, through a performance metric designed to increase the number of alternative shared governance approaches used in state reviews.

The EPA has identified grant commitments met as a Learning Priority for the Agency's Learning Agenda to better understand the relationships between grant funding and environmental and health outcomes.

In part through the agency's grants and cooperative agreements, the EPA and its partners have made and will continue to make enormous progress in protecting air, water, and land resources. In FY 2020, the EPA began piloting a method to capture grantees' progress toward meeting the commitments established in grant and cooperative agreement workplans. The EPA also has made significant progress in improving its review and approval response time for eligible state and tribal Quality Assurance Project Plans. In FY 2022, the EPA is committing to review and take action on all QAPPs, which are a critical component of certain grants. The long-term performance goal for this Objective has been updated to reflect this priority. By identifying grant commitments met as a Learning Priority under the Evidence Act, the EPA will advance its ability to review progress made in protecting human health and the environment through its grant programs. The agency's evidence-building activities in FY 2022 will include reviews of select grant programs to learn if the commitments established and met are achieving the intended environmental results and provide recommendations to inform future decision-making.

**Responsible Agency Official:** Robin Richardson, Principal Deputy Associate Administrator, Office of Congressional and Intergovernmental Relations

#### **Challenge #4 - EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively**

**Agency Response:** The EPA has addressed the workforce planning requirements of 5 CFR Part 250, Subpart B, Strategic Human Capital Management by completing the EPA FY 2019 Human Capital Operation Plan and updating the plan's activities for FY 2020. Additionally, the EPA is using workload analyses as one factor in planning workforce levels and examining critical processes.

The EPA's FY 2020-2023 Workforce Plan, which is in the review stage, describes human capital strategies for full-time and part-time classified, "at will," and wage employees. The agency discusses

workload planning strategies at senior level management meetings, has begun assessing ongoing workload efforts, and continues to examine critical work processes through ELMS. ELMS provides a structured process for examining significant agency work to identify efficiencies and opportunities for standardization.

The agency identified workforce management as a Learning Priority for the Evidence Act's Learning Agenda to inform the EPA's ongoing Human Capital Management strategy and plans to conduct evidence-building activities in FY 2022 to support development of the Learning Agenda in conjunction with the *FY 2022-2026 EPA Strategic Plan*.

Additional activities to address workforce and workload issues include the following:

- Developed a Talent Enterprise Diagnostic Tool to assess skills gaps, especially those among the EPA's agency-specific Mission Critical Occupations.
- Developed, maintained, and enhanced the EPA's Workforce Demographics Dashboard and Diversity Dashboard.
- Began reviewing three ongoing workload projects to gather lessons learned and look for insights that could potentially apply to broader processes, such as data collection, methodology, program variability, and implementation strategies.
- The agency is in the second phase of implementing recommendations from the Superfund Remedial and Superfund Technical Enforcement FTE Realignment workload assessment.
- The agency is working on analyses to support regional laboratory workload considerations and has launched a review of the emergency response workload.

The EPA's workforce planning performance metrics are tracked through periodic reports, such as HR Stat. The agency's workload strategies have been discussed regularly at senior managers' meetings and process improvements have been tracked and reported through ELMStar tracking system metrics. Agencywide metrics are tracked monthly and discussed in senior leader Monthly Business Reviews. Additionally, Human Capital/Workforce is often discussed at the Administrator's Quarterly Performance Reviews meeting with all senior leadership.

**Responsible Agency Official:** Maria Williams, Director, Office of Budget

## **Challenge #5 - EPA Needs to Enhance Information Technology Security to Combat Cyber Threats**

**Agency Response:** The agency is committed to protecting its information and technology assets. The EPA understands the prevalence and complexity of the ever-growing cybersecurity attacks and is aware of the potential impact to the agency's mission if information assets are compromised. The EPA has established and implemented processes and internal controls for monitoring and managing contractor support actions to address concerns associated with this management challenge. Specific actions taken to address the issue include:

- Developing and implementing processes within the Office Mission Support operations to improve management and oversight of audits and corrective actions.
- Working with the Office of General Counsel to develop standard security language to include in the agency's Environmental Protection Agency Acquisitions Guide Section 39.1.2.
- Incorporating a verification component for the cybersecurity requirements identified in the EPAAG 39.1.2 into the Federal Information Technology Acquisition Reform Act process.
- Developing training for contract officers and contract officer representatives on their responsibilities for identifying contracts that require the EPAAG Section 39.1.2 tasks.
- Establishing a tracking and reporting process that ensures all contractors with access to the EPA information systems complete information security awareness training, and that contractors with significant security responsibilities also complete role-based training.
- Ensuring adequate cybersecurity is implemented on contractor operated systems by:

- Assessing systems for proper implementation and operation of adequate cybersecurity controls.
- Monitoring for timely completion of corrective actions for identified cybersecurity weaknesses.
- Managing risks at the tactical, mission, and enterprise levels.

In addition, the EPA has made significant strides addressing other recommendations highlighted in the OIG report. Specific actions the agency has taken include:

- Worked with the Department of Homeland Security regarding the risk of the Electronic Manifest System. As a result, the EPA maintained its original categorization but agreed to review the system's categorization annually and when significant changes to the system occur.
- Replaced the incident tracking system and implemented controls in the new system to protect the confidentiality and sensitivity of Personal Identifiable Information and enforce password management requirements according to federal and agency guidance.
- Documented the CIO's role in information security through policy and procedures.
- Documented and implemented controls to validate plans of action and milestones for vulnerability testing results.
- Established a process to periodically review security settings for the agency's tracking system to validate whether they meet standards and implemented audit logging capabilities to capture data changes and a log review process.

The processes implemented to address the OIG recommendations were reviewed by the OIG for the FY 2019 Federal Information Security Management Act report and found to be adequate. Additionally, agencywide metrics related to IT security are tracked monthly and discussed in senior leader Monthly Business Reviews.

**Responsible Agency Official:** Robert McKinney, Director, Office of Information Security and Privacy

#### **Challenge #6 - EPA Needs to Improve Risk Communication to Provide Individuals and Communities with Sufficient Information to Make Informed Decisions to Protect their Health and the Environment**

**Agency Response:** Risk communication goes to the heart of the EPA's mission of protecting human health and the environment. The agency is committed to ensuring that it carries out effective risk communication by sharing meaningful, understandable, and actionable information on human health and environmental risks. The EPA Administrator Andrew Wheeler identified risk communication as one of his top priorities in a 2018 speech to employees, stating "We must be able to speak with one voice and clearly explain to the American people the relevant environmental and health risks that they face, that their families face, and that their children face." Since that time, the Administrator has shown his commitment to this view by hiring a senior risk communication advisor to strengthen the agency's work in this area, and by proposing an FY 2022 budget initiative to help the agency face critical risk communication challenges of the future.

To build a consistent and effective approach to risk communication across the agency, the Administrator hired a senior risk communication advisor in November 2019 who is responsible for coordinating risk communication across the agency. With the new advisor now in place, the EPA's strategy to improve risk communication includes developing a risk communication framework and a set of robust tools to be used by anyone who communicates risk on behalf of the agency. In addition, a critical element of this strategy is to provide agencywide training grounded in the science of risk communication which leverages research across the fields of social, behavioral, and management science. This training is key to meeting the EPA's risk communication challenges of the future and will be targeted to a broad spectrum of managers and staff across the EPA's headquarters and regional

offices, and across job classifications (e.g., environmental engineers, environmental protection specialists, scientists, public affairs specialists, etc.).

Additional activities to address risk communication include the following:

- Increase coordination across the agency by continuing to use the Risk Communications Workgroup, which now includes over 80 participants, to connect people across the agency who work in this area and use their programmatic knowledge and expertise in building new risk communication tools.
- Ensure consistency in how the agency conducts risk communication by developing a “SALT” framework based on a process of Strategy, Action, Learning, and Tools, that together will provide a research-based approach and best practices for all employees to use in communicating our work to the American people. The agency also has begun work to develop a set of risk communication toolkits on emerging and cross-cutting contaminants.
- In FY 2020, the EPA provided \$230 thousand to COMPASS Science Communication, one of the Nation’s leading organizations in the field of science communication, to provide evidence-based risk communication training across the agency, and build a network of staff in the EPA headquarters and regional offices who are well positioned to apply their risk communication expertise in the agency’s day to day work.

Risk communication is integral to most of the work across the agency’s offices and regions and is critical to achieving the mission of protecting human health and the environment. While risk communication does not clearly link to any existing the EPA long-term, priority, or annual performance goal, it could potentially move the agency forward under Goal 1 of the EPA’s Strategic Plan: *A Cleaner, Healthier Environment: Deliver a cleaner, safer, and healthier environment for all Americans and future generations by carrying out the agency’s core mission.* Currently, risk communication is discussed at the Administrator’s Quarterly Performance Reviews meeting with all senior leadership.

Furthermore, the EPA plans to develop metrics which will be used to measure the success of this work and the value to the American public of implementing an agencywide risk communications approach in FY 2022.

**Responsible Agency Officials:** Nancy Grantham, Principal Deputy Associate Administrator, Office of Public Affairs

### **Challenge #7 - EPA Needs to Improve on Fulfilling Mandated Reporting Requirements**

**Agency Response:** In 2018, OIG identified an instance where the agency had not fulfilled a mandatory, statutorily required report to Congress, and has identified other instances where reports were not issued to Congress. The two reports that OIG identified have since been issued. OIG believes the agency should make a comprehensive effort to identify the causes for programs not issuing required reports, implement targeted plans to address the causes, and complete and issue any remaining missing reports. OIG also believes the agency should continue to work with Congress to eliminate the requirements of duplicative or unnecessary reports from our authorizing statutes.

The EPA has taken the corrective actions identified in the 2018 OIG Report regarding the BEACH Act Report, which has since been issued to Congress. The agency continues to implement OIG’s recommendations. For example, the Office of Congressional and Intergovernmental Relations’ Associate Administrator issued a memorandum in March 2018 to remind the EPA’s Assistant Administrators and Associate Administrators that the agency’s standard practice is to track reports to Congress by using the Office of Policy Action Development Process Tracker. OCIR, OP, and OCFO have recently met to address tracking issues related to the upcoming replacement of the ADP Tracker. Additionally, the agency continues to provide a list of the unnecessary and duplicative reports that the

EPA suggests eliminating from its statutes to OMB as part of the budget process, in consultation with Congress. The agency believes this effort will improve tracking of Reports to Congress so that statutory requirements are not missed in the future.

Additional activities to address this issue include the following:

- Consulted with Congress about eliminating the reporting requirements for the 14 reports to Congress that the agency had identified as duplicative or unnecessary.
- During FYs 2019 and 2020, held internal meetings between OCIR, OP, and OCFO to coordinate management of the agency's inventory of reports to Congress.
- During FYs 2019 and 2020, held internal meetings between OCIR, OP, and OCFO to coordinate the tracking of reports to Congress, to identify the appropriate tracking system when the ADP Tracker is replaced, and to discuss the potential for having a single means of tracking statutorily mandated reports to Congress and those required by appropriations law.
- Began working with program offices to update the list of unnecessary or duplicative reports as part of the upcoming FY 2022 budget proposal.

**Responsible Agency Official:** Robin Richardson, Principal Deputy Associate Administrator, Office of Congressional and Intergovernmental Relations

#### **Challenge #8 - Integrating and Leading Environmental Justice Across the Agency and Government**

**Agency Response:** The agency continues to address issues and concerns raised by GAO and the EPA's OIG regarding its leadership of integration of environmental justice. The EPA's Office of Environmental Justice is currently working with the Environmental Justice Interagency Working Group partners to address recommendations contained in the GAO report issued October 2019 entitled, *Federal Efforts Need Better Planning, Coordination, and Methods to Assess Programs*. Additionally, the agency is reviewing recommendations made by OIG.

**Responsible Agency Official:** Helena Wooden-Aguilar, Deputy Associate Administrator, Office of Policy; and Matthew Tejada, Office Director, Office of Environmental Justice

# PROGRESS IN ADDRESSING FY 2020 WEAKNESSES

In FY 2020, the agency did not identify any new material weaknesses. The EPA continued to make progress in addressing its one previously identified material weakness related to the financial statement preparation process. The agency expects to implement and validate all corrective for this material weakness in FY 2021.

## **Material Weakness**

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During the FY 2019 financial statement audit, the OIG stated that 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. The OIG believes these issues highlight the need for the agency to strengthen its processes so that data are accurate, compliant with federal accounting standards, and readily available on a timely basis to prepare the financial statements.

To address this weakness, the EPA established a corrective plan of action to evaluate and improve its financial statement preparation process and to provide accurate and reliable supporting documentation for adjustments and corrections. Specifically, the agency has informed staff of the need to include more supporting analysis and the rationale for the adjustments made and the accounting basis for determining the adjustments. To increase efficiency, the agency implemented the CaseWare software that provides format controls and footnote cross checks. The agency developed standing operating procedures and a reviewer checklist for the preparation of its financial statement audit. The standard operating procedures and the checklist will be reviewed in January 2021, and annually thereafter, to validate effectiveness. The agency anticipates all corrective actions will be completed and implemented by the end of FY 2021.

## Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

## Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Statement Preparation Process	1	0	0	0	0	1
Total Material Weaknesses	1	0	0	0	0	1

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Conformance With Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conform to Financial Management Systems Requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance With FFMIA		
	<b>Agency</b>	<b>Auditor</b>
1. System Requirement	No lack of compliance noted.	No lack of compliance noted.
2. Accounting Standards	No lack of compliance noted.	No lack of compliance noted.
3. USSGL at Transaction Level	No lack of compliance noted.	No lack of compliance noted.



# REAL PROPERTY

Consistent with Section 3 of the OMB Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the “Reduce the Footprint” (RTF) policy implementing guidance, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2015 baseline.

Reduce the Footprint Baseline Comparison			
Square Footage (SF)	FY 2015 Baseline	FY 2019	Change
	5,364,495	4,874,512	(489,983)

The EPA’s baseline, derived from the agency’s FY 2015 Federal Real Property Profile (FRPP) submission and FY 2015 General Services Administration (GSA) Occupancy Agreement, is 5,364,495 square feet (SF). The EPA’s RTF total in FY 2019 was 4,874,512 SF, a reduction of 489,983 SF from the baseline.

Reporting of Operation & Maintenance Cost owned and Direct Lease Buildings			
Operations & Maintenance Costs	FY 2015 Reported Cost	FY 2019	Change
	\$1,106,924.21	\$6,039,941.62	\$4,933,017.41

The EPA remains committed to reducing its environmental footprint through efficient management of its real property portfolio. The agency will continue to take steps to monitor and assess space utilization at each of its facilities and will take the appropriate steps to reduce underutilized space. Additionally, the agency will continue to implement sustainable design, construction, and operations/maintenance projects. In the coming years, the EPA will continue to explore options for teleworking, office sharing, and space consolidations. [click here for the agency’s FY 2019 Reduce the Footprint results](#)

# PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA)<sup>1</sup> requires executive branch agencies to review all programs and activities annually, identify those that may be susceptible to significant improper payments and report the results of their improper payment activities to the President and Congress through their annual Agency Financial Report or Performance and Accountability Report.

The EPA is dedicated to reducing fraud, waste, and abuse and presents the following improper payment information in accordance with PIIA, OMB guidance found in Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, and the reporting requirements contained in OMB Circular A-136, *Financial Reporting Requirements*.

PIIA and OMB implementing guidance directs federal agencies to take the following steps:

- 1) Review all programs and activities to identify those that are susceptible to significant improper payments, defined as gross annual improper payments exceeding (a) both 1.5 percent of program outlays and \$10 million of estimated improper payments or (b) \$100 million of estimated improper payments (regardless of the rate).
- 2) Obtain a statistically valid estimate of the annual amount of improper payments in programs identified as susceptible to significant improper payments.
- 3) Implement a plan to reduce improper payments in these programs.
- 4) Report annually an estimate of the annual amount and rate of improper payments.

An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirements. And It includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; and any payment that does not account for credit for applicable discounts. Further, the term “payment for an ineligible good or service” includes a payment for any good or service that is rejected under any provision of any contract, grant, lease, cooperative agreement, or other funding mechanism.

The term “payment” means any transfer or commitment for future transfer of federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies to any non-federal person or entity or a federal employee, that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity.

OMB Circular A-123, Appendix C, requires that agencies conduct risk assessments of their programs or activities at least once every three years to determine whether they are susceptible to significant improper payments. In FY 2018, the EPA updated its improper payment risk assessments using a systematic approach to determine whether each program or payment stream is susceptible to significant improper payments. The risk assessments required an evaluation of risk factors that could contribute to potential for significant improper payments. In completing the risk assessments, each office addressed risks known at the time of completion. The agency will conduct qualitative risk assessments for all the low risk programs in FY 2021.

In the Office of Inspector General’s annual report of the agency’s IPERA compliance, the EPA’s OIG stated that *“The EPA complied with all six IPERA requirements for fiscal year 2019. However, the EPA needs to improve the accuracy and completeness of improper payments reporting for the grant payment*

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<sup>1</sup> The Payment Integrity Information Act of 2019 (PIIA) repeals the Improper Payments Information Act of 2002 (IPIA), and its amendments, the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and enacts a new Subchapter in Title 31 of the U.S. Code, containing substantially similar provisions.

*stream*". The OIG recommended that the Chief Financial Officer revisit recommendation in the previous year's compliance report<sup>2</sup> to implement internal controls for training reviewers and annual verification that reviewers are knowledgeable and proficient in the identification and reporting of improper payments, and verify all corrective actions are completed.

The EPA agreed with the OIG's recommendation and noted that the corrective action that was recommended in the prior report was completed in April 2019. Initially, OIG countered the recommendation could not be considered implemented, until they could evaluate the new SOP and training requirements in next compliance audit. During the 3<sup>rd</sup> quarter of FY 2020, the EPA provided additional information to the OIG, allowing the OIG to complete their evaluation prior to FY 2021. As a result of its review, on September 30, 2020 concluded: "Based on the information and supporting documentation provided, the planned corrective actions meet the intent of our recommendation, and we consider the recommendation resolved." The OIG added: "We will confirm completion of this corrective action during next year's improper payment audit."

The following is a summary of current risk levels in the EPA programs. The EPA has one program, the grants payment stream, that is considered susceptible to significant improper payments.

In addition, the agency has incorporated a new program, 2018 Disaster Relief funding, into its risk assessment cycle. A qualitative risk assessment was conducted in FY 2019 and determined that this program is not susceptible to significant improper payments. None of the agency's programs were identified as high priority, defined as exceeding \$2 billion of annual estimated improper payments.

Table 1 summarizes the risk level for each of the agency's payment streams.

Table 1: Risk Level			
Payment Stream	Not Susceptible to Significant IPs	Susceptible to Significant IPs	High Priority
Commodities	X		
Contracts	X		
CWSRF	X		
DWSRF	X		
Grants		X	
Hurricane Sandy	X		
Payroll	X		
Purchase Cards	X		
Travel	X		
2018 Disaster Relief	X		

<sup>2</sup> OIG Report No. 19-P-0163, *EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed*

## I. Payment Reporting

Table 2 provides information about the EPA's reportable program. The website <https://paymentaccuracy.gov/> contains more detailed information on improper payments and also includes all of the information reported in prior year AFRs that is not included in the FY 2020 AFR.

Table 2. Improper Payment Reduction Outlook (\$ in millions)		
		Grants
FY 2019	\$ Outlays	1,798.34
	\$ Proper	1,775.85
	\$ Improper	22.49
	IP %	1.25%
	Proper %	98.75
FY 2020	\$ Outlays	1,653.12
	\$ Proper	1,636.04
	\$ Improper	17.08
	IP %	1.03 %
	Proper %	98.97%
	\$ Overpay	1.16
	\$ Underpay	0.00
	\$ Insufficient Documentation	15.92
	% Overpaid	2.50%
	% Underpaid	0.00%
	% Insufficient Documentation	2.92%
	Sampling Timeframe Start	Oct 1, 2018
	Sampling Timeframe End	Sept 30, 2019
FY 2021	Estimated \$ Outlays	1,653.12
	Estimated \$ Improper	20.66
	Estimated IP % Target	1.25%

Based on the challenges grantees encountered having difficulty to obtain documentation for the FY 2020 transaction testing due to the COVID-19 pandemic and the likelihood of this continuing as we begin the FY 2021 transaction testing, the EPA is maintaining the target IP rate of 1.25%.

Table 3 provides information on the estimated amount of improper payments made directly by the federal government and the amount of improper payments made by recipients of federal money.

Table 3: Monetary Loss (\$ in millions)					
Program	Estimated Total Monetary Loss to the Government	Monetary Loss within the Agency's Control	Monetary Loss Outside the Agency's Control	Estimated Non-Monetary Loss to the Government	Unknown (Insufficient Documentation to Determine)
Grants	\$1.16	\$0.00	\$1.16	0.00	\$15.92

Table 4 identifies the root causes of error.

Table 4: Improper Payment Root Cause Category Matrix (Grants) (\$ in millions)					
Reason for Improper Payment		Type of Improper Payment			
		Overpayments	Underpayments	Unknown	Totals
Program Design or Structural Issue		--	--	--	--
Inability to Authenticate Eligibility:	Inability to Access Data	--	--	--	--
	Data Needed Does Not Exist	--	--	--	--
Failure to Verify:	Death Data	--	--	--	--
	Financial Data	--	--	--	--
	Excluded Party Data	--	--	--	--
	Prisoner Data	--	--	--	--
	Other Eligibility Data	--	--	--	--
Administrative or Process Error Made by:	Federal Agency	--	--	--	--
	State or Local Agency	--	--	--	--
	Other Party	\$1.16	--	--	\$1.16
Medical Necessity		--	--	--	--
Insufficient Documentation to Determine		--	--	\$15.92	\$15.92
Other Reason		--	--	--	--
<b>Totals</b>		\$1.16	--	\$15.92	\$17.08

## II. Recapture of Improper Payments Reporting

IPERA requires agencies to conduct payment recapture audit reviews in any program expending more than \$1 million annually. Past experience has demonstrated that the low dollar value of improper payments recovered by an external payment recapture auditor resulted in an effort that was not cost-effective for the agency or the contractor. Therefore, the EPA no longer uses a payment recapture audit firm to conduct formal payment recapture audits.

Nevertheless, the agency performs payment recapture activities internally, leveraging the work of agency employees and agency resources. As part of this process, each payment stream is routinely monitored to assure the effectiveness of internal controls and identify issues that could give rise to overpayments. The agency's payment recapture activities are part of its overall program of internal control over disbursements, which includes establishing and assessing internal controls to prevent improper payments, reviewing disbursements, assessing root causes of error, developing corrective action plans where appropriate, and tracking the recovery of overpayments.

The following table quantifies the agency's efforts to identify and recapture overpayments across all payment streams.

<b>Table 5: Overpayments Recaptured Outside of Payment Recapture Audits <sup>(1)</sup></b> <i>(\$ in millions)</i>		
<b>Program</b>	<b>Amount Identified In FY 2020</b>	<b>Amount Recovered in FY 2020</b>
Commodities <sup>(2)</sup>	0.11	0.10
Contracts <sup>(2)</sup>	1.05	0.52
CWSRF	2.68	2.68
DWSRF	3.29	3.29
Grants	2.53	2.06
Hurricane Sandy	0.00	0.00
Payroll <sup>(3)</sup>	1.24	1.02
Purchase Cards	0.00	0.00
Travel	0.018	0.016
2018 Disaster Relief	0.00	0.00
Other <sup>(4)</sup>	0.42	0.32
<b>Total</b>	<b>11.34</b>	<b>10.01</b>
<b>Recapture Rate – 88 %</b>		

- (1) EPA does not conduct a formal payment recapture audit, as a formal audit is not cost-effective. Amounts displayed in this table were identified and recovered using a variety of means available to the agency.
- (2) Amounts for contracts and commodities do not include lost discounts, which are uncollectible.
- (3) Payroll consists of salary, benefits, and awards.
- (4) "Other" consists of improper payments identified by OIG or GAO audits plus confirmed fraud.

The information provided below summarizes the actions and methods used by the agency to recoup overpayments, a justification of any overpayments determined not to be collectible, and any conditions giving rise to improper payments and how those conditions are being resolved.

#### **A) Commodities and Contracts**

Given the historically low percentage of improper payments in commodities and contracts, the Agency relies on its internal review process to detect and recover overpayments. The Agency produces monthly reports for each payment stream and uses these reports as its primary tool for tracking and resolving improper payments. These reports identify the number and dollar amount of improper payments, the source and reason for the improper payment, the number of preventive reviews conducted, and the value of recoveries.

The commercial payments are subject to financial review, invoice approval, and payment certification. Since all commercial payments are subject to rigorous internal controls, the Agency relies upon its system of internal controls to minimize errors. The following is a brief summary of the internal controls in place over the Agency's commercial invoice payment process.

The payment processing cycle requires that all invoices be subjected to rigorous review and approval by separate entities. Steps taken to ensure payment accuracy and validity, which serve to prevent improper payments, include 1) the RTP Finance Center's review for adequate funding and proper invoice acceptance; 2) comprehensive system edits to guard against duplicate payments, exceeding ceiling cost and fees, billing against incorrect period of performance dates, and payment to wrong vendor; 3) electronic submission of the invoice to Project Officers and Approving Officials for validation of proper receipt of goods and services, period of performance dates, labor rates, and appropriateness of payment, citing disallowances or disapprovals of costs if appropriate; and 4)

review by the RTP Finance Center of suspensions and disallowances, if taken, prior to the final payment certification for Treasury processing. Additional preventive reviews are performed by the RTP Finance Center on all credit and re-submitted invoices. Additionally, the EPA Contracting Officers perform annual reviews of invoices on each contract they administer, and DCAA audits are performed on cost-reimbursable contracts at the request of the Agency.

Vendors doing business with federal agencies occasionally offer discounts when invoices are paid in full and within the specified discount period (e.g., within 10 days of billing). The EPA makes its best effort to take all discounts, as they represent a form of savings to the Agency. However, there are valid reasons for which it is not feasible to take every discount that is offered, including: 1) an insufficient discount period to process a discount offer, such as a discount offer in which the required processing time for payment exceeds the number of days of the offer; and 2) a situation in which it is not economically advantageous to take the discount. Specifically, if the discount rate exceeds the Treasury's current value of funds rate, taking the discount saves the government money, so the discount is accepted by paying the invoice early. However, if the discount rate is less than the current value of funds rate, taking the discount is not cost-effective for the government, so the discount is rejected, and the invoice is paid as close to the payment due date as possible. For FY 2020 reporting, improper payments stemming from lost discounts totaled \$24K for commodities and contracts combined.

Improper payments can result from typographical errors, payments to incorrect vendors, duplicate payments, or lost discounts. Numerous training sessions have been conducted, and standard operating procedures have been reviewed and updated to ensure the most current processes are properly documented. Any significant changes in policy or procedures are communicated in a timely manner. Despite the Agency's best efforts to collect all overpayments, some overpayments are not recoverable. For example, lost discounts can result when the Agency is unable to pay an invoice within the time period specified by the vendor. While reported as improper payments, lost discounts are not recoverable and are excluded from the recovery percentage for both contracts and commodities.

## **B) Clean and Drinking Water State Revolving Funds**

The SRFs are not susceptible to significant improper payments. For the SRFs, the agency both identifies and recovers improper payments during the state review process. The EPA Regions are required to conduct annual reviews of state SRF programs using checklists developed by Headquarters. Included in the checklist are questions about potential improper payments which the regions discuss with the state SRF staff during the reviews. Errors in the SRFs most often arise from duplicate payments, funds drawn from the wrong account, incorrect proportionality used for drawing federal funds, ineligible expenses, transcription errors, or inadequate cost documentation. Many of the payment errors are immediately corrected by the state or are resolved by adjusting a subsequent cash draw. For issues requiring more detailed analysis, the state provides the agency with a plan for resolving the improper payments and reaches an agreement on the planned course of action. The agreement is described in the EPA's Program Evaluation Report, and the Agency follows up with the state to ensure compliance.

## **C) Grants**

For the agency's grants payment stream, overpayments principally consist of unallowable costs or lack of supporting documentation. When overpayments arise, the EPA seeks to recover them either by establishing a receivable and collecting money from the recipient or by offsetting future payment requests. The agency follows established debt collection procedures to recapture overpayments.

The EPA identifies overpayments in grants both through statistical sampling and through non-statistical means. Recipients selected for non-statistical reviews are chosen based on the results of risk assessments performed by grants management officers. Using a standard protocol, an onsite or desk review is performed, and each recipient's administrative and financial management controls are examined. The reviews include an analysis of the recipient's administrative policies and procedures and the testing of a judgmental sample of three non-consecutive draws.

In addition, the agency responds to single audits and audits conducted by the Office of the Inspector General and uses them as a means of identifying and recovering improper payments. The agency follows established processes for evaluating questioned costs, validating or disallowing costs where appropriate, and seeking the recovery of any sustained overpayments. The EPA also identifies improper payments originating from enforcement actions, grant adjustments, and recipient overdraws. Grant adjustments arise when a recipient must return any unexpended drawn amounts prior to close-out of the grant. Recipient overdraws occur when funds are erroneously drawn in advance of immediate cash needs, and the recipient is directed to repay the funds while also being reminded of the immediate cash needs rule. Depending on the type of error, improper payment information is tracked by the Office of the Controller and the Office of Grants and Debarment, and the records of each are reconciled to ensure complete and accurate reporting. The EPA also seeks to prevent improper payments. Prior to the issuance of a grant award, OGD's Compliance Team conduct pre-award certification of non-profit recipients that receive awards in excess of \$200K to ensure their written policies and procedures specify acceptable internal controls for safeguarding federal funds. Recertifications are conducted every four years. Grants Management Officers (GMOs) concur on all certifications. GMOs are also required to ensure that recipients are not listed in the Excluded Parties List System within the System for Award Management. The EPA conducts annual baseline monitoring reviews of all recipients to ensure overall compliance with assistance agreement terms and conditions, as well as all applicable federal regulations. If deemed necessary, recipients can be placed on a reimbursement payment plan which requires submission of cost documentation (receipts, invoices, etc.) for review and approval prior to receiving reimbursement.

#### **D) Hurricane Sandy**

Due to several years of sustained low improper payment rates, Hurricane Sandy funding is no longer considered susceptible to significant improper payments. The EPA continues to conduct oversight of SRF-related Hurricane Sandy funds through ongoing transaction testing. During FY 2020, no improper payments were identified.

#### **E) Payroll**

The agency's payroll is not susceptible to significant improper payments. Payroll is a largely automated process driven by the submission of employee time and attendance records and personnel actions. In-service debt can arise for a variety of reasons during the period of employment. When in-service debt arises, the employee is notified of the debt, given the right to dispute the debt, provided payment options, and an account receivable is recorded by the agency's shared service payroll provider, the Interior Business Center. Debts are typically recovered through payroll deductions in subsequent pay periods.

Out-of-service debt can arise when an employee leaves the agency and owes funds back to the EPA following separation. The EPA establishes the debt and tracks recovery status. A small portion of the EPA's out-of-service debt was uncollectible as a result of the separating employee retiring on disability. For both in-service and out-of-service debt, recoveries are actively pursued by following established debt collection procedures.

#### **F) Purchase Cards**

The purchase card program is not susceptible to significant improper payments, and no improper payments were identified in FY 2020.

#### **G) Travel**

Travel is not susceptible to significant improper payments. For travel, improper payments can include ineligible expenses and insufficient or missing supporting documentation. When an overpayment is identified for travel, the agency establishes a receivable, and existing procedures are followed to ensure prompt recovery.



### III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

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Initially codified under Enactment of the Improper Payments Elimination and Recovery Improvement Act of 2012, the Payment Integrity Information Act of 2019 maintains the requirement for federal agencies to implement the Do Not Pay (DNP) initiative, a government-wide solution designed to prevent payment errors and detect waste, fraud, and abuse in programs administered by the federal government.

The EPA's payments are screened by Treasury's DNP working system to detect improper payments. Treasury analyzes each agency's payments and provides a monthly report itemizing any payments that were made to potentially ineligible recipients. These potential matches are identified when the name of an agency's payee matches the name of an individual or entity listed in federal data sources contained in Treasury's DNP working system.

In FY 2019, Treasury screened the EPA payments against the following DNP data sources on a post-payment basis: the Social Security Administration's Death Master File and the General Services Administration's System for Award Management Exclusion List. Through September 30, 2020, approximately \$1.69 billion of the EPA payments were screened, and no improper payments were identified. In addition, the EPA screens payments via the Automated Standard Application for Payments (ASAP), and ASAP's grantee listing is monitored by Treasury. Finally, agency payments are routinely monitored by the Treasury Offset Program, which offsets federal payments to recipients with delinquent federal nontax debt. These different tools provide a valuable external check of the agency's payment integrity.

### IV. Fraud Reduction

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The *Payment Integrity Information Act of 2019* requires agencies to improve financial and administrative controls to identify and assess fraud risks. In accordance with OMB Circular A-123, "*Management's Responsibility for Enterprise Risk Management and Internal Control*," the EPA incorporated practices, as appropriate, identified in the "*GAO Framework for Managing Fraud Risks in Federal Programs*," to align with the agency's operations.

To increase fraud awareness and create an organizational culture that is committed to combating fraud, the agency continued to consider all risk factors—strategic, operational, and fraud—when determining the overall effectiveness of the agency's internal control system. As required in the agency's *FY 2020 Guidance for Strategic Reviews and Internal Controls*, which integrates strategic review and internal control processes, national program and regional offices described and documented the internal controls in place to address risk associated with the strategic goals and objectives outlined in the *FY 2018-2022 EPA Strategic Plan*, as well as for administrative and financial processes. The offices conduct reviews and use the Green Book as the basis for determining whether the organization's system of internal control is designed, implemented, and operating effectively. The EPA senior management certifies to the soundness of internal controls within the organization and provides a personal statement of assurance that supports the Administrator's overall statement of assurance on the agency's internal control system.

As part of its payment integrity program, the EPA regularly identifies and assesses a variety of risk factors, including fraud risk, in payment streams such as payroll, grants, contracts, travel and purchase cards. Programs with the potential for elevated fraud risk are evaluated as part of the risk assessment process under the PIIA. The assessments determined that the level of risk for these payment streams is low and that the controls were operating effectively. Updated risk assessments are required at least once every three years. In addition, as part of its payment integrity program, the EPA continues to work with the OIG to identify as improper payments any confirmed fraud cases resulting in criminal restitution.

As outlined in the Statement on Auditing Standards Number 122, *Consideration of Fraud in a Financial Statement Audit*, AU-C Section 240, the Chief Financial Officer engaged in a conversation with the Inspector General on the processes for identifying, responding to and monitoring the risk of fraud in the agency.

# CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, the EPA and other federal agencies are required to adjust their maximum and minimum statutory civil penalty amounts by January 15 each year to account for inflation. In accordance with this requirement, the EPA promulgated the Civil Monetary Penalty Inflation Adjustment Rule (2020 Rule) on January 13, 2020, which became effective the same day. For details on the 2020 Rule, see 85 Fed. Reg. 1751-1757, codified in Table 1 of 40 CFR § 19.4. The EPA will amend 40 CFR § 19.4 in January 2021 to adjust penalty levels to reflect changes in inflation since the last adjustment.

## Current Statutory Maximum/Minimum Civil Penalties under EPA's 2020 Civil Monetary Penalty Inflation Adjustment Rule

U.S. Code Citation	Environmental statute	Year statutory penalty authority was enacted	Latest year of adjustment (via statute or regulation)	Statutory civil penalties for violations that occurred after November 2, 2015, where penalties are assessed on or after January 13, 2020
7 U.S.C. 136l.(a)(1)	FEDERAL INSECTICIDE, FUNGICIDE, AND RODENTICIDE ACT (FIFRA)	1972	2020	\$20,288
7 U.S.C. 136l.(a)(2)	FIFRA	1972	2020	\$2,976
7 U.S.C. 136l.(a)(2)	FIFRA	1978	2020	\$2,976/\$1,917
15 U.S.C. 2615(a)(1)	TOXIC SUBSTANCES CONTROL ACT (TSCA)	2016	2020	\$40,576
15 U.S.C. 2647(a)	TSCA	1986	2020	\$11,665
15 U.S.C. 2647(g)	TSCA	1990	2020	\$9,639
31 U.S.C. 3802(a)(1)	PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)	1986	2020	\$11,665
31 U.S.C. 3802(a)(2)	PFCRA	1986	2020	\$11,665
33 U.S.C. 1319(d)	CLEAN WATER ACT (CWA)	1987	2020	\$55,800
33 U.S.C. 1319(g)(2)(A)	CWA	1987	2020	\$22,320/\$55,800
33 U.S.C. 1319(g)(2)(B)	CWA	1987	2020	\$22,320/\$278,995
33 U.S.C. 1321(b)(6)(B)(i)	CWA	1990	2020	\$19,277/\$48,192
33 U.S.C. 1321(b)(6)(B)(ii)	CWA	1990	2020	\$19,277/\$240,960
33 U.S.C. 1321(b)(7)(A)	CWA	1990	2020	\$48,192/\$1,928
33 U.S.C. 1321(b)(7)(B)	CWA	1990	2020	\$48,192
33 U.S.C. 1321(b)(7)(C)	CWA	1990	2020	\$48,192
33 U.S.C. 1321(b)(7)(D)	CWA	1990	2020	\$192,768/\$5,783
33 U.S.C. 1414b(d)(1)	MARINE PROTECTION, RESEARCH, AND	1988	2020	\$1,284

U.S. Code Citation	Environmental statute	Year statutory penalty authority was enacted	Latest year of adjustment (via statute or regulation)	Statutory civil penalties for violations that occurred after November 2, 2015, where penalties are assessed on or after January 13, 2020
	SANCTUARIES ACT (MPRSA)			
33 U.S.C. 1415(a)	MPRSA	1972	2020	\$202,878/\$267,621
33 U.S.C. 1901 note (see 1409(a)(2)(A))	CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO)	2000	2020	\$14,791/\$36,975
33 U.S.C. 1901 note (see 1409(a)(2)(B))	CACSO	2000	2020	\$14,791/\$184,874
33 U.S.C. 1901 note (see 1409(b)(1))	CACSO	2000	2020	\$36,975
33 U.S.C. 1908(b)(1)	ACT TO PREVENT POLLUTION FROM SHIPS (APPS)	1980	2020	\$75,867
33 U.S.C. 1908(b)(2)	APPS	1980	2020	\$15,173
42 U.S.C. 300g-3(b)	SAFE DRINKING WATER ACT (SDWA)	1986	2020	\$58,328
42 U.S.C. 300g-3(g)(3)(A)	SDWA	1986	2020	\$58,328
42 U.S.C. 300g-3(g)(3)(B)	SDWA	1986/1996	2020	\$11,665/\$40,640
42 U.S.C. 300g-3(g)(3)(C)	SDWA	1996	2020	\$40,640
42 U.S.C. 300h-2(b)(1)	SDWA	1986	2020	\$58,328
42 U.S.C. 300h-2(c)(1)	SDWA	1986	2020	\$23,331/\$291,641
42 U.S.C. 300h-2(c)(2)	SDWA	1986	2020	\$11,665/\$291,641
42 U.S.C. 300h-3(c)	SDWA	1974	2020	\$20,288/\$43,280
42 U.S.C. 300i(b)	SDWA	1996	2020	\$24,386
42 U.S.C. 300i-1(c)	SDWA	2002	2020	\$141,943/\$1,419,442
42 U.S.C. 300j(e)(2)	SDWA	1974	2020	\$10,143
42 U.S.C. 300j-4(c)	SDWA	1986	2020	\$58,328
42 U.S.C. 300j-6(b)(2)	SDWA	1996	2020	\$40,640
42 U.S.C. 300j-23(d)	SDWA	1988	2020	\$10,705/\$107,050
42 U.S.C. 4852d(b)(5)	RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992	1992	2020	\$18,149
42 U.S.C. 4910(a)(2)	NOISE CONTROL ACT OF 1972	1978	2020	\$38,352
42 U.S.C. 6928(a)(3)	RESOURCE CONSERVATION AND RECOVERY ACT (RCRA)	1976	2020	\$101,439
42 U.S.C. 6928(c)	RCRA	1984	2020	\$61,098
42 U.S.C. 6928(g)	RCRA	1980	2020	\$75,867
42 U.S.C.	RCRA	1984	2020	\$61,098

U.S. Code Citation	Environmental statute	Year statutory penalty authority was enacted	Latest year of adjustment (via statute or regulation)	Statutory civil penalties for violations that occurred after November 2, 2015, where penalties are assessed on or after January 13, 2020
6928(h)(2)				
42 U.S.C. 6934(e)	RCRA	1980	2020	\$15,173
42 U.S.C. 6973(b)	RCRA	1980	2020	\$15,173
42 U.S.C. 6991e(a)(3)	RCRA	1984	2020	\$61,098
42 U.S.C. 6991e(d)(1)	RCRA	1984	2020	\$24,441
42 U.S.C. 6991e(d)(2)	RCRA	1984	2020	\$24,441
42 U.S.C. 7413(b)	CLEAN AIR ACT (CAA)	1977	2020	\$101,439
42 U.S.C. 7413(d)(1)	CAA	1990	2020	\$48,192/\$385,535
42 U.S.C. 7413(d)(3)	CAA	1990	2020	\$9,639
42 U.S.C. 7524(a)	CAA	1990	2020	\$48,192/\$4,819
42 U.S.C. 7524(c)(1)	CAA	1990	2020	\$385,535
42 U.S.C. 7545(d)(1)	CAA	1990	2020	\$48,192
42 U.S.C. 9604(e)(5)(B)	COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA)	1986	2020	\$58,328
42 U.S.C. 9606(b)(1)	CERCLA	1986	2020	\$58,328
42 U.S.C. 9609(a)(1)	CERCLA	1986	2020	\$58,328
42 U.S.C. 9609(b)	CERCLA	1986	2020	\$58,328/\$174,985
42 U.S.C. 9609(c)	CERCLA	1986	2020	\$58,328/\$174,985
42 U.S.C. 11045(a)	EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA)	1986	2020	\$58,328
42 U.S.C. 11045(b)(1)(A)	EPCRA	1986	2020	\$58,328
42 U.S.C. 11045(b)(2)	EPCRA	1986	2020	\$58,328/\$174,985
42 U.S.C. 11045(b)(3)	EPCRA	1986	2020	\$58,328/\$174,985
42 U.S.C. 11045(c)(1)	EPCRA	1986	2020	\$58,328
42 U.S.C. 11045(c)(2)	EPCRA	1986	2020	\$23,331
42 U.S.C. 11045(d)(1)	EPCRA	1986	2020	\$58,328
42 U.S.C. 14304(a)(1)	MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT)	1996	2020	\$16,258
42 U.S.C. 14304(g)	BATTERY ACT	1996	2020	\$16,258

# BIENNIAL REVIEW OF USER FEES

The CFO Act of 1990 and OMB Circular No. A-25 Revised, User Charges, directs agencies to biennially review their fees, royalties, rents, and other charges and to recommend fee adjustments as appropriate. OMB Circular No. A-25 Revised also directs agencies to review other agency programs and determine whether fees should be initiated for government services or goods for which fees are not currently charged.

The EPA's FY 2020 user fee review followed the statutory requirements of each fee program and the guidelines of OMB Circular A-25 Revised. Our review found the EPA's existing user fee programs compliant with their statutory requirements regarding the cost recovery of its activities. However, the agency recommended that the Motor Vehicle and Engine Compliance Fee Program provide additional information on the program's estimated cost and their allocation methodologies. In FY 2021, the EPA will review MVECP's additional information and conduct a detailed analysis to ensure fees are aligned with actual program costs and activities.

In FY 2020, the EPA administered the following user fee programs. The bold-highlighted programs are statutorily required to recover the full cost of the services provided.

FY 2020 User Fee Programs	
Pesticides Registration Service Fees	Pesticides Maintenance Fees
<b>Motor Vehicle and Engine Compliance Fee Program</b>	Water Infrastructure Finance and Innovation Act Fees*
<b>e-Manifest Fees*</b>	Toxic Substance Control Act Fees*
<b>Lead-Based Paint Fee Program</b>	<b>Clean Air Part 71 Permit Fees</b>

\*New user fee programs

The agency also conducted a review to determine whether fees should be assessed for programs that provide special benefits to recipients beyond those that accrue to the general public. The review looked at a subset of the total universe of potential fee programs identified as part of the FY 2018 User Fee process.

The EPA will be working with OMB in FY 2021 to determine whether or not exceptions are justified for each program that was reviewed. For some programs, the cost of collecting fees can often represent an unduly large part of the fee activity or other conditions may exist that would cause the implementation of a fee to be inappropriate.

The agency is exploring options and opportunities for programs where collecting fees may be appropriate, for which the EPA is not recommending an exception to OMB. In the FY 2021 President's Budget, the agency outlined the following legislative proposals to authorize the EPA to administer (or adjust existing) fees:

- 1) The FY 2021 Budget included a proposal to authorize the EPA to establish user fees for entities that participate in the ENERGY STAR program. By administering the ENERGY STAR program through the collection of user fees, the EPA would continue to provide a trusted resource for consumers and businesses who want to purchase products that save them money and help protect the environment.
- 2) The FY 2021 Budget included a proposal to expand the range of activities that the EPA can fund with existing pesticide registration service fees and maintenance fees.

- 3) The FY 2021 Budget requests authorization for the EPA Administrator to collect and obligate fees to provide compliance assistance services for owners or operators of a non-transportation related onshore or offshore facility located landward of the coastline required to prepare and submit Spill Prevention Control and Countermeasure Plans or Facility Response Plans under section 311(j) of the Federal Water Pollution Control Act. Allowing these facilities to voluntarily request and pay for a service whereby the EPA conducts an on-site, walk-through of the facility will help expand awareness and understanding of accident prevention processes, improve the safety of industrial operations, and reduce inadvertent regulatory compliance violations.
- 4) The FY 2021 Budget requests authorization for the Administrator to collect and obligate fees to provide compliance assistance services for owners or operators of a stationary source required to prepare and submit a Risk Management Plan under Section 112(r)(7) of the Clean Air Act. Allowing these facilities to voluntarily request and pay for a service whereby the EPA conducts an on- site, walk-through of the facility will help expand awareness and understanding of accident prevention processes, improve the safety of industrial operations, and reduce inadvertent regulatory compliance violations.
- 5) The FY 2021 Budget provides language that would appropriate a portion of the Federal Vehicle and Fuels Standards and Certification program project funds from the Environmental Services Fund. This change would more directly reflect the relationship between the Program's fee collections for vehicle and engine certifications and its expenditures as described in the Clean Air Act (42 USC 7552(b)).

# GRANT PROGRAM

The EPA has tracked assistance agreement closeout performance since its first five-year Grants Management Plan was issued in 2002. The EPA reports in its Annual Financial Report on two grants closeout performance measures: 90% closure of recently expired grants and 99% closure of grants that expired in earlier years. The agency has consistently exceeded or met these targets or, in limited instances, missed them by a few percentage points. Below is a summary table showing the total number of federal grant and cooperative agreement awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by more than two years.

CATEGORY	2-3 Years FY17-18	>3-5 Years FY15-16	>5 Years Before FY15
Number of Grants/Cooperative Agreements with Zero Dollar Balances	40	4	9
Number of Grants/Cooperative Agreements with Undisbursed Balances	18	1	5
Total Amount of Undisbursed Balances	\$2,893,044	\$241,075	\$1,325,430

The EPA has made great progress in reducing the amount of undisbursed balances on expired grants as well as reducing the number of older grants that have expired but have not been closed out. The timely closeout of grants can be delayed for a variety of reasons, but generally these include open audits with unresolved findings and where recipient appeal rights have not yet been exhausted; or lack of required documentation from the recipient. The EPA monitors unliquidated obligations (ULOs) on expired assistance agreements as well, requiring an annual review of ULOs to determine if funds are no longer needed and can be deobligated and the assistance agreement closed out.

## **Prior Fiscal Year Submission Updates**

A March 2020 EPA Office of Inspector General Report, “EPA Did Not Accurately Report Under the Grants Oversight and New Efficiency Act and Needs to Improve Timeliness of Expired Grant Closeouts,” Report No. 20-P-0126, found that EPA’s 2017 and 2018 GONE Act reporting was incorrect. To ensure that Congress has accurate information regarding EPA’s number of open grants at the time of those two reports, EPA is providing corrected data in the FY 2020 AFR.

## **Previous FY 2017 Submissions**

CATEGORY	2-3 Years	>3-5	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	FY 14-15 29	FY12-14 11	Before FY12 3



Number of Grants/Cooperative Agreements with Undisbursed Balances	12	3	0
Total Amount of Undisbursed Balances	\$7,762,717	\$1,640,660	0

[FY 2017, pg 154/161]

**Corrected FY 2017 Submissions**

CATEGORY	2-3 Years FY17-18	>3-5 FY15-16	>5 Years Before FY15
Number of Grants/Cooperative Agreements with Zero Dollar Balances	38	13	7
Number of Grants/Cooperative Agreements with Undisbursed Balances	3	2	1
Total Amount of Undisbursed Balances	\$1,146,644	\$648,727	\$112,410

**Previous FY 2018 Submissions**

CATEGORY	2-3 Years FY15-16	>3-5 FY13-15	>5 Years Before FY13
Number of Grants/Cooperative Agreements with Zero Dollar Balances	29	11	3
Number of Grants/Cooperative Agreements with Undisbursed Balances	12	3	0
Total Amount of Undisbursed Balances	\$7,762,717	\$1,640,660	0

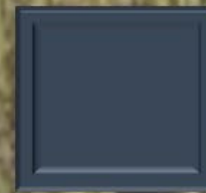
[FY 2018, pg 185/195]

**Corrected FY 2018 Submissions**

<b>CATEGORY</b>	<b>2-3 Years FY17-18</b>	<b>&gt;3-5 FY15-16</b>	<b>&gt;5 Years Before FY15</b>
Number of Grants/Cooperative Agreements with Zero Dollar Balances	15	5	6
Number of Grants/Cooperative Agreements with Undisbursed Balances	3	2	1
Total Amount of Undisbursed Balances	\$1,146,644	\$648,727	\$112,410

# Section IV

## Appendices



# **APPENDIX A**

## **PUBLIC ACCESS**

The EPA invites the public to access its website at [www.epa.gov](http://www.epa.gov) to obtain the latest environmental news, browse agency topics, learn about environmental conditions in their communities, obtain information on interest groups, research laws and regulations, search specific program areas, or access the EPA's historical database.

**EPA newsroom:** [www.epa.gov/newsroom](http://www.epa.gov/newsroom)

News releases: [www.epa.gov/newsroom/news-releases](http://www.epa.gov/newsroom/news-releases)

Regional newsrooms: <https://www.epa.gov/newsroom/browse-news-releases#regions>

**Laws, regulations, guidance and dockets:** <https://www.epa.gov/laws-regulations>

Major environmental laws: <https://www.epa.gov/laws-regulations/laws-and-executive-orders>

EPA's *Regulations* website: <https://www.epa.gov/laws-regulations/regulations>

**Where you live:** <https://www.epa.gov/children/where-you-live>

Community Information: <https://www.epa.gov/nutrientpollution/what-you-can-do-your-community>

EPA regional offices:

<https://www.epa.gov/aboutepa/visiting-regional-office>

**Information sources:** <https://www.epa.gov/quality/epa-information-quality-guidelines> Hotlines and clearinghouses:

<https://www.epa.gov/home/epa-hotlines> Publications:

<https://nepis.epa.gov/EPA/html/pubindex.html>

**Education resources:** [www.epa.gov/students/](http://www.epa.gov/students/)

Office of Environmental Education: [www.epa.gov/education](http://www.epa.gov/education)

**About EPA:** [www.epa.gov/aboutepa](http://www.epa.gov/aboutepa)

EPA organizational structure: [www.epa.gov/aboutepa/epa-organizational-structure](http://www.epa.gov/aboutepa/epa-organizational-structure)

**EPA programs with a geographic focus:** <https://www.epa.gov/environmental-topics/environmental-information-location>

**EPA for business and nonprofits:**

<https://www.epa.gov/grants/guidance-non-profit-organizations-purchasing-supplies-equipment-and-services-under-epa-grants>

Small Business Gateway: [www.epa.gov/osbp/](http://www.epa.gov/osbp/)

Grants, fellowships, and environmental financing: <https://www.epa.gov/grants>

**Budget and performance:** [www.epa.gov/planandbudget](http://www.epa.gov/planandbudget)

**Careers:** [www.epa.gov/careers/](http://www.epa.gov/careers/)

**EPA en Español:** [espanol.epa.gov](http://espanol.epa.gov)

**EPA tiếng Việt:** <https://www.epa.gov/lep/vietnamese>

**EPA 한국어:** <https://www.epa.gov/lep/korean>

## **APPENDIX B**

### **ACRONYMS AND ABBREVIATIONS**

ACE	Affordable Clean Energy	GAAP	Generally Accepted Accounting Principles
ADA	Anti-deficiency Act	GAO	Government Accountability Office
ADP	Action Development Process	GMO	Grants Management Office
AFR	Agency Financial Report	GSA	U.S. General Services Administration
AICPA	American Institute of Certified Public Accountants	GTAS	Governmentwide Treasury Accounting Symbol Adjusted Trial Balance System
APPS	Act to Prevent Pollution from Ships	HVAC	Heating, Ventilation, and Air Conditioning
APR	Annual Performance Report	IA	Interagency Agreement
ASAP	Automated Standard Application for Payments	IBC	Interior Business Center
B&F	Building and Facilities	IPERA	Improper Payments Elimination and Recovery Act
BFS	Bureau of Fiscal Services	IPIA	Improper Payments Information Act
BP	British Petroleum	IPP	Invoice Processing Platform
CAA	Clean Air Act	LUST	Leaking Underground Storage Tank
CACSO	Certain Alaskan Cruise Ship Operations	MOU	Memorandum of Understanding
CARES	Coronavirus Aid, Relief and Economic Security Act	MPRSA	Marine, Protection, Research, and Sanctuaries Act
CEC	Commission of the North American Agreement on Environmental Cooperation	NEIC	National Enforcement Investigations Center
CERCLA	Comprehensive Environmental Response Compensation and Liability Act	NPL	National Priorities List
CDPHE	Colorado Department of Public Health and Environment	NRDA	Natural Resource Damages Assessment
CFO	Chief Financial Officer	OCE	Office of Civil Enforcement
CO	Contracting Officer	OECA	Office of Enforcement and Compliance Assurance
CSRS	Civil Service Retirement System	OCFO	Office of the Chief Financial Officer
CW	Clean Water	OFR	Office of the Federal Register
CWA	Clean Water Act	OGD	Office of Grants and Debarment
CWSRF	Clean Water State Revolving Fund	OIG	Office of Inspector General
		OMB	Office of Management Budget
		OPA	Oil Pollution Act
		OPM	Office of Personnel Management

DATA	Data Accountability and Transparency Act	ORD	Office of Research and Development
		PFCRA	Program Fraud Civil Remedies Act
DCAA	Defense Contract Audit Agency	PMA	President's Management Agenda
DM&R	Deferred Maintenance and Repairs	PO	Project Officer
DNP	Do Not Pay	PP&E	Plant, Property and Equipment
DW	Drink Water	PRASA	Puerto Rico Aqueduct and Sewer Authority
DWH	Deepwater Horizon		
DWSRF	Drinking Water State Revolving Fund	PRIA	Pesticides Registration Improvement Act
EPA	U.S. Environmental Protection Agency		
EPCRA	Emergency Planning and Community Right-to-know Act	PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
EPM	Environmental Programs and Management	PRP	Potential Responsible Party
		RCRA	Resource Conservation and Recovery Act
FAR	Federal Acquisition Regulations		
FAS	Fixed Assets Subsystem	R&I	Repair and Improvement
FASAB	Federal Accounting Standards Advisory Board	RTF	Reduce the Footprint
		RTP	Research Triangle Park
FBWT	Fund Balance with Treasury	SARA	Superfund Amendments and Reauthorization Act
FECA	Federal Employees Compensation Act		
FERS	Federal Employees Retirement System	SDWA	Safe Drinking Water Act
FFMIA	Federal Financial Management Improvement Act of 1996	SFFAS	Statement of Federal Financial Accounting Standards
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act	SOP	Standard Operating Procedures
		SRF	State Revolving Fund
FMFIA	Federal Managers' Financial Integrity Act of 1982	SSC	Superfund State Contracts
		S&T	Science & Technology
FR	Financial Report	STAG	State and Tribal Assistance Grants
FRPP	Federal Real Property Profile	TED	Talent Enterprise Diagnostic
FY	Fiscal Year	Treasury	U.S. Department of Treasury
		TSCA	Toxic Substance Control Act
		USSGL	U.S. Standard General Ledger
		WCF	Working Capital Fund
		WIFIA	Water Infrastructure Finance and Innovation Act



## **WE WELCOME YOUR COMMENTS!**

Thank you for your interest in the U.S. Environmental Protection Agency's *Fiscal Year 2020 Agency Financial Report*. We welcome your comments on how we can make this report a more informative document for our readers. Please send your comments to:

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