United States Environmental Protection Agency

Fiscal Year 2016

Agency Financial Report

About this Report

The U.S. Environmental Protection Agency (EPA) is proud to present our *Fiscal Year 2016 Agency Financial Report (AFR*), which provides high-level financial and performance results for the fiscal year (FY) spanning October 1 through September 30.

The information, data, and analyses provided in this *AFR* help the President, Congress, and the public evaluate the Agency's yearly activities and accomplishments as it works to create a healthy environment where Americans live, work, and play.

The *AFR* is one of three annual documents that frame EPA's promoting transparency in the Agency's activities and expenditures. The financial information contained in the AFR is supplemented by EPA's *Annual Performance Report (APR)*. EPA's *FY 2016 APR* presents the Agency's FY 2015 performance results measured against the targets established in its *FY 2016 Performance Plan and Budget* and discusses progress toward achieving the goals established in its *FY 2014–2018 Strategic Plan*. EPA's *FY 2016 APR* is also included with the Agency's *FY 2018 Congressional Budget Justification* submission, and will be posted on the Agency's internet.

EPA uses information from both the *AFR* and *APR* to create the *Financial and Program Performance Highlights*, a brief, nontechnical, and user-friendly summary of key financial and performance information. Together, these three reports present a complete picture of the Agency's activities, accomplishments, progress, and finances for each fiscal year.

The FY 2016 *AFR* contains EPA's *FY 2016 Financial Statements Audit Report* and its *FY 2016 Management Integrity Act Report*, including the Administrator's statement assuring the soundness of the Agency's internal controls. In compliance with the Inspector General Act of 1978 as amended, the *AFR* also includes EPA's report on FY 2015 progress in addressing Office of Inspector General (OIG) audit recommendations.

The *AFR* is produced 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).

EPA's prior fiscal year APR and Financial and Program Performance Highlights are available on EPA's internet at: http://www2.epa.gov/planandbudget/results.

How the Report Is Organized

EPA's FY 2016 AFR is arranged in five sections to allow all stakeholders to access clear insight into the Agency's fiscal activity over the past year.

Administrator's Letter

The Administrator's letter formally presents the *FY 2016 AFR* to the President and Congress, and assures the comprehensiveness and reliability of the data contained in the report. The letter also provides Administrator McCarthy's assurance that the FY 2016 AFR identifies any and all significant internal control weaknesses and outlines the actions EPA is taking to resolve them.

Section I—Management's Discussion and Analysis

Management's Discussion and Analysis presents a summary of EPA's mission and organizational structure; highlights selected performance results and provides an overview of financial statements and stewardship figures, systems, legal compliance, institutional controls, and other management initiatives.

Section II—Financial Section

The Financial Section presents the Agency's independently audited financial statements, which are in compliance with the CFO Act. This section also contains a message from the Agency's Deputy CFO, the Independent Auditor's Report, and additional information on the Agency's financial management.

Section III—Other Accompanying Information

The Other Accompanying Information section provides additional material as specified under OMB Circular A-136, *Financial Reporting Requirements,* and the Reports Consolidation Act of 2000. This section also discusses EPA's progress toward strengthening management practices and presents OIG's list of top management challenges and the Agency's response.

Appendices

The Appendices section provides links to relevant Agency websites, as well as a glossary of acronyms and abbreviations used in the FY 2016 AFR.

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Message from the Administrator

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

Dear Mr. President:

I am pleased to present you with the U.S. Environmental Protection Agency's FY 2016 Agency Financial Report, which highlights the significant progress the EPA made this year toward protecting human health and the environment. In reviewing the report, you will find that the agency maintained the mission entrusted to us with transparency and financial integrity.

Advancing public health is at the core of the agency's most notable accomplishments. With the Frank R. Lautenberg Chemical Safety for the 21st Century Act, our ability to determine the safety of chemicals has never been stronger. Updating the Toxic Substances Control Act of 1976 provides the EPA with powerful new tools to evaluate chemicals before they enter the marketplace and take action when there is a danger to public health. This law is truly historic as it is the first major update to an environmental statute in 20 years and gives the agency authority to assess chemicals purely on the basis of the health risks they pose.

The EPA continued working toward the advancement of public health, both nationally and globally, in facing climate change. With strong but achievable standards for power plants, the Clean Power Plan is a historic opportunity for our nation to show continued leadership in addressing climate change by driving national trends toward cleaner and lower-polluting American energy. We played a major role in elevating the challenges of climate change globally, encouraging nations worldwide to join forces to reduce carbon pollution. The Paris Agreement is a groundbreaking step and now that the threshold has been crossed it has the promising potential to minimize and prevent some of the more critical effects of climate change across the world.

During FY 2016, the EPA, in collaboration with the U.S. Department of Transportation's National Highway Traffic Safety Administration, finalized standards for medium- and heavy-duty vehicles that will improve fuel efficiency and reduce carbon pollution. The final standards are expected to lower carbon-dioxide emissions by approximately 1.1 billion metric tons, saving vehicle owners fuel costs of about $170 billion, and reduce oil consumption by up to two billion barrels over the lifetime of the vehicles sold under the program. Overall, the program will provide $230 billion in net benefits to society, including benefits to our climate and public health. Through sound research, we determined that emissions from certain types of aircraft engines contribute to greenhouse-gas pollution. Identifying this potential environmental risk provides foresight on how we might build on the greenhouse-gas standards for vehicle emissions in the future to provide even greater public-health protection. The EPA this year, released the very first standards to cut methane emissions from the oil and gas sector to reduce pollution linked to cancer and other adverse health effects.

As part of our public health focus, environmental enforcement remains essential to our mission. The EPA's enforcement response to the Deepwater Horizon Oil Spill included the record-setting settlement with British Petroleum Exploration and Production for an unprecedented $5.5 billion Clean Water Act penalty and up to $8.8 billion in natural-resource damages. In another recent settlement, Enbridge Energy Limited Partnership and several related Enbridge companies agreed to spend at least $110 million on a series of measures to prevent spills and improve operations across nearly 2,000 miles of its pipeline system in the Great Lakes region in addition to paying civil penalties totaling $62 million for Clean Water Act violations. Additionally, German automaker Volkswagen Aktiengesellschaft and related entities have agreed to spend up to $14.7 billion to settle allegations of cheating emissions tests and deceiving customers in two related settlements: one with the United States and the state of California, and a second with the U.S. Federal Trade Commission.

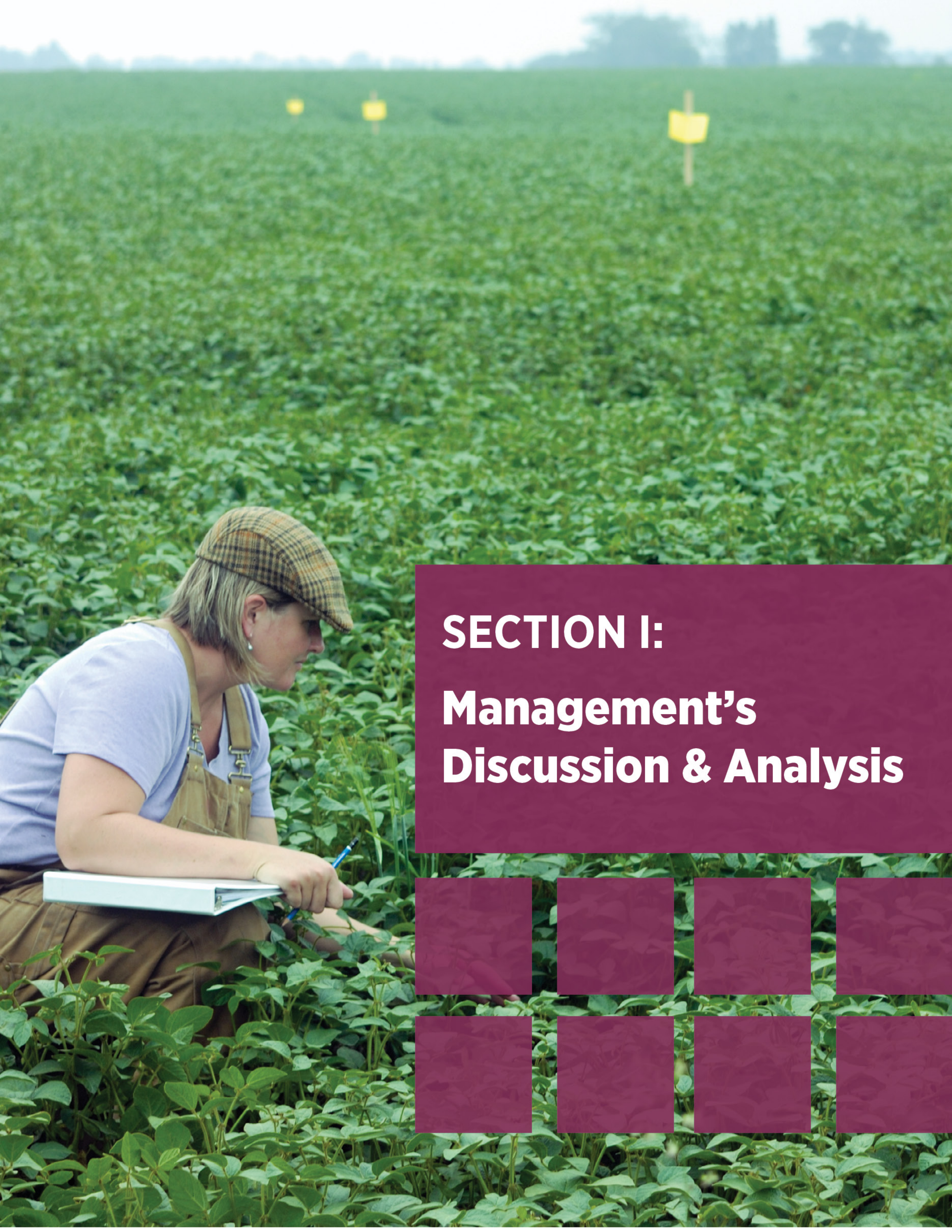
Through our work to create clean and healthy environments, the agency continues to promote economic revitalization nationwide, particularly in overburdened communities that can spur environmental investments associated with environmental justice initiatives. Earlier this year, we issued the EPA Policy on Consultation and Coordination with Indian Tribes: Guidance for Discussing Tribal Treaty Rights. This monumental guidance further strengthens our close partnership with the tribal community by initiating meaningful discussions with tribes about their treaty rights during consultation. We also selected 218 grant investments totaling $55.2 million to 131 communities nationwide. The recipients received approximately $200,000 to $820,000 in funding toward EPA cooperative agreements. These Assessment, Revolving Loan Fund and Cleanup grants go to communities that are underserved and economically disadvantaged, including neighborhoods where environmental cleanup and new jobs are most needed. Another economic highlight was reaching the 10-year mark for the EPA's WaterSense program. Since its inception, Americans have saved $32.6 billion in water and energy bills and 1.5 trillion gallons of water.

More detailed information on our accomplishments will be provided in 2017 with the FY 2018 Annual Performance Plan and Budget. I can assure you that the EPA's financial and performance data is a reliable, complete, and fully transparent reflection of our program and operations. My assurance statement, as required under the Federal Managers' Financial Integrity Act, appears in Section I, "Management's Discussion and Analysis," of this report and captures that we identified two new material weaknesses for FY 2016. Section III of this report provides details about mitigation strategies that are being implemented to address previously and recently identified material weaknesses. We are continually monitoring and tracking our progress toward correcting these issues.

It is an honor to work among colleagues as dedicated as the EPA's workforce. The agency's accomplishments are the result of our collective commitment, diligence, and fortitude toward ensuring a cleaner, healthier world for years to come.

Respectfully,

Gina McCarthy
November 10, 2016



SECTION I:

Management's Discussion & Analysis

About EPA

History and Purpose

For over 45 years, EPA has worked to identify, evaluate, and prevent or address the environmental challenges facing the United States. Some of the specific challenges that drove EPA in 1970 have been largely addressed, but the broad challenges remain, including continual efforts to prevent and control air and water pollution. Still others have emerged, global climate change foremost among them.

EPA remains committed to meeting these challenges head-on, and continuing to ensure that all Americans can enjoy a healthy environment where they live, work, and play.

In addressing challenges present and future, EPA continues to rely on science as a foundation for decision-making, policy, and action. Whether evaluating the latest peer-reviewed study or conducting its own research in over a dozen EPA laboratories nationwide, science underpins all of EPA's regulatory, enforcement, and programmatic efforts.

EPA brings together research, monitoring, standard-setting, and enforcement, ensuring consistent, effective development and execution of U.S. environmental policy. The Agency also works to ensure that environmental impacts are considered in a wide variety of U.S. policy efforts, from economic policies to those affecting our nation's energy, transportation, agriculture, and defense.

An EPA engineering technician at the Andrew W. Breidenbach Environmental Research Center Lab in Cincinnati synthesizes lead particles to investigate lead corrosion to help develop techniques to prevent lead contamination.

While EPA unites many functions in a single agency, it does not work alone. To address today's complex environmental issues, EPA actively develops and sustains cooperative efforts among a diverse array of stakeholders, from foreign governments and international organizations working to address vast global concerns to community groups seeking solutions to problems in their own backyards.

From the hyperlocal to the global, EPA supports and empowers those involved in environmental protection around the country and around the world. Together, we can create lasting, sustainable solutions to the challenges of today, and work to prevent those of tomorrow.

Mission

EPA's mission is to protect human health and the environment.

To execute this mission, EPA takes on a diverse set of roles, including:

- Developing and enforcing environmental regulations.
- Responding to releases of hazardous substances.
- Providing grants to states, local communities, and tribes.
- Studying current and emerging environmental issues.
- Sponsoring partnerships that further environmental goals.
- Educating people about the environment.
- Publishing information to inform the public about the environment and EPA's activities.

In all of its roles, EPA prioritizes the development, use, and understanding of rigorous, peer-reviewed science. By making scientifically sound environmental information easily accessible to all stakeholders, EPA advances its mission and furthers public trust and understanding of its work.

Meeting the Challenge Ahead: EPA's Themes

- Making a visible difference in communities across the country.
- Addressing climate change and improving air quality.
- Taking action on toxics and chemical safety.
- Protecting water: a precious, limited resource.
- Launching a new era of state, tribal, and local partnerships.
- Embracing EPA as a high performing organization.
- Working toward a sustainable future.

Organization

EPA's headquarters are located in Washington, D.C., and are supported by a network of 10 regional offices, each responsible for several states and U.S. territories. More than a dozen laboratories, research programs, and field offices develop and deploy scientific data, tools, and knowledge to further environmental protection. EPA's diverse, highly educated, and technically astute workforce totals approximately 15,000 people.


Gina McCarthy, Administrator and Stan Meiburg, Deputy Administrator

Office of the Administrator

Provides overall supervision of the Agency and is responsible directly to the President of the United States.

Donna Vizian, Acting Assistant Administrator

Office of Administration and Resources Management

Provides national leadership, policy, and management of many essential support functions for the Agency.

Janet McCabe, Acting Assistant Administrator

Office of Air and Radiation

Develops national programs, policies, and regulations for controlling air pollution and radiation exposure.

Jim Jones, Assistant Administrator

Office of Chemical Safety and Pollution Prevention

Works to protect people and the environment from potential risks from pesticides and toxic chemicals through innovative partnerships and collaboration, and preventing pollution before it begins.

David Bloom, Deputy Chief Financial Officer

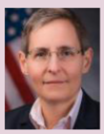
Office of the Chief Financial Officer

Manages agency's annual budget and performance plan; coordinates EPA's strategic planning efforts; provides financial services for the Agency; and makes payments to EPA grant recipients, contractors, and other vendors.

Cynthia Giles, Assistant Administrator

Office of Enforcement and Compliance Assurance

Tackles pollution problems through vigorous civil and criminal enforcement targeting the most serious water, air, and chemical hazards and advances environmental justice by protecting vulnerable communities.



Ann Dunkin, Chief Information Officer

Office of Environmental Information

Manages the life cycle of information to support EPA's mission of protecting human health and the environment.

Avi Garbow, General Counsel

Office of General Counsel

Provides legal support for Agency rules and policies, case-by-case decisions, defensive litigation, operations, and legislation.

Arthur A. Elkins, Jr., Inspector General

Office of Inspector General

Helps the Agency protect the environment in a more efficient and cost-effective manner.

Jane Nishida, Principal Deputy Assistant Administrator

Office of International and Tribal Affairs

Works to protect human health and the environment while Advancing U.S. national interests through international environmental collaboration and strengthening environmental protection in Indian Country.

Mathy Stanislaus, Assistant Administrator

Office of Land and Emergency Management

Provides policy, guidance, and direction for the Agency's emergency response and waste programs.

Dr. Thomas Burke, Deputy Assistant Administrator and EPA Science Advisor

Office of Research and Development

Serves as the scientific research arm of EPA, whose leading-edge research helps provide the solid underpinning of science and technology for the Agency.

Joel Beauvais, Deputy Assistant Administrator

Office of Water

Ensures that drinking water is safe and restores and maintains oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitats for fish, plants, and wildlife.


Gina McCarthy, Administrator and Stan Meiburg, Deputy Administrator

Office of the Administrator

Provides overall supervision of the Agency and is responsible directly to the President of the United States.

Curt Spalding, Regional Administrator

Region 1
Boston, MA

Judith A. Enck, Regional Administrator

Region 2
New York, NY

Shawn M. Garvin, Regional Administrator

Region 3
Philadelphia, PA

Heather McTeer Toney, Regional Administrator

Region 4
Atlanta, GA

Robert A. Kaplan, Acting Regional Administrator

Region 5
Chicago, IL

Ron Curry, Regional Administrator

Region 6
Dallas, TX

Mark Hague, Regional Administrator

Region 7
Kansas City, KS

Shaun McGrath, Regional Administrator

Region 8
Denver, CO

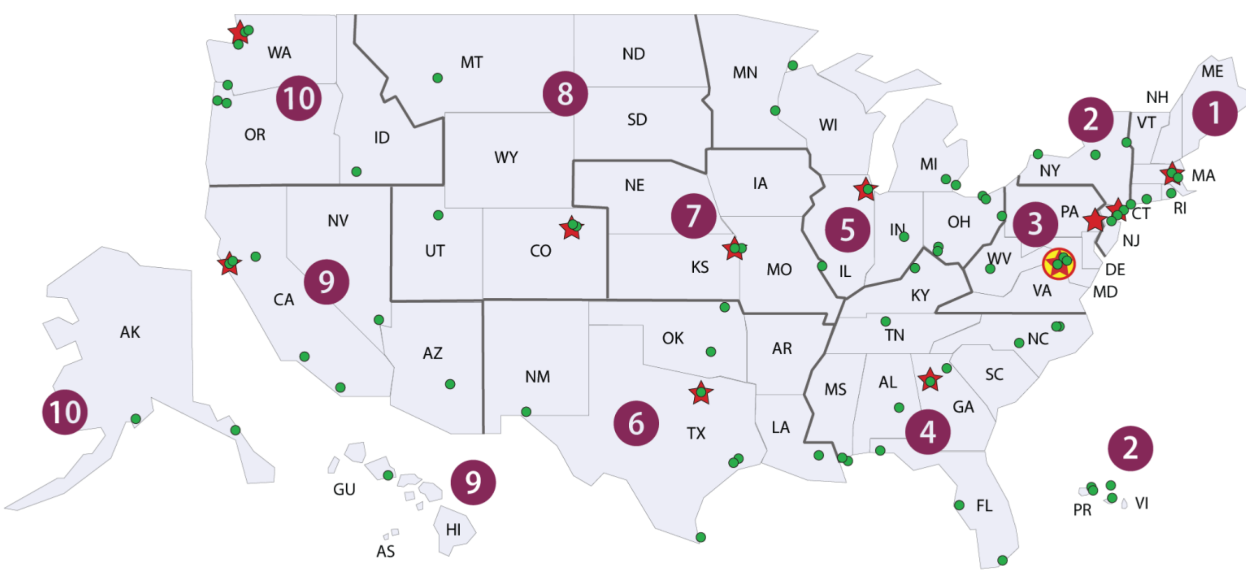
Alexis Strauss, Acting Regional Administrator

Region 9
San Francisco, CA

Dennis McLerran, Regional Administrator

Region 10
Seattle, WA

Regional Map



EPA Offices and Facilites

EPA National Headquarters

EPA Regional Headquarters

EPA Regional and Program Laboratories and Facilities

Collaborating with Partners and Stakeholders

Today's environmental challenges are rarely confined by borders or jurisdictions, nor are they the exclusive responsibility of either the public or private sector. To effectively address these challenges, EPA relies on collaborative, productive partnerships with local, state, and tribal governments, as well as the global community, industry, and non-governmental organizations.

Through collaboration with this wide variety of stakeholders, EPA is able to better leverage resources to improve implementation of national environmental programs, create efficiencies through better coordination and communication, streamline business processes, and develop innovative solutions to achieve results.

In its *FY 2014-2018 EPA Strategic Plan*, EPA established a new cross-agency strategy to foster new partnerships and strengthen existing relationships. Under the "Launching a New Era of State, Tribal, Local and International Partnerships" strategy, EPA bases all of its partnerships on four working principles: consultation, collaboration, cooperation, and accountability. By engaging with partners in a timely manner, sharing information and resources, working toward mutual goals, and sharing responsibility for environmental protection, EPA's collaborative approaches help ensure appropriate implementation of federal laws to better protect the environment and human health.

Whether working with local officials to identify the pressing environmental concerns facing their communities or working with international partners to address trans-boundary pollution and climate change, all of EPA's relationships continue to be based on integrity, trust, and shared accountability.

A Framework for Performance Management

In compliance with GPRAMA, EPA develops a *Strategic Plan*, which establishes long-term strategic goals, objectives, and measures to carry out the agency's mission of protecting human health and the environment. To further its strategic goals and objectives, EPA commits to a suite of annual performance measures established in its *Annual Performance Plan and Budget*. The agency reports its results against these annual performance measures and discusses progress toward longer-term objectives and measures in its *APR*.

FY 2016 Advances in Performance Management

During FY 2016, EPA implemented a number of key initiatives to further strengthen its performance management.

Agency Priority Goals (APGs) and Cross-Agency Priority (CAP) Goals: In FY 2016, EPA began work on five FY 2016–2017 APGs and made steady progress to implement action plans. The APGs are:

- Reduce greenhouse gas emissions from cars and trucks.
- Advance resilience in the nation's water infrastructure, while protecting public health and the environment, particularly in high-risk and vulnerable communities.
- Clean up contaminated sites to enhance the livability and economic vitality of communities.
- Assess and reduce risks posed by chemicals and promote the use of safer chemicals in commerce.
- Strengthen environmental protection through business process improvements enabled by joint governance and technology.

EPA made exceptional progress toward its water infrastructure goal by providing tools and training to operators of small water utilities to improve resilience in drinking water wastewater and stormwater systems. The demand for this training far exceeded expectations so that the original two-year target of training 1,000 operators was increased to 5,000.

The area of greatest challenge has been meeting the targets for assessments of chemicals already in commerce; however, with the bipartisan passage of the Frank R. Lautenberg Chemical Safety for the 21st Century Act, the prospect for making future progress on chemical assessments has improved.

EPA also contributes to government-wide CAP goals. For example, EPA participates in the Infrastructure Permitting CAP goal to reduce permit processing time for major infrastructure projects and is adopting more effective management practices under the Benchmark and Improve Mission Support Operations CAP goal. EPA's Acting Deputy Administrator discusses progress under CAP goals in monthly meetings of the President's Management Council. More information on CAP goals and quarterly updates on government-wide progress is available at www.performance.gov.

Redesigned Strategic Reviews: EPA expanded its annual strategic reviews for the first time including mission-support and research programs, and implemented a new, structured approach to focus the reviews on risks, challenges, and opportunities, and specific actions the agency can start, keep, and stop doing to address them. The agency aligned the reviews with its management integrity program, leveraging internal control review results and FMFIA risk assessments. In June, EPA convened an agency-wide FY 2016 Strategic Review Midyear Senior Leadership meeting to discuss the top enterprise-wide risks and established co-champions and implementation teams to identify short- and longer-term actions the agency can take to mitigate the most critical enterprise-level risks. These efforts lay groundwork for developing EPA's Enterprise Risk Management Program and inform development of internal controls, transition planning, development of the *FY 2018-2022 Strategic Plan*, and annual planning and budget decisions for FY 2018-FY 2019.

End-of-Year Performance Reporting and Analysis: In FY 2016, as a result of a June 2015 Lean event, the agency completed implementation of a streamlined end-of-year data gathering, analysis, and communication process to increase the value of performance analysis and products to inform agency decision making. The Lean team tracked customer satisfaction and reviewed what worked well and what needed improvement. Metrics tracked over eight months indicate that, as compared to the agency's previous end-of-year process, steps involved in data gathering decreased by 15 percent and days by 50 percent; steps involved in analysis decreased by 33 percent and days by 60 percent; and steps involved in producing the APR decreased by 44 percent and days by 46 percent. Overall, customer satisfaction with the end-of-year process improved by 54 percent.

National Program Manager (NPM) Guidance: In FY 2016, EPA published FY 2017 exceptions-based addendums to the two-year FY 2016-2017 NPM Guidance and Annual Commitment Process. The FY 2017 exceptions-based criteria set a high threshold for exceptions-based changes to preserve the integrity of the two-year guidance process, which was based on the recommendations of an NPM Guidance/National Environment Performance Partnership System (NEPPS) Workgroup of state, regional, and national program representatives. The two-year process is part of EPA's efforts to advance a new era of state, local, tribal, and international partnerships, a cross-agency strategy established under the FY 2014-2018 EPA Strategic Plan. EPA also conducted an on-line assessment of the key changes in the two-year process, the results of which informed the Technical Guidance on the FY 2018-2019 NPM Guidance and Annual Commitment Process, also issued in FY 2016.

Environmental Justice 2020 Action Agenda: To support development of the Environmental Justice (EJ) 2020 Action Agenda, EPA developed national EJ measures to demonstrate progress in addressing persistent environmental and health disparities in low income, minority and overburdened or underserved communities. The agency workgroup developed national measures in four areas: lead, drinking water, air quality, and hazardous waste sites—along with a technical appendix with supporting information including definitions, organizational context, relevance to EJ, and data sources, management, and quality. The measures provided the foundation for one of the three stated goals in the EJ 2020 Action Agenda: Demonstrating Progress on National EJ Challenges.

Strategic Foresight Pilot Project: Setting the stage for developing the FY 2018-2022 EPA Strategic Plan, an EPA Strategic Foresight Lookout Panel convened by EPA's Offices of the Chief Financial Officer and Science Advisor identified eight priority emerging issues and actionable recommendations from more than 80 topics to improve the agency's planning and decision making. The panel conducted training, horizon scanning, benchmarking and interviews with thought leaders to identify emerging issues and opportunities and develop recommendations. EPA also developed a Community of Practice of more than 550 members to build agency capacity and reinvigorate foresight as an integral element of strategic and annual planning, budgeting, and program management. This pilot responded to National Academy of Science, Science Advisory Board, and National Advisory Council for Environmental Policy and Technology recommendations to engage in strategic foresight to anticipate future environmental problems and build EPA's resiliency in light of rapid technological change, as well as to government-wide efforts to incorporate strategic foresight as a component of strategic and annual planning and analysis and enterprise risk management.

FY 2016 Program Performance

During FY 2016, EPA and its partners made progress under the five strategic goals, 13 supporting objectives, and four cross-agency strategies established in the agency's FY 2014–2018 Strategic Plan.

Detailed FY 2016 performance results, including the agency's progress in implementing its cross-agency strategies, will be presented in EPA's FY 2016 APR, which the agency will issue with its FY 2018 Annual Performance Plan and Budget and post on its website at http://www2.epa.gov/planandbudget in 2017.

EPA's Strategic Goals

1. Addressing Climate Change and Improving Air Quality
2. Protecting America's Waters
3. Cleaning Up Communities and Advancing Sustainable Development
4. Ensuring the Safety of Chemicals and Preventing Pollution
5. Protecting Human Health and the Environment by Enforcing Laws and Assuring Compliance

EPA's Cross-Agency Strategies

- Working Toward a Sustainable Future
- Working to Make a Visible Difference in Communities
- Launching a New Era of State, Tribal, Local, and International Partnerships
- Embracing EPA as a High-Performing Organization

Strategic Goals

Goal 1: Addressing Climate Change and Improving Air Quality

EPA develops national programs, policies, and regulations to address environmental and public health risks related to climate change, outdoor and indoor air quality, stratospheric ozone depletion, and radiation. In December 2015, more than 190 countries came together to adopt the historic international agreement in Paris to combat climate change and to commit to actions and investment toward a low carbon, resilient and sustainable future. The agreement aims to keep a global temperature rise this century significantly below 2 degrees Celsius and to strengthen the world's ability to adapt to the impacts of climate change.

In July 2016, EPA determined that greenhouse gas (GHG) emissions from certain types of aircraft engines contribute to pollution that causes climate change and endangers public health and the environment. The GHG emissions include carbon dioxide (CO2), methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). These emissions come from engines used on large commercial jets. This determination under the Clean Air Act is an important step that EPA must take prior to considering any aircraft engine standards.

In November 2015, the U.S. and the other 196 parties to the Montreal Protocol on Substances that Deplete the Ozone Layer agreed on a path for controlling climate-change-inducing hydrofluorocarbons HFCs. The parties agreed to work together within the Montreal Protocol toward an HFC amendment in 2016 by first resolving challenges and generating solutions on the feasibility and ways of managing HFCs.

In August 2016, EPA issued standards for medium- and heavy-duty vehicles that will improve fuel efficiency and cut carbon pollution, while bolstering energy security and spurring manufacturing innovation. Overall, the standards will provide $230 billion in net benefits to society, including benefits to our climate and to public health. When fully implemented, the standards are expected to lower CO2 emissions by approximately 1.1 billion metric tons, save vehicle owners fuel costs of about $170 billion, and reduce oil consumption by up to two billion barrels over the lifetime of the vehicles sold under the program.

Based on extensive scientific evidence on the effects of ground-level ozone pollution, or smog, on public health and welfare, EPA strengthened the National Ambient Air Quality Standards (NAAQS) for ground-level ozone to 70 parts per billion (ppb) from 75 ppb in October 2015. In its review, EPA examined nearly 2,300 studies of the ozone standards, including more than 1,000 new studies published since the last review of the standards in 2008. The revised standards will significantly improve public health protection, resulting in fewer premature deaths and thousands fewer missed school and work days and asthma attacks. The public health benefits from this standard are estimated at $2.9 to $5.9 billion annually in 2025, significantly outweighing the estimated annual costs of $1.4 billion.

In November 2015, in partnership with the American Lung Association and other key partners, EPA issued the National Radon Action Plan, a strategy for preventing 3,200 lung cancer deaths annually by 2020 by reducing exposure to radioactive radon gas, the second leading cause of lung cancer in America. The strategy is designed to reduce high radon levels in five million homes, apartments, schools and childcare centers. The partnership includes three federal departments and agencies, and nine national organizations.

In December 2015, EPA updated the standard to reduce emissions from toxic air emissions from petroleum refineries. The rule requires first-of-its-kind fence-line monitoring to better protect and inform nearby communities, while also strengthening emission controls for flares, pressure relief devices, storage tanks, and delayed coker operations that will reduce thousands of tons of hazardous air pollutants. Exposure to toxic air pollutants, such as benzene, can cause respiratory problems and other serious health issues and can increase the risk of developing cancer. When fully implemented, the rule will result in an estimated reduction of 5,200 tons per year of toxic air pollutants, and 50,000 tons per year of volatile organic compounds (VOCs). As a co-benefit, EPA projects that these standards will eliminate emissions of greenhouse gases equivalent to approximately 660,000 tons per year of CO2.

EPA continues to face challenges in completing Residual Risk and Technology Reviews (RTRs) of Air Toxics Standards for stationary sources as required by the Clean Air Act (CAA), leaving the agency vulnerable to potential litigation. EPA prioritizes its sector reviews based on legal deadlines, resources, and the impact individual sectors have on disproportionately impacted communities. EPA must review and revise as necessary each air toxics standard promulgated under CAA section 112 since 1990.

These reviews involve collecting new information and emissions data from industry; reviewing emission control technologies; and completing associated economic analyses for the affected industries. EPA also must review the risk that remains after the implementation of each air toxics rule within eight years.

Goal 2: Protecting America's Waters

Safe drinking water is critical to our Nation's public health and economic vitality. The U.S. drinking water system–– supported by the Safe Drinking Water Act (SDWA) and the work of federal, tribal, state, and local governments and utilities nationwide – is one of our country's greatest public health achievements. The SDWA gives EPA the authority to publish health advisories for contaminants not subject to any national primary drinking water regulation. In May 2016, EPA issued health advisories for perflouroctnoic acid (PFOA) and perfluorooctane sulfonate (PFOS) (fluorinated organic chemicals present in an array of consumer products) based on the agency's assessment of the latest peer-reviewed science. The health advisories will provide drinking water system operators, and the state, tribal and local officials who have the primary responsibility for overseeing these systems, with information on the health risks of these chemicals. EPA is committed to supporting states and public water systems as they determine the appropriate steps to reduce exposure to PFOA and PFOS in drinking water.

While America's drinking water remains among the safest in the world, the drinking water sector faces a growing array of challenges that, if left unaddressed, can pose serious risks to public health and local economies. These challenges are a particular concern for small and disadvantaged communities where citizens have a greater challenge paying for necessary upgrades:

- Aging infrastructure;
- Limited funding and management capacity, especially for small and disadvantaged communities;
- Degradation of sources of drinking water;
- Risks from unregulated contaminants; and

- Threats associated with drought and climate change.

Advances in drinking water treatment technology; new approaches to information management, communications, and water infrastructure finance; emerging partnerships spanning government, utilities and civil society; and lessons learned in over 40 years of implementing SDWA present tremendous opportunities for innovation and progress in health protection. However, EPA must identify additional resources and work with partners to re-energize the safe drinking water enterprise in response to these opportunities.

In FY 2016, the Water Infrastructure and Resiliency Finance Center made significant progress to provide financial technical assistance to communities. The Center began providing direct financial planning technical assistance through the Water Community Assistance for Resiliency and Excellence (WaterCARE) initiative to 10 communities which lacked resources to effectively plan needed water infrastructure development. These projects are being evaluated to identify systemic solutions to expand federal, state, and local commitments to predevelopment investment. The Water Finance Center also developed a compendium of Utility Customer Assistance Programs to identify programs offered by more than 200 utilities to help low and fixed income customers having difficulty paying their water and sewer bills. In addition, the Water Finance Center convened a national dialogue on *Funding and Financing Water Infrastructure for Communities in Need* that drew 148 leaders from federal, state, and local governments and non-governmental organizations to share best practices in coordinating funding and showcasing leading-edge local financing solutions. These discussions helped identify key priorities for future activities to replicate state and local successes.

During FY 2016, EPA undertook several regulatory actions to strengthen tribal partnerships and enhance protection of water quality in Indian country, publishing:

- A final rule to streamline the process for tribes to seek Treatment as a State (TAS) under the Clean Water Act (CWA) and administer their own clean water programs. For example, the rule facilitates giving eligible tribes the same rights as states to establish water quality standards to protect waters over their entire reservations.
- A final rule to establish procedures for eligible tribes to obtain authority for CWA Section 303(d) Program. The rule enables eligible tribes to obtain authority to identify impaired waters on their reservations and to establish Total Maximum Daily Loads (TMDLs), which serve as plans for attaining and maintaining applicable water quality standards.
- An Advanced Notice of Proposed Rulemaking requesting public comment on establishing potential federal baseline water quality standards for reservation waters that currently have no standards under the CWA, thus increasing protection of tribal water resources. This effort would fill the gap in CWA coverage where tribes may never seek TAS under the CWA to develop their own standards, or to temporarily fill that gap until tribes do.

EPA's Office of Research and Development (ORD) assessed water quality effects from the release from Gold King Mine near Silverton, Colorado in August 2015. In FY 2016, the Gold King Mine project team worked to finalize a suite of analyses that evaluate source, transport, fate and potential exposure for toxic metals released from the mine; to complete a formal response to the mid-project peer review comments; and to prepare webinars explaining its findings. The agency also developed communication products for states, tribes and communities in the affected river systems.

To support assessment of the potential impacts of hydraulic fracturing for oil and gas on drinking water resources, EPA conducted research studies and published more than 20 reports and peer reviewed journal articles, three of which were published in FY 2016. These papers report on fracture scenario evaluations and toxicity studies, and will help assess hazards to drinking water resources and provide useful information to risk assessors for chemical toxicity ranking and prioritization.

Goal 3: Cleaning Up Communities and Advancing Sustainable Development

EPA's Brownfields program continued to produce widespread environmental and economic benefits by empowering states, communities, and other stakeholders to work together to prevent, assess, safely clean up, and sustainably reuse brownfields. In FY 2016, Brownfields grantees reported leveraging more than $400 million from public and private sources, and created more than 2,000 jobs from assessment, cleanup, and redevelopment activities at brownfields properties, making a visible difference in communities across the U.S.

Inspired by the national goal announced by EPA and U.S. Department of Agriculture to cut wasted food in half by 2030, EPA co-hosted the first national Food Recovery Summit in November 2015. This event brought together stakeholders from manufacturers to consumers to discuss the key challenges in reducing food loss and waste. Based on this summit and continued input, EPA, USDA and stakeholders developed a collaborative Call to Action, which identifies current opportunities and challenges for voluntary actions to reduce food loss and waste in the United States.

In March 2016 EPA hosted a workshop for the G7 Alliance on Resource Efficiency to help advance the effective and efficient use of material resources and institutionalize the life cycle concept of materials management among the G7 nations. Using the auto sector as an example, participants shared best practices and explored key issues in moving towards the efficient use of natural resources in the auto sector's supply chain. Following the workshop, EPA released "Advancing Resource Efficiency in the Supply Chain – Observations and Opportunities for Action," which identifies seven critical needs areas to inform future actions among the G7 nations.

In March 2016 EPA selected the final remedy for cleaning the lower 8.3 miles of the Passaic River at an estimated cost of $1.38 billion, one of the Superfund program's most expensive remedies. The remedial action will remove contaminated sediment bank-to-bank for the entire 8.3 miles and install a protective cap to reduce human health and ecological risk. In September 2016, Occidental Chemical Corporation (a Potentially Responsible Party) signed a consent order agreeing to carry out the design of the cleanup, a project estimated to cost $165 million and take four years.

EPA continued to face challenges implementing a national fee-based electronic manifest (e-Manifest) system for tracking hazardous waste from "cradle to grave", due to the complexity of collecting hazardous waste management information that includes data about the quantity, composition, origin, and destination of the shipments, as well as documenting a chain of custody that includes recording the signatures of the generator, transporters, and the receiving facility responsible for treating, storing, and disposing of hazardous waste. E-Manifest is a fundamental component of the E-Enterprise for the Environment initiative to streamline and modernize program implementation in partnership with states. Once implemented, e-Manifest will reduce the burden associated with preparing shipping manifests by between 300,000 and 700,000 hours each year and provide the agency, states and the public with easier access to environmental data.

In FY 2016, EPA, along with the United Nations Environment Programme and the Peace Corps, launched Trash Free Waters Initiatives in Jamaica, Panama, and Peru. Implementation of pilot projects will target areas where trash enters watersheds, coastal areas and the marine environment through the engagement of community stakeholders. These initiatives will help to fulfill commitments the United States made at the 2016 Our Oceans conference, and protect oceans from land-based sources of pollution.

In February 2016, EPA finalized a Guidance for Discussing Tribal Treaty Rights. This document outlines a process to help navigate treaty rights discussions with tribes during tribal consultations. It is an initial step in EPA's efforts to improve the methods and processes in place to meet the commitment to honor and respect tribal treaty rights and resources protected by treaties by outlining affirmative steps for EPA tribal consultations in situations where tribal treaty rights or treaty-protected resources may be affected by an EPA action. The Guidance is the first of its kind for any federal agency. Also, in September 2016 EPA signed a Memorandum of Understanding with the Department of the Interior and other federal departments and agencies to ensure inter-agency coordination and cooperation to protect treaty and similar rights related to natural resources affected by federal decisions.

With only limited or inadequate data to fully, uniformly and successfully assess the extent of EPA direct implementation activities and tribal delegated programs, EPA risks inefficient use of limited resources. In addition, only a small number of programs have been delegated to tribes, and a much smaller number of tribes have received compliance and enforcement authority in those delegations. As a result, EPA directly implements the vast majority of federal environmental regulations in Indian country. EPA direct implementation faces multiple risks:

- lack of sufficient information for decision-making,
- lack of sufficient FTE and financial resources to implement more than nine major federal environmental statutes for 567 federally recognized tribes, and
- unique legal and policy issues associated with federal, tribal, and state law.

All of which may increase the risk of failure to adequately understand, prevent or address harms in Indian country through programs under EPA regulatory authority.

Goal 4: Ensuring the Safety of Chemicals and Preventing Pollution

Chemical safety remains one of EPA's highest priorities, and the agency uses a variety of approaches and tools to assess, prevent, and reduce chemical releases and exposures. In June 2016, President Obama signed into law the Frank R. Lautenberg Chemical Safety for the 21st Century Act, which amended the Toxic Substances Control Act (TSCA), the nation's primary chemicals management law. The first major environmental law passed in decades, this historic legislation establishes clear and enforceable deadlines for EPA to evaluate existing chemicals, a new risk-based safety standard, increased public transparency, and a new source of funding for EPA from user fees to be paid by industry to defray a portion of EPA's costs to carry out its responsibilities under the law. Actions already completed include identification of five mercury compounds to be banned from export as of January 1, 2020, issuance of the first premanufacture notices (PMN) determinations and a series of public meetings to gather input on processes to establish fees, to prioritize chemicals and conduct risk evaluations.

In April 2016, EPA released the first-ever draft biological evaluations of three chemical pesticides as a pilot test of a new process to analyze the nation-wide effects of pesticides on endangered and threatened species and designated critical habitat. The evaluations were developed using interim scientific methods developed collaboratively with the U.S. Fish and Wildlife Service (USFWS) and the National Marine Fisheries Service (NMFS). The interim scientific methods represent a new paradigm for analyzing pesticides for effects on endangered species. Where registered uses of the pesticides are "likely to adversely affect" species or habitat, USFWS and NMFS will use EPA data and analyses in their final biological opinions, and EPA may determine that a pesticide's registration, label, or use instructions should be altered to reduce or eliminate potential risk to the species or habitat.

EPA continued to successfully implement advanced methods developed by ORD to evaluate and screen chemicals under the Endocrine Disruptor Screening Program (EDSP), significantly accelerating the pace of screening, decreasing costs, and reducing animal testing. The in vitro high throughput and computational model alternatives to animal screening methods provide an accurate quantitative measure of specific endocrine receptor binding bioactivity and mechanisms. In FY 2016, EPA used these advanced methods to screen 2,000 chemicals for the androgen pathway, and 3,000 chemicals for the estrogen pathway for EDSP Tier 1 screening.

The number of products newly qualified to bear the Safer Choice label is likely to double the FY 2016 target. This doubling occurred as consumer recognition of new Safer Choice logo began to increase. EPA also met the end-of-year target for new chemicals added to the Safer Chemicals Ingredients List. The new label is designed to increase consumers' ability to identify and select products with safer chemical ingredients for use in homes, schools, hotels, offices, and elsewhere. EPA will track the impact of the new label and associated outreach efforts annually beginning in FY 2017, by comparing levels of consumer awareness of the label and its meaning with 2016 baseline levels as measured through survey research. In 2016, three percent of respondents spontaneously identified the Safer Choice name when the program was described. One-third of consumers say they have seen the label on store shelves. For products bearing the "Safer Choice" label, EPA scientists have reviewed every ingredient and determined that the product meets the stringent "Safer

Choice Standard" human health and environmental criteria.

EPA continues to face many challenges in its efforts to ensure the safety of chemicals. One example involves a suit brought by concerned citizens from environmental, food safety, and beekeeping groups regarding adequately protecting pollinators. Pollinators are a vital part of America's economy and environment, enabling the growth of fruits and vegetables. EPA has joined other federal agencies, the National Wildlife Federation, the Pollinator Partnership, and many more organizations in the Million Pollinator Garden Challenge to promote pollinator health.

Another challenge, EPA's Lead Renovation, Repair and Painting (RRP) Program will narrowly miss the FY 2016 target for certified renovation firms. Despite multiple efforts by EPA, the re-certification rate has continued at 25 percent during FY 2016, and first-time certifications have continued at the pace of recent years; the supply of certified firms is at a level that appears to meet current consumer demand.

ORD posted final assessments in FY 2016 for Trimethylbenzenes (TMBs) and Ammonia to EPA's Integrated Risk Information System (IRIS) database. The assessment for TMBs addresses the potential non-cancer and cancer human health effects from long-term exposure to three isomers and is the first IRIS assessment for this chemical. The assessment for ammonia addresses the potential non-cancer human health effects from long-term inhalation exposure, and updates the toxicological information posted to the IRIS database in 1991. These final assessments implement many of the recommendations provided by the National Academy of Sciences and feature a new streamlined document structure that is more transparent about the methods used and better articulates how decisions were made. These crucial assessments will be used by EPA's program and regional offices to make informed decisions to protect human health.

EPA scientists launched a new interactive CompTox Dashboard in FY 2016 with information for more than 700,000 chemicals. The publically available dashboard is a gateway to an array of related public domain databases, provides improved access to data and models associated with chemicals of interest, and is a hub that links many EPA research databases. The user-friendly interface provides access to chemical structure information and tens of thousands of physicochemical properties and is used to develop machine-learning models. The Dashboard brings EPA one step closer to a "one stop shop" for environmental chemistry data to inform future exposure and risk assessments.

Goal 5: Protecting Human Health and the Environment by Enforcing Laws and Assuring Compliance

Vigorous enforcement supports EPA's ambitious mission to protect human health and the environment. During FY 2016, EPA's enforcement of the nation's environmental laws remained focused primarily on large cases that drive compliance across industries and have significant impacts on protecting public health and the environment. In total, EPA's enforcement actions achieved $5.8 billion in federal penalties and more than $12 billion of investments to control pollution – an increase of $5 billion over FY 2015. For example, EPA reached a settlement with Mosaic Fertilizer LLC to reduce or properly dispose of a record-setting 61 billion pounds of hazardous waste from phosphate chemical facilities in Florida and Louisiana, and provide $1.8 billion to ensure that its facilities will be cleaned up, the largest amount ever required under the Resource Conservation and Recovery Act's financial assurance provisions. Also in FY 2016, EPA reached an agreement to settle damages from the 2010 Deepwater Horizon – BP Gulf of Mexico oil spill, consisting of an unprecedented $5.5 billion CWA penalty and up to $8.8 billion in natural resources damages.

Under its National Enforcement Initiatives, EPA also addressed pollution problems that make a difference in communities. As part of the *Cutting Hazardous Air Pollutants* and *Reducing Air Pollution from the Largest Sources* initiatives, EPA reached several settlements in FY 2016 resolving CAA violations with companies such as Tonawanda Coke, ASARCO, Guardian Glass, and J.R. Simplot. The settlement with ASARCO requires the company to spend $150 million to install new equipment and pollution control technology to reduce emissions of toxic heavy metals from a smelter in Hayden, Ariz. The company will also fund local environmental projects valued at $8 million, replace a diesel locomotive with a cleaner model for $1 million, and pay a $4.5 million civil penalty. Under the *Keeping Raw Sewage and Contaminated Stormwater Out of Our Nation's Waters* Initiative, EPA concluded important settlements resolving CWA violations with the Delaware County Regional Control Authority (DELCORA) and the Rhode Island Department of Transportation (RIDOT), among others. In its settlement, DELCORA agreed to develop and implement a plan to control and significantly reduce combined sewer overflows into the Delaware River and its tributaries. EPA estimates that DELCORA will spend approximately $300 million to implement the required injunctive relief.

EPA's criminal enforcement program investigates and assists the Department of Justice in prosecuting deliberate or egregious violations of environmental laws and regulations. In FY 2016, significant cases were often tied to individual conduct, and that conduct resulted in incarceration of 92 years, plus individuals and corporations being fined $13 million, with an additional $750,000 in court ordered environmental projects and $192 million in restitution. In February 2016, Freedom Industries, Inc. was sentenced to a $900,000 fine for environmental crimes connected to the 2014 Elk River chemical spill that contaminated the water supply for 300,000 people of Charleston, West Virginia, while a former plant manager was sentenced to an additional fine and probation.

In October 2015, EPA promulgated the National Pollutant Discharge Elimination System (NPDES) Electronic Reporting Rule to provide a more complete, transparent, and consistent data set for state and federal regulators for the NPDES program including permit information, and the compliance status of regulated entities. This will enable EPA and states to strategically address the most serious water pollution problems while using limited resources effectively.

Throughout FY 2016, EPA has worked diligently to provide stakeholders with the necessary tools to implement the NPDES Electronic Reporting Rule. For example, the Agency led two EPA-state technical workgroups to help implement this final rule. One workgroup developed a draft template for the state Phase 2 electronic reporting implementation plan and the other workgroup developed and tested a new electronic form for the Federal Biosolids Annual Report. In terms of compliance assistance, EPA participated in over two dozen meetings with external stakeholder groups, developed outreach kits for authorized NPDES programs and EPA Regions, and published guidance in the Federal Register for authorized NPDES programs and NPDES regulated entities on implementation of the NPDES Electronic Reporting Rule. In addition, in order to prepare EPA data systems for implementation of the rule, EPA made improvements to the national Integrated Compliance Information System (ICIS)- NPDES data system (ICIS-NPDES) and improved public access to EPA industrial stormwater NPDES data.

In FY 2016, EPA continued to make significant progress in including Next Generation (Next Gen) Compliance tools within its enforcement settlements. The agency included requirements for advanced monitoring equipment in eight lodged settlements for the year, including agreements with Tesoro Corp., and Par Hawaii Refining under the CAA, and Enbridge Energy Limited Partnership, and the Nevada Department of Transportation under the CWA. The agency also issued Next Generation Enforcement Settlement Highlights to identify where tools such as transparency, electronic reporting and advanced monitoring are already being used to improve compliance and environmental outcomes.

In April 2016, EPA completed a cross-program effort with states, as part of the E-Enterprise for the Environment initiative, to identify and begin implementing steps needed to fully capitalize on the opportunities presented by rapidly changing environmental monitoring technologies. The E-Enterprise Leadership Council approved five recommended actions, which are now being carried out: (1) studying the feasibility of creating an independent, 3rd party system for evaluating new sensors, especially those being used by the general public; (2) establishing a structured process within EPA and states to scan for new technologies on the market, do initial screening, and make information on them available to potential users in EPA and state agencies; (3) developing guidance on the interpretation of data generated by new types of sensors; (4) developing uniform data exchange standards so that information from many sources can be shared and analyzed; and (5) applying Lean principles to streamline agency processes for formal approval of new technologies for regulatory use.

EPA continued its efforts to advance environmental justice (EJ) in FY 2016 by negotiating relief, mitigation, and/or

Supplemental Environmental Projects (SEPS) to benefit environmentally overburdened, underserved, and economically distressed communities. As one example, the J.R. Simplot Company settlement includes a $200,000 wood stove replacement mitigation project for residents of the San Joaquin Valley.

In FY 2016, EPA identified specific strategies to be pursued under the EJ 2020 Action Agenda to address pollution and public health burdens caused by violations in the nation's most overburdened communities and enhance efforts with regulatory partners. The agency created two workgroups tasked with developing action plans and tools to assist in the implementation of these strategies. In addition, EPA released an update to the EJSCREEN on-line tool for identifying EJ communities in June 2016, based on user feedback received in the course of more than 400,000 unique visits to the site from community, state, academic, and business users since the tool was introduced in FY 2015. Also in FY 2016, EPA continued to screen the locations associated with enforcement cases for EJ concerns. In FY 2016, one-third of non-exempt civil cases initiated by EPA occurred in locations with potential EJ concerns.

Despite this progress, federal and state environmental enforcement programs continue to be constrained by declining financial budgets/resources. From FY 2011-2016, the EPA Office of Enforcement and Compliance Assurance's (OECA) enacted extramural budget has been reduced by 30% and full-time equivalents (FTEs) have been reduced by 15%. As enforcement cases can take years to develop, it is important to note that both past and present budget reductions can have long-term impacts on enforcement activities (e.g., annual number of inspections) and results (e.g., pipeline of enforcement cases). Most state budgets have also declined, limiting the ability of the states to address some of their most serious program performance issues. In addition, while the federal enforcement program's pursuit of complex, high-impact cases has succeeded in achieving large reductions in pollution releases, this emphasis does reduce the total number of cases. Over time, as the cases with the largest pollution reductions are concluded, total pollution reduction amounts achieved through EPA enforcement may decrease.

Financial Analysis and Stewardship Information

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

The financial management overview below provides a summary of the EPA's most significant financial management issues during the agency's efforts to execute its mission to protect human health and the environment during FY 2016:

- **Enterprise risk management.** EPA took a proactive approach to strengthen our focus on enterprise risk as being a central and key element in agency decision-making. This approach will be integrated into the development of the agency's FY 2018-2022 Strategic Plan, and emphasizes new requirements for strategic reviews and changes to managers' responsibility for internal controls.

- **Agency financial statements.** For the 17th consecutive year, EPA's OIG issued a "clean" audit opinion, unqualified and unmodified, in the agency's financial statements. This achievement underscores EPA's commitment to presenting reliable and accurate financial data that is represented fairly in all material aspects.

- **DATA Act data assurance.** In FY 2016, the EPA added the requirement for quarterly Senior Accountable Officer (SAO) assurance of Data Act data to be included as part of the agency's management integrity process. The SAO assurance ensures internal controls are established and followed in future Data Act reporting.

- **Technology user group.** A group consisting of key agency IT systems stakeholders and users was formed to develop a plan consisting of activities the agency will undertake to enhance user experience when using agency IT systems. The technology user group activities will strengthen employee engagement and communication, and continuously work towards improving the agency IT systems.

- **Financial system enhancement.** The agency's financial system Compass has been enhanced to improve system interfaces, strengthen system internal controls, and improves the integrity of the agency's financial statements and budgetary reports. This enhancement is under Phase II of the EPA's Financial System Modernization Program, provisioned under the CFO Act.

- **Financial management challenges.** The information below provides a brief description of financial management areas the agency is working towards improving.

  - **Hazardous Substance Superfund trust fund.** During the FY 2016 financial statement audit the OIG identified incorrectly recorded unearned revenue for Superfund special accounts. The Agency was unable to finalize accounting models within EPA's accounting system, resulting in an overstatement of unearned revenue. EPA will work internally and with OMB to update accounting models within the Agency's accounting system, to ensure Superfund special accounts revenue is properly recorded.

  - **Pesticides fees program.** On September 22, 2016, the OIG rendered a disclaimer of opinion on two separate FY 2014 financial statements on the registration and reregistration fees funds for pesticide programs due to inadequate audit trails for reporting separate costs and liabilities for these funds from other pesticide programs. These disclaimers of opinion do not impact the FY 2016 financial statements presented in this report. The agency plans to enhance our program cost accounting capabilities to allow the pesticides fees programs to meet audit standards on the FY 2017 pesticide program financial statements.

- **Puerto Rico and state revolving fund.** The EPA has issued a notice of noncompliance to the Puerto Rico Environmental Quality Board (PREQB), the Puerto Rico Department of Health (PRDOH), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Government Development Bank (GDB) advising that the agencies are not complying with their obligations to manage and preserve the clean water and drinking water State Revolving Funds in Puerto Rico. We are awaiting corrective action plans in response to the notice. Until acceptable actions are taken by these agencies, the EPA may withhold grant payments or take other actions including suspending current awards, and/or terminating current awards.

Financial Condition and Results

Financial statements are formal financial records that document 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.

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 EPA's financial situation. The complete statements with accompanying notes, as well as the auditor's opinion, are available in Section II of this report.

The **balance sheet** displays assets, liabilities, and net position as of September 30, 2016, and September 30, 2015. The **statement of net cost** shows EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of 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 2014.

Key Terms

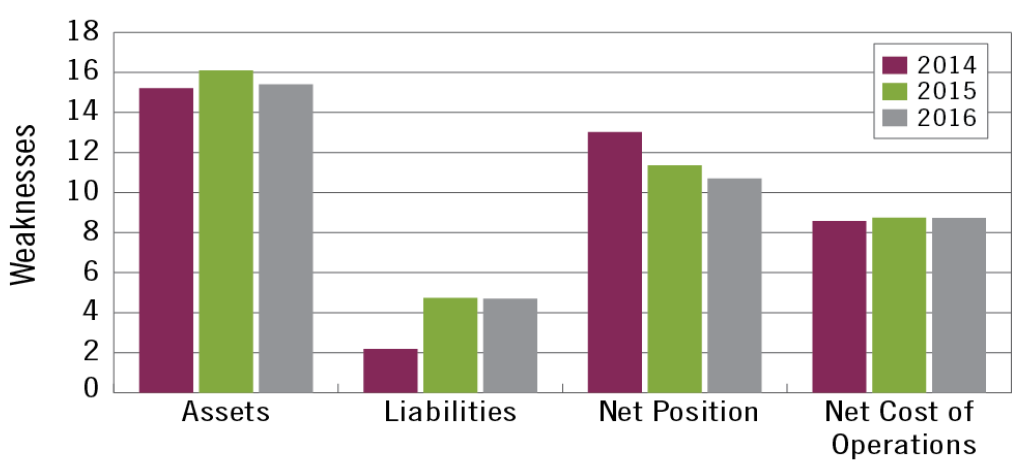
Assets: What EPA owns and manages.

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

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

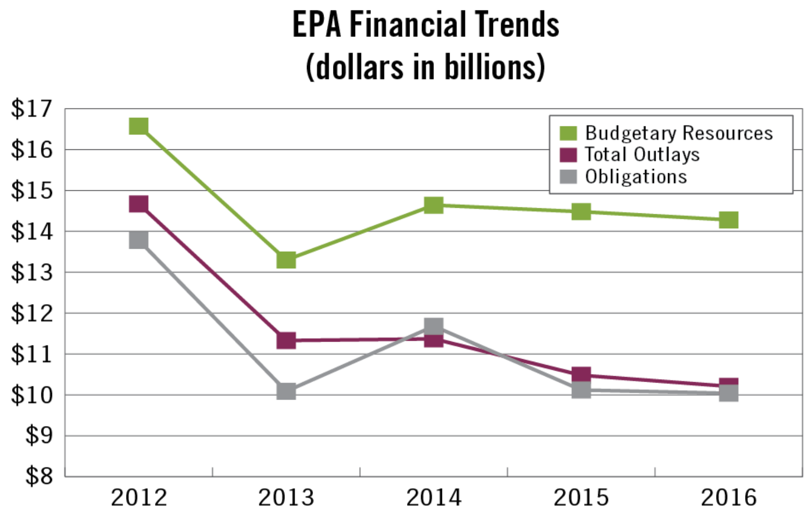
Net cost of operations: The difference between the costs incurred by EPA's programs and EPA's revenues.

Balance Sheet Trend
(dollars in billions)

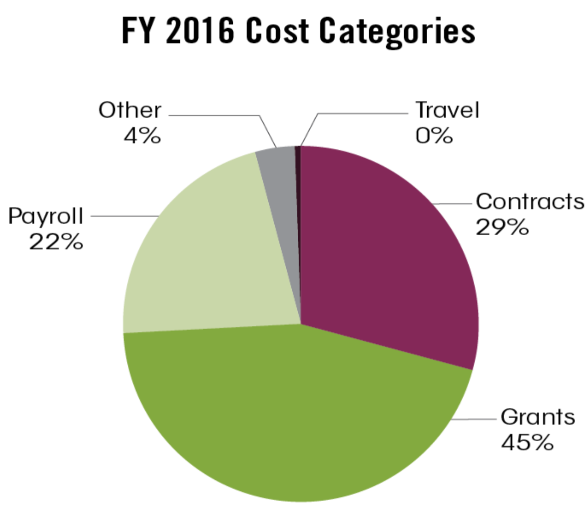


EPA Resources and Spending

The figure below depicts 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 III provides more information on the makeup of the agency's resources.



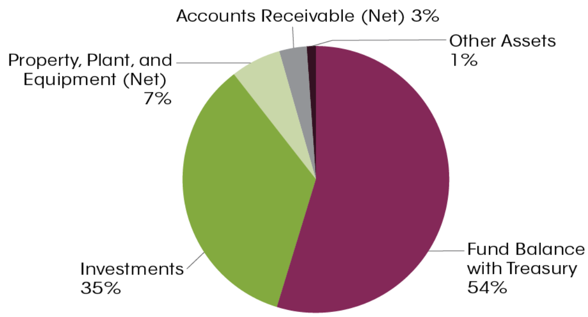
The figure below presents EPA's FY 2016 costs (expenses for services rendered or activities performed) by category.



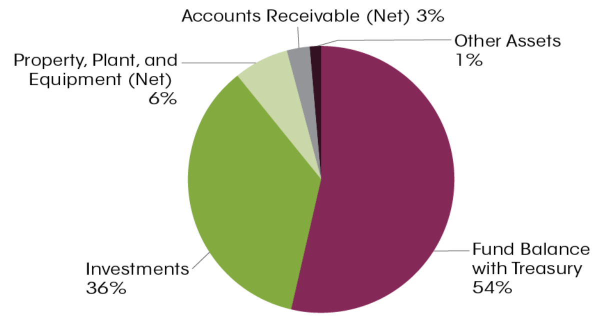
Assets—What EPA Owns and Manages

EPA's assets totaled $15.2 billion at the end of FY 2016, a decrease of $880 thousand from the FY 2015 level. In FY 2016, almost 90 percent of EPA's assets fall into two categories: fund balance with Treasury and investments. All of EPA's investments are backed by U.S. government securities. The graphs below compare the agency's FY 2016 and FY 2015 assets by major categories.

FY 2016 Composition of Assets



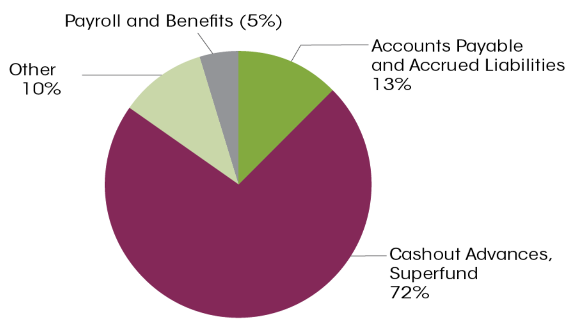
FY 2015 Composition of Assets



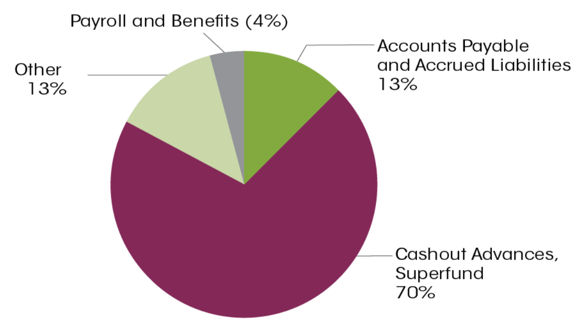
Liabilities—What EPA Owes

EPA's liabilities were $4.85 billion at the end of FY 2016, an increase of $120 thousand from the FY 2015 level. In FY 2016, EPA's largest liability (70%) was Superfund cashout advances that 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, EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The graphs below compare FY 2016 and FY 2015 liabilities by major categories.

FY 2016 Composition of Liabilities



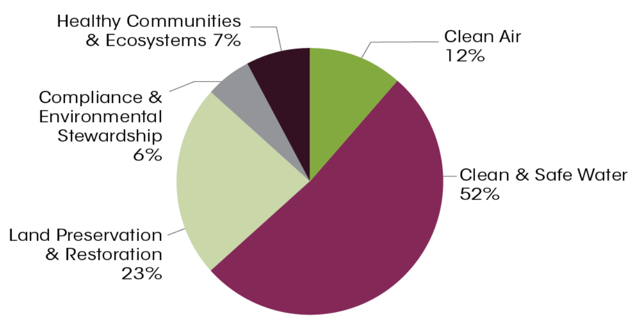
FY 2015 Composition of Liabilities



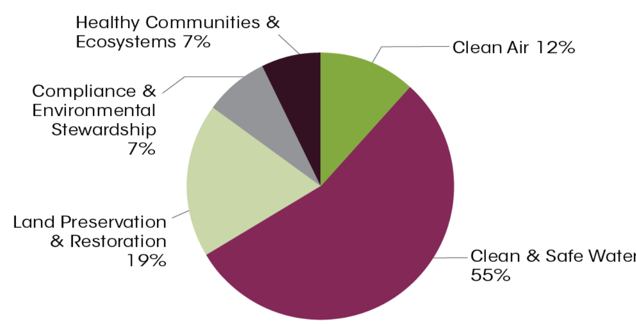
Net Cost of Operations—How EPA Used Its Funds

The charts below show how EPA's funds are expended among its five program goal areas in FY 2016 and FY 2015. The majority of this shift is due to a decrease in infrastructure assistance (Clean Water State Revolving Funds).

FY 2016 Net Cost by Goal



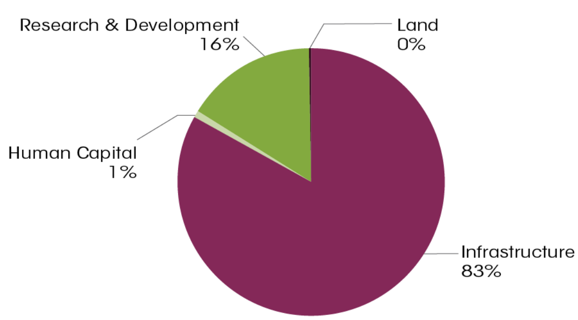
FY 2015 Net Cost by Goal



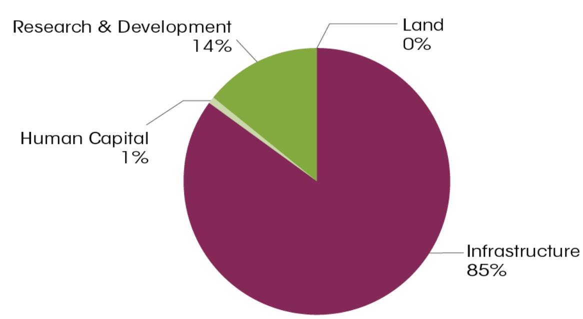
Stewardship Funds

EPA serves as a steward on behalf of the American people. The charts below present four categories of stewardship: land, research and development, infrastructure, and human capital. In FY 2016, EPA devoted a total of $3.9 billion to its stewardship activities.

FY 2016 Stewardship



FY 2015 Stewardship



Per the Federal Accounting Standards Advisory Board, 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 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 forgiven or given as grants). Loan repayments then revolve at the State level to fund future water infrastructure projects. EPA's budget included nearly $2.7 billion in FY 2016 appropriated funds 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 drinking water and wastewater systems for the enhancement of water infrastructures.
- Research and development activities enable EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for EPA's regulatory work, including regulations to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.

- Human capital includes EPA's educational outreach and research fellowships, both of which are designed to enhance the nation's environmental capacity.
- Land includes contaminated sites to which the Superfund program is authorized to remediate. In order to conduct the remediation, Superfund authorizes the EPA to acquire property interests. These property interests include, but are not limited to, acquiring title, easements, and leases.

A detailed discussion of this information is available in Section III of this report, under the Required Supplementary Stewardship Information.

Financial Management for the Future

During times of environmental challenges, sound stewardship of 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 EPA's financial stewardship capabilities, EPA focuses on the fundamental elements of financial management: people and systems.

People: 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. EPA is integrating financial information into everyday decision-making so that it maximizes the use of its resources.

Systems: In FY 2016, EPA continued using a component-based approach to managing its financial systems. It was designed to improve EPA's financial stewardship by strengthening accountability, data integrity, and internal controls. The system, called Compass, is based on a commercial-off-the-shelf software solution that addresses EPA's most critical business needs, including:

- 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 time and attendance (T&A); 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 in compliance with the Financial Management Line of Business.

EPA's financial systems modernization strategy builds on Compass and the previous migration to a Human Resources shared service provider through the implementation of these additional components, in various stages of planning, subject to future review by OMB:

- Account code structure (tentative launch date February 2019)

- Budget formulation (tentative launch dates for budget development and performance November/January and February 2017)
- Digital Accountability and Transparency Act of 2014 implementation (tentative launch dates for partial and full submissions April and October 2017)
- Time and attendance system modernization/activating Compass' payroll cost allocation component (tentative launch date October 2017)
- Superfund imaging and cost accounting
- Payment systems, such as for travel, purchase card, and grant payments

The Agency continues to use an agile approach to develop the next modules of its new Budget Formulation System in FY 2016 after successfully launching for our Congressional Justification process. EPA is building partnerships with other agencies to expand use of the Budget Formulation System. The Agency is working to strengthen its financial data/reporting, particularly in its efforts to implement DATA Act requirements and a new account code structure.

Limitations of the Principal Financial Statements

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

Improving Management and Results

Office of Inspector General Audits, Evaluations, and Investigations

OIG contributes to EPA's mission to improve human health and environmental protection 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 EPA carry out its objectives. In FY 2016, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 443 recommendations accounting for over $940 million in potential savings and recoveries;
- 274 actions taken by the agency for improvement from OIG recommendations; and
- 100 criminal, civil, or administrative enforcement actions.

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. For example, in response to OIG recommendations, the agency:

- Agreed to establish a process to verify the accuracy of travel card rebates, and establish and implement policies and procedures to correctly distribute travel card rebates (https://www.epa.gov/sites/production/files/2016-08/documents/_epaoig_20160824-16-p-0282.pdf).
- Agreed to issue a memorandum and provide training to grant specialist, project officers and managers associated with the San Francisco Bay Water Quality Improvement Fund Grants. The memorandum and training should cover important topics, such as conducting accurate and timely baseline monitoring; verifying that required documents are received throughout the life of the grant; holding staff accountable for grant management; providing evidence of follow-up and documenting all monitoring activities; and verifying that performance reports address required outputs, outcomes and corrective action for delayed milestones (https://www.epa.gov/sites/production/files/2016-08/documents/_epaoig_20160822-16-p-0276.pdf).
- Agreed to standardize a testing method for confirming insect resistance to genetically engineered corn, as well as to develop a method to allow researchers and growers to directly report resistance concerns and to prepare remedial action plans before resistance occurs (https://www.epa.gov/sites/production/files/2016-06/documents/20160601-16-p-0194.pdf).
- Agreed to develop a risk-based antimicrobial testing strategy to assure the effectiveness of public health pesticides used in hospital settings once disinfectant products are in the marketplace. The strategy will include: (1) a framework for periodic testing to assure products continue to be effective after registration; (2) define a program scope that

is flexible and response to current and relevant public health risks; (3) identify risk factors for selecting products to test; and (4) identifying the method to be used for obtaining samples for testing (https://www.epa.gov/sites/production/files/2016-09/documents/_epaoig_20160919-16-p-0316.pdf).

Grants Management

EPA has two major grants management metrics, one for grant competition, the other for grants closeout. For FY 2016, the Agency exceeded the grant competition metric by 6%, and met the grant closeout target.

Grants Management Performance Measures for EPA

Performance Measure	Target	Progress in FY 2016	Progress in FY 2015
Percentage of eligible grants closed out	90%*	90.6% of grants that expired in 2015	93.2% of grants that expired in 2014
	99%**	99.3% of grants that expired in 2014 and earlier	98.5% of grants that expired in 2013 and earlier
Percentage of new grants subject to the competition policy that are competed	90%	96%	96%

*Percentage of open grants that expired in 2015 that were closed in performance year
**Percentage of open grants that expired in 2016 and earlier that were closed in performance year

Accountability: Systems, Controls, and Legal Compliance

Federal Managers' Financial Integrity Act (FMFIA)

FMFIA requires agencies to conduct annual evaluations of their internal controls over programs and financial systems and report the results to the President and Congress. In addition, agencies are required to report on the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of *OMB Circular A-123, Appendix A.*

Each year, 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 annual statement of assurance on the adequacy of EPA's internal controls over programmatic operations and financial systems.

To evaluate its internal controls over financial reporting (as required by *OMB Circular A-123,* Appendix A), the agency reviewed six key financial processes and 213 key controls. Based on this evaluation, no new material weaknesses were identified. Subsequent to the agency's review, EPA's OIG identified two new material weakness related to how the agency accounts for payroll costs associated with Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and Pesticide Registration Improvement Act (PRIA) funds. In addition, EPA's OIG identified a material weakness related to the recording and reconciliation of unearned revenue for Superfund special accounts. Based on the results of the agency's and OIG's FY 2016 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of EPA's internal controls over programs and financial systems, and the agency's internal controls over financial operations were found to be operating effectively and efficiently.

Fiscal Year 2016 Annual Assurance Statement

The U.S. Environmental Protection Agency's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act. During FY 2016 the agency assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Based on the results of the EPA's assessment and no findings of material weaknesses, I can provide reasonable assurance that the agency's internal control over programmatic operations was operating effectively and financial systems conform to government-wide standards as of September 30, 2016.

In addition, the EPA conducted its assessment of the effectiveness of internal control over financial reporting, in accordance with the requirements of Appendix A of the OMB Circular A-123. On June 27, 2016, two new material weaknesses were identified, as a result of findings from separate Office of Inspector General financial statement audits of the Federal Insecticide, Fungicide, and Rodenticide Act and the Pesticide Registration Improvement Act funds, regarding how the agency accounts for payroll costs associated with these funds. Furthermore, during the FY 2016 combined financial statement audit, the OIG identified on November 7, 2016, an additional material weakness related to the recording and reconciliation of unearned revenue for Superfund special accounts. The agency continues to address a material weakness identified in FY 2014 related to the recording of transactions and capitalization of software costs. The EPA expects to complete corrective actions for all the material weaknesses no later than FY 2018.

Based on the results of this evaluation, I can provide reasonable assurance that, except for the material weaknesses stated above, the agency's internal control over financial reporting was operating effectively.

NOV 14 2016

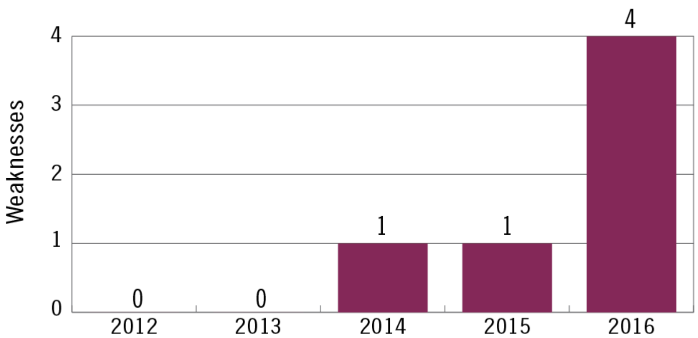
Gina McCarthy
Administrator

Date

Management Assurances

EPA identified three new material weaknesses for FY 2016. The agency continues to address a material weakness identified in FY 2014. The agency expects to complete corrective actions for this weakness by FY 2018. Section III of this report provides details about EPA's corrective actions underway to address this previously identified material weakness. EPA will continue monitoring progress toward correcting these issues. The graph below shows EPA's progress toward correcting its material and agency- level weaknesses since 2012. EPA continues to emphasize the importance of maintaining effective internal controls.

Five Year Trend of Material Weaknesses Remaining at Fiscal Year End (Fiscal Years 2012-2016)



Federal Financial Management Improvement Act (FFMIA)

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.

EPA's FY 2016 assessment included the following:

- A-123 review found no significant deficiencies.
- The Agency continues to address a material weakness related to undercapitalized software, which was identified in OIG's FY 2014 financial statement audit. The Agency expects to complete all corrective actions for this material weakness by FY 2018.
- The Agency's annual Federal Information Security Modernization Act Report did not disclose any material weaknesses.
- 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

Based on the assessment described above, the agency is in compliance with the FFMIA for FY 2016.

Federal Information Security Modernization Act (FISMA)

FISMA directs federal agencies to annually evaluate the effectiveness of their information security programs and practices and submit a report including an independent evaluation by the OIG to the Department of Homeland Security (DHS), OMB, and Congress. Agencies also report quarterly and monthly to DHS and OMB on the status of particular aspects of the information security program.

EPA's Chief Information Officer's FY 2016 FISMA Report and the OIG's FY 2016 FISMA audit status meeting cites no material weaknesses in information security. In addition, the FY 2016 OIG report did not identify any significant issues within EPA's information security program. The Agency plans to focus on the Administration Priorities (APs) for information security in FY 2017 to progress on meeting the AP standards.

Biennial User Fees

In accordance with OMB Circular A-25, User Charges, and the CFO's Act of 1990, the agency conducted reviews of its user fee programs. The purpose of this review is to evaluate the cost activities of the fee program and if necessary, make recommendations to adjust fees to reflect unanticipated changes in cost or market price. In FY 2015, the EPA implemented a new business process of capturing user fee program cost data with a unique code in its financial system to improve the efficiency and accuracy to determine the costs of the agency's user fee programs.

The FY 2016 review confirmed the agency's user fee programs are in compliance with statutory requirements to recover the cost of their activities. The agency's review comprised of six user fee programs, which reflected total costs for fee worthy activities of $198M, and $74M in user fee collections. The six user fee programs are:

- Clean Air Part 71
- Motor Vehicles and Engine Compliance Program
- Federal Insecticide, Fungicide and Rodenticide Act (FIFRA)
- Pesticide Registration Improvement Extension Act (PRIA)
- Lead-based Paint Program
- Pre-Manufacture Notice (PMN)

The following outcomes were identified during this year's biennial user fee review:

- Improved data accuracy and efficiency to capture fee program costs and assist in decision making.
- Improved monitoring and oversight capabilities by performing monthly reviews and creating standardized reports for user fee program stakeholders.
- Improved collaboration among program staff by providing training for key user fee stakeholders on the indirect costing methodology used to capture indirect costs for user fee programs.
- Realized reduction in resources required to perform user fee reviews.

Data Accountability and Transparency Act (DATA)

The EPA developed and provided OMB and U.S. Department of Treasury an updated DATA Act Implementation Plan explaining changes to the timeline, resources, and narrative within the plan. The updated DATA Act Implementation Plan outlines the EPA's approach to implement the DATA Act reporting requirements for FY 2017.

Miscellaneous Receipts Act

The EPA experienced seven Miscellaneous Receipts Act violations that occurred between FY 1983 through 2012. EPA discovered the violations when it reviewed business processes associated with Superfund removal and remediation projects that were partially financed by state funds. In FY 2015, the EPA determined that the agency accepted state funds in excess of its statutory authority. In addition, the Agency may have used some of those state funds to accomplish work outside the scope of its statutory authority. See Section II, "Notes to the Financial Statements," for additional details.

Inspector General Act Amendments of 1988—Audit Management

EPA uses the results of OIG audits and evaluations to assess its progress toward its strategic goals and make corrections and adjustments to improve program effectiveness and efficiency. The agency continued to focus on early engagement with the OIG to address OIG recommendations and reach resolution on audits. In FY 2016, 74 percent of OIG program/performance audits reports were issued with all recommendations resolved, reflecting a high level of communication and collaboration between the agency and OIG.

In FY 2016, EPA was responsible for addressing OIG recommendations and tracking follow-up activities for 250 OIG reports. The Agency achieved final action (completing all corrective actions associated with the audit) on 128 audits, including program evaluation/program performance, assistance agreement, financial statements and single audits. This total excludes Defense Contract Audit Agency audits, which are discussed separately below.

EPA's FY 2016 management activities for audits with associated dollars are represented in the following table.[1]

Category	Disallowed Costs (Financial Audits)		Funds Put to Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	47	$8,133,875	90	$332,838,119
B. Audits for which management decisions were made during the period	79	$1,579,691	34	$3,021,666
C. Total audits with management decision pending final action during the period (A+B)	**126**	**$9,713,566**	**124**	**$335,859,785**
D. Final action taken during period:	79	$458,416	49	$68,314,797
(i) Recoveries				
a) Offsets		$32,053		
b) Collection		$121,349		
c) Value of property		$0		
d) Other		$0		
(ii) Write-offs		$0		
(iii) Reinstated through grantee appeal		$305,014		
(iv) Value of recommendations completed				$8,861,658
(v) Value of recommendations management decided should/could not be completed				$59,453,139
E. Audits with management decision but without final action at end of period (C-D)	**47**	**$9,255,150**	**75**	**$267,544,988**

[1] Differences in data in this report and the EPA's previous AFR result from corrections or updates to audit data in the agency's audit tracking system.

EPA's FY 2015 management activities for audits without final corrective action are summarized as follows:

Final Corrective Action Not Taken. Of the 250 audits that EPA tracked, a total of 122 audits with management decision were without final action and not yet fully resolved at the end of FY 2016.

Final Corrective Action Not Taken Beyond One Year. Of the 122 audits without final action at the end of FY 2016, EPA officials had not completed final action on 67 audits within one year after the management decision (the point at which the OIG and the action official reach agreement on the corrective action plan). Because the issues to be addressed may be complex, agency managers often require more than one year after management decisions are reached with the OIG to complete the agreed-on corrective actions. The audits open one year without final action are listed below by category—audits of program performance (38), single audits (16), assistance agreements (9), and financial statements (4)—and identified by title and responsible office.

Audits of Program Performance. Final action for program performance audits occurs when all corrective actions have been implemented, which may require more than one year when corrections are complex and lengthy. Some audits include recommendations requiring action by more than one office. As of September 30, 2016, EPA is tracking 38 audits without final action in the program performance category.[2]

Office of the Administrator

15-P00167	D	Time and Attendance Fraud Not Identified for Employees on Extended Absence, But Matters of Concern Brought to EPA's Attention
15-P00170	C	Improvements Needed to Ensure EPA Terminates Exceptions to Biweekly Pay Limits at Completion of Emergency Response Work

Office of Administration and Resources Management

13-P00200	D	Improvements Needed in EPA's Smartcard Program to Ensure Consistent Physical Access Procedures and Cost Reasonableness

Office of Air and Radiation

11-P00701	A	EPA Should Update Its Fee Rule to Recover More Motor Vehicle and Engine Compliance Program Costs
11-P00161	A	EPA Needs to Improve Air Emissions Data for the Oil and Natural Gas Production Sector
15-P00006	A	Enhanced EPA Oversight Needed to Address Risks From Declining Clean Air Act Title V Revenues

Office of Chemical Safety and Pollution Prevention

10-P00066	A	EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities
12-P00600	D	Review of Hotline 2011-0027 (Lead Renovation Painting and Repair Program)

[2] A Adhering to the original completion date(s) for all corrective actions as agreed to with the OIG in the Corrective Action Plan.

D Completion of corrective action(s) is delayed past original agreed upon completion date(s).

C Corrective actions completed and final action pending certification from Action Official.

^ Indicates collection of funds has been turned over to the U.S. Department of the Treasury.

+ Indicates duplicative listing for audits with recommendations and corrective actions for multiple offices.

13-P00163 A	EPA Is Not Recovering All Its Cost of the Lead-Based Paint Fees Program
14-P00322 A	Impact of EPA's Conventional Reduced Risk Pesticide Program Is Declining
15-P00204+C	Enhanced EPA Oversight and Action Can Further Protect Water Resources From the Potential Impacts of Hydraulic Fracturing

Office of the Chief Financial Officer

13-P00366 D	The EPA Needs to Improve Timeliness and Documentation of Workforce and Workload Management Corrective Actions

Office of Enforcement & Compliance Assurance

10-P00224+D	Priority Enforcement and Compliance Assurance Universe
15-P00156 D	EPA's Oversight of State Pesticide Inspections Needs Improvement to Better Ensure Safeguards for Workers, Public and Environment Are Enforced
15-P00280 D	EPA Needs to Track Whether Its Major Municipal Settlements for Combined Sewer Overflows Benefit Water Quality

Office of Environmental Information

14-P00270 A	EPA Has Not Implemented Adequate Management Procedures to Address Potential Fraudulent Environment
14-P00142 A	EPA's Information Systems and Data Are at Risk Due to Insufficient Training of Personnel with Significant Information Security Responsibilities
14-P00143 A	EPA Needs to Improve Management of the Cross-Media Electronic Reporting Regulation Program in Order to Strengthen Protection of Human Health and the Environment
15-P00290 A	Incomplete Contractor Systems Inventory and a Lack of Oversight Limit EPA's Ability to Facilitate IT Governance

Office of Grants and Debarment

15-P00166 D	Improved Oversight of EPA's Grant Monitoring Program Will Decrease the Risk of Improper Payments

Office of Research and Development

11-P00333	Office of Research and Development Needs to Improve Its Method of Measuring Administrative Savings
14-P00247	EPA Employees Did Not Act Consistent With Agency Policy in Assisting an EPA Grantee

Office of Land and Emergency Management

07-P00002 D	Asbestos Cleanup in Libby Montana
12-P00253 D	EPA Needs to Further Improve How It Manages Its Oil Pollution Prevention
12-P00289 D	Controls Over State Underground Storage Tank Inspection Programs in EPA Regions Generally Effective

13-P00152	C	EPA Could Improve Contingency Planning for Oil and Hazardous Substance Response
13-P00178	D	Improvements Needed in EPA Training and Oversight for Risk Management Program Inspections
14-P00302	D	EPA Has Made Progress in Assessing Historical Lead Smelter Sites but Needs to Strengthen Procedure
14-P00364	D	EPA Needs to Improve Its Process for Accurately Designating Land as Clean and Protective for Reuse
15-P00169	D	Some Safeguards in Place for Long-Term Care of Disposed Hazardous Waste, But Challenges Remain

Office of Water

14-P00129	D	EPA Did Not Conduct Thorough Biennial User Fee Reviews
14-P00318	C	Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water Infrastructure
14-P00348	D	EPA Needs to Work With States to Develop Strategies for Monitoring the Impact of State Activities
14-P00363	D	More Action Is Needed to Protect Water Resources From Unmonitored Hazardous Chemicals
15-P00204+	A	EPA Needs to Work With States to Develop Strategies for Monitoring the Impact of State Activities

Region 2

15-P00137	A	Conditions in the U.S. Virgin Islands Warrant EPA Withdrawing Approval and Taking Over Management of Some Environmental Programs and Improving Oversight of Others

Region 6

14-P00109	A	Internal Controls Needed to Control Costs of Emergency and Rapid Response Service Contracts, as Exemplified in Region 6
15-P00003	A	Protecting America's Waters: EPA Region 6 Mismanaged Coastal Wetlands Planning, Protection and Restoration Act Funds

Region 7

15-P00215	D	Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7

Region 9

08-P00196	D	Making Better Use of Stringfellow SF Special Accounts
11-P00725	D	Region 9 Technical and Computer Room Security Vulnerabilities Increase Risk to EPA's Network

Single audits. Final action for single audits occurs when non-monetary and/or monetary compliance actions are completed. Achieving final action may require more than a year if the findings are complex or the grantee does not have the resources to take corrective action. Single audits are conducted of nonprofit organizations, universities, and state and local governments. As of September 30, 2016, EPA is tracking completion of corrective action on the following 16 single audits.

Region 2

06-300068 Caribbean Environmental & Development Institute FY 1999

06-300069 Caribbean Environmental & Development Institute FY 1999

07-300139 D State of New York, FY 2006

11-300022 D United States Virgin Islands Government FY 2007

11-300038 D United States Virgin Islands Government FY 2008

12-300444 D New Jersey State FY 2011

13-300119 D United States Virgin Islands FY 2010

Region 4

14-300340 D City of Sweetwater, Florida FY 2012

15-300108 D Jefferson County, Mississippi FY 2012

Region 9:

10-300208 A City of Nogales FY 2008

13-300164 A City of Nogales FY 2011

13-300346 A City of Nogales FY 2012

13-300355 A Guam Waterworks Authority GU FY 2012

14-300100 D Commonwealth Utilities Corporation, MP FY 2012

Region 10

03-300047 A Stevens Village Council

03-300117 A Stevens Village Council

Audits of Assistance Agreements. Reaching final action for assistance agreement audits may require more than one year, as the grantee may appeal, refuse to repay or be placed on a repayment plan that spans several years. EPA is tracking the following nine audits in this category as of September 30, 2016.

Office of Grants and Debarment

01-100073 A Napoleon City Schools-ASHAA (Hotline)

10-400067 D Incurred Cost Audit of Three EPA Cooperative Agreements Awarded to National Tribal Environment

12-R00749 D Examination of Costs Claimed Under EPA Cooperative Agreement 2A-83440701 Awarded Under the Recovery Act

Region 2

14-R00278 D New Jersey Dept of Environmental Protection Needs to Meet Cooperative Agreement Objectives and

Davis-Bacon Act Provision of ARRA

Region 3

01-100101^ Center for Chesapeake Communities (CCC) Assist. Agreements

08-400156 A Canaan Valley Institute

Region 5

08-200039^ Village of Laurelville, Ohio

Region 6

13-R00297 A Air Quality Objectives for the Baton Rouge Ozone Nonattainment Area Not Met Under EPA Agreement 2A-96694301 Awarded to the Railroad Research Foundation

Region 9

12-200072 A Agreed-Upon Procedures Applied to EPA Grants Awarded to Summit Lake Paiute Tribe, Sparks, Nevada

Financial Statement Audits. Reaching final action on financial statement audits may require more than one year due to complexities involved in financial reporting and compliance with laws, applicable statutes, and contract regulations.

EPA is tracking progress toward completion of corrective actions on the following four financial statement audits as of September 30, 2016.

Office of Administration and Resource Management

15-100021+ D Audit of EPA's Fiscal 2014 and 2013 (Restated) Consolidated Financial Statements

Office of the Chief Financial Officer

10-100029 A Audit of 2009 and 2008 (Restated) Consolidated Financial Statements

13-100054 D Audit of EPA's Fiscal 2012 and 2013 Financial Statements

15-100021+ D Audit of EPA's Fiscal 2014 and 2013 (Restated) Consolidated Financial Statements

Office of Environmental Information

14-100039 A FY 2013 EPA Financial Statements

Audits Awaiting Decision on Appeal. EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. At the end of FY 2016, six audits were in administrative appeal. When these audits are out of appeal and all issues have been resolved, they will be captured in audit follow-up data reported in the EPA's AFR.

Defense Contract Audit Agency Audits

Prior to January 1, 2009, Defense Contract Audit Agency (DCAA) audits of EPA contracts requested by EPA's OIG were included in OIG's Semiannual Report to Congress. EPA will continue to track and report on these DCAA audits along with other OIG audits until they are resolved and final actions are taken; these audits are included in the preceding summary.

Summary of Audit Activities for the Period Ending September 30, 2016		
Category	Number	Questioned Costs
A. Audits for which no management decision was made by 10/1/2015	23	$319,906
B. Audits which were issued during the period	22	$409,875
C. Subtotal (A+B)	45	$729,781
D. Audits for which a management decision was made during the reporting period	29	$729,781
E Audits for which no management decision was made by 9/30/16	16	$0
F. Reports for which no management decision was made within six months of issuance	28	$0

During this reporting period, EPA management was accountable for monitoring 49 DCAA audits. The Agency achieved final action on 32 audits. EPA's FY 2016 management activities for DCAA audits with associated dollars are represented in the following table:

Category	Disallowed Costs (Financial Audits)		Funds Put to Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	4	$278,942	0	$0
B. Audits for which management decisions were made during the period	29	$469,312	0	$0
C. Total audits pending final action during the period (A+B)	33	$748,254	0	$0
D. Final action taken during the period:	32	$729,781	0	$0
(i) Recoveries				
a) Offsets		$0		
b) Collection		$0		
c) Value of property		$0		
d) Other		$729,781		
(ii) Write-offs		$0		
(iii) Reinstated through appeal				
(iv) Value of recommendations completed				$0
(v) Value of recommendations management decided should/could not be completed				$0
E. Audits with management decision, but without final action at end of period (C-D)	1	$18,473	0	$0

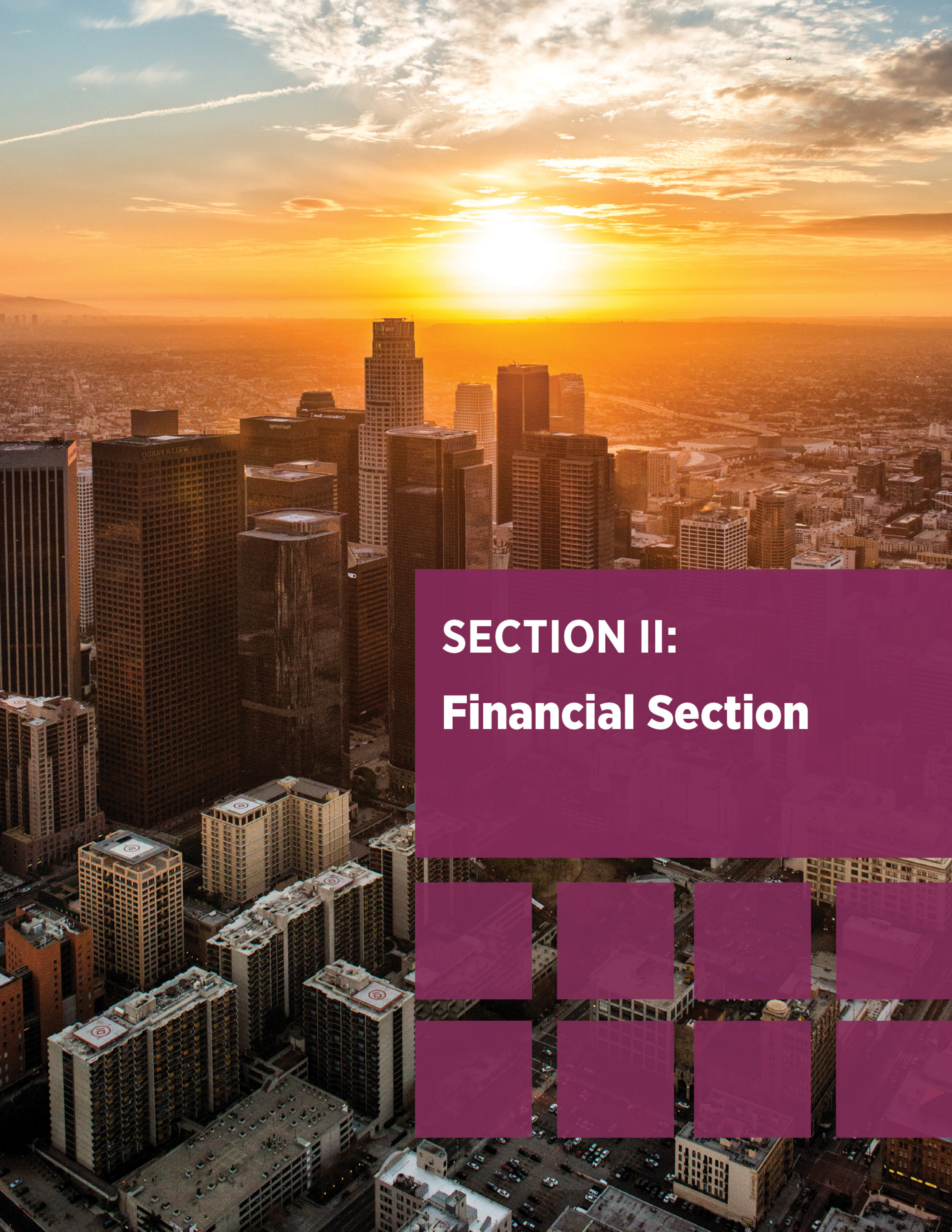
Final Corrective Action Not Taken on DCAA Audit Reports: Of the 49 DCAA audits EPA tracked, 17 were without final action and not yet fully resolved at the end of FY 2016.

DCAA Audits Awaiting Decision on Appeal: As of September 30, 2016, there were no management decisions in administrative appeal status.

DCAA Audits Without Management Decision in 180 Days: As of September 30, 2016, EPA is tracking no DCAA reports, for which EPA is the cognizant Agency, that have not reached management decision in over 180 days from the date of the report.

Final Corrective Action Not Taken Beyond One Year: Final action for contract audits performed by DCAA or other organizations occurs when non-monetary and/or monetary compliance actions are completed. Achieving final action may require more than a year if the findings are complex or the contractor does not have the resources to take corrective action. EPA is tracking completion of corrective action on the following contract audits for the period beginning October 1, 2016.

- 2012-114841 TechLaw Inc. FY 2006, 2007, 2008 Incurred Costs



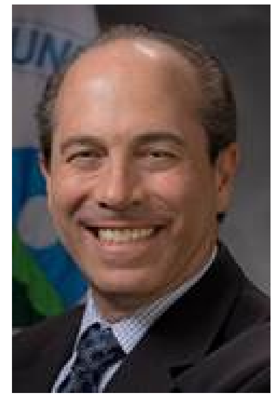
SECTION II:
Financial Section

Message from the Deputy Chief Financial Officer

I am honored to join the Administrator in presenting EPA's FY 2016 Agency Financial Report. We hope you will find this report to be a useful summary of EPA's performance, and it provides an increased understanding of EPA's mission and achievements during FY 2016. This report highlights to the President, Congress, and the public our accomplishments and challenges in protecting human health and the environment, effectively managing the financial resources entrusted to us, and progress towards addressing key management initiatives.

For FY 2016, the Agency achieved an unmodified audit opinion for the 17th consecutive year on the EPA's financial statements, as determined by our OIG. Additionally, the EPA identified two new material weaknesses for FY 2016. Section III of this report provides details about corrective actions underway to address a previously identified material weak-ness and a number of other less severe weaknesses for which we will continue to monitor progress toward correcting.

During FY 2016, the Agency proactively implemented changes for strategic reviews - assessments of our progress toward meeting the goals under EPA's current strategic plan and manager responsibility for implementing internal controls, in advance of the revised OMB Circular A-123 which incorporates enterprise risk management. These changes strengthen the agency's internal management and strategic review process by focusing on enterprise risk as a central element in decision-making.



Also in FY 2016, the Agency created technology user groups to further aide in the integrity of our financial data by strengthening employee engagement and communication when implementing changes to the Agency's financial systems. Additionally, the Agency implemented extensive enhancements to the core financial system, Compass, which increase the Agency's financial management capabilities by improving the integrity of the financial statements and budgetary reports.

Through the new fiscal year, we remain committed to holding ourselves to the highest financial management standards and excellence in striving to ensure taxpayer dollars are used effectively in fulfilling our mission. I look forward to collaborating with our partners and stakeholders, as well as advancing our IT systems to carry-out the Agency's continued success in protecting human health and the environment.

David A. Bloom
November 10, 2016

EPA's Fiscal 2016 and 2015 Consolidated Financial Statements

Principal Financial Statements

United States Environmental Protection Agency
CONSOLIDATED BALANCE SHEET
As of September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 8,341,156	$ 8,646,354
Investments (Note 4)	5,308,734	5,738,556
Accounts Receivable, Net (Note 5)	7,210	10,688
Other (Note 6)	206,693	216,802
Total Intragovernmental	13,863,793	14,612,400
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	486,814	415,757
Loans Receivable, Net - Non-Federal (Note 7)	-	337
Property, Plant & Equipment, Net (Note 9)	1,041,200	1,054,915
Other (Note 6)	7,074	6,842
Total Assets	$ 15,398,891	$ 16,090,261
Stewardship PP& E (Note 11)		
Liabilities:		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	$ 73,891	$ 67,037
Debt Due to Treasury (Note 10)	-	38
Custodial Liability (Note 12)	42,579	35,067
Other (Notes 13)	82,412	86,998
Total Intragovernmental	198,882	189,140
Accounts Payable & Accrued Liabilities (Note 8)	521,056	529,977
Pensions & Other Actuarial Liabilities (Note 15)	45,037	46,166
Environmental Cleanup Costs (Note 21)	36,103	36,165
Cashout Advances, Superfund (Note 16)	3,264,224	3,322,735
Commitments & Contingencies (Note 17)	-	901
Payroll & Benefits Payable (Note 32)	210,797	195,615
Other (Note 13)	425,621	409,793
Total Liabilities	$ 4,701,720	$ 4,730,492
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	4,080	16,579
Unexpended Appropriations - Other Funds	7,263,400	7,783,251
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	2,577,360	2,776,111
Cumulative Results of Operations - Other Funds	852,331	783,828
Total Net Position	10,697,171	11,359,769
Total Liabilities and Net Position	$ 15,398,891	$ 16,090,261

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Costs:		
Gross Costs (Note 19)	$ 9,176,572	$ 9,512,628
Less:		
Earned Revenue (Note 19)	448,388	775,606
Net cost of operations (notes 25 and 35)	$ 8,728,184	$ 8,737,022

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

United States Environmental Protection Agency
STATEMENT OF NET COST BY MAJOR PROGRAM
For the Fiscal Year Ended September 30, 2016
(Dollars in Thousands)

		Environ. Programs & Mgmt.	Leaking Underground Storage Tanks	Science & Technology	Superfund	State and Tribal Assistance Agreements	Other	Consolidated Totals
Costs:								
Intragovernmental	$	942,545	4,820	195,740	65,405	57,263	65,317	1,331,090
With the Public		1,764,864	95,761	596,663	1,147,693	3,927,269	313,132	7,845,482
Total Costs	$	2,707,409	100,581	792,403	1,213,098	3,984,632	378,449	9,176,572
Less:								
Earned Revenue, Federal	$	29,960	-	7,217	43,894	-	22,933	104,004
Earned Revenue, non-Federal		1,575	-	1,084	302,087	-	39,638	344,384
Total Earned Revenue (Note 19)		31,535	-	8,301	345,981	-	62,571	448,338
Net Cost of Operations	**$**	**2,675,874**	**100,581**	**784,102**	**867,117**	**3,984,632**	**315,878**	**8,728,184**

United States Environmental Protection Agency
STATEMENT OF NET COST BY MAJOR PROGRAM
For the Fiscal Year Ended September 30, 2015
(Dollars in Thousands)

		Environ. Programs & Mgmt.	Leaking Underground Storage Tanks	Science & Technology	Superfund	State and Tribal Assistance Agreements	Other	Consolidated Totals
Costs:								
Intragovernmental	$	861,034	5,763	188,337	269,064	71,070	(113,862)	1,281,406
With the Public		1,945,883	92,508	582,449	1,068,955	4,231,828	309,599	8,231,222
Total Costs	$	2,806,917	98,271	770,786	1,338,019	4,302,898	195,737	9,512,628
Less:								
Earned Revenue, Federal	$	26,765	-	6,529	6,760	-	36,812	76,866
Earned Revenue, non-Federal		29,489	-	1,323	627,421	-	40,507	698,740
Total Earned Revenue (Note 19)		56,254	-	7,852	634,181	-	77,319	775,606
Net Cost of Operations	$	2,750,663	98,271	762,934	703,838	4,302,898	118,418	8,737,022

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

United States Environmental Protection Agency
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2016
(Dollars in Thousands)

		FY 2016 Funds from Dedicated Collections	FY 2016 All Other Funds	FY 2016 Consolidated Total
Cumulative Results of Operations:				
Net Position - Beginning of Period	$	2,776,112	783,828	3,559,940
Adjustment:				
(a) Changes in Accounting (Note 1)		-	-	-
(b) Correction (Note 1)		-	-	-
Beginning Balances, as Adjusted		2,776,112	783,828	3,559,940
Budgetary Financing Sources:				
Appropriations Used		1,807	8,263,715	8,265,522
Non-exchange Revenue - Securities Invest. (Note 34)		38,303	-	38,303
Non-exchange Revenue - Other (Note 34)		231,305	-	231,305
Transfers In/Out (Note 30)		(9,600)	28,789	19,189
Trust Fund Appropriations		711,684	(811,684)	(100,000)
Other		-	-	-
Total Budgetary Financing Sources		973,499	7,480,820	8,454,319
Other Financing Sources (Non-Exchange)				
Transfers In/Out (Note 30)		-	-	-
Imputed Financing Sources (Note 31)		23,954	119,663	143,617
Total Other Financing Sources		23,954	119,663	143,617
Net Cost of Operations		(1,196,204)	(7,531,980)	(8,728,184)
Net Change		(198,751)	68,503	(130,248)
Cumulative Results of Operations	**$**	**2,577,361**	**852,331**	**3,429,692**

		FY 2016 Funds from Dedicated Collections	FY 2016 All Other Funds	FY 2016 Consolidated Total
Unexpended Appropriations:				
Net Position - Beginning of Period	$	16,579	7,783,251	7,799,830
Beginning Balances, as Adjusted		16,579	7,783,251	7,799,830
Budgetary Financing Sources:				
Appropriations Received		3,674	7,783,578	7,787,252
Appropriations Transferred In/Out (Note 31)		(13,294)	12,716	(577)
Other Adjustments (Note 33)		(1,072)	(52,429)	(53,501)
Appropriations Used		(1,807)	(8,263,716)	(8,265,522)
Total Budgetary Financing Sources		(12,499)	(519,851)	(532,350)
Total Unexpended Appropriations		4,080	7,263,400	7,267,482
Total Net Position	**$**	**2,581,442**	**8,115,732**	**10,697,174**

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

United States Environmental Protection Agency
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2015
(Dollars in Thousands)

		FY 2015 Funds from Dedicated Collections	FY 2015 All Other Funds	FY 2015 Consolidated Total
Cumulative Results of Operations:				
Net Position - Beginning of Period	$	3,642,573	929,540	4,572,113
Adjustment:				
(a) Changes in Accounting (Note 1)		(1,261,097)	-	(1,261,097)
(b) Correction (Note 1)		(9,420)	-	(9,420)
Beginning Balances, as Adjusted		2,372,056	929,540	3,301,596
Budgetary Financing Sources:				
Appropriations Used		(2,109)	8,616,081	8,613,972
Non-exchange Revenue - Securities Invest. (Note 34)		26,707	-	26,707
Non-exchange Revenue - Other (Note 34)		203,384	3	203,387
Transfers In/Out (Note 30)		(10,208)	28,253	18,045
Trust Fund Appropriations		981,089	(981,089)	-
Other		(1,044)	12	(1,032)
Total Budgetary Financing Sources		1,197,819	7,663,260	8,861,079
Other Financing Sources (Non-Exchange)				
Transfers In/Out (Note 30)		29	(29)	-
Imputed Financing Sources (Note 31)		23,596	110,691	134,287
Total Other Financing Sources		23,625	110,662	134,287
Net Cost of Operations		(817,388)	(7,919,634)	(8,737,022)
Net Change		404,056	(145,712)	258,344
Cumulative Results of Operations	**$**	**2,776,112**	**783,828**	**3,559,940**

		FY 2015 Funds from Dedicated Collections	FY 2015 All Other Funds	FY 2015 Consolidated Total
Unexpended Appropriations:				
Net Position - Beginning of Period	$	(2,497)	8,508,269	8,505,772
Beginning Balances, as Adjusted		(2,497)	8,508,269	8,505,772
Budgetary Financing Sources:				
Appropriations Received		3,674	7,958,419	7,962,093
Appropriations Transferred In/Out (Note 31)		13,293	(13,293)	-
Other Adjustments (Note 33)		-	(54,063)	54,063
Appropriations Used		2,109	(8,616,081)	(8,613,972)
Total Budgetary Financing Sources		19,076	(725,018)	(705,942)
Total Unexpended Appropriations		16,579	7,783,251	7,799,830
Total Net Position	**$**	**2,792,690**	**8,567,079**	**11,359,769**

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

United States Environmental Protection Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Budgetary Resources		
Unobligated balance, brought forward, October 1:	$ 4,350,630	$ 2,963,076
Adjustment to unobligated balance brought forward,	961	-
Unobligated Balance Brought Forward, October 1, as adjusted	4,351,591	-
Recoveries of prior year unpaid obligations (Note 26)	234,361	227,283
Other changes in unobligated balance	(13,622)	(15,107)
Unobligated balance from prior year budget authority, net	4,572,330	3,175,252
Appropriations (discretionary and mandatory)	9,096,422	10,560,343
Borrowing Authority (discretionary and mandatory)	-	290
Spending Authority from offsetting collection (discretionary and mandatory)	610,181	738,244
Total Budgetary Resources	$ 14,278,933	$ 14,474,129
Status of budgetary resources		
New obligations and upward adjustments (total)	$ 10,036,882	$ 10,123,499
Unobligated Balance, end of year:		
Apportioned, unexpired accounts	4,086,727	4,242,190
Unapportioned, unexpired accounts	36,008	108,440
Unobligated balance, end of period (total) (Note 27)	4,122,735	4,350,630
Expired unobligated balance, end of year	119,316	-
Total Status of Budgetary Resources	$ 14,278,933	$ 14,474,129
Change in obligated balance Unpaid Obligations		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	$ 9,104,831	$ 9,692,881
New obligations and upward adjustments	10,036,882	10,123,499
Outlays (gross)	(10,212,494)	(10,484,265)
Recoveries of prior year unpaid obligations	(234,361)	(227,283)
Unpaid obligations, end of year (gross)	8,694,858	9,104,832
Uncollected Payments:		
Uncollected customer payments from Fed. Sources, brought forward, October 1:	(235,529)	(259,642)
Change in uncollected customer payments from Federal sources	(13,111)	24,113
Uncollected customer payments from Federal Sources, end of year	(248,640)	(235,529)
Memorandum entries:		
Obligated balance, start of year	$ 8,869,302	$ 9,433,183
Obligated balance, end of year (net)	$ 8,446,218	$ 8,869,303
Budget authority and outlays, net		
Budget authority, gross (discretionary and mandatory)	$ 9,706,603	$ 11,298,877
Actual offsetting collections (discretionary and mandatory)	(597,070)	(762,357)
Change in uncollected cust. Payments from Fed sources (discretionary & mandatory)	(13,111)	24,113
Budget Authority, net (discretionary and mandatory)	$ 9,096,422	$ 10,560,633
Outlays, gross (discretionary and mandatory)	10,212,494	10,484,265
Actual offsetting collections (discretionary and mandatory)	(597,070)	(762,357)
Outlays, net (discretionary and mandatory)	9,615,424	9,721,908
Distributed offsetting receipts (Note 29)	(886,453)	(2,716,279)
Agency outlays, net (discretionary and mandatory)	$ 8,728,971	$ 7,005,629

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

United States Environmental Protection Agency
STATEMENT OF CUSTODIAL ACTIVITY
For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Thousands)

	FY 2016	FY 2015
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 95,473	$ 198,087
Other	(4,333)	56,334
Total Cash Collections	91,140	254,421
Accrual Adjustment	7,786	(60,173)
Total Custodial Revenue (Note 24)	98,926	194,248
Disposition of Collections:		
Transferred to Others (General Fund)	91,140	254,423
Increases/Decreases in Amounts Yet to be Transferred	7,786	(60,174)
Total Disposition of Collections	98,926	194,248
Net Custodial Revenue Activity	$ -	$ -

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

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2016 and September 30, 2015
(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, hazardous waste, pesticides, and toxic substances.

The FY 2016 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, and Custodial Activity, and a combined basis for the Statements of Changes in Net Position and Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (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. The Statement of Net Cost has been prepared with cost segregated by the agency's major programs.

C. Budgets and Budgetary Accounting

I. General Funds

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

The EPA's Fiscal Year 2014 Appropriation Act established a new three-year appropriation account to provide funds to carry out section 3024 of the Solid Waste Disposal Act, including the development, operation, maintenance, and upgrading of the hazardous waste electronic manifest system. The Agency is authorized to establish and collect user fees for this account that will be used for the electronic manifest system.

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

Funds transferred from other federal agencies are processed as non-expenditure transfers. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at the U.S. Treasury.

Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

II. Revolving Funds

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

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

III. Special Funds

The Environmental Services Receipt Account obtains fees associated with environmental programs. Exxon Valdez Settlement Fund uses funding collected from reimbursement from the Exxon Valdez settlement. The Natural Resource Damages Trust Fund was established for funds received for critical damage assessments and restoration of natural resources injured as a result of the Deepwater Horizon oil spill.

IV. Deposit Funds

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

V. Trust Funds

Congress enacts an annual appropriation amount for the 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 for purposes of carrying out the program activities. As the agency disburses obligated amounts from the transfer account, the agency draws down monies from the Superfund and LUST Trust Funds 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 EPA established a new receipt account for Superfund special account collections. This allows the Agency to invest the funds until draw down is needed for special accounts disbursements.

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 on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with Office of Management and Budget (OMB) directives and the Treasury regulations.

EPA uses a modified matching principle since federal entities recognize unfunded (without budgetary resources) liabilities in accordance with 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 Potentially Responsible Parties (PRPs) under Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3) placed in to 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 continue to be deposited in the Superfund Trust Fund.

II. Special Accounts Funds Accounting Process Change

Below is a summary of the accounting process changes the agency made in FY 2015 and their impact.

a) In FY 2015 the agency developed a new business process for managing its special accounts funds. The agency moved the Anadarko settlement collections to the Superfund Trust Fund to invest in U.S. Government Securities. A summary of the Anadarko settlement is provided below in paragraph X of this Note 1. This change impacted the budgetary accounts (U.S. Standard General Ledger Accounts-Authority Resources from Invested Balances and Unfilled Customer Order Collected). The impact is shown on Statement of Budgetary Resources lines “Appropriations” and “Spending Authority from Offsetting Collections” as follows:

   i. Appropriations (Mandatory) increased by $1.4 Billion.

   ii. Spending Authority from Offsetting Collections was not used to record the Anadarko collection.

b) For collections in prior years, except for the Anadarko settlement, which is approximately $1.4 Billion, the funds were treated as Reimbursable Authority and are shown on Statement of Budgetary Resources line “Spending Authority from Offsetting Collections.”

c) The summary of investments in U.S. Government Securities is provided below in paragraph G of this Note 1.

d) Prior to FY2015, the Agency recorded special accounts funds proceeds as earned and/or unearned revenue to account for past and prospective cleanup activities based on the consent decree. Effective FY 2016, the Agency changed its accounting treatment to record special accounts funds settlement proceeds as unearned revenue after determining that collections previously recorded as past costs were being used for future site cleanup. EPA reclassified $1.1 Billion from equity to unearned in fiscal year 2015 to reflect this change in accounting. In FY2016, EPA collected an additional $290 million in past costs that was classified as unearned revenue, intended for future site cleanups.

III. Other Funds

Most of the other funds, including those under the 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 Asbestos Direct Loan Financing fund 4322 receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

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

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

F. Funds with the Treasury

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

G. Investments in U.S. Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

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

J. Accounts Receivable and Interest Receivable

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

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

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

K. 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.

L. Loans Receivable

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

M. Appropriated Amounts Held by Treasury

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

N. Property, Plant, and Equipment

EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, “Accounting for Property, Plant and Equipment” 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 contract 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. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor-held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset’s useful life, ranging from two to 15 years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the projected minimum lease payments must be $75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an $85 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership 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. As of January 30, 2016, EPA’s last capital lease ended.

Superfund contract property used as part of the remedy for site-specific response actions is capitalized in accordance with the agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, 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 life. However, if any property is transferred to a state in a year or less, this property is charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in FAS, depreciated utilizing the straight-line method based upon the asset's in-service date and useful life and is reflected on the WCF statements.

Real property consists of land, buildings, capital and leasehold improvements and capital leases. Real property, other than land, is capitalized when the value is $85 thousand or more. 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 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

Software for the WCF, a revenue generating activity, is capitalized if the purchase price is $100 thousand or more with an estimated useful life of two years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to five years.

O. 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.

P. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt.

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 32 as a component of "Payroll and Benefits Payable."

S. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

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

T. Prior Period Adjustments

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

EPA received updated information in early FY 2015 from the Bureau of Fiscal Service related to excise taxes collected in FY 2014 on behalf of the Leaking Underground Storage Tank Trust Fund. This necessitated an adjustment to beginning Net Position.

U. Recovery Act Funds

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

The EPA managed almost $7.22 billion in Recovery Act funded projects and programs to achieve these goals, offered resources to help other "green" agencies, and administered environmental laws that governed Recovery activities.

As of September 30, 2016, EPA expended over $7.1 billion, with $2.1 million de-obligated and returned to Treasury. The EPA, in collaboration with states, tribes, local governments, territories and other partners, administered the funds it received under the Recovery Act through four appropriations. The funds include:

a) $6.4 billion for State and Tribal Assistance Grants (STAG) that in turn include:

    i. $4 billion for assistance to help communities with water quality and wastewater infrastructure needs and $2 billion for drinking water infrastructure needs (Clean Water and Drinking Water State Revolving Fund programs and Water Quality Planning program).

ii. $2 billion for drinking water state revolving fund (DWSRF).

iii. $100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program).

iv. $300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs).

b) $600 million for the cleanup of hazardous sites (Superfund program);

c) $200 million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank program); and

d) $20 million for audits and investigations conducted by the Inspector General (IG).

The vast majority of the contracts awarded under the Recovery Act used competitive contracts. The EPA remains committed to ensuring transparency and accountability in spending Recovery Act funds in accordance with OMB guidance.

An EPA Stimulus Steering Committee directed EPA's Recovery Act management and guided transparency efforts. EPA's Stewardship Plan laid out the agency's risk mitigation plan, including risk assessment, internal controls and monitoring activities. The Stewardship Plan was divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Plan was developed based on Government Accountability Office (GAO) standards for internal control. Under each functional area, risks were assessed and related control, communication and monitoring activities identified for each program. The Plan was updated based on OMB guidance.

EPA has the three-year EPM treasury account symbol 6809/110108 that was established to track the appropriate operation and maintenance of the funds. EPA's other Recovery Act programs are the following: Office of Inspector General (IG), treasury symbol 6809/120113; State and Tribal Assistance Grants, treasury symbol 6809/100102; Payment to the Superfund, treasury symbol 6809/100249; Superfund, treasury account symbol 6809/108195; and Leaking Underground Storage Tank, treasury account symbol 6809/108196. Please note almost all of these programs are now closed with only a few remaining projects remaining open – primarily for long term rate adjustments and trailing costs.

V. Deepwater Horizon Oil Spill

On April 20, 2010, the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. On September 10, 2012, the President designated EPA and USDA as additional trustees for the Natural Resource Damage and Assessment Council for restoration solely conjunction with injury to, destruction of, loss of, or loss of the use of natural resources, including their supporting ecosystems, resulting from the Deepwater Horizon Oil Spill. In FY 2016, EPA received an advance of $184,000 from BP and $2.056 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

On October 5, 2015, the United States and the five Gulf states announced a settlement with BP to resolve civil claims against BP arising from the April 20, 2010 well blowout and oil spill. The proposed settlement resolves the governments' civil claims under the CWA and natural resources damage claims under the Oil Pollution Act, as well as economic damage claims of the five Gulf States and local governments. All together this settlement is worth $20.8 billion. The settlement includes $5.5 billion for federal CWA penalties; 80% of which will go to restoration efforts in the Gulf region pursuant to the RESTORE Act. The settlement also includes $8.1 billion in natural resource damages, including $1 billion that BP already committed to pay for early restoration, for joint use by the federal and state trustees to restore injured resources. The natural resource damages money will fund Gulf restoration projects that will be selected by the federal and state trustees to meet five restoration goals and 13 restoration project categories, e.g., restoring water quality, reducing nutrients, restoring and conserving habitat, etc. For more information: Deepwater Horizon at https://www.justice.gov/enrd/deepwater-horizon

W. Hurricane Sandy

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

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

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

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

c) The Leaking Underground Storage Tanks program received $4.75 million for work on projects impacted by Hurricane Sandy.

d) The Superfund program received $1.9 million for work on Superfund sites impacted by Hurricane Sandy.

e) EPA also received $689,000 to make repairs to EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

As of September 30, 2016, EPA obligated $577 million of these funds and expended $ 16.9 million.

X. Anadarko Settlement

On November 10, 2014, the U.S. District Court for the Southern District of New York (SDNY) approved the historic $5.15 billion settlement agreement that was announced by EPA and the Department of Justice (DOJ) on April 3, 2014, resolving fraudulent conveyance claims against Kerr-McGee Corporation and related subsidiaries of Anadarko Petroleum Corporation. The deadline for any appeals from the district court's decision passed on January 20, 2015, without any appeal being filed. The settlement agreement went into effect on January 21, 2015.

Of the environmental recovery in this settlement, nearly $1.6 billion will help pay for cleanup work associated with 16 EPA-lead sites. There were new collections of $1.7 million for FY 2016.

Y. Puerto Rico Insolvency

As of October 4, 2016 EPA issued notices of noncompliance to the Puerto Rico Environmental Quality Board (PREQB), the Puerto Rico Department of Health (PRDOH), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Government Development Bank (GDB) advising that the agencies are not complying with their obligations to manage and preserve the clean water and drinking water State Revolving Funds in Puerto Rico properly, separately and in perpetuity. GDB has not been disbursing funds from the Revolving Fund accounts to pay for many of the projects that were authorized to receive grants or loans and has stated it does not have repayment funds available to make payments. Because all or a portion of the approximately $188 million State Revolving Funds is not currently available for eligible uses it triggers violations of various requirements of the Clean Water and Safe Drinking Water Acts. The notice of noncompliance gives PREQB and PRDOH thirty days to submit corrective action plans for approval."

Z. Use of Estimates

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

AA. Reclassifications

The Statement of Net Cost by major program was reclassified in the prior year in order to conform to the current year presentation.

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2016 and September 30, 2015, consists of the following:

	FY 2016 Entity Assets	FY 2016 Non-Entity Assets	FY 2016 Total	FY 2015 Entity Assets	FY 2015 Non-Entity Assets	FY 2015 Total
Trust Funds:						
Superfund	$ 113,897	-	113,897	$ 39,078	-	39,078
LUST	52,354	-	52,354	24,358	-	24,358
Oil Spill & Misc	9,835	-	9,835	7,694	-	7,694
Revolving Funds:						
FIFRA/Tolerance	31,654	-	31,654	22,400	-	22,400
Working Capital	116,853	-	116,853	72,238	-	72,238
Cr. Reform Finan.	-	-	-	36	-	36
E-Manifest	5,230	-	5,230	3,411	-	3,411
NRDA	3,027	-	3,027	3,196	-	3,196
Appropriated	7,558,470	-	7,558,470	8,044,387	-	8,044,387
Other Fund Types	444,471	5,355	449,826	419,081	10,475	429,556
Total	$ 8,335,801	5,355	8,341,156	$ 8,635,879	10,475	8,646,354

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

Status of Fund Balances with Treasury:	FY 2016	FY 2015
Unobligated Amounts in Fund Balance:		
Available for Obligation	$ 4,086,786	$ 4,226,754
Unavailable for Obligation	155,324	108,424
Net Receivables from Invested Balances	(4,826,953)	(4,991,953)
Balances in Treasury Trust Fund (Note 36)	14,268	3,867
Obligated Balance not yet Disbursed	8,446,266	8,851,913
Non-Budgetary FBWT	465,465	447,349
Totals	$ 8,341,156	$ 8,646,354

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2016 and FY 2015 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2016 and September 30, 2015, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2016 and September 30, 2015 investments related to Superfund and LUST consist of the following:

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Intragovernmental Securities:					
Non-Marketable FY 2016	$ 5,298,243	$ (7,209)	$ 3,282	$ 5,308,734	$ 5,308,734
Non-Marketable FY 2015	$ 5,731,240	$ (4,278)	$ 3,038	$ 5,738,556	$ 5,738,556

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable. All investments in Treasury securities are funds from dedicated collections (see Note 18).

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

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

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2016 and September 30, 2015 consist of the following:

		FY 2016		FY 2015
Intragovernmental:				
Accounts & Interest Receivable	$	8,618	$	11,372
Less: Allowance for Uncollectibles		(1,408)		(684)
Total	**$**	**7,210**	$	**10,688**
Non-Federal:				
Unbilled Accounts Receivable	$	150,538	$	124,494
Accounts & Interest Receivable		2,395,903		2,416,585
Less: Allowance for Uncollectibles		(2,059,627)		(2,125,322)
Total	**$**	**486,814**	**$**	**415,757**

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, 2016 and September 30, 2015 consist of the following:

		FY 2016		FY 2015
Intragovernmental:				
Advances to Federal Agencies	$	206,597	$	216,692
Advances for Postage		96		110
Total	$	206,693	$	216,802
Non-Federal:				
Travel Advances	$	187	$	339
Other Advances		6,598		6,121
Inventory for Sale		289		382
Total	**$**	**7,074**	**$**	**6,842**

Note 7. Loans Receivable, Net

Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2016 and September 30, 2015 are as follows:

	FY 2016			FY 2015		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	$ -	-	-	$ -	-	-
Direct Loans Obligated After FY 1991	-	-	-	-	337	337
Total	**$ -**	**-**	**-**	**$ -**	**337**	**337**

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

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

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

	FY2016	FY2015
Beginning balance of the subsidy cost allowance	$ 337	$ 366
Add: subsidy expense for direct loans disbursed during the reporting years by component:	-	-
Interest rate differential costs	-	-
Default costs (net of recoveries)	-	-
Fees and other collections	-	-
Other subsidy costs	-	-
Total of the above subsidy expense components	337	366
Adjustments:		
Loan Modification	-	-
Fees received	-	-
Foreclosed property acquired	-	-
Loans written off	-	-
Subsidy allowance amortization	-	-
Other	(337)	(31)
End balance of the subsidy cost allowance before reestimates	-	(31)
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate		
(b) Technical/default reestimate	-	-
Total of the above reestimate components	-	2
Ending Balance of the subsidy cost allowance	**$ -**	**$ 337**

EPA has not disbursed Direct Loans since 1993.

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2016 and September 30, 2015:

	FY 2016	FY 2015
Intragovernmental:		
Accounts Payable	$ 2,157	$ 824
Subsidy Payable	-	(339)
Allocation Liability	578	-
Accrued Liabilities	71,156	66,552
Total	**$ 73,891**	**$ 67,037**

	FY 2016	FY 2015
Non-Federal:		
Accounts Payable	$ 63,833	$ 69,361
Advances Payable	19	5
Interest Payable	5	5
Grant Liabilities	309,716	304,929
Other Accrued Liabilities	147,483	155,677
Total	**$ 521,056**	**$ 529,977**

Other Accrued Liabilities primarily relate to contractor accruals.

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

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

As of September 30, 2016 and September 30, 2015, General PP&E consisted of the following:

	FY 2016			FY 2015		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$ 296,381	(196,484)	99,897	$ 291,669	(188,779)	102,890
Software	1,000,681	(545,672)	455,009	964,670	(503,328)	461,342
Contractor Held Equip.	37,261	(25,579)	11,682	37,261	(21,746)	15,515
Land and Buildings	721,809	(253,182)	468,627	707,564	(239,925)	467,639
Capital Leases	24,485	(18,500)	5,985	30,613	(23,084)	7,529
Total	**$ 2,080,617**	**(1,039,417)**	**1,041,200**	**$ 2,031,777**	**(976,862)**	**1,054,915**

Note 10. Debt Due to Treasury

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2016 and September 30, 2015 is as follows:

All Other Funds	FY 2016 Beginning Balance	FY 2016 Net Borrowing	FY 2016 Ending Balance	FY 2015 Beginning Balance	FY 2015 Net Borrowing	FY 2015 Ending Balance
Intragovernmental:						
Debt to Treasury	$ 34	(34)	-	$ 62	(24)	38

Note 11. Stewardship Land

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, 2016, and 2015, the Agency possesses the following land and land rights:

	FY 2016	FY 2015
Superfund Sites with Easements		
Beginning Balance	$ 36	$ 35
Additions	2	1
Withdrawals	0	0
Ending Balance	$ 38	$ 36
Superfund Sites with Land Acquired		
Beginning Balance	$ 35	$ 34
Additions	0	1
Withdrawals	1	0
Ending Balance	$ 34	$ 35

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, 2016 and 2015, custodial liability is approximately $42,579 thousand and $35,067 thousand, respectively.

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2016:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities – Intragovernmental			
Current			
Employer Contributions & Payroll Taxes	$ 14,879	-	14,879
WCF Advances	2,354	-	2,354
Other Advances	6,709	-	6,709
Advances, HSSTF Cashout	51,259	-	51,259
Deferred HSSTF Cashout	(24,359)	-	(24,359)
Non-Current			
Unfunded FECA Liability	-	9,295	9,295
Unfunded Unemployment Liability	-	276	276
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	**$ 50,841**	**31,571**	**82,412**
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 399,766	-	399,766
Liability for Deposit Funds, Non-Federal	7,200	-	7,200
Non-Current			
Capital Lease Liability	-	18,655	18,655
Total Non-Federal	**$ 409,966**	**18,655**	**425,621**

Other Liabilities consist of the following as of September 30, 2015:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities – Intragovernmental			
Current			
Employer Contributions & Payroll Taxes	$ 10,132	$ -	$ 10,132
WCF Advances	1,155	-	1,155
Other Advances	4,881	-	4,881
Advances, HSSTF Cashout	38,310	-	38,310
Deferred HSSTF Cashout	730	-	730
Non-Current			
Unfunded FECA Liability	-	9,737	9,737
Unfunded Unemployment Liability		53	53
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	$ 55,208	$ 31,790	$ 86,998
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 378,033	-	378,033
Liability for Deposit Funds, Non-Federal	12,170	-	12,170
Non-Current			
Capital Lease Liability	-	19,590	19,590
Total Non-Federal	**$ 390,203**	**$ 19,590**	**$ 409,793**

Note 14. Leases

A. Capital Leases:

The value of assets held under Capital Leases as of September 30, 2016 and 2015 are as follows:

		FY 2016		FY 2015
Summary of Assets Under Capital Lease:				
Real Property	$	24,485	$	30,613
Personal Property		-		-
Total	**$**	**24,485**	**$**	**30,613**
Accumulated Amortization	$	18,500	$	$ 23,084

EPA as 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. EPA's lease will terminate in FY 2025.

Future Payments Due:		
Fiscal Year		Capital Leases
2017	$	4,215
2018		4,215
2019		4,215
2020		4,125
After 5 Years		18,265
Total Future Minimum Lease Payments		35,125
Less: Imputed Interest	$	(16,470)
Net Lease Liability		18,755
Liability not Covered by Budgetary Resources	$	18,755

B. Operating Leases:

The GSA provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties. EPA has three direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. The two leases expire in FY 2017 and FY 2020. These lease charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

Fiscal Year		Operating Leases, Land and Buildings
2017	$	83
2018		53
2019		53
2020		9
Total Future Minimum Lease Payments	**$**	**198**

Note 15. Federal Employees Compensation Act (FECA) Actuarial Liabilities

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

The FECA Actuarial Liability as of September 30, 2016 and 2015 was $45.04 million and $46.17 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2016 present value of these estimated outflows is calculated using a discount rate of 2.781 percent in the first year, and 2.781 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Superfund Cashout Advances

Cashout advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2016 and 2015, cashouts are approximately $3,264 million and $3,323 million, respectively.

Note 17. Commitments and Contingencies

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, 2016 there were no accrued liabilities for commitments and potential loss contingencies. The amount of accrued liabilities as of September 30, 2015 was $901 thousand. The 2015 amount comprised of two cases discussed below.

A. Gold King Mine

On August 5, 2015, EPA was conducting an investigation of the Gold King Mine near Silverton, Colorado. While excavating part of the mine, pressurized water began leaking above the mine tunnel, spilling about three million gallons of contaminated water stored behind the collapsed material in Cement Creek, a tributary of the Animas River. In fiscal year 2016 and subsequent fiscal years, the Agency has received and anticipates receiving administrative tort legal claims for compensation from individuals and entities who may have suffered personal injury or property damage from the spill. Subject to the materiality threshold, the Agency will begin to report on such matters when claims are filed and contingent legal liabilities are known. See Section B in regards to two cases that have been filed under CERCLA relating to Gold King Mine.

B. Superfund

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

As of September 30, 2016, there is one case pending against EPA that is reported under Environmental Liabilities below: Bob's Home Service Landfill ($900 thousand) is reported as a reasonably possible liability.

There are three matters concerning CERCLA involving the Appvion Lower Fox River and Green Bay Site, the Hudson Oil Refinery site (associated with Land O'Lakes) and New Mexico v. EPA et al., Navajo Nation v. EPA et al. The amounts are estimated at $174 million, $17.6 million and $10 million respectively but they are only reasonably possible and the final outcomes are not probable.

C. Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, 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." 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, 2016, there is no other case pending in the court.

D. Other Commitments

Since 1991, the United States has had a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Programme (UNEP) to provide funds to the Multilateral Fund for the Implementation of the Montreal Protocol. In keeping with this agreement, the U.S. Department of State continues to negotiate successive three-year agreements for the level of funds that the United States will provide to the Multilateral Fund for this purpose. Since 1991, the Department of State which has primary responsibility for international commitments of the U.S., has provided the bulk of funds to the Multilateral Fund, with EPA providing a lesser amount. Since commitments to the Multilateral Fund are ongoing, future EPA payments totaling $27 million have been deemed reasonably possible and are anticipated to be paid in years 2015-2017.

Note 18. Fund from Dedicated Collections (Unaudited)

		Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2016						
Assets						
Fund Balance with Treasury	$	421,414	52,354	113,898	72,802	660,468
Investments		-	500,831	4,807,903	-	5,308,734
Accounts Receivable, Net		-	52,806	362,806	30	415,642
Other Assets		-	426	79,923	2,882	83,231
Total Assets	$	424,414	606,417	5,364,530	75,714	6,468,075
Other Liabilities		9	59,874	3,756,388	70,364	3,886,635
Total Liabilities	$	9	59,874	3,756,388	70,364	3,886,635
Unexpended Appropriation		-	-	4	4,076	4,080
Cumulative Results of Operations		421,405	546,543	1,608,138	1,274	2,577,360
Total Liabilities and Net Position	$	421,414	606,417	5,364,530	75,714	6,468,075
Statement of Net Cost for the Period Ended September 30, 2016						
Gross Program Costs	$	-	100,581	1,422,150	69,449	1,592,180
Less: Earned Revenues		5	-	345,981	49,990	395,976
Net Cost of Operations	$	(5)	100,581	1,076,169	19,459	1,196,204
Statement of Changes in Net Position for the Period ended September 30, 2016						
Net Position, Beginning of Period	$	397,831	543,481	1,844,999	6,379	2,792,690
Nonexchange Revenue- Securities Investments		-	960	37,311	32	38,303
Nonexchange Revenue		23,569	202,681	8,490	(3,435)	231,305
Other Budgetary Finance Sources		-	(100,000)	769,602	21,790	691,392
Other Financing Sources		-	2	23,909	43	23,954
Net Cost of Operations		5	(100,581)	(1,076,169)	(19,459)	(1,196,204)
Change in Net Position	$	23,574	3,062	(236,857)	(1,029)	(211,250)
Net Position	$	**421,405**	**546,543**	**1,608,142**	**5,350**	**2,581,440**

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2015					
Assets					
Fund Balance with Treasury	$ 397,838	$ 24,358	$ 39,078	$ 57,944	$ 519,218
Investments	-	525,253	5,213,303	-	5,738,556
Accounts Receivable, Net	-	78,881	275,550	2,935	357,366
Other Assets	-	599	98,252	2,590	101,441
Total Assets	$ 397,838	$ 629,091	$ 5,626,183	$ 63,469	$ 6,716,581
Other Liabilities	7	85,610	3,781,184	57,090	3,923,891
Total Liabilities	$ 7	$ 85,610	$ 3,781,184	$ 57,090	$ 3,923,891
Unexpended Appropriation		-	13,297	3,281	16,578
Cumulative Results of Operations	397,831	543,481	1,831,702	3,098	2,776,112
Total Liabilities and Net Position	$ 397,838	$ 29,091	$ 5,626,183	$ 63,469	$ 6,716,581
Statement of Net Cost for the Period Ended September 30, 2015					
Gross Program Costs	-	98,271	1,338,018	75,535	1,511,824
Less: Earned Revenues	-	-	634,182	60,254	694,436
Net Cost of Operations	$ -	$ 98,271	$ 703,836	$ 15,281	$ 817,388
Statement of Changes in Net Position for the Period ended September 30, 2015					
Net Position, Beginning of Period	$ 370,045	$ 462,786	$ 1,532,727	$ 4,001	$ 2,369,559
Nonexchange Revenue- Securities Investments	-	587	26,118	3	26,708
Nonexchange Revenue	27,786	178,379	1,285	(4,067)	203,383
Other Budgetary Finance Sources		-	965,088	21,718	986,806
Other Financing Sources	-	-	23,617	5	23,622
Net Cost of Operations	-	(98,271)	(703,836)	(15,281)	(817,388)
Change in Net Position	$ 27,786	$ 80,695	$ 312,272	$ 2,378	$ 423,131
Net Position	**$ 397,831**	**$ 543,481**	**$ 1,844,999**	**$ 6,379**	**$ 2,792,690**

A. Funds from Dedicated Collections are as follows:

i. Environmental Services Receipt Account:

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

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

The LUST Trust Fund, was authorized by the SARA as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act.

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 other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury’s collections, special account receipts from settlement agreements, and investment activity.

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

ii. Pesticide Registration Fund:

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

iii. Reregistration and Expedited Processing Fund:

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

iv. Tolerance Revolving Fund:

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

v. Exxon Valdez Settlement Fund:

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

Note 19. Intragovernmental Costs and Exchange Revenue

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

	FY2016			FY2015		
	Intragovern -mental	With the Public	Total	Intragovern -mental	With the Public	Total
Programs & Management						
Program Costs	$ 942,545	1,764,864	2,707,409	$ 861,034	1,945,883	2,806,917
Earned Revenue	29,960	1,575	31,535	26,765	29,489	56,254
NET COSTS	912,585	1,763,289	2,675,874	834,269	1,916,394	2,750,663
Leaking Underground Storage Tanks						
Program Costs	4,820	95,761	100,581	5,763	92,508	98,271
Earned Revenue	-	-	-	-	-	-
NET COSTS	4,820	95,761	100,581	5,763	92,508	98,271
Science & Technology						
Program Costs	195,740	596,663	792,403	188,337	582,449	770,786
Earned Revenue	7,217	1,084	8,301	6,529	1,323	7,852
NET COSTS	188,523	595,579	784,102	181,808	581,126	762,934
Superfund						
Program Costs	65,405	1,147,693	1,213,098	269,064	1,068,955	1,338,019
Earned Revenue	43,894	302,087	345,981	6,760	627,421	634,181
NET COSTS	21,511	845,606	867,117	262,304	441,534	703,838
State and Tribal Assistance Agreements						
Program Costs	57,263	3,927,369	3,984,632	71,070	4,231,828	4,302,898
Earned Revenue	-	-	-	-	-	-
NET COSTS	57,263	3,927,369	3,984,632	71,070	4,231,828	4,302,898
Other						
Program Costs	65,317	313,132	378,449	(113,862)	309,599	195,737
Earned Revenue	22,933	39,638	62,571	36,812	40,507	77,319
NET COSTS	42,384	273,494	315,878	(150,674)	269,092	118,418
Total						
Program Costs	1,331,090	7,845,482	9,176,572	1,281,406	8,231,222	9,512,628
Earned Revenue	104,004	344,384	448,388	76,866	698,740	775,606
NET COSTS	$ 1,227,086	7,501,098	8,728,184	$ 1,204,540	7,532,482	8,737,022

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

Note 20. Cost of Stewardship Land

EPA had two acquisitions of stewardship land at a cost of $120,000 for the year ending September 30, 2016. EPA also had a property transfer to the State of Idaho via Quit Claim Deed. These costs are included in the Statement of Net Cost.

Note 21. Environmental Cleanup Costs

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

a) Clean up of hazardous waste and restoration of the facility when a facility is closed, and

b) Costs to remediate known environmental contamination resulting from the Agency's operations.

EPA has 16 sites responsible for clean-up cost incurred under federal, state, and/or local regulations to remove from, contain, or dispose of hazardous material fund located at these facilities.

EPA is required to report the estimated costs related to:

a) Clean-up from federal operations resulting in hazardous waste,

b) Accidental damage to non-federal 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.

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, 2016, 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. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund clean-up work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2016 or in FY 2015.

Accrued Clean-up Cost

EPA has 16 sites that will require permanent closure, and EPA is responsible to fund the environmental clean-up of those sites. As of September 30, 2016 the estimated costs for site clean-up were $36.1 million unfunded and $1.1 million funded respectively. In 2015, the estimated costs for site clean-up were $36.2 million unfunded, $3.8 million funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, 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 2016, the estimate for unfunded clean-up cost decreased by $62 thousand from the FY 2015 estimate. This decrease is primarily due to decommissioning of the facilities, Environmental due diligence and sample analysis, and asbestos abatement. Also, in FY 2016 a decrease of $2.7 million were incurred compared to FY 2015 was the result of the consolidating of EPA sites at UNLV.

Note 22. State Credits

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2016 and 2015, the total remaining state credits have been estimated at $22.2 million and $22.4 million, respectively.

Note 23. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a) (2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2016, EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $4.74 million. As of September 30, 2015, EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $6.19 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by EPA.

Note 24. Custodial Revenues and Accounts Receivable

	FY 2016	FY 2015
Fines, Penalties and Other Miscellaneous Receipts	$ 98,926	$ 194,248
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	195,188	170,246
Less: Allowance for Uncollectible Accounts	(150,599)	(133,444)
Total	$ 44,589	$ 36,802

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

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

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2016 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2016 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2016 has not yet been published. We expect it will be published by early 2016, and it will be available on the OMB website Office of Management and Budget at https://www.whitehouse.gov/.

The actual amounts published for the year ended September 30, 2015 are listed immediately below (dollars in millions):

FY 2015	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 14,355	$ 10,112	$ 2,716	$ 9,723
Reported in Budget of the U. S. Government	$ 14,355	$ 10,112	$ 2,716	$ 9,723

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

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2016 and September 30, 2015:

	FY 2016	FY 2015
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$ 234,361	$ 227,283
Temporarily Not Available - Rescinded Authority	(2,855)	(7,466)
Permanently Not Available:		
Payments to Treasury	(34)	(28)
Rescinded authority	(40,000)	(40,000)
Canceled authority	(13,589)	(74,171)
Total Permanently Not Available	**$ (53,623)**	**$ (114,199)**

Note 27. Unobligated Balances Available

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

The unobligated balances available consist of the following as of September 30, 2016 and September 30, 2015:

	FY 2016	FY 2015
Unexpired Unobligated Balance	$ 4,122,735	$ 4,242,295
Expired Unobligated Balance	119,316	108,335
Total	**$ 4,242,051**	**$ 4,350,630**

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2016 and 2015 were $8.26 billion and $8.65 billion, respectively.

Note 29. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2016 and 2015, the following receipts were generated from these activities:

	FY 2016	FY 2015
Trust Fund Recoveries	$ 30,833	$ 274,173
Special Fund Environmental Service	23,577	27,784
Trust Fund Appropriation	811,684	2,389,251
Miscellaneous Receipt and Clearing Accounts	20,359	25,071
Total	$ 886,453	$ 2,716,279

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

A. Appropriation Transfers, In/Out:

For September 30, 2016 and September 30, 2015, 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, 2016 and September 30, 2015:

Fund/Type of Account	FY 2016	FY 2015
Net Transfers from Invested Funds	$ 1,283,737	$ 2,576,013
Transfers to Another Agency	981	-
Allocations Rescinded	-	-
Total of Net Transfers on Statement of Budgetary Resources	$ 1,284,718	$ 2,576,013

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2016 and September 30, 2015, 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, 2016 and September 30, 2015:

	FY 2016		FY 2015	
Type of Transfer/Funds	Fund from Dedicated Collections	Other Funds	Fund from Dedicated Collections	Other Funds
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds Capital Transfer	$ (28,789)	28,789	$ (28,089)	28,089
Transfers-in nonexpenditure, Oil Spill	(18,209)	-	(18,209)	-
Transfers-in (out) nonexpenditure, Superfund	(43,402)	-	29,296	-
Transfer-out LUST	100,000	-	-	-
Total Transfer in (out) without Reimbursement, Budgetary	$ 9,600	28,790	$ (17,002)	28,089

Note 31. Imputed Financing

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2016 were $116.4 million. For FY 2015, the estimates were $120.1 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. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2016 total imputed costs were $21.3 million.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2016 entries for Judgment Fund payments totaled $5.9 million. For FY 2015, entries for Judgment Fund payments totaled $5.1 million.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2016 and 2015 consist of the following:

		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2016 Payroll & Benefits Payable				
Accrued Funded Payroll & Benefits	$	40,899	-	40,899
Withholdings Payable		19,230	-	19,231
Employer Contributions Payable-TSP		597	-	597
Accrued Unfunded Annual Leave		-	150,071	150,071
Total – Current	**$**	**60,726**	**150,071**	**210,797**
FY 2015 Payroll & Benefits Payable				
Accrued Funded Payroll and Benefits	$	20,677	-	20,677
Withholdings Payable		30,347	-	30,347
Employer Contributions Payable-TSP		510	-	510
Accrued Unfunded Annual Leave		-	144,081	144,081
Total – Current	**$**	**51,534**	**144,081**	**195,615**

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

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

		Other Funds FY 2016		Other Funds FY 2015
Rescissions to General Appropriations	$	-	$	-
Canceled General Authority		53,501		54,063
Total Other Adjustments	**$**	**53,501**	**$**	**54,063**

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

Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2016 and September 30, 2015 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2016		Funds from Dedicated Collections FY 2015
Interest on Trust Fund	$	38,303	$	26,707
Tax Revenue, Net of Refunds		202,681		178,382
Fines and Penalties Revenue		8,490		1,286
Special Receipt Fund Revenue		20,134		23,719
Total Nonexchange Revenue	**$**	**269,608**	**$**	**230,094**

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

		FY 2016		FY 2015
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	$	10,036,882	$	10,123,499
Less: Spending Authority from Offsetting Collections and Recoveries		(844,542)		(965,527)
Obligations, Net of Offsetting Collections	$	9,192,340	$	9,157,972
Less: Offsetting Receipts		(886,453)		(2,716,279)
Net Obligations	$	8,305,887	$	6,441,693
Other Resources:				
Imputed Financing Sources		143,616		134,286
Net Other Resources Used to Finance Activities	$	143,616	$	134,286
Total Resources Used To Finance Activities	$	8,449,503	$	6,575,979
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated	$	307,188	$	(316,397)
Resources that Fund Prior Periods Expenses		-		-
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:				
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances		497		5,916
Offsetting Receipts Not Affecting Net Cost		53,730		302,032
Resources that Finance Asset Acquisition		(85,805)		(41,368)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost		-		-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$	275,610	$	(49,817)
Total Resources Used to Finance the Net Cost of Operations	$	8,725,113	$	6,526,162
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Increase in Annual Leave Liability	$	5,990	$	(6,696)
Increase in Environmental and Disposal Liability		(62)		14,556
Increase in Unfunded Contingencies		(901)		-
Upward/Downward Reestimates of Credit Subsidy Expense		2,151		(1,940)
Increase in Public Exchange Revenue Receivables		(108,262)		2,022,910
Increase in Workers Compensation Costs		(1,347)		13,872
Other		(88)		98
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	$	(102,519)	$	2,042,800
Components Not Requiring/Generating Resources:				
Depreciation and Amortization		91,604		167,844
Expenses Not Requiring Budgetary Resources		13,986		216
Total Components of Net Cost that Will Not Require or Generate Resources	$	105,590	$	168,060
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		3,071		2,210,860
Net Cost of Operations	**$**	**8,728,184**	**$**	**8,737,022**

Note 36. Amounts Held by Treasury (Unaudited)

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

A. Superfund

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2016 and 2015. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

		EPA	Treasury	Combined
SUPERFUND FY 2016				
Undistributed Balances				
Uninvested Fund Balance	$	-	439	439
Total Undisbursed Balance		-	439	439
Interest Receivable		-	3,282	3,282
Investments, Net		4,740,927	63,693	4,804,620
Total Assets	$	4,740,927	67,414	4,808,341
Liabilities & Equity				
Equity	$	4,740,927	67,414	4,808,341
Total Liabilities and Equity	$	4,740,927	67,414	4,808,341
Receipts				
Corporate Environmental	$	-	-	-
Cost Recoveries		-	30,833	30,833
Fines & Penalties		-	7,277	7,277
Total Revenue		-	38,110	38,110
Appropriations Received		-	811,684	811,684
Interest Income		-	37,311	37,311
Total Receipts	$	-	887,105	887,105
Outlays				
Transfers to/from EPA, Net	$	1,120,585	(1,120,585)	-
Total Outlays		1,120,585	(1,120,585)	-
Net Income	$	**1,120,585**	**(233,480)**	**887,105**

In FY 2016, the EPA received an appropriation of $1,106 million for Superfund. Treasury's Bureau of Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to 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, 2016 and 2015, the Treasury Trust Fund has a liability to EPA for previously appropriated funds and special accounts of $4.8 billion and $5.2 billion, respectively.

	EPA	Treasury	Combined
SUPERFUND FY 2015			
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 101	$ 101
Total Undisbursed Balance	-	101	101
Interest Receivable	-	3,038	3,038
Investments, Net	3,504,925	1,705,340	5,210,265
Total Assets	$ 3,504,925	$ 1,708,479	$ 5,213,404
Liabilities & Equity			
Equity	$ 3,504,925	$ 1,708,478	$ 5,213,403
Total Liabilities and Equity	$ 3,504,925	$ 1,708,478	$ 5,213,403
Receipts			
Cost Recoveries	$ -	$ 1,681,291	$ 1,681,291
Fines & Penalties	-	1,398	1,398
Total Revenue	-	1,682,689	1,682,689
Appropriations Received	-	981,089	981,089
Interest Income	-	26,118	26,118
Total Receipts	$ -	$ 2,689,896	$ 2,689,896
Outlays			
Transfers to/from EPA, Net	$ 1,105,206	$ (1,105,206)	$ -
Total Outlays	1,105,206	(1,105,206)	-
Net Income	$ $ 1,105,206	$ 1,584,690	$ 2,689,896

B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2016 and 2015, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

	EPA	Treasury	Combined
LUST FY 2016			
Undistributed Balances			
Uninvested Fund Balance	$ -	$ -13,830	$ -13,830
Total Undisbursed Balance	-	-	-
Interest Receivable	-	-	-
Investments, Net	52,806	448,025	500,831
Total Assets	$ 52,806	$ 461,855	$ 514,661
Liabilities & Equity			
Equity	52,806	461,855	514,661
Receipts			
Highway TF Tax	$ -	$ 191,562	$ 191,562
Airport TF Tax	-	11,013	11,013
Inland TF Tax	-	106	106
Total Revenue	-	202,681	202,681
Interest Income	-	961	961
Total Receipts	$ -	$ 203,642	$ 203,642
Outlays			
Transfers to/from EPA, Net	$ 191,941	$ (191,941)	$ -
Total Outlays	$ 191,941	$ (191,941)	$ -
Net Income	$ $ 191,941	$ 11,701	$ 203,642

	EPA	Treasury	Combined
LUST FY 2015			
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 3,767	$ 3,767
Total Undisbursed Balance	-	3,767	3,767
Interest Receivable	-	-	-
Investments, Net	78,865	446,388	525,253
Total Assets	$ 78,865	$ 450,155	$ 529,020
Liabilities & Equity			
Equity	78,865	450,155	529,020
Receipts			
Highway TF Tax	$ -	$ 166,941	$ 166,941
Airport TF Tax	-	99	99
Inland TF Tax	-	11,341	11,341
Total Revenue	-	178,381	178,381
Interest Income	-	587	587
Total Receipts	$ -	$ 178,968	$ 178,968
Outlays			
Transfers to/from EPA, Net	$ 91,941	$ (91,941)	$ -
Total Outlays	$ 91,941	$ (91,941)	$ -
Net Income	$ $ 91,941	$ 87,027	$ 178,968

Note 37. Miscellaneous Receipts Act Violations and Potential Anti-deficiency Act Violations

A. Miscellaneous Receipt Act Violations

The EPA experienced seven Miscellaneous Receipts Act violations that occurred between FY 1983 through 2012. EPA is also evaluating three related potential Anti-deficiency Act violations. EPA discovered the violations when it reviewed business processes associated with Superfund removal and remediation projects that were partially financed by state funds. In FY 2015, the EPA determined that the Agency accepted state funds in excess of its statutory authority. In addition, the Agency may have used some of those state funds to accomplish work outside the scope of its statutory authority.

Budget Year		Miscellaneous Receipts Violations		Anti-deficiency Act Violations		Amounts returned to Treasury
1983	$	83	$	-	$	83
1984		164		164		-
1987		23		-		23
1989		165		165		-
1995		134		134		-
2009		394		-		394
2012		544		-		544
Total	$	1,507	$	463	$	1,044

The Miscellaneous Receipts Act violations where the Agency had not already spent the funds were rectified when the EPA transferred funds to Treasury on September 9, 2015 and a surplus warrant was issued on September 14, 2015 in the amount of $1,044 thousand. With respect to the Miscellaneous Receipts Act violations where EPA may have spent the funds for impermissible purposes, as of the date of the audit report, EPA is reviewing the proposed transmission of, as required by OMB circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB for Anti-deficiency Act violations.

B. Voluntary Services Prohibition

In FY 2016 the EPA determined that the Agency had experienced two separate Anti-deficiency Act Voluntary Services Prohibition violations. 31 U.S.C. § 1342 prohibits EPA from accepting voluntary services for the United States, or employing personal services not authorized by law, except in the cases of emergency involving the safety of human life or the protection of property.

The first violation occurred from January through April 2014 when the EPA accepted unpaid peer reviews for environmental education grants. At least one of the peer reviewers did not sign a written agreement in advance that states that the services are offered without the expectation of payment, and expressly waives any future pay claims against the government which constitutes a violation of the Voluntary Services Prohibition. The Agency was also unable to determine if there were any more peer reviewers who only had oral agreements.

The second violations occurred in the Honors Law Clerk Program where at least seven post-graduates provided services to the Agency at varying points between 2011 and 2015. Written and signed waivers were unable to be located but are ineffective under 5 U.S.C. §§ 5331-5338 which the principle of equal pay for substantially equal work applies.

As of the date of the audit report, EPA is reviewing the proposed transmission of, as required by OMB circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB for Anti-deficiency Act violation related to the Voluntary Services Provision.

Note 38. Other information

The EPA received a disclaimer of opinion on audits of the FIFRA and PRIA financial statements for fiscal year 2014 issued by the Office of Inspector General on September 22, 2016 (report numbers 16-F-0322 and 16-F-0322, respectively). A disclaimer of opinion means that OIG was unable to obtain sufficient evidence to determine if the statements were fairly presented and free of material misstatement. EPA had previously received unmodified, or clean, opinion on these financial statements for FY 2013, meaning they were fairly presented and free of material misstatement.

OIG noted a material weakness in that the EPA could not adequately support $34 million of its FY 2014 FIFRA Fund costs and $28 million of its FY 2014 PRIA Fund costs. EPA receives its funding for these programs both from fees paid by pesticide manufacturers and from amounts appropriated by the Congress. In FY 2014, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees.

Therefore, significant payroll amounts paid from appropriations were not charged directly to the FIFRA and PRIA Funds or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA and PRIA Funds and other pesticide programs.

Required Supplementary Information (Unaudited)

Environmental Protection Agency
As of September 30, 2016, and September 30, 2015
(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 2016:

	FY2016	FY2015
Asset Category		
Buildings	$ 132,449	$ 123,833
EPA Held Equipment	370	250
Vehicles	9	9
Total Deferred Maintenance	$ 132,828	$ 124,092

In Fiscal Year 2016, in accordance with SFFAS No. 42, Deferred Maintenance and Repairs: *Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, agencies are required to:

a) Describe their maintenance and repairs policies and how they are applied.

b) Discuss how they rank and prioritize maintenance and repair activities among other activities.

c) Identify factors considered in determining acceptable condition standards.

d) State whether deferred maintenance and repairs relate solely to capitalized or fully depreciated general PP&E.

e) Identify PP&E for which management does not measure and/or report deferred maintenance and repairs and the rational for the exclusion of other than non-capitalized or fully depreciated general PP&E.

f) Provide beginning and ending deferred maintenance and repairs balances by

g) Explain significant changes from the prior year.

The EPA presents the above Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

Buildings:

Policy	Explanation
Maintenance and repairs policies and how they are applied.	The maintenance and repair policy is to maintain facilities and real property installed equipment to fully meet mission needs at each site. Systems are maintained to function efficiently at full capacity and to meet or exceed life expectancy of buildings and building systems.
How we rank and prioritize maintenance and repair activities among other activities.	Building and facility program projects are scored and ranked individually based on seven weighted factors to determine priority needs. High scoring projects are prioritized above lower scoring projects. The seven factors considered are: health and safety, energy conservation, environmental compliance, program requirements, repair and upkeep, space alteration, and operational urgency. 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.	This is the second year detailed assessments were performed.

EPA held Equipment:

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

Vehicles:

Policy	Explanation
Maintenance and repairs policies and how they are applied.	Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer.
How we rank and prioritize maintenance and repair activities among other activities.	The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor*. System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built.
Factors considered in determining acceptable condition standards.	The vehicle is inspected to insure 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.	This is the second year vehicles have been reported.

Stewardship Land

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

Supplemental Combined Statement of Budgetary Resources

(Dollars in Thousands)

		Env. Prog. & Mgmt.	Leaking Under-ground Stor-age Tank	Superfund	Science & Tech.	State & Tribal Ass. Grants	Other	Total
BUDGETARY RESOURCES								
Unobligated Balance, Brought Forward, October 1:	$	317,507	3,674	3,545,711	147,732	159,248	176,758	4,350,597
Adjustment to Unobligated Balance		-	-	961	-	-	-	961
Unobligated balance brought forward, October 1, as adjusted		317,507	3,674	3,546,672	147,732	159,248	176,758	4,351,591
Recoveries of Prior Year Unpaid Obligations		50,765	2,548	88,626	23,703	58,220	10,499	234,361
Other changes in unobligated balance		(7,648)	-	-	(4,551)	-	(1,423)	(13,622
Unobligated balance from prior year budget authority, net		360,624	6,222	3,635,298	166,884	217,468	185,834	4,572,330
Appropriations (discretionary and mandatory)		2,635,279	191,941	1,119,440	734,648	3,478,161	936,953	9,096,422
Spending authority from offsetting collections		48,836	5	211,256	27,075	2,642	320,367	610,181
Total Budgetary Resources	$	3,044,739	198,168	4,965,994	928,607	3,698,271	1,443,154	14,278,933
STATUS OF BUDGETARY RESOURCES								
Obligations incurred		2,736,790	194,549	1,559,222	810,105	3,510,496	1,225,720	10,036,882
Unobligated balance, end of year:								
Apportioned		246,802	3,619	3,406,617	98,142	176,775	154,772	4,086,727
Unapportioned		-	-	155	-	11,000	24,853	36,008
Total unobligated balance, end of period		246,802	3,619	3,406,772	98,142	187,775	179,625	4,122,735
Expired unobligated balance, end of year		61,147	-	-	20,360	-	37,809	119,316
Total Status of Budgetary Resources	$	3,044,739	198,168	4,965,994	928,607	3,698,271	1,443,154	14,278,933
CHANGE IN OBLIGATED BALANCE								
Unpaid Obligations								
Unpaid Obligations, Brought Forward, October 1 (gross)	$	1,181,909	95,313	1,402,122	337,017	5,887,395	201,075	9,104,831
Obligations incurred		2,736,790	194,549	1,559,222	810,105	3,510,496	1,225,720	10,036,882
Outlays (gross)		(2,635,504)	(200,072)	(1,426,596)	(776,782)	(3,983,776)	(1,189,764)	(10,212,494)
Recoveries of prior year unpaid obligations		(50,765)	(2,548)	(88,626)	(23,703)	(58,220)	(10,499)	(234,361)
Unpaid obligations, end of year (gross)	$	1,232,430	87,242	1,446,122	346,637	5,355,895	226,532	8,694,858
Uncollected Payments								
Uncollected customer payments from Federal Sources, brought forward, Oct. 1	$	(63,201)	-	(7,976)	(17,821)	-	(143,531)	(232,529)
Change in uncollected customer payments from Federal sources		(9,876)	-	(2,081)	1,271	-	(2,425)	(13,111)
Uncollected customer payments from Federal sources, end of year	$	(73,077)	-	(10,057)	(16,550)	-	(145,956)	(245,640)
BUDGET AUTHORITY AND OUTLAYS, NET:								
Budget authority, gross (discretionary and mandatory)	$	2,684,115	191,946	1,330,696	761,723	3,480,803	1,257,320	9,706,603
Actual offsetting collections (discretionary and mandatory)		(38,960)	(5)	(209,175)	(28,346)	(2,642)	(317,942)	(597,070)
Change in uncollected customer payments from Federal sources		(9,876)	-	(2,081)	1,271	-	(2,425)	(13,111)
Budget authority, net (discretionary and mandatory)	$	2,635,279	191,941	1,119,440	734,648	3,478,161	936,953	9,096,422
Outlays, gross (discretionary and mandatory)	$	2,635,504	200,072	1,426,596	776,782	3,983,776	1,189,764	10,212,494
Actual offsetting collections (discretionary and mandatory)		(38,960)	(5)	(209,175)	(28,346)	(2,642)	(317,942)	(597,070)
Outlays, net (discretionary and mandatory)		2,596,544	200,067	1,217,421	748,436	3,981,134	871,822	9,615,424
Distributed offsetting receipts		-	-	(842,517)	-	-	(43,936)	(886,453)
Agency outlays, net (discretionary and mandatory)	$	2,596,544	200,067	374,904	748,436	3,981,134	827,886	8,728,971

Required Supplemental Stewardship Information (Unaudited)

Environmental Protection Agency
Required Supplemental Stewardship Information (Unaudited)
For the Year Ended September 30, 2016
(Dollars in Thousands)

Investment in The Nation's Research and Development:

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

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

For FY 2016, the full cost of the Agency's Research and Development activities totaled over $623 million. Below is a breakout of the expenses (dollars in thousands): [3]

	FY2012	FY2013	FY2014	FY2015	FY2016
Programmatic Expenses	$ 580,278	$ 531,901	$ 510,911	$ 535,352	$ 541,190
Allocated Expenses	$ 133,637	$ 78,189	$ 73,622	$ 78,028	$ 82,646

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

[3] Allocated Expenses calculated specifically for the Required Supplemental Stewardship Information report and do not represent the overall agency indirect cost rates.

Investment in The Nation's Infrastructure:

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund (SRF) programs. The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds programs. These are reported below as Other Infrastructure Grants.

a) Construction Grants Program:

During the 1970s and 1980s, the Construction Grants Program was a source of federal funds, providing more than $60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds, however, EPA continues to provide direct grant funding for the District of Columbia and territories.

b) State Revolving Funds:

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

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

	FY2012	FY2013	FY2014	FY2015	FY2016
Construction Grants	$ 14,306	$ 6,944	$ 1,447	$ 17,462	$ 11,344
Clean Water SRF	1,925,057	1,976,537	1,534,453	1,715,630	1,459,820
Drinking Water SRF	1,240,042	1,027,613	1,187,212	1,268,360	1,213,201
Other Infrastructure Grants	196,085	166,050	118,706	96,439	62,011
Allocated Expenses	777,375	524,326	516,102	590,595	529,815
Total	$ 4,152,865	$ 3,701,470	$ 3,357,920	$ 3,688,486	$ 3,276,191

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

Human Capital

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

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

	FY2012	FY2013	FY2014	FY2015	FY2016
Training and Awareness Grants	$ 21,233	$ 20,769	$ 23,255	$ 27,047	$ 29,116
Fellowships	10,514	11,157	8,082	6,579	4,630
Allocated Expenses	7,311	4,118	4,226	5,146	5,336
Total	$ 39,058	$ 36,044	$ 35,563	$ 38,772	$ 39,082

Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements

U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements

Report No. 17-F-0046 **November 15, 2016**

Abbreviations

AAMS	Agency Asset Management System
CFC	Cincinnati Finance Center
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CMA	Continuous Monitoring Assessment
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
IGMS	Integrated Grants Management System
NCC	National Computer Center
NIST	National Institute of Standards and Technology
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OLEM	Office of Land and Emergency Management
OMB	Office of Management and Budget
PII	Personally Identifiable Information
PPL	PeoplePlus
PTS	Payment Tracking System
RTP	Research Triangle Park
SFFAS	Statement of Federal Financial Accounting Standards
SOC	Service Organization Controls

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U.S. Environmental Protection Agency
Office of Inspector General

17-F-0046
November 15, 2016

At a Glance

Why We Did This Review

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

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

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

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

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

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

Listing of OIG reports.

EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2016 and 2015, meaning they were fairly presented and free of material misstatement.

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

Internal Control Material Weaknesses and Significant Deficiencies Noted

We noted the following material weaknesses:

- EPA's accounting for software continues to be a material weakness.
- EPA incorrectly recorded unearned revenue for Superfund special accounts, and did not reconcile unearned revenue for those accounts.

We noted significant deficiencies involving:

- EPA wrote off cash differences with Treasury without adequate support.
- EPA did not clear suspense transactions timely.
- EPA erroneously reclassified a real property capital lease.
- EPA did not have controls to monitor direct access to the Compass Financials database.
- EPA did not have adequate documenting for restoring application controls at the National Computer Center.
- EPA needs to improve offsite storage of data backups.

Noncompliance With Laws and Regulations Noted

We found that the EPA did not comply with the Hazardous Waste Electronic Manifest Establishment Act in that it used appropriated funds to cover contract costs unrelated to the electronic manifest project.

Recommendations and Planned Agency Corrective Actions

The EPA agreed with our findings and recommendations except for a recommendation to develop a process for obtaining the current inventory listing and document the process in the National Computer Center's Disaster Recovery Plan and Information System Contingency Plan. We consider the recommendation unresolved pending the agency's response to the final report.

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

November 15, 2016

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements
Report No. 17-F-0046

FROM: Paul C. Curtis, Director
Financial Statement Audits

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

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

Ann Dunkin, Chief Information Officer
Office of Environmental Information

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2016 and 2015 consolidated financial statements. The project number for this audit was OA-FY16-0136. We are reporting two internal control material weaknesses and six significant deficiencies. Attachment 1 contains details on the material weaknesses and significant deficiencies. We also noted four instances of noncompliance, one of which is discussed in Attachment 2.

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

Action Required

The agency agreed with all recommendations in our report except for Recommendation 12, which we consider unresolved pending the agency's response to the final report. In accordance with EPA Manual 2750, you are required to provide a written response to this report within 60 calendar days of the final report date. The response should address all issues and recommendations contained in Attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether to close this report in our audit tracking system.

Your response will be posted on the Office of Inspector General's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

Attachments

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Appendices

Inspector General's Report on EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency (EPA), which comprise the consolidated balance sheet, as of September 30, 2016, and September 30, 2015, and the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements.* These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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

Opinion

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by major program, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2016 and 2015, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Asbestos Loans

As discussed in Note 7, Loans Receivable, Net, presents information concerning the EPA's Asbestos Loan Program loans disbursed from obligations made prior to fiscal year (FY) 1992. The note states it presents the net loan present value less the subsidy present value. The EPA has no outstanding asbestos loans as of September 30, 2015, as shown in the footnote. Accordingly, it should also no longer have a subsidy allowance for receivables that no longer exist. The amounts contained in Note 7 are not material to the EPA's financial statements and our report is not modified with respect to this matter.

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

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

We did not identify any material inconsistencies between the information presented in the EPA's consolidated financial statements and the information presented in the EPA's Required

Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

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

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the agency's management and other personnel, that is designed to provide reasonable assurance that the following objectives are met:

- **Reliability of financial reporting**—Transactions are properly recorded, processed and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition.

- **Compliance with laws, regulations, contracts and grant agreements**—Transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements.

Opinion on Internal Controls. In planning and performing our audit, we considered the EPA's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Material Weaknesses and Significant Deficiencies. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, two of which we consider to be material weaknesses. These issues are summarized below and detailed in Attachment 1.

Material Weaknesses

PROPERTY

EPA's Accounting for Software Continues to Be a Material Weakness

The EPA's accounting for software, noted during our FY 2014 audit of financial statements, continues to be a material weakness. The EPA wrote off approximately $132 million in software costs (Software-In-Development and Capitalized Software) and associated amortization totaling $16.5 million without adequate support. Specifically, the EPA expensed approximately $146 million of Software-In-Development and Capitalized Software costs but could only provide adequate support to write off $14 million of such costs. We previously reported the EPA's accounting for software as a material weakness in our FYs 2014 and 2015 audits. While we note that the agency has taken steps to address its software material weakness, the EPA continues to experience problems in adequately documenting capitalized software transactions. Federal standards require appropriate documentation of transactions, and that internal controls be maintained. Failure to properly record capital software transactions in the agency's property management system and Compass Financials—the agency's accounting system—compromises the accuracy of the EPA's property accounts and depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report accounting for software as a material weakness.

SPECIAL ACCOUNTS

EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts

The EPA did not properly record and reconcile unearned revenue for Superfund special accounts. Specifically:

- The EPA did not properly record $167,870,721 of unearned revenue in Superfund special accounts. Federal guidance directs agencies to record cash advances received for long-term projects as unearned revenue, and recognize exchange [earned] revenue at a time that a government entity provides goods or services to the public or to another government entity. In FY 2016, the EPA erroneously reduced earned revenue recognized for unbilled oversight costs, did not properly reduce unearned revenue and recognize earned revenue for expenses incurred during FY 2016, and did not reduce unearned revenue for special accounts allowance for doubtful accounts. The EPA made these errors because it did not modify the accounting model for special accounts in Compass Financials. As a result, the EPA materially misstated unearned revenue and related revenue and expense accounts by $167,870,721 on the financial statements.

- The EPA did not perform a comprehensive reconciliation for Superfund special accounts unearned revenue general ledger balances and the special accounts database detail. We reported a related significant deficiency in FY 2016, in that the EPA did not modify the accounting model for special accounts and, as a result, materially misstated unearned revenue by $168 million. The U.S. Government Accountability Office's (GAO's) internal control standards require accurate and timely recording of transactions and events, and comparison of file totals with control totals. The EPA did not perform a comprehensive reconciliation of special accounts because it expected the posting model to change in FY 2016 and the policy to be updated. As a result, the EPA could not ensure the accuracy of the unearned revenue and financial statements.

Significant Deficiencies

CASH

EPA Wrote Off Unresolved Cash Differences With Treasury Without Adequate Support

The EPA wrote off unresolved cash differences, with a net effect of approximately $500,000, without adequate support to match its records with the U.S. Treasury's reported balances. Treasury guidance directs agencies to correct any disclosed differences in the month following the reporting month, and GAO guidance states that all transactions should be clearly documented. The EPA's Office of the Chief Financial Officer (OCFO) did not adequately monitor and research its cash differences with the Treasury and ensure all adjustments were adequately supported. Writing off unresolved cash differences without adequate support may result in the EPA's Fund Balance with Treasury and financial statements being misstated, and may increase the risk of fraud.

SUSPENSE ACCOUNT

EPA Should Clear Suspense Transactions Timely

The Cincinnati Finance Center (CFC) is not clearing transactions from the federal budget clearing (suspense) account within 60 business days after posting. As of March 31, 2016, we identified 83 federal transactions, totaling $8,035,276, remaining in suspense beyond 60 business days. We previously reported the EPA's clearing of suspense transactions as a significant deficiency in our FYs 2015 and 2014 financial audit reports. In following up on the agency's proposed corrective actions, we found that the EPA did not correct the significant deficiency or completely implement its corrective actions. EPA guidance requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing account to appropriate general ledger accounts within 60 business days. CFC did not clear the suspense account timely in FY 2016 because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. Project officers experienced accounting system issues and other problems and delays in administering interagency agreements, which delayed the disbursement approvals. Untimely clearing of suspense transactions impairs the agency's ability to reflect financial activity in the correct fund.

CAPITALIZED LEASES

EPA Improperly Reclassified a Real Property Capital Lease

The EPA erroneously reclassified the Research Triangle Park (RTP), North Carolina, real property capital lease to an operating lease. The EPA removed a capital lease, valued at $19.6 million, from the accounting records. Federal accounting standards provide specific standards for classifying leases. During FY 2016, the EPA decided to convert the RTP capital lease to an operating lease because it believed the lease classification was incorrect. However, the EPA did not retest the lease against the capital lease criteria to determine whether the RTP lease classification changed when it exercised the renewal option; therefore, it should have remained a capital lease until such determination had been made. As a result, the EPA misstated the capital lease, the lease liability, related expense accounts and equity.

INFORMATION TECHNOLOGY

EPA Needs Controls to Monitor Direct Access to the Compass Financials Database

The EPA did not establish controls to monitor direct access to data within the Compass Financials database. Federal requirements indicate that agencies must establish controls to prevent and detect unauthorized access to agency data. The EPA's OCFO relied on directive controls, and did not establish controls to prevent or detect unauthorized access to the Compass Financials database. A breach of information in Compass Financials, which houses Personally Identifiable Information belonging to employees and vendors, could cost the EPA as much as $3.5 million, including the costs to detect, recover, investigate and manage the incident response, along with costs that result in after-the-fact activities and efforts to contain additional costs.

EPA Needs Documentation to Restore Financial and Mixed-Financial Applications Housed at the National Computer Center

The EPA's Disaster Recovery Plan and Information System Contingency Plan for the operations of the National Computer Center, located in RTP, North Carolina, lack documentation for obtaining equipment to restore operations and network connectivity for the financial and mixed-financial applications housed at the National Computer Center in the event of a disaster.

EPA Needs to Improve Offsite Storage of Backups

In the event of a disaster, the EPA would not be able to readily recover financial and mixed-financial data from its Payment Tracking System, PeoplePlus, and Agency Asset Management System, all located at the National Computer Center in RTP, North Carolina. The EPA would also not be able to readily recover data from its Integrated Grants Management System Potomac Yard servers, located in Arlington, Virginia. This occurred because the EPA did not implement a data backup storage plan or provide oversight to ensure data backups are stored as required for these critical financial and mixed-financial applications.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in the attachment should be considered among the EPA's significant deficiencies for FY 2016. 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 Controls

OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

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

The agency reported Capitalized Software and Accounting for Unearned Revenue as material weaknesses in FY 2016. Capitalized software continues to be reported as a material weakness in the design or operation of internal controls. The agency is in the process of developing a corrective account plan for Accounting for Unearned Revenue.

Tests of Compliance With Laws, Regulations, Contracts and Grant Agreements

The EPA management is responsible for complying with laws, regulations, contracts and grant agreements applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements; and perform certain other limited procedures as described in *Codifications of Statements on Auditing Standards* AU-C 250.14-16, *Consideration of Laws and Regulations in an Audit of Financial Statements*. OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements,* requires that we evaluate compliance with federal financial statement system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

Opinion on Compliance With Laws, Regulations, Contracts and Grant Agreements

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

We identified three matters involving compliance with laws and regulations that came to our attention during the course of the audit, as follows:

EPA Did Not Comply With the e-Manifest Act

In FY 2015, the EPA used Electronic Manifest (e-Manifest) appropriated funds totaling $22,294 to cover contract costs unrelated to the e-Manifest project. According to the Hazardous Waste Electronic Manifest Establishment Act, the EPA shall take all necessary measures to ensure that amounts in the e-Manifest fund are used only to carry out the goals of establishing, operating, maintaining, upgrading, managing, supporting and overseeing the e-Manifest system. The EPA did not have adequate oversight to prevent the inappropriate use of the e-Manifest funds. As a result, the EPA is not in compliance with the e-Manifest Act. Further details on this noncompliance are in Attachment 2.

Fee Target for Pesticide Fund Exceeded

The EPA chose to significantly exceed the statutory Pesticide Maintenance fee target set out by the Federal Insecticide, Fungicide, and Rodenticide Act. We reported this fee issue in our report on the pesticide fund's 2014 financial statements report, *Fiscal Years 2014 and 2013 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund* (Report No. 16-F-0322), issued September 22, 2016. Therefore, no further details are provided in this report.

Antideficiency Act Violations Reported

The EPA's Office of General Counsel reported two separate Antideficiency Act violations on October 19, 2016, related to the EPA accepting the services of unpaid peer grant reviewers without obtaining a written waiver of compensation from those individuals, and accepting the services of unpaid post-graduate legal fellows who were statutorily entitled to compensation. As the EPA plans on reporting the violations in FY 2017, we have no recommendations. See EPA Note 37 to the financial statements, Miscellaneous Receipt Act Violations and Potential Antideficiency Act Violations, for further details retailed to these Antideficiency Act violations and other violations found by the agency.

Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA Section 803(a) requirements and used the OMB guidance, *Memorandum M-09-06-23,* *Implementation Guidance for the Federal Financial Management Improvement Act,* dated January 9, 2009, for determining 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 identified one significant matter involving compliance with laws and regulations related to the agency's financial management systems that came to our attention during the course of the audit. We found that the EPA did not comply with federal standards for recording interest. We also reported this issue in our 2015 and 2014 audits. We will not issue a separate management letter.

EPA Did Not Comply With Federal Accounting Standards for Recording Interest

We found that the EPA did not implement a correction in the Compass Financials system related to Superfund and installment interest. By not recording all applicable interest, the EPA did not collect all the funds to which it was entitled, and did not comply with applicable laws, standards and policies. We had previously reported in our audits of the FYs 2015 and 2014 financial statements that the EPA did not comply with accounting standards for recording interest. Further details on this noncompliance issue are in Attachment 3.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

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

Prior Audit Coverage

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

- The EPA failed to capitalize software costs, leading to restated FY 2013 financial statements.
- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA's property management system does not reconcile to its accounting system.
- Originating offices did not timely forward accounts receivable source documents to the finance center.
- The EPA did not properly reconcile accounts receivable.
- The EPA incorrectly recorded Superfund special account collections and receivables.
- The EPA did not record more than $8 million in accounts receivable for a $9 million Superfund judgment.
- The EPA did not comply with federal accounting standards for recording interest.
- Compass reporting limitations impair accounting operations and internal controls.

- The EPA should improve compliance with internal controls for accounts receivable.
- The EPA should improve controls over expense accrual reversals.
- The EPA should improve its efforts to resolve the EPA's long-standing cash differences with the Treasury.
- Financial management system user account management needs improvement.
- The OCFO lacks internal controls when assuming responsibility for account management procedures of financial systems.
- Financial and mixed-financial applications did not comply with required account management controls.

Attachment 3 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues. We found during our audit that the issues reported on prior audits and listed in Attachment 3 still exist and should be considered as outstanding significant deficiencies and noncompliance issues unless otherwise noted.

Agency Comments and OIG Evaluation

In a memorandum dated November 10, 2016, the Chief Financial Officer responded to our draft report.

The EPA agreed with all of our findings and recommendations except for our finding on how the EPA Needs documentation to restore financial and mixed-financial applications housed at the National Computer Center, and the associated Recommendation 12, which we consider unresolved. The EPA has already completed nine of our recommendations. The rationale for our conclusions and a summary of the agency comments are included in the appropriate sections of this report, and the agency's complete response is included as Appendix II to this report.

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

Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 14, 2016

Internal Control Material Weaknesses and Significant Deficiencies

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1 – EPA's Accounting for Software Continues to Be a Material Weakness

The EPA wrote off approximately $132 million in software costs (Software-In-Development and Capitalized Software) and associated amortization totaling $16.5 million without adequate support. Specifically, the EPA expensed approximately $146 million of Software-In-Development and Capitalized Software costs but could only provide adequate support to write off $14 million of such costs. We previously reported the EPA's accounting for software as a material weakness in our FYs 2014 and 2015 audits. While we note that the agency has taken steps to address its software material weakness, the EPA continues to experience problems in adequately documenting capitalized software transactions. Federal standards require appropriate documentation of transactions and that internal controls be maintained. Failure to properly record capital software transactions in the agency's property management system and Compass Financials—the agency's accounting system—compromises the accuracy of the EPA's property accounts and depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report accounting for software as a material weakness.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, requires entities to capitalize the cost of software that meets the criteria for general property, plant and equipment. Software life cycle includes three phases: planning, development and operations. Capitalized Software costs should include the full costs (direct and indirect) incurred during the software development stage. The Software-in-Development general ledger account represents cost incurred in the software development. Upon completion, costs incurred are capitalized and transferred to the Internal-Use Software general ledger account. The statement also requires that entities amortize in a systematic and rational manner over the estimated useful life of the software; amortization should begin when that module or component has been successfully tested. The agency's practice is to capitalize software costs exceeding its annual capitalization threshold of $250,000 over 7 years.

Beginning in FY 2015, the EPA took steps to improve its internal accounting and controls over software costs. In FY 2016, the EPA stated it reviewed software projects and met with program offices to validate software costs in development and asset values in production. The EPA wrote off approximately $132 million in software costs and associated amortization totaling $16.5 million without adequate support. We found that the EPA expensed approximately $146 million in software costs recorded, in addition to $24.5 million in associated amortization costs, but could only provide adequate support for $14 million and $8 million, respectively.

GAO's *Standards for Internal Control in the Federal Government* defines the five standards for the minimum level of quality acceptable for internal control in government. Management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal controls. Management is to clearly document internal control, and all transactions and other significant events, in a manner that allows the documentation to be readily available for examination. Because the audit trail of supporting documentation was insufficient in determining the validity of the actions taken on the software projects analyzed, this affected our ability to conclude that the entries made were accurately recorded.

Failure to properly record property transactions in the agency's property management system and Compass compromises the accuracy of the EPA's property accounts, depreciation and operating expenses, as well as the accuracy of the agency's financial statements. The agency indicated it does not expect to complete corrective actions on this material weakness until 2018; thus, we continue to report this material weakness but have no additional recommendations.

Agency Comments and OIG Evaluation

The agency concurred with our finding.

2 – EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts

The EPA did not properly record and reconcile unearned revenue for Superfund special accounts. Details follow.

EPA Incorrectly Recorded Unearned Revenue for Superfund Special Accounts

The EPA did not properly record $167,870,721 of unearned revenue in Superfund special accounts. SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue, and recognize exchange [earned] revenue at a time that a government entity provides goods or services to the public or to another government entity. In FY 2016, the EPA erroneously reduced earned revenue recognized for unbilled oversight costs, did not properly reduce unearned revenue and recognize earned revenue for expenses incurred during FY 2016, and did not reduce unearned revenue for special accounts allowance for doubtful accounts. The EPA made these errors because it did not modify the accounting model for special accounts in Compass Financials, the agency's accounting system. As a result, the EPA materially misstated unearned revenue and related revenue and expense accounts by $167,870,721 on the financial statements.

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

The EPA made three errors that overstated the special account unearned revenue:

- The EPA reclassified $152,676,743 from earned revenue to unearned revenue. The entry included $19,606,777 of earned revenue for unbilled oversight that should not have been removed.
- The EPA did not reduce unearned revenue and recognized earned revenue for $138,579,298 of expenses incurred during FY 2016.
- The entry to record the $9,684,646 allowance for doubtful accounts did not reduce unearned revenue.

Consequently, due to the accounting errors, the EPA materially misstated $167,870,721 of unearned revenue and related revenue and expense accounts. Adjustments required are as follows:

Table 1: Required Adjustments

Adjustment	(Decrease) Unearned Revenue
Recognize earned revenue for expenses paid from special accounts	($138,579,298)
Re-establish earned revenue for unbilled oversight	(19,606,777)
Reduce unearned revenue for special accounts allowance for doubtful accounts	(9,684,646)
Total	**($167,870,721)**

Source: OIG analysis.

EPA Needs to Reconcile Superfund Special Accounts Unearned Revenue

The EPA did not perform a comprehensive reconciliation for Superfund special accounts unearned revenue general ledger balances and the special accounts database detail. We reported a related significant deficiency in FY 2016, in that the EPA did not modify the accounting model for special accounts and, as a result, materially misstated unearned revenue by $168 million. The GAO's internal control standards require accurate and timely recording of transactions and events, and comparison of file totals with control totals. The EPA did not perform a comprehensive reconciliation of special accounts because it expected the posting model to change in FY 2016 and the policy to be updated. As a result, the EPA could not ensure the accuracy of the unearned revenue and financial statements.

GAO's *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events, and comparison of file totals with control totals.

The EPA reconciled the general ledger to the special accounts database for special accounts collected for future costs. However, the EPA did not reconcile special accounts collected from past costs. Those special account transactions did not post to the proper unearned revenue accounts due to the incorrect posting model. The EPA waited for year-end to correct the unearned revenue accounts with a journal voucher entry, and did not determine whether the general ledger agreed with the database detail.

The EPA chose not to reconcile the unearned revenue (past costs) because it expected the posting model to change in FY 2016, and needed to update the policy. Therefore, during FY 2016, the EPA did not analyze the entries recorded by the accounting model, and did not have a process to verify the accuracy of the general ledger balances.

Without a comprehensive reconciliation of special accounts, the EPA could not ensure the reliability of the unearned revenue balances and the financial statements. If the EPA had performed a comprehensive reconciliation, it could have found other errors in unearned revenue.

Recommendations

We recommend that the Chief Financial Officer:

1. Record the necessary adjusting entries to reduce unearned revenue by $167,870,721 to ensure current year financial statements are properly stated.

2. Modify the accounting model in Compass Financials to properly record all special account receivables and collections as unearned revenue, and reduce the unearned revenue and recognize earned revenue as expenses are incurred.

3. Prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations, and made the appropriate adjustment to the current year financial statements.

3 – EPA Wrote Off Unresolved Cash Differences With Treasury Without Adequate Support

The EPA wrote off unresolved cash differences, with a net effect of approximately $500,000, without adequate support to match its records with the U.S. Treasury's reported balances. Treasury guidance directs agencies to correct any disclosed differences in the month following the reporting month, and GAO guidance states that all transactions should be clearly documented. The EPA's OCFO did not adequately monitor and research its cash differences with the Treasury and ensure all adjustments were adequately supported. Writing off unresolved cash differences without adequate support may result in the EPA's Fund Balance with Treasury and financial statements being misstated, and may increase the risk of fraud.

Treasury Financial Manual, Volume 1, Section 3335, *Reconciling FMS 224, Section II*, states that "[i]n the month following the reporting month, agencies should correct any disclosed differences." The GAO's *Standards for Internal Control in the Federal Government* (September 2014) requires that all transactions be clearly documented. The EPA's Resource Management Directives System No. 2540-01, *Overview of Chapter 2540: Financial and Accounting Management*, states that the "EPA will maintain records at the transaction level that ... [p]rovide clear audit trails of financial transactions that include all materials created in support of a financial transaction or event."

We found that the EPA wrote off unresolved cash differences, with a net effect of approximately $500,000, without adequate support to match its records with the Treasury's reported balances. We identified two EPA adjusting entries in Compass Financials to permanently eliminate unresolved cash differences at the agency's "Payroll" accounting point and at the Washington Finance Center. Some of these cash differences had been unresolved since FY 2015. The supporting documentation for the entries indicated that management requested the write-offs to clear the cash differences, and to complete the corrective action in our prior-year audit recommendation to research and resolve the cash differences. However, the agency did not provide the reasons for the write offs by individual cash transaction, as required by GAO standards for internal control.

At the time the agency made the adjustments to match its records with the Treasury, the agency had not researched the differences and obtained proper documentation to support the adjustments. Therefore, the OCFO did not follow its internal control procedures to adequately monitor and research its cash differences with the Treasury and ensure that all adjustments were adequately supported. Writing off unresolved cash differences without adequate support may result in the EPA's Fund Balance with Treasury and financial statements being misstated, and may increase the risk of fraud.

Recommendation

We recommend that the Chief Financial Officer:

4. Reverse the cash difference write-off entries in Compass Financials and continue researching the cash differences until adequate documentation exists to support the adjustments.

Agency Comments and OIG Evaluation

The agency concurred with our finding and recommendation, and reversed the cash difference write-off.

4 – EPA Should Clear Suspense Transactions Timely

CFC is not clearing transactions from the federal budget clearing (suspense) account within 60 business days after posting. As of March 31, 2016, we identified 83 federal transactions, totaling $8,035,276, remaining in suspense beyond 60 business days. We previously reported the EPA's clearing of suspense transactions as a significant deficiency in our FYs 2015 and 2014 financial audit reports. In following up on the agency's proposed corrective actions, we found that the EPA did not correct the significant deficiency or completely implement its corrective actions. EPA guidance requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing account to appropriate general ledger accounts within 60 business days. CFC did not clear the suspense account timely in FY 2016 because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. Project officers experienced accounting system issues and other problems and delays in administering interagency agreements, which delayed the disbursement approvals. Untimely clearing of suspense transactions impairs the agency's ability to reflect financial activity in the correct fund.

CFC records federal disbursements and collections in suspense account 68F3885. Disbursement transactions remain in the suspense account until an EPA project officer approves or disapproves the transaction. When the EPA project officer approves a disbursement, the system removes the transaction from the suspense account and charges it to the appropriate receipt or expenditure accounts. Collection transactions remain in the suspense account until CFC applies them to the corresponding receivable.

The EPA's Resource Management Directive System No. 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, dated June 24, 2015, requires, in part, each servicing finance office to review, classify and transfer transactions posted to Treasury Account Symbol 68F3885 to the appropriate general ledger account within 60 business days.

Treasury Financial Manual, Volume 1, Bulletin No. 2016-04, dated April 7, 2016, directs, in part, federal agencies to certify annually that suspense account F3885 for the preceding year-end does not include any items or transactions more than 60 days old. If there are transactions more than 60 days old, the federal agency must clearly explain the reason.

CFC did not clear the suspense account timely because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. CFC staff provided various reasons for untimely disbursement approvals:

- Some agencies do not provide timely supporting documentation for the invoices, which delays the project officer approval.
- Some project officers may not manage interagency agreement funds well, leading to added time managing interagency agreements before approving the invoices.
- Some program managers may not properly oversee how the project officers manage the interagency agreements.
- An accounting system issue caused multiple rejects of obligations associated with disbursement transactions in the suspense account. The project officer could not approve the disbursements until the EPA cleared the rejected obligation transactions, which took months to correct.

- The EPA's transition to a new process for background investigation payments delayed the related Working Capital Fund funding needed to approve disbursements.

Untimely clearing of suspense transactions impairs the agency's ability to reflect financial activity in the correct fund. This may reduce financial statement accuracy and increase the complexity of reconciling the EPA's intergovernmental balances with other agencies.

We identified and communicated the issue of untimely clearing of suspense transactions to the agency during our FYs 2015 and 2014 financial statement audits. During our 2016 financial statement audit, we found that the EPA had not completed the corrective action for our FY 2015 recommendation that the Assistant Administrator for Administration and Resources Management require project officers to approve federal disbursements timely. The EPA's planned corrective action is to complete a comprehensive review of the existing EPA interagency agreement manual and identify necessary changes for the updated version. The EPA has not corrected the significant deficiency and has extended its completion date for this corrective action to October 15, 2016. Since the EPA is currently working on this corrective action, we will not repeat the recommendation in the FY 2016 financial audit report.

Recommendation

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

5. Develop and implement a plan for supervisors of interagency agreement project officers to monitor the timeliness of individual project officer invoice approvals.

Agency Comments and OIG Evaluation

The agency concurred with our finding and recommendation, and has already commenced corrective actions, with planned completion in the second quarter 2017.

5 – EPA Improperly Reclassified a Real Property Capital Lease

The EPA erroneously reclassified the Research Triangle Park (RTP), North Carolina, real property capital lease to an operating lease. The EPA removed a capital lease, valued at $19.6 million, from the accounting records. Federal accounting standards provide specific standards for classifying leases. During FY 2016, the EPA decided to convert the RTP capital lease to an operating lease because it believed the lease classification was incorrect. However, the EPA did not retest the lease against the capital lease criteria to determine whether the RTP lease classification changed when it exercised the renewal option; therefore, it should have remained a capital lease until such determination had been made. As a result, the EPA misstated the capital lease, the lease liability, related expense accounts and equity.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, and SFFAS No. 6, *Accounting for Property, Plant and Equipment*, define capital leases as leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee. Otherwise, the lease should be classified as an operating lease.

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of the rental and other minimum lease payments, excluding that portion of the payments representing executor costs, equals or exceeds 90 percent of the fair value of the leased property.

In 1996, OCFO performed an analysis applying the capital lease criteria to several real property leases to determine proper lease classification. The RTP capital lease, whose lease term commenced February 1995, was one of the leases analyzed. Based on the OCFO's application of the lease criteria using the total 30-year term, it was determined that the RTP real property lease met the 90-percent test criteria and should be reported as a capital lease. The agency booked the capital lease and amortized the lease using the total term, which included the renewal option.

During FY 2016, after the initial 20-year lease term ended, the agency decided to convert the capital lease to an operating lease with a 10-year renewal option because it believed the lease was incorrectly classified using a 30-year lease term. We do not agree with the agency's decision to convert the RTP capital lease to an operating lease, and believe a change in lease terms would be the only instance to necessitate reclassification if the capital lease criteria were not met. However, the agency did not provide adequate support that the capital lease criteria were applied to the lease renewal option to determine its proper classification. As a result, we believe the RTP capital lease should remain on the books until the capital lease criteria has been applied and classification determined.

For FY 2016, the capital lease should be reflected as follows on the agency's financial statements:

Table 2: Appropriate capital lease entries

Description	Amount
Assets Under Capital Lease	$24,485,000
Capital Lease Liability	(18,655,299)
Accumulated Amortization	(17,683,611)
Amortization Expense	816,167

Source: OIG analysis.

Failure to properly account for capital property transactions in the agency's accounting system—Compass Financials—compromises the accuracy of the EPA's property accounts, depreciation and operating expenses, and the agency's financial statements.

Recommendations

We recommend that the Chief Financial Officer:

6. Reverse the journal voucher entries made to reclassify the Research Triangle Park capital lease to an operating lease.

7. Record the necessary adjusting entries for the Research Triangle Park lease to ensure current-year activity is properly stated on the fiscal year 2016 financial statements.

8. Determine the proper classification of the Research Triangle Park real property lease using the capital lease criteria.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations, took corrective actions, and made the necessary adjustments for the FY 2016 financial statements.

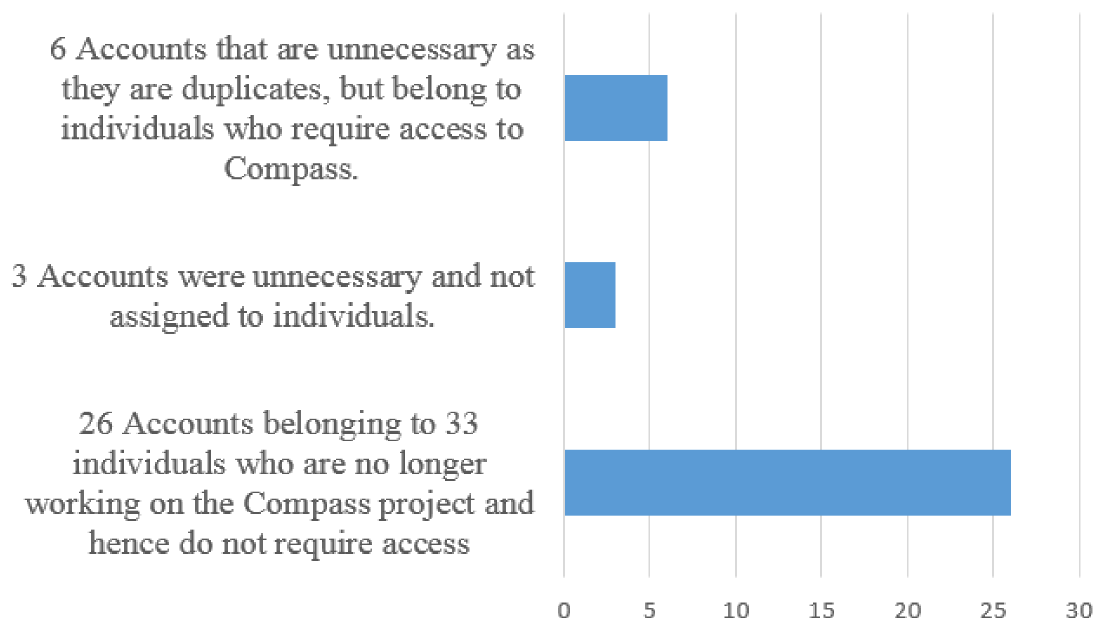
6 – EPA Needs Controls to Monitor Direct Access to the Compass Financials Database

Directive controls are actions taken by management designed to establish the desired outcomes, but not designed to prevent or detect possible undesired outcomes.

The EPA did not establish controls to monitor direct access to data within the Compass Financials database. Federal requirements indicate that agencies must establish controls to prevent and detect unauthorized access to agency data. The EPA's OCFO relied on directive controls, and did not establish controls to prevent or detect unauthorized access to the Compass Financials database. A breach of information in Compass Financials, which houses Personally Identifiable Information (PII) belonging to employees and vendors, could cost the EPA as much as $3.5 million, including the costs to detect, recover, investigate and manage the incident response, along with costs that result in after-the-fact activities and efforts to contain additional costs.

There were 35 open accounts with access to the Compass Financials database that the agency indicated were not needed. These accounts included: duplicate accounts, accounts belonging to individuals who do not require access, and accounts with generic names that could not be identified as belonging to specific individuals. A summary of unnecessary accounts is in Figure 1. The Compass Financials' database extract indicated that only two of the 35 accounts had been used, and none of the 35 accounts have been locked to prevent them from accessing the database.

Figure 1: Summary of unnecessary accounts



Source: OIG-generated.

The Federal Information Security Modernization Act tasked the National Institute of Standards and Technology (NIST) with the responsibility of developing minimum information security requirements. The requirements are provided in NIST Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, which is applicable to all federal information systems. This includes information systems used or operated by an executive agency, a contractor of an executive agency, or another organization on behalf of an executive agency. NIST Special Publication 800-53 AC-2 (7) provides guidance with regard to account management. In particular, organizations are responsible for:

- Establishing and administering privileged user accounts in accordance with a role-based access scheme that organizes allowed information system access and privileges into roles.
- Monitoring privileged role assignments.
- Taking organization-defined actions when privileged role assignments are no longer appropriate.

EPA's *Information Security – Access Control Procedure*, CIO 2150-P-01.2, covers information systems used, managed or operated on behalf of the agency, and states that information owners shall ensure service providers:

a) Monitor privileged role assignments.
b) Disable access when privileged role assignments are no longer appropriate.

OMB Memorandum M-13-23, Appendix D, to OMB Circular A-123, Section 7C, *Compliance with the Federal Financial Management Improvement Act of 1996*, provides that:

> [S]ervice organizations are required to provide customer agencies with a *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* (also known as a SOC [Service Organization Controls] 1). The SOC 1 is an important tool for agency management and auditors as they evaluate the effect of the controls at the service organization on the user entities' controls for financial reporting.

OCFO did not establish controls to monitor direct access to data within the Compass Financials database. Compass Financials is owned and operated by a service provider that hosts the application at its data center, and the service provider is responsible for developing and maintaining the application. Our review indicated that the service provider was performing limited logging of administrative access to the database. Additionally, the EPA did not ensure that the service provider monitored privileged role assignments or disabled access when the privileged role assignments were no longer necessary.

Further, while the service provider did provide the EPA with a Statement on Standards for Attestation Engagements 16 SOC 1 type 2 report that covered the service provider's enterprise and end-user computing and network, the report did not cover application maintenance and support. The agency also had a security review of NIST Special Publication 800-53 controls conducted by EPA contractors as part of the Continuous Monitoring Assessment (CMA) of Compass Financials. This CMA covered the application areas not covered by the SOC report and included testing of the Oracle database. The CMA review produced 11 findings and recommendations to the agency covering access controls. However, it is unclear what actions the agency took or planned to take to address these weaknesses. Upon analysis of the CMA documentation, the status of the recommendations are listed as Planned/Pending and lack scheduled completion dates. Furthermore, these findings and recommendations were not entered into the EPA's system used for tracking remediation of the associated corrective actions.

Unauthorized access of PII contained in the Compass Financials database could cost the EPA $3.5 million. This estimate was based on the most recent *2015 Cost of Cyber Crime Study: Global,* conducted by the Ponemon Institute, where the average number of records was approximately 17,500 and the per-record cost was $198 per breach. It is possible that the cost of a Compass Financials data breach could be more, but we could not develop a specific estimate because OCFO was unable to provide us with a reliable count of records with unique PII within the Compass Financials database. The database contains multiple tables that contain PII, and some of the tables contain records with duplicate PII.

Recommendations

We recommend that the Chief Financial Officer:

9. Work with the Compass Financials service provider to establish controls for creating and locking administrative accounts.

10. Work with the Compass Financials service provider to develop and implement a methodology to monitor accounts with administrative capabilities.

11. Enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions.

Agency Comments and OIG Evaluation

The EPA concurred with our recommendations and provided planned dates to complete corrective actions. We consider these recommendations resolved with corrective actions pending.

7 – EPA Needs Documentation to Restore Financial and Mixed-Financial Applications Housed at the National Computer Center

The EPA's Disaster Recovery Plan and Information System Contingency Plan for the National Computer Center's (NCC's) operations lack documentation for obtaining equipment to restore operations and network connectivity for the financial and mixed-financial applications housed at NCC, located in Research Triangle Park, North Carolina, in the event of a disaster.

OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, states that: "Agency plans should assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the system." Furthermore, NIST Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, requires an organization to develop a contingency plan that "[a]ddresses eventual, full information system restoration without deterioration of the security safeguards originally planned and implemented."

NCC representatives indicated that a static listing of the NCC's hardware would need continuous updates to reflect current NCC operations. Our review of the provided documentation disclosed that the hardware inventory within the Information System Contingency Plan is over 5 years old, and the Disaster Recovery Plan's equipment listing does not contain all the necessary equipment to restore primary operations. Further, neither plan includes instructions on obtaining the specifications of equipment needed to restore the NCC's primary operations and network connectivity.

Upon further discussions with the Office of Environmental Information (OEI), the representatives indicated that they rely on systems outside the computer center to recover operations at the NCC. However our review of the provided Disaster Recovery Plan and Information Security Contingency Plan disclosed these systems were not documented in either of the plans.

Because the EPA lacks a current equipment listing or a methodology to determine the specifications for equipment needed to recover the primary NCC operations, the agency would experience delays in restoring the following key financial and mixed-financial applications housed at NCC:

- OCFO General Support System, which supports the following major financial and mixed-financial applications:
  - Payment Tracking System.
  - PeoplePlus (the EPA's time and attendance reporting system).
- Office of Administration and Resources Management's:
  - Agency Asset Management System.
  - Integrated Grants Management System Pre-Award Module of the Integrated Grants Management System Application.

Operation of these financial and mixed-financial applications would not be recovered in a timeframe in the best interest of the agency. This could result in the EPA being unable to use these applications to effectively track, evaluate and analyze the cost of operations in accomplishing program initiatives and activities designed to protect human health and the environment.

Recommendation

We recommend that the Chief Information Officer, Office of Environmental Information:

12. Develop a process for obtaining the current inventory listing and document the process in the National Computer Center's Disaster Recovery Plan and Information System Contingency Plan.

Agency Comments and OIG Evaluation

The agency did not concur with our finding and Recommendation 12. The EPA stated the OIG made incorrect assumptions related to the sources of information it uses to restore the NCC during emergencies, and stipulated that the agency relies upon other technologies to restore the computer center. The EPA also indicated it maintains a Hosting System Information Contingency Plan that includes the information needed to restore the computer center's physical environment.

Our initial assumptions related to the system the EPA uses to identify the inventory needed to restore the computer center was based upon an interview with EPA personnel directly responsible for overseeing the computer center recovery process. We updated the draft report to include our analysis of the additional documents provided by the EPA and further interviews with EPA representatives. We further updated the final report to clarify EPA processes for restoring the computer center. Our analysis determined that despite the EPA indicating it maintains other technologies to restore the computer center, these technologies are not documented within the documentation the agency cites in its response and the other documentation the EPA provided during the audit. Furthermore, our analysis of the EPA's documentation found that the hardware inventory is over 5 years old, and the documentation does not contain all the equipment necessary to restore the computer center. As such, we believe it is incumbent upon management to develop a process to keep current the documents the EPA relies upon for restoring the computer center as required by federal guidance. We therefore consider Recommendation 12 unresolved pending the agency's response to the final report.

8 – EPA Needs to Improve Offsite Storage of Backups

In the event of a disaster, the EPA would not be able to readily recover financial and mixed-financial data from its Payment Tracking System (PTS), PeoplePlus (PPL), and Agency Asset Management System (AAMS), all located at NCC in Research Triangle Park, North Carolina. The EPA would also not be able to readily recover data from its Integrated Grants Management System (IGMS) Potomac Yard servers, located in Arlington, Virginia. This occurred because the EPA did not implement a data backup storage plan or provide oversight to ensure data backups are stored as required for these critical financial and mixed-financial applications

NIST Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, requires agencies to establish alternate sites for the storage and retrieval of information system backups.

The *EPA Chief Information Officer Transmittal 2150-P-06.2, Information Security – Contingency Planning Procedures,* reflects the above guidance and states:

> Backup copies of the operating system and other critical information system software, as well as copies of the information system inventory (e.g., hardware, software, and firmware components), shall be stored in a separate secure facility or in a fire-rated container that is not collocated with the operational system.

Further, the EPA OEI's *Backup, Restoration, and Tape Retention Procedures* for Task Order 1688, Sub-task 3.3, Shared Services Hosting, applicable to the IGMS Potomac Yard servers, states "[o]nce the 'full' backup jobs are completed, they are removed from the tape changer" and "...taken to the off-site storage."

We found the following regarding backup for the agency's critical financial and mixed-financial applications:

Payment Tracking System and PeoplePlus

Data backups for OCFO's PTS and PPL applications are not being sent to an alternate storage location, even though the system security plans for both applications indicate that backups need to be stored offsite. The PTS and PPL applications are supported by OCFO's General Support System. The applications are backed up to a Virtual Tape Library located at NCC, which also houses their production servers.

OCFO's Director for the Office of Technology Solutions signed a waiver accepting the risk of not having an alternate data storage process for the General Support System, even though the Director did not have the authority to accept such risks without an approved waiver signed by the Chief Information Officer (CIO) in OEI. CIO 2150-P-06.2 states that the CIO "[a]ccept[s] risks to the organization related to contingency planning" and may grant waivers "…for sufficient reasons exercising judgment in the best interests of the agency." Thus the waiver was not signed by the appropriate official. Further, our analysis of the waiver documentation disclosed that the waiver only covers the OCFO General Support System, which provides core infrastructure for hosting major OCFO applications, and does not cover the applications themselves.

Agency Asset Management System

The Office of Administration and Resources Management (OARM) had not implemented an alternate data storage plan for the AAMS application. When OARM implemented AAMS, the office originally planned to (1) operate the application at the EPA's Potomac Yard server room and (2) implement alternate data storage on a backup server located at the NCC. However, our analysis showed that AAMS servers are located at NCC, and the application is being backed up to a Virtual Tape Library also located at NCC. Our review also noted that the AAMS system security plan is outdated and has not been updated to reflect the application's current operating environment. Further, OARM had not taken steps to implement compensation controls to protect the AAMS data backups located at NCC, and management has not taken steps to seek a waiver from the CIO for not having an alternate storage site for AAMS data backups.

Integrated Grants Management System

OEI personnel at the EPA Potomac Yard server room are not ensuring data backups are taken to the required alternate data storage site. Backups for the IGMS application's servers, owned by OARM, are located at the EPA's Potomac Yard server room. The IGMS Potomac Yard servers are being backed up to tape by OEI personnel in accordance with established agency policy. However, not all full backup tapes are being transferred to the William Jefferson Clinton North Building alternate storage location, in Washington, D.C., once the backups are completed, in accordance with procedures. OEI contractors responsible for the OARM Potomac Yard server backups stated that there is no set timeframe for rotation of full backup tapes, and the tapes are taken to the alternate storage site after backup is finished and they have an opportunity to transport the tapes. Additionally, there is no oversight of the Potomac Yard tape rotation, as there are no logs to verify that the backup media is transported to an alternate storage site in a timely manner.

In the event of a disaster at NCC that would potentially destroy both the production servers and the Virtual Tape Library storing the PTS, PPL and AAMS data, there would be no backups for these critical servers available. This would result in the loss of both the production and backup data for these critical applications. As a result, the EPA would not be able to readily use PTS for the processing of contract payments in accordance with established payment schedules, and the reporting and tracking of information to assist in the payment process. Additionally, the ability to use PPL to automatically send employee time and attendance data to the payroll provider, as well as the functionality to assign labor costs to the various accounting appropriations for payroll dollars, would not be readily available.

OEI personnel responsible for managing NCC indicated they rely upon the data in AAMS to determine what equipment the agency needs to purchase to restore full network capabilities if the NCC has to relocate to an alternate processing site. Thus, without having a viable AAMS data backup, the EPA faces the possibility that it would not be able to restore its network and the hundreds of applications hosted at NCC within 30 days, as outlined in the NCC Disaster Recovery Plan, version 8.3.

In the event of a disaster at the Potomac Yard facility that destroys the local backups, the IGMS servers backed up there would not be readily recoverable to the most recent backup points.

Recommendations

We recommend that the Chief Financial Officer:

13. Either obtain a waiver for not having an alternate storage location for the PeoplePlus and Payment Tracking System backups approved by the Chief Information Officer, or develop and implement a process for storing the PeoplePlus and Payment Tracking System backups at an alternate location.

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

14. Develop and implement a process for storing the Agency Asset Management System backups at an alternate storage location.

15. Update the Agency Asset Management System security plan to reflect the application's current data backup processes.

We recommend that the Chief Information Officer, Office of Environmental Information:

16. Ensure the contractor has a process to monitor that the Integrated Grants Management System data backups at Potomac Yard are rotated to the alternate storage location.

Agency Comments and OIG Evaluation

The EPA concurred with our recommendations and indicated it completed all corrective actions in October 2016. We consider these recommendations closed with corrective actions completed.

Compliance With Laws and Regulations

Table of Contents

9 – EPA Did Not Comply With the e-Manifest Act

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

According to the e-Manifest Act, at Section 2, Subsection (d)(2)(C), the EPA "shall carry out all necessary measures to ensure that amounts in the e-Manifest fund are used only to carry out the goals of establishing, operating, maintaining, upgrading, managing, supporting, and overseeing the [e-Manifest] system."

The Federal Acquisition Regulation, at 48 CFR (Code of Federal Regulations) Section 1.602-1(b), requires contracting officers to ensure that all requirements of law, executive orders, regulations and all other applicable procedures have been met. The Federal Acquisition Regulation, at 48 CFR Section 1.602-2(a), also requires that contracting officers ensure sufficient funds are available for obligation. The EPA's Comptroller Policy Announcement No. 00-10, "Implementation of 5 CFR, Part 1315 – Prompt Payment," Section II.B.(4), further requires the project officers to distribute invoice amounts by account number to assure that costs are charged to the proper appropriation or funding source.

Various EPA offices have responsibilities in ensuring that the agency complies with the e-Manifest Act:

- OARM is responsible for the EPA's acquisition activities, including administering contracts. OARM's contracting officers manage the contracts and are responsible for ensuring that there are sufficient funds available for obligation.

- The Office of Land and Emergency Management (OLEM) oversees the e-Manifest project, and assigns related contracts to project officers. OLEM's project officers certify the contract invoices for payment, and are responsible for ensuring that costs are allocated to the proper appropriation.

- OCFO provides financial services for the agency and makes payments to EPA contractors. OCFO relies on the EPA project officers' invoice allocations to disburse contract payments.

We found that the EPA used e-Manifest appropriated funds totaling $22,294 to cover contract costs unrelated to the e-Manifest project. In 2012, the EPA awarded a service contract to a contractor for multiple work assignments funded by different appropriations. In 2014, the EPA added a work assignment with the purpose to provide support for the e-Manifest rulemaking. During 2015, the EPA received various invoices for work related to the e-Manifest project, as well as other work assignments, performed under this contract. The invoices listed all costs by work assignment, and an OLEM project officer distributed the invoice amounts by appropriation. The invoiced amounts were paid by OCFO from the e-Manifest funds.

During the final months of the performance period for the contract in 2015, certain work assignments did not have sufficient obligations available to cover the invoiced amounts. The obligated funds for these work assignments were under other appropriations not related to the e-Manifest project. However, to certify the invoices for payment, the project officer allocated the invoiced amounts from these work assignments to the e-Manifest appropriation, because the e-Manifest appropriation had obligated funds available. The project officer was not aware of the restrictions over the e-Manifest appropriations. In addition, OARM's contracting officer did not ensure that the EPA met the requirements of the e-Manifest Act, and that there were sufficient funds available for obligation for the various other work assignments. Therefore, the EPA did not have adequate oversight to prevent the inappropriate use of the e-Manifest funds.

As a discussed above, the EPA expended e-Manifest funds on non-e-Manifest purposes, thus violating the requirements of the e-Manifest Act. In addition, by not having adequate oversight to prevent the inappropriate use of funds, the EPA was at risk of exceeding the amount of funds that were available in another appropriation. We determined that, as of the end of FY 2015, the money taken from the e-Manifest funds and used for other work assignments was not returned to the e-Manifest appropriation. Because the EPA did not return the money to the e-Manifest fund by the end of the fiscal year, the agency may be at risk of violating the Antideficiency Act. We did not determine whether the EPA violated the Antideficiency Act, since such work was not within the scope of our audit, but given the risk level here we believe the agency should investigate the matter.

We are issuing a separate report on e-Manifest and will present our recommendations in that report.

Agency Comments and OIG Evaluation

The agency concurred with our finding.

Status of Prior Audit Report Recommendations

The EPA continued working to strengthen its audit management to address audit findings timely and complete corrective actions expeditiously and effectively to improve environmental results. In FY 2016, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, issued a memorandum to senior agency leadership reminding senior managers of their stewardship responsibilities for developing effective corrective actions, and implementing them timely. Other notable actions included:

- The agency continued working to make improvements to EPA Manual 2750, *Audit Management Procedures,* which was last revised in FY 2012. Manual 2750 is a comprehensive audit management guide that addresses OIG, GAO and Defense Contract Audit Agency audits. OCFO expects to release the updated policy by December 2016.

- OCFO issued progress reports highlighting the status of management decisions and corrective actions. The reports are shared with program office and regional managers throughout the agency to keep them informed of the status of progress on their audits.

EPA sustained its commitment to engage early with the OIG on audits findings, and to develop effective corrective actions to address OIG recommendations. Of the 42 OIG audit reports issued with recommendations in FY 2016, the OIG closed 31, or 74 percent, upon issuance to the agency, and none exceeded 180 days without reaching management decision. The EPA also reported it implemented 390 corrective actions in FY 2016.

Table 3: Significant deficiencies—issues not fully resolved

•	**EPA Failed to Capitalize Software Costs, Leading to Restated FY 2013 Financial Statements** In our FY 2014 audit, we identified the agency's accounting for software as a material weakness. In FY 2014, the agency found it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors, resulting in a misstatement of the FY 2013 financial statements. During FY 2015, the agency took corrective actions to improve its accounting for software. While the agency has made progress and taken steps to correct weaknesses, all corrective actions have not been completed. The EPA continues to experience problems in its cleanup efforts. During FY 2016, the EPA wrote off approximately $132 million in software costs without adequate support. Corrective actions for the remaining recommendations are not due to be completed until 2018.
•	**EPA Did Not Capitalize Lab Renovation Costs** In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of RTP lab renovations. As a result, the EPA did not properly classify the lab renovations as a capital improvement. The agency capitalized and booked the RTP lab renovation cost and related depreciation. The EPA Office of General Counsel believed that the 1999 legal opinion is still a viable legal opinion, but did not provide examples to guide the agency's determinations of when renovation work should be funded from agency program appropriations or Building and Facilities funds. Therefore, the corrective action was partially completed. In addition, corrective actions for other recommendations related to this finding are not due until September 2017.

•	**EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement** In our FY 2014 audit, we noted that the EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for FY 2014. The EPA also identified 573 property items not recorded in Maximo. During FY 2015, we found that the agency made progress and has taken steps to correct its differences between the amount of personal property recorded in Maximo and the amount of physical inventory. The agency has implemented the corrective actions. However, we have not assessed the effectiveness of these actions.
•	**EPA's Property Management System Does Not Reconcile to Its Accounting System (Compass)** During FY 2014, we found that the EPA did not reconcile $100 million of capital equipment within its property management subsystem (Maximo) to relevant financial data within its accounting system (Compass). The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting. We previously reported on this issue in our 2012 and 2013 financial statement audit reports. In FY 2014, the agency issued procedures to reconcile capital property. The agency stated it had begun to resolve the differences between Maximo and Compass; however, problems continue to exist. In FY 2015 and 2016, we again reported this weakness as a significant deficiency; therefore, the EPA's corrective actions were not yet effective. In FY 2016, the agency stated that it would not be able to complete the reconciliation, and pushed the date back to June 2017.
•	**Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center** In FY 2014, we found that the EPA and Department of Justice did not timely forward accounts receivable source documents to finance centers. During FY 2015, the EPA's Office of Enforcement and Compliance Assurance, in a memorandum, reminded the regions to timely provide accounts receivable enforcement documentation to the finance center. In addition, OCFO updated the EPA's Superfund guidance to direct originating offices to timely send accounts receivable control forms to the finance center. In 2016, while we noted improvements in CFC's timely receipt of legal documents, we still identified instances of untimely receipt, particularly related to stipulated penalties. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate the timeliness of receipt of accounts receivable source documents from the EPA and Department of Justice in FY 2017.
•	**EPA Did Not Properly Reconcile Accounts Receivable** During FY 2014, we found that the EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. In FY 2015, the EPA did not correct the significant deficiency or did not completely implement its corrective actions for reconciling accounts receivable. Therefore, we reported the agency's accounts receivable reconciliation process as a significant deficiency again in FY 2015. During FY 2016, the EPA improved its accounts receivable reconciliation process by reconciling federal and non-federal receivables separately and developing new reports. While the agency has made progress in correcting the accounts receivable reconciliation deficiencies in FY 2016, we were not able to determine the effectiveness of the actions.
•	**EPA Incorrectly Recorded Superfund Special Account Collections and Receivables** In FY 2015, the EPA misstated earned and unearned revenue for Superfund special accounts. The EPA changed its accounting practice to record special accounts settlement proceeds as unearned revenue for 2015. However, in FY 2016 the EPA did not modify the accounting model for special accounts in Compass Financials, the agency's accounting system. As a result, the EPA materially misstated earned and unearned revenue in FY 2016. Therefore, we consider the EPA's corrective action not effective and will further evaluate the effectiveness of agency actions during FY 2017.
•	**EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment** In FY 2015 we found that the EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment. During FY 2016, the EPA did not correct the prior-year error. In FY 2016 the EPA also recorded another Superfund receivable at the initial payment amount, which was 90 percent of the total estimated costs. While the EPA corrected the FY 2016 error, the prior year error remains uncorrected. Therefore, we consider the EPA's corrective action not effective, and will further evaluate agency corrective actions during FY 2017.

- **EPA Did Not Comply With Federal Accounting Standards for Recording Interest**
  In FY 2014, we found that the EPA did not record all applicable interest for some accounts receivable in the accounting system as required by applicable laws, federal accounting standards and EPA policy. The EPA made some improvements in recording interest during FY 2015, but was still considered not in compliance primarily due to Compass system problems. During FY 2016, the EPA made further improvements in recording Superfund and installment interest; however, all corrective actions have not been completed and some completed actions are not completely effective. Therefore, we will continue to evaluate the agency's recording of interest in FY 2017.
- **Compass Reporting Limitations Impair Accounting Operations and Internal Controls**
  In FY 2012, we reported that following the agency's conversion of its accounting system to Compass, the EPA was unable to obtain reports it needed for many accounting applications. Following the conversion, accounts receivable reports used by the finance centers for reconciliations and calculating allowance for doubtful accounts were no longer available at the finance center level. Since the conversion, the EPA has not developed accounts receivable reports at the finance center level, which are needed to reconcile accounts receivable and update allowance for doubtful account estimates.
- **EPA Should Improve Compliance With Internal Controls for Accounts Receivable**
  During FY 2012, we found that CFC did not timely receive accounts receivable judicial legal documents from the Department of Justice and EPA. In FY 2013, the EPA revised agency accounts receivable guidance to remove the requirement for Regional Legal Enforcement Offices to forward copies of executed judicial orders to CFC within 5 workdays. In FY 2014, the Office of Enforcement and Compliance Assurance reported its corrective action as completed; however, we reported untimely receipt of accounts receivable legal documents as a significant deficiency in FY 2014. Although we noted some improvement in the EPA's receipt of legal documents, we still identified instances of untimely receipt in FY 2015 and 2016. Therefore, we do not consider the agency's corrective actions completely effective, and will continue to evaluate the effectiveness in FY 2017.
- **EPA Should Improve Controls Over Expense Accrual Reversals**
  In FY 2012, the EPA did not reverse approximately $108 million of FY 2011 year-end expense accruals. The EPA did not reverse the accrual transactions because the Compass posting configuration for the applicable fund category was inaccurate. By not reversing the accruals timely, EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. EPA's Policy Announcement No. 95-11, *Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals*, requires the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our audit report issued November 16, 2012, we recommended that the EPA update its Policy Announcement 95-11 to require reconciliations of accruals and accrual reversals. EPA officials concurred with our finding and recommendations, and took corrective action by implementing an independent review of the FY 2012 accruals and reversals. The EPA also performed accrual reviews prior to the issuance of the FY 2013 quarterly financial statements. In the FY 2013 audit, the EPA extended the target due date to update Policy Announcement 95-11 until June 2014. In the FY 2014 audit, the EPA extended the target due date to update the policy until December 31, 2015, due to the additional workload and resource constraints. In FY 2015, the EPA extended the target due date to update the policy until December 31, 2016. This was done to enable the EPA to use the opportunity to explore new methods to streamline the accrual processes and take advantage of efficiencies available in the Compass upgrade scheduled for February 2016, prior to revising the policy. In the FY 2016 audit, the EPA indicated it anticipated being able to meet its targeted completion date (December 31, 2016), but did not anticipate completing action sooner, due to an implementation of a Compass version enhancement and development of a new accrual processing system.

•	**EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury** During our FY 2015 audit, we found that the EPA had not resolved $2.6 million in long-standing cash differences between EPA and Treasury balances. Based on our findings, we recommended in our FY 2015 report that the Chief Financial Officer require the General Ledger Analysis and Reporting Branch to monitor and work with the finance centers to resolve all internal cash differences, to ensure the EPA resolves all of the differences with Treasury. We also recommended that the Chief Financial Officer require the Payroll accounting point and Washington Finance Center to research and resolve cash differences. The agency agreed with our finding and recommendations. According to the agency's corrective action status report as of June 27, 2016, the agency completed corrective action for the first recommendation. However, the Chief Financial Officer has not completed its corrective action for the Payroll accounting point and the Washington Finance Center, and those accounting points still have long-standing unresolved cash differences. The EPA is currently working on resolving cash differences and completing its corrective action by December 31, 2016. We again reported unresolved long-standing cash differences as a significant deficiency in our FY 2016 report.
•	**Financial Management System User Account Management Needs Improvement** During our FY 2009 audit, we found that the EPA had not established policies that clearly defined incompatible functions and associated processes, to ensure that proper separation of duties is enforced within the financial system application. Based on our findings, we recommended in our FY 2009 report that OCFO ensure that all new financial management systems and those undergoing upgrades include a system requirement that the fielded system include an automated control to enforce separation of duties. The agency agreed with our finding and recommendation and the EPA had considered this recommendation closed; however, OCFO agreed in FY 2015 to develop alternative corrective actions for this recommendation. According to OCFO, the revised planned completion date for these corrective actions is December 31, 2017.
•	**OCFO Lacks Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems** During our FY 2015 audit, we found that OCFO's Application Management Staff assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring the system had documentation covering key account management procedures. Based on our findings, we recommended in our FY 2015 report that the Chief Financial Officer implement an internal control process for transferring the management of an application's user access to the Application Management Staff. We also recommended that the Chief Financial Officer conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application. Further, we recommended that the Chief Financial Officer work with the contracting officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management Staff. The agency agreed with our finding and recommendations. According to its corrective action status report as of June 27, 2016, the agency plans to complete corrective actions for the first and second recommendations by December 31, 2017, and by March 31, 2018, for the last recommendation.
•	**Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls** During our FY 2015 audit, we found that the EPA lacked management oversight to ensure responsible individuals fully develop and implement required account management controls for the EPA's financial and mixed-financial systems. Based on our findings, we recommended in our FY 2015 report that the Chief Financial Officer review and update account management documentation and establish procedures for financial systems. We also recommended that the Chief Financial Officer issue a memorandum emphasizing the need to follow access control procedures, conduct an inventory of financial systems to ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls, and implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta. The agency agreed with our finding and recommendations. According to its corrective action status report as of June 27, 2016, the agency completed corrective actions for all but the first recommendation. The EPA is currently working on reviewing and updating account management documentation and establishing procedures for financial systems. The revised planned completion date for this corrective action is December 31, 2017.

Source: OIG analysis.

Attachment 4

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Potential Monetary Benefits (in $000s)
1	16	Record the necessary adjusting entries to reduce unearned revenue by $167,870,721 to ensure current year financial statements are properly stated.	C	Chief Financial Officer	11/1/16	
2	16	Modify the accounting model in Compass Financials to properly record all special account receivables and collections as unearned revenue, and reduce the unearned revenue and recognize earned revenue as expenses are incurred.	O	Chief Financial Officer	3/31/17	
3	16	Prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail.	O	Chief Financial Officer	12/31/16	
4	18	Reverse the cash difference write-off entries in Compass Financials and continue researching the cash differences until adequate documentation exists to support the adjustments.	C	Chief Financial Officer	10/31/16	
5	20	Develop and implement a plan for supervisors of interagency agreement project officers to monitor the timeliness of individual project officer invoice approvals.	O	Assistant Administrator for Administration and Resources Management	3/31/17	
6	22	Reverse the journal voucher entries made to reclassify the Research Triangle Park capital lease to an operating lease.	C	Chief Financial Officer	11/8/16	
7	22	Record the necessary adjusting entries for the Research Triangle Park lease to ensure current-year activity is properly stated on the fiscal year 2016 financial statements.	C	Chief Financial Officer	11/8/06	
8	22	Determine the proper classification of the Research Triangle Park real property lease using the capital lease criteria.	C	Chief Financial Officer	11/8/16	
9	25	Work with the Compass Financials service provider to establish controls for creating and locking administrative accounts.	O	Chief Financial Officer	9/30/21	
10	25	Work with the Compass Financials service provider to develop and implement a methodology to monitor accounts with administrative capabilities.	O	Chief Financial Officer	9/30/21	
11	25	Enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions.	O	Chief Financial Officer	3/31/17	
12	27	Develop a process for obtaining the current inventory listing and document the process in the National Computer Center's Disaster Recovery Plan and Information System Contingency Plan.	U	Chief Information Officer, Office of Environmental Information		
13	30	Either obtain a waiver for not having an alternate storage location for the PeoplePlus and Payment Tracking System backups approved by the Chief Information Officer, or develop and implement a process for storing the PeoplePlus and Payment Tracking System backups at an alternate location.	C	Chief Financial Officer	10/18/16	

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Potential Monetary Benefits (in $000s)
14	30	Develop and implement a process for storing the Agency Asset Management System backups at an alternate storage location.	C	Assistant Administrator for Administration and Resources Management	10/4/16	
15	30	Update the Agency Asset Management System security plan to reflect the application's current data backup processes.	C	Assistant Administrator for Administration and Resources Management	10/4/16	
16	30	Ensure the contractor has a process to monitor that the Integrated Grants Management System data backups at Potomac Yard are rotated to the alternate storage location.	C	Chief Information Officer, Office of Environmental Information	10/11/16	

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

EPA's FYs 2016 and 2015 Consolidated Financial Statements

Agency Response to Draft Report

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

NOV 10 2016

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY16-0136, "*EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements,*" dated November 8, 2016

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

TO: Paul C. Curtis, Director
Financial Statements Audits

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

AGENCY'S OVERALL POSITION

The agency concurs with 15 of the recommendations and non-concurs with one recommendation. To address specific findings or technical inaccuracies in the report, please see the attached Technical Comments document.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	**Recommendation**	**High-Level Intended Corrective Action(s)**	**Estimated Completion by Quarter and FY**
1	We recommend that the Chief Financial Officer record the necessary adjusting entries to reduce unearned revenue by $167,870,721 to ensure current year financial statements are properly stated.	The agency made the necessary adjusting entries.	Completed 11/1/2016

17-F-0046

2	We recommend that the Chief Financial Officer modify the accounting model in Compass Financial to properly record all special account receivables and collections as unearned revenue, and reduce the unearned revenue and recognize earned revenue as expenses are incurred.	The agency will modify accounting models in Compass to properly record Superfund special account receivables once OMB and Treasury have approved the agency's accounting approach.	By March 31, 2017
3	We recommend that the Chief Financial Officer prepare a comprehensive quarterly reconciliation of Superfund special accounts general ledger balances to the special accounts database detail.	The agency will conduct the quarterly reconciliation of Superfund Special Accounts general ledger to the Special Accounts database detail.	First quarter 2017
4	We recommend that the Chief Financial Officer reverse the cash difference write-off entries in Compass and continue researching the cash differences until adequate documentation exists to support the adjustments.	The agency reversed the cash difference write-off entries in compass and will continue to research the cash differences.	Completed 10/31/2016
5	We recommend that the Assistant Administrator for Administration and Resources Management develop and implement a plan for supervisors of interagency agreement project officers to monitor the timeliness of individual project officer invoice approvals.	In September 2015, the agency took corrective action that addresses this recommendation by including specific mention of timely invoice approvals in the Office of Grants and Debarment's annual Performance Appraisal and Recognition System Guidance. The one remaining corrective action is for the Office of the Controller to provide quarterly reports to the agency's Senior Resource Officials on the status of individual project officer invoice approvals.	Second quarter 2017
6	We recommend that the Chief Financial Officer reverse the journal voucher entries made to reclassify the Research Triangle Park capital lease to an operating lease.	The agency reversed the journal review entries made to reclassify the Research Triangle Park capital lease to an operating lease.	Completed 11/8/2016

7	We recommend that the Chief Financial Officer record the necessary adjusting entries for the Research Triangle Park lease to ensure current-year activity is properly stated on the fiscal year 2016 financial statements.	The agency recorded the necessary adjusting entries for the Research Triangle Park lease.	Completed 11/8/2016
8	We recommend that the Chief Financial Officer determine the proper classification of the Research Triangle Park real property lease using the capital lease criteria.	The agency determined the proper classification of the Research Triangle Park real property lease using the capital lease criteria.	Completed 11/8/2016
9	We recommend that the Chief Financial Officer work with the Compass Financials service provider to establish controls for creating and locking administrative accounts.	The agency will work with the service provider to analyze alternatives for controls and establish an action plan.	Fourth quarter 2021
10	We recommend that the Chief Financial Officer work with the Compass Financials service provider to develop and implement a methodology to monitor accounts with administrative capabilities.	The agency will work with the service provider to analyze alternative methodologies and establish an action plan.	Fourth quarter 2021
11	We recommend that the Chief Financial Officer enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions.	The agency will analyze the entries currently in Xacta and make any corrections as appropriate.	Second quarter 2017
13	We recommend that the Chief Financial Officer either obtain a waiver for not having an alternate storage location for the PeoplePlus and Payment Tracking System backups approved by the Chief Information Officer, or develop	The agency's PeoplePlus alternate storage is in place and is located at Potomac Yard. In addition, PTS is a tracking system that tracks financial information already in Compass. Compass is the actual payment system for the Agency. Compass has an	Completed 10/18/2016

	and implement a process for storing the PeoplePlus and Payment Tracking System backups at an alternate location.	alternate storage site in Philadelphia, PA.	
14	We recommend that the Assistant Administrator for Administration and Resources Management develop and implement a process for storing the Agency Asset Management System backups at an alternate storage location.	As outlined in the agency's updated AAMS Security Plan effective 10/4/16, a back-up process is already implemented with the alternate site in Potomac Yard.	Completed 10/4/16
15	We recommend that the Assistant Administrator for Administration and Resources Management update the Agency Asset Management System security plan to reflect the application's current data backup processes.	The agency's AAMS Security Plan was updated and implemented effective 10/4/16 reflecting AAMS' current data backup processes.	Completed 10/4/16
16	We recommend that the Chief Information Officer implement an oversight process to monitor that personnel responsible for the Integrated Grants Management System data backups at Potomac Yards follow established procedures for rotation of backup tapes to the alternate storage location.	The agency will direct contractors to include the number of tapes moved to the offsite storage location in the weekly management report.	Completed 10/11/16

Disagreements

No.	Recommendation	Agency Explanation/Response	Proposed Alternative
12	We recommend that the Chief Information Officer develop a process and inventory listing in its Disaster Recovery Plan for recovering operations of a primary location in the event of a disaster at the National Computer Center.	The agency does not concur with the statement of facts or the recommendation and, therefore, does not intend to provide a corrective action.	N/A

CONTACT INFORMATION
If you have any questions regarding this response, please contact OCFO’s Audit Follow-up Coordinator, Nic Grzegozewski, at 202-564-2292.

Attachment

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Attachment

Technical Comments Related to OIG's Draft Audit Report No. OA-FY16-0136, "*Audit of EPA's Fiscal 2016 Financial Statements,*" dated November 10, 2016

OIG Recommendation #12: *OIG recommends that the Chief Information Officer develop a process and inventory listing in its Disaster Recovery Plan for recovering operations of a primary location in the event of a disaster at the National Computer Center*

Agency Comments:

This recommendation is based on the assumption that OEI relies on information from AAMS for reconstitution of systems. OEI does not rely on AAMS information for reconstitution of EHD/NSOD-managed systems. AAMS is used by OEI only for inventory tracking purposes. OEI relies on other systems located outside the NCC, for reconstitution purposes, including EM7/Infraview, Bigfix, McAfee (formerly Foundstone), and, soon, CDM.

The NCC also maintains a Hosting System Information Contingency Plan (Version 3.2, August 26, 2015) which was provided to the IG. This includes all the information required to reconstitute the NCC's physical equipment.

Based on the information above, OEI does not agree with the statement of facts or the recommendation.

OIG Recommendation #16: *OIG recommends that the CIO implement an oversight process to monitor OEI personnel responsible for the Integrated Grants Management System data backups follow established procedures for rotation of backup tapes to the alternate storage location, a process already exists.*

Agency Comments:

OEI backs up the IGMS Notes servers at Potomac Yards to tape. OEI performs full backups on a weekly basis as well as nightly incremental backups. Tapes are rotated to WJC East weekly, and are retained for 30 days before being reused. Periodically, federal staff have accompanied the contractor when they have transported the tapes to the alternate location in WJC East.

OEI has recently implemented new procedures to provide additional oversight of the process. OEI has directed the contractor to include the number of tapes moved to the alternate location in its management report each week. This report will provide documentation required to confirm timely tape movement offsite.

The IGMS Pre-award servers are hosted at NCC in RTP. These servers are backed up to backup appliances in the NCC. Full backups of these servers have a retention period of 90 days. Incremental backups of these servers have a retention period of 30 days. These backups are replicated nightly to backup appliances in Potomac Yard with a retention period of 14 days allowing restoration of that data to alternate hardware should the primary location become unavailable.

TECHNICAL CLARIFICATIONS:

The agency has the following technical clarifications on the AAMS system that should be considered.

1. OARM's Office of Administration is the system owner for AAMS and it is an independent system, separate and distinct from OCFO's systems: PTS and Compass Financials.

2. The Compass Maximo system, owned and operated by OCFO, was retired when AAMS went live on February 22, 2016.

The AAMS primary system location is the National Computing Center, with an alternate site location at Potomac Yard. It is a Major Application with a Moderate Security Categorization. This information is reflected in the FY 2016 system assessment and the attached System Security Plan, V1.1, dated October 4, 2016, which provides more detailed information about the AAMS system, access controls, configuration, risk management and contingency plans. Backup up processes and procedures are located in the Information System Contingency Plan, Rev. 2.2, dated August 3, 2016.

3. AAMS has not subscribed to the NCC's Critical Application Recovery services due to: 1) the moderate security categorization of AAMS; 2) established alternate site located at PY that includes a copy of the production database export from the NCC servers; 3) undergoing development of the contingency database at PY to allow for real-time data replication; 4) duplicate cost avoidance.

Appendix III

Distribution

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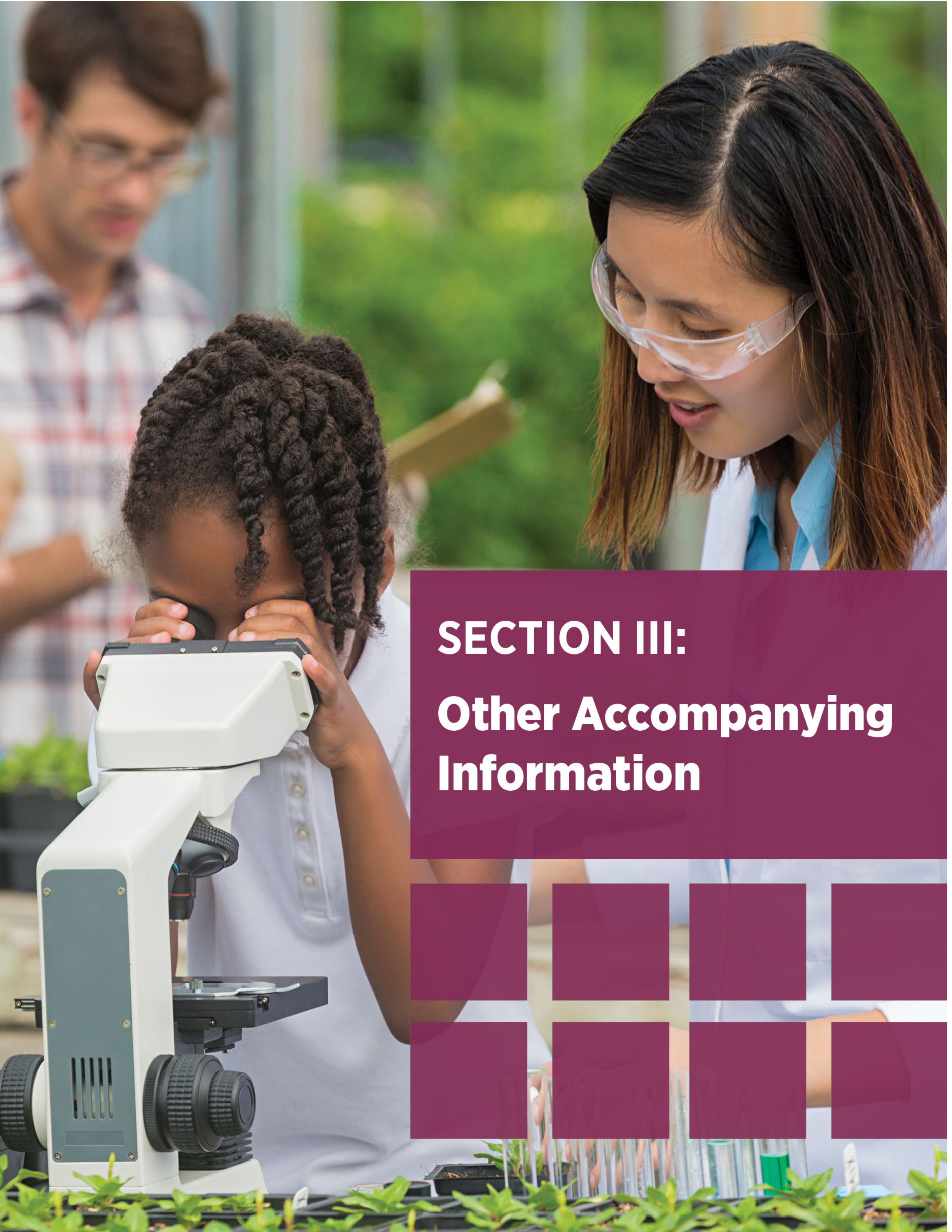


SECTION III: Other Accompanying Information

Management Integrity and Challenges

Overview of EPA's Efforts

Management challenges and integrity weaknesses represent vulnerabilities in program operations that may impair 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 EPA's external evaluators, such as OMB, the U.S. Government Accountability Office (GAO), and EPA's OIG. 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 EPA's progress in addressing its FY 2016 management integrity weaknesses.

Under the FMFIA, all federal agencies must provide reasonable assurance that policies, procedures and guidance are adequate to support the achievement of their intended mission, goals and objectives. (See Section I, "Management Discussion and Analysis," for the Administrator's assurance statement). Agencies also 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 2016, three new material weaknesses were identified by OIG or the Agency. (See following subsection for a discussion of EPA's current material weaknesses.)

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 sound management policy. Agency leaders meet periodically to review and discuss EPA's progress in addressing issues raised by OIG and other external evaluators, as well as progress in addressing current weaknesses and emerging issues. The Agency will continue to address its remaining weaknesses and report on its progress.

2016 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 2016, the OIG identified six 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).

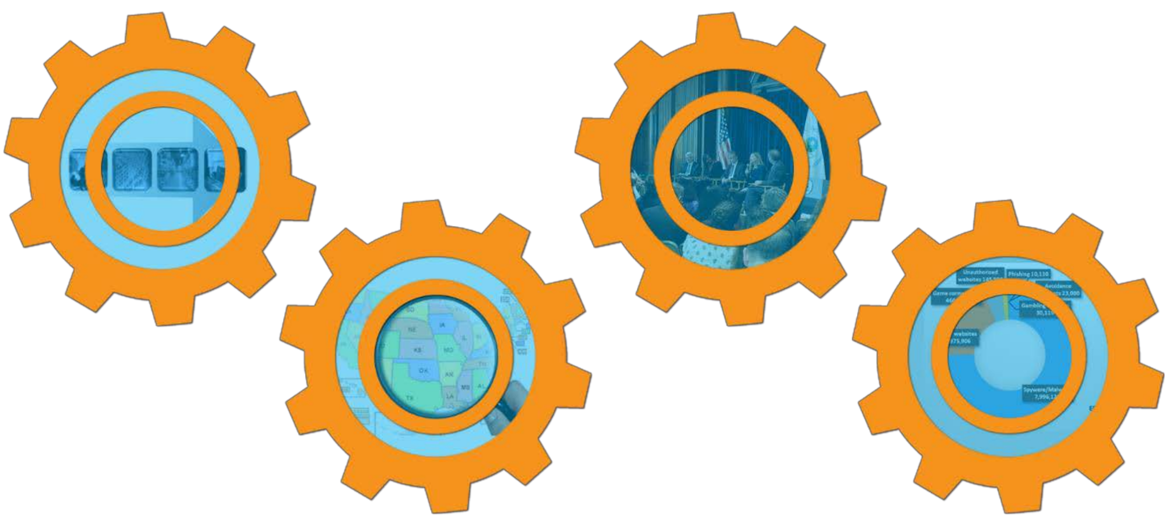
OIG-Identified Key Management Challenges for the EPA	FY 2014	FY 2015	FY 2016	EPA strategic goal
Oversight of Delegations to States: Due to differences between state and federal policies, interpretation, strategies and priorities, the EPA needs to more consistently and effectively oversee its delegation of programs to the states, assuring that delegated programs are achieving their intended goals.	•	•	•	Cross-Goal
Enhancing Information Technology Security to Combat Cyber Threats (*formerly Limited Capability to Respond to Cyber Security Attacks*)**:** The EPA has a limited capacity to effectively respond to external network threats. Although the Agency has deployed new tools to improve its architecture, these tools raise new security challenges. The EPA has reported that over 5,000 servers and user workstations may have been compromised from recent cyber security attacks.	•	•	•	Cross- Goal
Workforce Planning / Workload Analysis: .The EPA's offices have not conducted a systematic workload analysis or identified workforce needs for budget justification purposes; such analysis is critically important to mission accomplishment. The EPA currently plans to apply workload analysis tools to task-driven agency functions, such as grants and contracts. While we understand the difficulty in applying such tools to the EPA's highly variable and non-linear activities, the EPA still needs to more broadly quantify what its full workload entails, so that it can more effectively prioritize and allocate limited resources to accomplish agency work.	•	•	•	Cross- Goal
Abuse in Time and Attendance, Computer Usage, Travel and Real Property Management: Recent events and activities indicate a possible "culture of complacency" among some supervisors at the EPA regarding time and attendance controls, employee computer usage, and real property management. As stewards of taxpayer dollars, EPA managers must emphasize and reemphasize the importance of compliance and ethical conduct throughout the Agency and ensure it is embraced at every level of the organization.	•	•	•	Cross-goal

U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

FY 2016

EPA Management Challenges



16-N-0206
June 16, 2016

Abbreviations

DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAO	U.S. Government Accountability Office
OIG	Office of Inspector General

U.S. Environmental Protection Agency
Office of Inspector General

16-N-0206
June 16, 2016

At a Glance

What Are Management Challenges?

According to the Government Performance and Results Act Modernization Act of 2010, major 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.

As required by the Reports Consolidation Act of 2000, we are providing issues we consider as the U.S. Environmental Protection Agency's (EPA's) major management challenges for fiscal year 2016.

This report addresses all of the EPA's strategic goals and cross-agency strategies.

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

Listing of OIG reports.

EPA's Fiscal Year 2016 Management Challenges

Attention to agency management challenges could result in stronger results and protection for the public and increased confidence in management integrity and accountability.

The EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals:

- We found the absence of robust oversight of entities authorized to implement environmental programs. Oversight requires establishing and maintaining consistent national baselines and monitoring programs to determine whether they meet federal standards. While the EPA has made changes in response to some of our recommendations, corrective actions to which the agency has agreed remain pending in various areas (e.g., permits, inspections).

The EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively:

- The EPA's offices have not conducted a systematic workload analysis or identified workforce needs for budget justification purposes; such analysis is critically important to mission accomplishment. The EPA currently plans to apply workload analysis tools to task-driven agency functions, such as grants and contracts. While we understand the difficulty in applying such tools to the EPA's highly variable and non-linear activities, the EPA still needs to more broadly quantify what its full workload entails, so that it can more effectively prioritize and allocate limited resources to accomplish agency work.

The EPA Needs to Enhance Information Technology Security to Combat Cyber Threats:

- The EPA faces information security challenges of long-standing program weaknesses, lack of corrective actions by management, lack of follow-up on remediation actions taken, and emerging challenges in managing contractors. We acknowledge that the EPA has initiated actions to further strengthen or improve its information security program. However, our audit work from the past 5 years continues to highlight actions that remain for the EPA to address cybersecurity challenges (e.g., weaknesses within the EPA's information security program, and managing contractors that provide key support in operating or managing systems on behalf of the agency).

The EPA Continues to Need Improved Management Oversight to Combat Waste, Fraud and Abuse:

- We identified agency inaction among some supervisors regarding time and attendance controls, segregation of duties for key financial transactions, real property management, and employee travel. The agency's size necessitates effective communication, oversight and management. While the EPA has taken many corrective actions to address prior audits, improvements are still needed. Issues recently identified demonstrate continued deficiencies in the commitment by personnel to management policies and internal control.

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

THE INSPECTOR GENERAL

June 16, 2016

MEMORANDUM

SUBJECT: EPA's Fiscal Year 2016 Management Challenges
Report No. 16-N-0206

FROM: Arthur A. Elkins Jr.

TO: Gina McCarthy, Administrator

We are pleased to provide you with a list of areas the Office of Inspector General (OIG) considers as key management challenges confronting the U.S. Environmental Protection Agency (EPA). The project number for this report was OPE-FY16-0010. According to the Government Performance and Results Act Modernization Act of 2010, major 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.

The OIG shares with the agency itself a core goal: delivering good governance to the American people. Specifically, the Inspector General Act of 1978 directs Inspectors General to provide leadership to the agency through audits, evaluations and investigations, as well as additional analysis of agency operations. The enclosed management challenges reflect findings and themes resulting from many such efforts. Drawing high-level agency attention to these key issues is an essential component of the OIG's good governance mission.

The Reports Consolidation Act of 2000 requires our office to report what we consider the most serious management and performance challenges facing the agency. Additional challenges may exist in areas that we have not yet reviewed, and other significant findings could result from additional work. We provide detailed summaries of each challenge in the attachment.

Just as the U.S. Government Accountability Office does with its High Risk List, each year we assess the agency's efforts against the following five criteria to justify removing a management challenge from the prior year's list:

1. Demonstrated top leadership commitment.
2. Capacity – people and resources to reduce risks, and processes for reporting and accountability.
3. Corrective action plan – analysis identifying root causes, targeted plans to address root causes, and solutions.
4. Monitoring – established performance measures and data collection/analysis.
5. Demonstrated progress – evidence of implemented corrective actions and appropriate adjustments to action plans based on data.

Due to the agency's progress, we deleted two challenges from last year's list ("Limited Controls Hamper the Safe Reuse of Contaminated Sites" and "The EPA Faces Challenges in Managing Chemical Risks"). We retained the remaining four management challenges from last year's list due to persistent issues. We welcome the opportunity to discuss our list of challenges and any comments you might have.

Attachment

CHALLENGE: The EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals

CHALLENGE FOR THE AGENCY

In recent years, our work has identified the absence of robust oversight by the U.S. Environmental Protection Agency (EPA) of states, territories and tribes authorized to implement environmental programs under several statutes. The EPA has made important progress, but recent and ongoing EPA Office of Inspector General (OIG) and U.S. Government Accountability Office (GAO) work continues to support this as an agency management challenge.

BACKGROUND

To accomplish its mission, the EPA develops regulations and establishes programs that implement environmental laws. Many federal environmental laws establish state, territorial and tribal regulatory programs that give states, territories and tribes the opportunity to enact and enforce laws. The EPA may authorize states, territories and tribes to implement environmental laws when they request authorization and the EPA determines a state, territory or tribe capable of operating the program consistent with federal standards. The EPA performs oversight of state, territorial and tribal programs to provide reasonable assurance that they achieve national goals to protect human health and the environment. Oversight of state, territorial and tribal activities requires that the EPA establish and maintain consistent national baselines that state, territorial and tribal programs must meet; monitor state, territorial and tribal programs to determine whether they meet federal standards; and ensure that federal dollars expended help achieve oversight objectives.

The EPA relies heavily on authorized states, territories and tribes to obtain environmental program performance data and implement compliance and enforcement programs. For example:

- Forty-nine states, six territories and one tribe administer the Public Water Supply Supervision Program under the Safe Drinking Water Act.
- Forty-eight states and one territory are authorized to administer the Resource Conservation and Recovery Act hazardous waste program.
- Forty-six states and one territory administer point source programs (National Pollutant Discharge Elimination System) under the Clean Water Act.
- Every state and territory, as well as one tribe, administer Title V of the Clean Air Act, designed to regulate the largest sources of air pollution.

These states, territories and tribes perform a critical role in supporting the EPA's duty to execute and enforce environmental laws. However, the EPA has the authority and responsibility to enforce environmental laws when states, territories and tribes do not. Many EPA programs implement a variety of formal and informal oversight processes that are not always consistent across EPA regions and the states, territories and tribes.

THE AGENCY'S PROGRESS

We have identified EPA oversight of authorized state, territorial and tribal programs as an agency management challenge since fiscal year (FY) 2008. The EPA has made progress in reviewing and measuring inconsistencies in its oversight of state, territorial and tribal programs; using EPA authority when states, territories and tribes have failed to use their delegated authority; and revising EPA policies to improve consistency in oversight.

Since 2008, the EPA has made state oversight an agency priority. In 2013, the EPA developed the new key performance indicator, referred to as *Oversight of State Delegations Key Performance Indicator*. The EPA included oversight in the EPA's FYs 2012–2015 Action Plans for Strengthening State, Tribal, and International Partnerships. The EPA formed a senior-level workgroup that noted additional recommendations on state oversight, including improving consistency for identifying regional and state roles during EPA program review, and developing an initial set of common principles. The EPA also adopted a cross-agency strategy on "Launching a New Era of State, Tribal, Local, and International Partnerships" in its FYs 2014–2018 Strategic Plan, and revised its planning and commitment-setting process beginning in FYs 2016–2017 to provide "earlier and more meaningful engagement with states and tribes." According to the agency, it continues to improve its state oversight practices to ensure consistency by, for example, establishing the State Program Health and Integrity Workgroup. This interagency workgroup is composed of the EPA's national program offices for air, enforcement, and water; it gathers and analyzes information on oversight of state practices, identifies gaps, and develops solutions.

The EPA has made changes in response to recommendations in our reports. For example:

- The EPA recently completed all corrective actions to address recommendations from a July 2014 report where we found that the EPA Region 10 effectively administered cooperative agreements and monitored project progress to determine whether proposed outputs and outcomes were achieved. However, we noted in that report that improvements should be made in both the administration and monitoring of recipient activities. The corrective actions, such as revising the sub-award policy, should help address issues found during the audit.
- In our September 2015 early warning report, we found that the Hawaii Department of Health has not made adequate progress in implementing the corrective action plan in response to the 30 items identified in a Notice of Non-Compliance issued by EPA Region 9. In particular, we noted that Hawaii has not provided an acceptable Intended Use Plan; has executed only 87 percent of the targeted loan commitments of $56 million, resulting in a shortage of $7.4 million; and disbursed only 80 percent of the targeted disbursements of $60 million, leaving $11.8 million in undisbursed funds. We recommended that EPA Region 9 exercise fiduciary responsibility and withhold FY 2015 funds of $8,787,000 for the Hawaii Drinking Water State Revolving Fund (DWSRF) capitalization grant until the region is satisfied with corrective action plan implementation progress. After being briefed on our report, EPA Region 9 initiated an enforcement action against the Hawaii Department of Health for not meeting its loan commitment and disbursement targets. EPA Region 9 advised Hawaii that the FY 2015 DWSRF capitalization grant would be withheld and the region may withhold further awards.

- At the time of the 2012 EPA OIG evaluation on Underground Storage Tank regulations, the agency was in the process of revising the regulations. The EPA published the final revised Underground Storage Tank regulations in July 2015. The final regulations provide states with State Program Approvals 3 years from the rule's effective date to submit their applications for a reinstatement of their State Program Approvals.
- In 2009, we found that High Priority Violations under the Clean Air Act were not being addressed in a timely manner because regions and states did not follow policy, EPA headquarters did not oversee regional and state High Priority Violations performance, and EPA regions did not oversee state High Priority Violations performance. We recommended that the EPA revise the High Priority Violations policy to improve the EPA's ability to oversee High Priority Violation cases and clarify the roles and responsibilities of EPA headquarters and regions, the states, and local agencies. The EPA issued its revised policy in August 2014.
- In December 2014, we reported that the EPA does not obtain all required DWSRF project data from states, despite grants that require states to input key project information into EPA databases. The EPA also does not always use annual reviews of state DWSRF programs to assess project outcomes. We recommended that the EPA enforce grant requirements that states input all necessary data in the project-level tracking database and review data completeness as part of the EPA's annual review of state performance. We also recommended that the EPA enhance coordination between DWSRF and Public Water System Supervision programs and periodically evaluate program results. The EPA completed corrective actions to address each recommendation.

WHAT REMAINS TO BE DONE

We continue to conduct reviews of the EPA's oversight of authorized programs:

- In a May 2016 report, we found that Region 9 needed improved internal controls for oversight of Guam's consolidated cooperative agreements. We noted that Region 9 project files were not readily available to third parties, and Region 9 did not ensure reliability of Guam Environmental Protection Agency Safe Drinking Water Information System data. We found that, without adequate internal controls and oversight, more than $67 million in consolidated cooperative agreement funds may not be administered efficiently and effectively, thus reducing the impact those funds could have on protecting human health and the environment. The agency agreed with our recommendations, and corrective actions are pending.

- In a July 2015 report, we found that the EPA needs to improve oversight of permit issuance for hydraulic fracturing using diesel fuels, and address any related compliance issues. Evidence shows that companies have used diesel fuels during hydraulic fracturing without EPA or primacy state underground injection control Class II permits. The EPA has also not determined whether primacy states and tribes are following the agency's interpretive memorandum for issuing permits for hydraulic fracturing using diesel fuels. Enhanced EPA oversight can increase assurance that risks associated with diesel fuel hydraulic fracturing are being adequately addressed. The agency agreed with our recommendations or proposed actions that met the intent of our recommendations. The corrective actions are pending.

- In a May 2015 report, we found that EPA regions did not consistently document or retain evidence of the quality of state-performed Federal Insecticide, Fungicide, and Rodenticide Act Worker Protection Standard and certification inspections. It was difficult to analyze EPA project officer oversight reviews for adequacy because of an overall lack of records and transparency on how issues associated with state inspections are addressed. The agency agreed with our recommendations, and corrective actions are pending.
- In an April 2015 report, we found that the U.S. Virgin Islands did not meet program requirements for numerous activities related to implementing Clean Air Act, Clean Water Act, Safe Drinking Water Act, and Underground Storage Tank/Leaking Underground Storage Tank programs. Region 2 oversight had not identified program deficiencies uncovered by our review, or implemented procedures to ensure that deficiencies identified by Region 2 were corrected. Moreover, we found deficiencies continued in the U.S. Virgin Islands despite EPA Region 2 oversight uncovering them in prior years. Since the EPA retains responsibility for programs implemented on its behalf—such as those in the U.S. Virgin Islands—we concluded that the agency needs to act to ensure that the public and environment are protected. We made 19 recommendations, ranging from withdrawing the U.S. Virgin Islands' authority to implement EPA programs, to providing additional EPA oversight. The EPA agreed, and has committed to taking appropriate corrective actions. Eight recommendations with agreed-to corrective actions remain pending. Among the corrective actions remaining, the EPA must: make a determination of whether to initiate withdrawal of approval of the U.S. Virgin Islands' National Pollutant Discharge Elimination System program; make a determination as to whether the U.S. Virgin Islands is adequately administering or enforcing its Title V operating permit program; establish an updated Underground Storage Tank/Leaking Underground Storage Tank Memorandum of Agreement with the U.S. Virgin Islands; and assist the U.S. Virgin Islands in implementing procedures to identify Energy Planning and Community Right-to-Know Act Tier II non-filers.
- In a February 2015 report, we found that EPA Region 8 was not conducting inspections at establishments in North Dakota that produce pesticides. Also, since 2011, Region 8 has failed to conduct inspections of pesticides imported into North Dakota. This failure increases the risk that pesticides are not in compliance with federal law, which could result in potential risks from toxics being undetected and adverse human health and environmental impacts occurring. The EPA has committed to taking appropriate corrective actions. Recommendations with agreed-to corrective actions remain pending. The EPA agreed to review Region 8's FY 2015 North Dakota End-of-Year report and confirm that Federal Insecticide, Fungicide and Rodenticide Act producer establishment and import inspections in North Dakota have been initiated, and compile a list in Region 8's North Dakota End-of-Year report of the number of producer establishment and import inspections that are conducted in the state annually.
- In October 2014, we reported weaknesses in EPA oversight of state and local Title V programs' fee revenue practices. Title V permitting requirements are designed to reduce violations and improve enforcement of air pollution laws for the largest sources of air pollution, such as petroleum refineries and chemical production plants. We found that Title V program expenses often exceeded revenue, even though the Clean Air Act requires these programs to be solely funded by permit fees. We recommended that the EPA assess, update and re-issue its 1993

Title V fee guidance as appropriate; establish a fee oversight strategy to ensure consistent and timely actions to identify and address violations; emphasize and require periodic reviews of Title V fee revenue and accounting practices; address shortfalls in staff expertise as regions update their workforce plans; and pursue corrective actions as necessary. The EPA has committed to taking appropriate corrective actions, and completion of actions is pending.

- In September 2014, we issued a report on how effectively the EPA and states administer the Clean Water Act's "pretreatment" and permit programs. We found the EPA is not adequately overseeing significant portions of most states' programs. EPA Region 9 is the only region that ensures that the states they oversee issue discharge permits to sewage treatment plants that include provisions for broad monitoring of hazardous chemicals from industrial users. Without this monitoring, sewage treatment plants may be unaware of hazardous chemicals discharged to them, and have little knowledge of required hazardous waste discharge notifications. In addition, exceedances of chemical limits in permits and toxicity tests do not trigger notification to enforcement programs. As a result, the EPA may not be ensuring that states are using permits to minimize potentially harmful contamination of water resources. The EPA has committed to taking appropriate corrective actions, and completion of actions is pending.
- In July 2014, we reported that the EPA and the states we reviewed took many actions to reduce DWSRF unliquidated balances. However, those actions have not reduced DWSRF unliquidated balances to below 13 percent of the cumulative federal capitalization grants awarded, which the Office of Water states is the focus of its efforts. For the period we examined, the five states reviewed—California, Connecticut, Hawaii, Missouri and New Mexico—executed small numbers of loans each year and did not maximize the use of all DWSRF resources, including capitalization grant awards. State programs reviewed were not adequately projecting the DWSRF resources that would be available in the future to enable states to anticipate the amount of projects needed to be ready for loan execution in a given year. As a result, $231 million of capitalization grant funds remained idle, loans were not issued, and communities did not implement needed drinking water improvements. We also noted that states' fundable lists did not reflect projects that would be funded in the current year, and overestimated the number of projects that will receive funding. We recommended that the EPA require states with unliquidated obligations that exceed the Office of Water's 13-percent-cutoff goal to project future cash flows to ensure funds are expended as efficiently as possible. We also recommended that the EPA develop guidance for states on what projects are to be included on the fundable lists; and require regions, when reviewing capitalization grant applications, to ensure states comply with the guidance. The EPA has committed to taking appropriate corrective actions, and completion of actions is pending.
- In our March 2014 report, we found that the EPA lacks documented procedures that reflect current operations of the Cross-Media Electronic Reporting Regulation program. While program applications require approval from designated officials, the EPA lacks processes to ensure such approvals. The EPA has neither implemented monitoring activities to verify a system's functionality before and after approval nor implemented processes to ensure applications are completed, reviewed and approved within required time frames. The EPA had not made it a priority to keep procedures current for implementing program business practices. Without

current documented business practices, the EPA increases its risks that program applications may not be processed according to prescribed requirements and meet the high level of integrity needed for enforcement activities. The EPA has committed to taking appropriate corrective actions, and the completion of the remaining corrective action is pending.

- In a February 2012 report, we found that EPA regions have management controls to verify the quality of state Underground Storage Tank inspections. All three regions where we conducted our review had annually reviewed Underground Storage Tank inspection programs to verify compliance with requirements. Further, two of the three regions we reviewed conducted more extensive annual reviews and made recommendations to improve state inspection programs. While we did not find any major deficiencies in the administration of the state Underground Storage Tank inspection programs or regional oversight activities, the memoranda of agreement between regions and the state Underground Storage Tank programs either do not exist or do not reflect changes resulting from the Energy Policy Act of 2005. The EPA has committed to taking appropriate corrective actions, and the completion of actions is pending.

GAO has also conducted reviews of the EPA's oversight of states, territories and tribes, and made recommendations to address identified deficiencies. For example, in 2015, GAO found that financial indicators collected by the EPA as part of its oversight responsibilities do not show states' abilities to sustain their State Revolving Funds. GAO recommended that the EPA update its financial indicator guidance to include measures for identifying the growth of the states' funds. GAO also recommended that, during the reviews, the EPA develop projections of state programs by predicting the future lending capacity.

In another example, GAO reported in 2014 that the EPA is not consistently conducting two key oversight and enforcement activities for Underground Injection Control class II programs. GAO found that the EPA does not follow 1983 guidance to routinely do annual on-site state program evaluations, and has not reviewed this guidance to determine which oversight activities are necessary and effective. Further, the EPA has not incorporated all state program requirements and changes into federal regulations through rulemaking. The EPA also has not explored alternatives for incorporating state program requirements and changes into federal regulations. GAO recommended the EPA review emerging risks and related program safeguards; improve data entry, reporting and review; conduct a rulemaking to incorporate state program requirements and changes into federal regulations; evaluate and consider alternative processes to incorporate future changes to state program requirements and changes into federal regulations without a rulemaking; and evaluate and revise, as needed, program guidance on effective oversight.

While important progress has been made, our work continues to identify challenges throughout agency programs and locations, and many of our recommendations remain to be fully implemented. We continue to perform work in this area, and will continue to monitor the agency's progress in addressing this challenge.

CHALLENGE: The EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively

CHALLENGE FOR THE AGENCY

The EPA has not fully implemented controls and a methodology to determine workforce levels based upon analysis of the agency's workload. The EPA's program and regional offices have not conducted a systematic workload analysis or identified workforce needs for budget justification purposes. The EPA's ability to assess its workload—and subsequently estimate workforce levels necessary to carry out that workload—is critically important to mission accomplishment. Due to the broad implications for accomplishing the EPA's mission, we have included this as an agency management challenge since 2013.

BACKGROUND

In 2010, we reported that the EPA did not have policies and procedures requiring that workforce levels be determined based upon workload analysis. In 2011, we reported that the EPA does not require program offices to collect and maintain workload data. Without such data, program offices are limited in their ability to analyze their workload and justify resource needs. The GAO also reported in October 2011 that the EPA's process for budgeting and allocating resources does not fully consider the agency's current workload. In March 2010, the GAO reported that it had brought this issue to the attention of EPA officials through reports in 2001, 2005, 2008 and 2009.

Since 2005, EPA offices have studied workload issues at least six different times, spending nearly $3 million for various contractors to study the issues. However, for the most part, the EPA has not used the findings resulting from these studies. According to the EPA, the results and recommendations from the completed studies were generally not feasible to implement.

Over the past decade, the EPA's workforce levels have declined, with significant reductions in FYs 2012 through 2015, when levels declined by over 2,100 positions. Without a clear understanding of its workload, it is unclear whether this decline jeopardizes the EPA's ability to meet its statutory requirements and overall mission to protect human health and the environment, or if the decline represents a natural and justifiable progression, because the EPA has promulgated major regulations implementing environmental statutes and states have assumed primacy over most media programs.

THE AGENCY'S PROGRESS

In response to the OIG and GAO reports, the EPA stated that it recognized the need to improve its ability to understand and quantify the workload of its component organizations and to make resource allocation decisions based on those assessments. The EPA said that it was committed to improving its analytical capabilities and examining workload measures to support the resource allocation process.

In 2013, we conducted a follow-up review of actions the EPA has taken to address previous OIG recommendations. We found that the EPA:

- Initiated pilot projects in Regions 1 and 6 to analyze the workload for air State Implementation Plans and permits, as well as water grants and permits.
- Surveyed numerous front-line agency managers on the functions performed, thereby creating an inventory of common functions among program offices.
- Through the Office of the Chief Financial Officer, consulted with 23 other federal agencies about their workload methodologies. As a result of that analysis, the EPA selected an approach referred to as the "Table Top" method used by the U.S. Coast Guard. The method is designed to use subject matter experts and actual data to provide estimates of workload. The Table Top approach provides flexibility in implementation, which allows for differences in organizational functions and workloads rather than attempting to fit all regions and programs into a one-size-fits-all approach. The EPA has conducted limited testing on this approach within two program areas—grants and Superfund Cost Recovery. According to EPA officials, while the methodology appears promising for grants, it became overly complicated for Superfund Cost Recovery.

During 2014, the EPA continued to test the workload model in other areas, including:

- Working with Grant Project Officers to evaluate and try to balance uneven workloads.
- Developing a Project Officer Estimator Tool for organizations to examine Project Officer workloads.
- Working with Grants Specialists to refine the Interagency & Grants Estimator Tool.
- Submitting a Draft Funds Control Manual to the U.S. Office of Management and Budget, and receiving and incorporating the Office of Management and Budget's comments.

In January 2016, the EPA issued a draft Funds Control Manual. The manual is intended to fulfill the EPA's corrective actions for several unimplemented recommendations from prior OIG reports on workload analysis. The draft manual highlights several tools the EPA has developed to help programs examine and understand connections between hours of work (or full-time equivalents) and specific tasks, products, results or outcomes. The EPA says that the tools are designed to complement existing financial, budget and program information that organizations already track and use.

The manual highlights four major types of workload analysis tools that the EPA has used: surveys, benchmarking, existing data and analytical tools (such as the U.S. Coast Guard's Table Top analytical framework). In response to many stakeholders' requests (including OIG's) to explain how the EPA's work hours tie to specific results produced, the manual says it is important to stress that it is extremely difficult to demonstrate this tie for many agency activities (such as research or regulatory development), so workload analyses generally should be targeted at task-driven areas, such as grants or contract awards.

In the latest response to this management challenge, the EPA stated that it does not now believe the primary goal of workload analysis is to allocate resources or develop workforce need, but to better understand work and processes and estimate the critical tasks that take up the most time. In other words, the EPA will focus on how to use the resources it has more efficiently, rather than estimating its total workload and the resources needed to complete that workload.

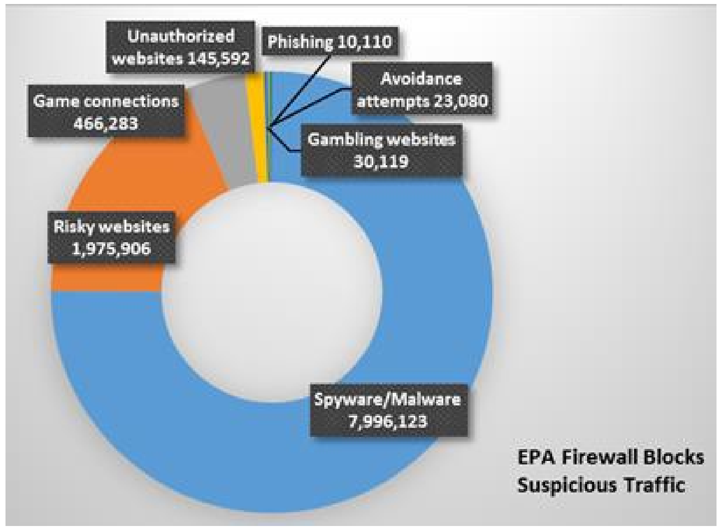
WHAT REMAINS TO BE DONE

The EPA currently plans to apply workload analysis tools to task-driven agency functions, such as grants and contracts. While we understand the difficulty in applying workload analysis tools to the EPA's highly variable and non-linear activities, the EPA still needs to more broadly quantify what its full workload entails, so that it can more effectively prioritize and allocate limited resources to accomplish agency work. In an era of declining resources, the EPA should consider using its current flexibility to move resources to the areas that will mitigate the most environmental risk to the greatest number of people.

The EPA's ability to assess its workload and estimate workforce levels necessary to carry out that workload is critically important to mission accomplishment. As such, we are maintaining workload analysis as a management challenge for FY 2016, and recently initiated additional work in this area. In February 2016, we announced the start of preliminary research on the EPA's Superfund workload allocation. The evaluation objective is to determine whether the EPA's distribution of Superfund resources among EPA regions supports the current regional workload. We will continue to monitor agency progress through this and other ongoing work.

CHALLENGE: The EPA Needs to Enhance Information Technology Security to Combat Cyber Threats

CHALLENGE FOR THE AGENCY



EPA image depicting attacks blocked by the agency's firewall for one month during FY 2015.

The EPA's information security challenges stem from long-standing weaknesses within the information security program, the lack of corrective actions taken by management to resolve audit findings designed to improve the effectiveness and efficiency of the agency's computer network operations, and emerging challenges the agency faces in managing contractors that provide critical support for systems on behalf of the agency. Moreover, the high rate of unreliable data in the agency's Management Audit Tracking System associated with information technology recommendations, and a lack of management follow-through to verify that corrective actions address weaknesses, raise significant doubts and questions about the effectiveness of the EPA's information security program. Results of our audits continue to support that executive management emphasis over audit follow-up is needed, and that the agency needs to take further steps to fully address concerns raised in our reports.

BACKGROUND

We have reported information security as a management challenge for the EPA since FY 2001. Over these years, the agency has made strides to strengthen its policy framework and processes, and made marked improvements in securing the EPA's network infrastructure and systems. However, during this same period, cyber threats have become increasingly sophisticated, which continues to underscore the need to proactively manage and bolster the agency's cybersecurity capabilities. Cyber attacks could have a devastating impact on the EPA's computer systems and network, thereby potentially disrupting agency operations, as well as the lives and operations of employees and businesses who entrust the agency with their most sensitive personal or confidential business information. According to a September 2015 GAO report, federal agencies have reported:

- An increase in the number of incidents that have placed sensitive information at risk.
- An increase of 1,121 percent in the number of cyber incidents reported to the U.S. Computer Emergency Readiness Team from 2006 to 2014.

The recent compromise of personally identifiable information at the Office of Personnel Management, and losses of sensitive information at giant retailers like Target and Home Depot, further highlight that a cybersecurity breach is an ever-present threat faced by any entity that relies on technology. As such, management vigilance and commitment is paramount if the EPA is to realize a fully implemented information security program or have effective processes to identify, respond to and correct security vulnerabilities that place agency data and systems at risk.

THE AGENCY'S PROGRESS

In response to our FY 2015 management challenges, the EPA indicated that it has taken steps to ensure its information technology and cybersecurity practices are fully integrated throughout the agency. The EPA noted the following planned or taken actions to address our growing concerns:

- Establish methods to ensure all accounts are proactively managed, beginning with inactive accounts and accounts with elevated privileges.
- Conduct an inventory of all accounts to consolidate, refine and standardize processes for assigning and removing inactive accounts.
- Improve the integration of personnel actions (e.g., hiring, transfer, termination) with account management.
- Refine established procedures for communicating, disseminating and resolving corrective actions to improve audit follow-up practices.
- Provide security practitioners with the necessary guidance, tools and oversight to address vulnerabilities effectively and in a timeframe consistent with the associated risk impacts.
- Initiate a review of the vulnerability management processes to develop a vulnerability management concept of operations document that will strengthen the agency's processes and procedures in remediating weaknesses.
- Implement the approved training framework whereas the agency will provide each defined security position with role-based training the employee must obtain or maintain to keep their positions.

We acknowledge that the EPA continues to initiate actions to further strengthen or improve its information security program. However, our audit work from the past 5 years continues to highlight 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 systems on behalf of the agency. The EPA's Office of Environmental Information is primarily responsible for information technology management.

Addressing Outstanding Weaknesses

Our FY 2016 report on the agency's progress in completing corrective actions associated with information technology security recommendations made in FYs 2010–2012 found that the agency did not ensure that agreed-to corrective actions were:

- Fully implemented.
- Carried out timely.
- Recorded accurately or managed effectively in the Management Audit Tracking System.

- Verified to have actually fixed the identified weakness even though the corrective actions were recorded as completed in the Management Audit Tracking System.

As noted below, the EPA achieved 11 percent (four of 36) compliance for six attributes outlined in its audit management procedures.

Analysis of the EPA's actions taken to address information security audit recommendations

OIG report and recommendation reviewed	Agency completed agreed-to corrective action(s)?	Corrective action(s) timely completed as agreed to?	Completion date accurately recorded in Management Audit Tracking System?	Documentation maintained to support actions taken readily available?	Agency verified action(s) taken actually fixed the deficiency?	Agency continued to implement the action(s)?
Report 10-P-0058 Recommendation 2-1	No	No	No	No	No	No
Report 11-P-0159 Recommendation 2	No	No	No	No	No	No
Report 11-P-0277 Recommendation 2	No	No	No	No	No	No
Report 12-P-0836 Recommendation 12	No	No	No	No	No	No
Report 12-P-0899 Recommendation 8	No	No	No	No	No	No
Report 13-P-0257 Recommendation 5	Yes	Yes	No	No	Yes	Yes
Overall compliance percent	11%					

Source: OIG analysis.

Managing Contractors

Increased management oversight is needed to ensure agency contractors comply with mandated information system security requirements for systems they operate on behalf of the agency.

- In our FY 2015 report on EPA contract systems, we noted that personnel with oversight responsibilities for contractor systems were not aware of the requirements outlined in EPA information security procedures. As a result, EPA contractors did not conduct the required annual security assessments, did not provide security assessment results to the agency for review, and did not establish the required incident response capability. Without the required security controls, data breaches costing from $1.4 million to over $12 million could have occurred for the systems included in our review if compromised.
- Our FY 2015 audit of the EPA's administration of cloud services disclosed that the EPA is not fully aware of the extent of its use of cloud services, and thereby is missing an opportunity to help make the most efficient use of its limited resources regarding cloud-based acquisitions. We found that inadequate oversight of a cloud service provider resulted in the agency placing an EPA system within the vendor's network that (1) did not comply with federal security requirements, and (2) contained vendor terms of service that were not compliant with the Federal Risk and Authorization Management Program.
- Our FY 2016 annual audit of the EPA's information security program disclosed that agency management of contractor systems require significant management attention to correct deficiencies noted in this area. We found that although the EPA has guidance in place for

oversight of contractor systems, significant improvements are needed to (1) ensure contractors comply with required security controls, (2) maintain an accurate inventory of contractor systems, and (3) identify contractor systems that interface with EPA systems.

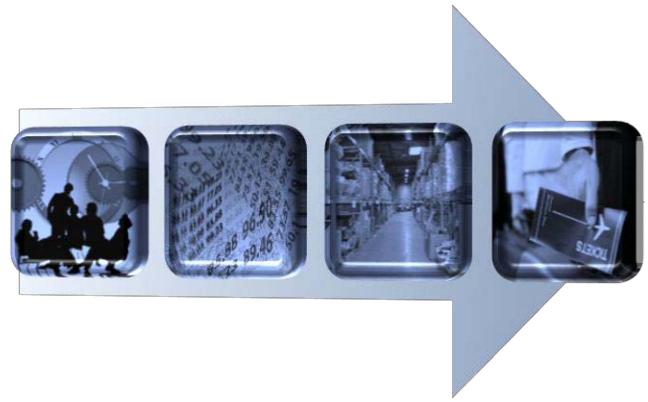
WHAT REMAINS TO BE DONE

The EPA has taken steps to address many of our audit recommendations. However, the following actions remain to address cybersecurity challenges:

1. Verify that the Audit Follow-Up Coordinator function in the Office of Environmental Information has sufficient staffing to be effective and ensure managers and staff understand the process for this function and report concerns with workload.
2. Develop and implement a process that:
   a) Strengthens internal controls for monitoring and completing corrective actions on all open audits.
   b) Maintains appropriate documentation to support completion of corrective actions; if delegated to sub-offices, the process should include regular inspections by the Office of Environmental Information’s Audit Follow-Up Coordinator.
   c) Specifies when sub-offices must complete corrective actions as completed.
   d) Requires verification that corrective actions fixed the issue(s) that led to the recommendation.
   e) Requires sub-offices to continue to use the improved processes.
   f) Requires Office of Environmental Information managers to update the office’s Audit Follow-Up Coordinator on the status of upcoming corrective actions.
3. Establish a policy that sets and enforces an EPA standard for the maximum number of days that an account can remain inactive before the system automatically disables the account.
4. Implement the recommendation of the EPA’s Information Security Task Force to manage annual security assessments, and include steps to oversee assessments to be conducted under a centralized contract or interagency agreement
5. Implement the recommendation of the EPA’s Information Security Task Force to manage the vulnerability management program.

CHALLENGE: The EPA Continues to Need Improved Management Oversight to Combat Waste, Fraud and Abuse

CHALLENGE FOR THE AGENCY



For the past several years, our audit reports have identified agency actions or inactions that indicate a “culture of complacency” among some supervisors at the EPA regarding such areas as time and attendance, segregation of duties for key financial transactions, employee travel, and management of real property. As stewards of taxpayer dollars, EPA managers must emphasize and reemphasize the importance of compliance and ethical conduct throughout the agency, and ensure it is embraced at every level of the organization.

BACKGROUND

The EPA employs over 15,000 people at its headquarters, 10 regional offices, and numerous laboratories and other locations. The agency’s size necessitates effective communication, oversight and management. While the agency has taken many corrective actions to address prior audits, improvements are still needed. Issues we recently identified demonstrate continued deficiencies in the commitment by personnel to management policies and internal control at the EPA.

- Based on work in response to fraud committed over more than a dozen years by an EPA Senior Policy Advisor, we initiated several audits to determine whether internal control deficiencies exist agencywide. We recently completed assignments on overtime policies, administrative leave, travel, bonuses and employee vetting. We found, for example, that:
    a. The EPA did not always comply with EPA policies requiring the advance authorization and approval of overtime. Managers did not always use EPA Form 2560-7 to approve overtime in advance, and its use was not consistent across the agency. Some offices used verbal or other written documents to approve an overtime request. Others did not always retain the request forms as required.
    b. The EPA has a multi-step hiring process and written procedures to ensure quality in the hiring process, and performs some verification of an applicant’s assertions during the pre-employment process. However, the EPA does not have policies and procedures to confirm applicants’ assertions of prior employment or verify awards/professional certifications claimed during the pre-employment phase. Also, the EPA does verify academic credentials for jobs with education requirements.
- Our review of EPA travel vouchers disclosed significant issues related to the travel of a former Region 9 Administrator, as well as other weaknesses agencywide. These weaknesses included travel occurring that may not have been appropriate, inadequate justification for lodging costs above per diem rates, lack of trip reports for international travel, and travel vouchers not being

submitted timely. The insufficient implementation of travel policies and controls result in EPA travel dollars being vulnerable to fraud, waste and misuse.

- The need for management to strengthen internal controls to prevent fraud is particularly pressing in the EPA's implementation of an automated control to enforce segregation of duties for key financial transactions. In our annual reports on the agency's financial statements dating back to 2009, we found the lack of internal controls surrounding the user accounts within the EPA's core financial management system resulted in system users being able to:
    - Process financial transactions and redirect funds to unauthorized bank accounts.
    - Receive access to perform functions not authorized by management.
    - Access the accounting system even after they departed the EPA or no longer needed access to the system.

  While the EPA had agreed with the findings and recommendations in our 2009 report and indicated that it planned to have corrective actions completed by December 30, 2010, these issues still have not been addressed. Management inaction in this area places the EPA's financial transaction processing environment at a high risk that fraud could occur without detection.

- The EPA established policies and procedures for use of administrative leave in connection with employee conduct and disciplinary actions. However, the policies can be improved to provide better guidance for documenting administrative leave, and establish parameters for how much administrative leave should be approved. Our analysis shows the EPA's use of administrative leave is disproportionate when compared to Office of Personnel Management guidance. While administrative leave should be limited to brief absences, our analysis found several employees who had been on administrative leave for 4 months or more without proper justification. The lack of adequate documentation and justification for the extended use of administrative leave results in excessive payroll costs and can lead others to second-guess agency decisions.

- During a hotline complaint review, we found that the Office of the Chief Financial Officer made two individual cash awards of $4,500 to the same new hire within 3 months of her start date. The $9,000 in awards represented approximately 25 percent of the employee's 3-month salary and, according to the Office of the Chief Financial Officer, was an unprecedented amount for such a short period of time after being hired. Although the awards were compliant with federal regulations and EPA award policies, the amounts, justifications and timing raise questions about the reasonableness of the awards and how the Office of the Chief Financial Officer used the awards process.

- The OIG received a hotline complaint that alleged possible time and attendance irregularities related to overtime pay and the use of administrative leave for an employee within the Office of Air and Radiation's Immediate Office. We found the allegation of the misuse of overtime to be unsubstantiated; however, we found that the employee and supervisor signed, in advance, blank requests for overtime authorization forms without identifying the dates and hours of overtime or the reason for overtime. Further, we found the allegation concerning the employee improperly charging administrative leave to attend a funeral to be valid; once this matter was brought to the attention of the agency, the mischarging was corrected.

- The EPA's main authoritative manual for printing operations is over 20 years old and outdated. As a result, the manual does not provide effective guidance for accountability or oversight. The agency's current mindset allows for the storing of large quantities of printed material, leading to the belief that it is cheaper to print in bulk and store materials for years. This matter was brought to the agency's attention, and it agreed to implement corrective actions. However, the agency has extended its deadlines for corrective actions more than once, and still has not established realistic milestones to implement all corrective actions.

THE AGENCY'S PROGRESS

Travel and Time and Attendance

- The agency agreed with all recommendations related to time and attendance. The latest corrective action, involving the employee hiring process, was due February 2016, but this milestone has been delayed.

Segregation of Duties for Key Financial Transactions

- In FY 2012, the EPA created a new agency policy that formally defines the incompatible functions associated with financial management processes, and retired its legacy financial management system.

Management of Real Property

- The agency issued policy guidance for warehouses that required the tracking of non-accountable property, the accounting of all electronics-type property and all accountable and sensitive property, and the recording of all property in warehouses in the agency's asset management system.
- The agency issued guidance requiring EPA Senior Resource Officials to (1) assess annually the operations of warehouses, to efficiently and effectively manage them and make contract adjustments as necessary; (2) assess annually used and unused square feet, to consolidate warehouse space and the storage of personal property located within the same metropolitan area; (3) annually assess the warehouses and the need to store the property items, to find costs savings and efficiencies in operations; (4) conduct periodic unannounced visits to warehouses, to guard against unauthorized use of government resources; and (5) perform an annual certification of non-accountable property in those warehouses.
- The agency indicated it would implement a new mandated property management system and provide guidance on incorporating emerging technologies, along with best practices, to generate efficiencies and enhanced internal controls. The agency's corrective action status on this action has been delayed with no revised date.
- The agency indicated it developed and disseminated best practices for inventory and storage on December 2, 2015, to warehouse managers at Landover, Research Triangle Park and Cincinnati, and to property management officers.

Management of Employee Travel

- The agency agreed with recommendations in our report regarding the need for better management controls for approval of employee travel, and has completed corrective actions for all recommendations.

WHAT REMAINS TO BE DONE

While the EPA is making progress, the agency needs to continue to confront this "culture of complacency." Failure to do so could seriously affect agency resources, impacting the ability of the agency to achieve its mission and goals. Commitment is not demonstrated by a one-time memo and a new policy. The agency should take affirmative measures to communicate its commitment to internal controls, communicating the message repeatedly throughout the organization by many means, both formal and informal, to reinforce a strong "tone at the top."

Segregation of Duties for Key Financial Transactions

- Although the EPA created a new agency policy in FY 2012 that formally defines the incompatible functions associated with financial management processes, in FY 2012, the EPA replaced the Integrated Financial Management System with a new system—Compass Financials. However, the agency had not taken steps to ensure the new system contains an automated control to ensure personnel could not process financial transactions inconsistent with the agency's policy. In response to the EPA's audit resolution process, in January 2016, the agency stated it would take an additional 2 years—until December 2017—to develop an internal control process to prevent the inadvertent processing of financial transactions. This is 8 years after this significant internal control deficiency was brought to management's attention.
- Our current audit work continues to highlight the EPA's challenges in managing user access to its financial applications. With only 39 percent of the EPA financial systems meeting mandated federal requirements for access controls for account management, emphasis is needed to eliminate the possibility that unauthorized access could be used to commit fraud that could go undetected for a significant amount of time.

New Mindsets Toward Printing

- The agency needs to update its main authoritative guidance for printing operations (Printing Management Manual) to include authorization for decentralized operations within the regions.
- The agency needs to issue guidance to EPA regions and program offices to reiterate roles and responsibilities, to help reinforce the authorities and change behaviors. Guidance should specifically include procedures to facilitate the most efficient and economical methods for printing and inventory management.
- The agency needs to establish achievable milestones in the Management Audit Tracking System and complete corrective action to address the following recommendation identified in an August 2014 OIG report on strategic sourcing: "Complete the establishment and collaboration of the Print Commodity Team, and issue an agencywide memorandum requiring reduced printing, reduced color printing, double-sided printing, and less desktop printing."

Agency Response to Office of Inspector General–Identified Key Management Challenges

Challenge #1 – Improved Oversight of States Authorized to Accomplish Environmental Goals

Agency Response: The Agency continues to make state oversight an Agency priority and to improve oversight practices to ensure consistency. An example of the efforts the Agency has taken includes establishing the State Program Health and Integrity Workgroup. This inter-agency workgroup, composed of the EPA's national program offices for air, enforcement and water, gathers and analyzes information on oversight of state practices, identifies gaps and develops solutions.

In response to OIG concerns regarding emission fees, EPA's oversight has been successful in addressing fee program concerns that have arisen over time. Moreover, fee oversight is only one aspect of the EPA's oversight of the complex state operating permit programs, which have been successful in issuing over 15,000 operating permits, furthering the overarching goals of improving compliance with air pollution requirements and public involvement in the permitting process. Over the last two decades, the EPA has provided useful and relevant guidance to implementing authorities and regions to ensure proper administration and oversight, respectively, of fee programs for the operating permits programs.

The EPA agrees that a guidance document that discusses the fee aspect of the oversight program evaluation in additional detail would be useful. The EPA expects to develop such a guidance in part through assessing the 1993 fee schedule guidance, and by either updating that document or issuing a separate fee oversight strategy document. This fee oversight strategy guidance is expected to be responsive to the OIG's recommendations.

The OIG evaluated the underground storage tank (UST) inspection program and recommended that the EPA work with the states to revise their current Memorandums of Agreement to reflect program changes from the 2005 Energy Policy Act and address oversight of municipalities conducting inspections. At the time of the OIG audit, EPA was in the process of revising the UST regulations, addressing among other things, State Program Approval (SPA) for the UST program. EPA published the revised UST regulations in July 2015, which EPA provided states who currently have SPA three years from the rule's effective date to submit their applications for a reinstatement. In agreeing to the OIG recommendation for all states to revise their current Memorandum of Agreement (MOAs), EPA agreed to time the revision and updates of the MOAs with the re-SPA timeframe noted in the final UST regulations. EPA is working with the states and expects to have revised MOAs by October 2018.

Additional efforts the Agency has underway to address concerns raised by OIG include:

- Continues to use its oversight authority under the Safe Drinking Water Act to work with state primacy programs and EPA regional permit authorities to communicate requirements and responsibilities regarding the use of diesel fuels during hydraulic fracturing.
- Promoting consistency across state section 319 grants by developing nationally consistent grant conditions for all EPA regions.
- Implemented the Nonpoint Source Program and Grant Guidelines for States and Territories, which contains specific provisions to strengthen EPA oversight of state programs.

Challenge #2 – Improved Workload Analysis to Accomplish Mission Efficiently and Effectively

Agency Response: As acknowledged by OIG, the inherent difficulties in applying workload analysis to the highly variable, multi-year, and non-linear activities that comprise the majority of the EPA's work, limit the utility of detailed FTE-based workload analyses for broader Agency program estimates. The Agency has found greater value in using trend and macro-level workload reviews to estimate program needs. For example, as part of the FY 2016 budget process, the agency examined broad workload trends as a basis to move resources to address major challenges identified. As a result, the Agency provided 65 additional FTE for air program work and 40 FTE for the Office of General Counsel legal support. In each of these areas, the Agency's senior management considered longer term trends and overall staffing rather than individual tasks and portions of FTEs. For legal work, the Agency considered statistics showing increased litigation and legal review requirements. It is important to note that the "current flexibility to move resources" granted by Congress remains extremely limited and the increased resources requested in the President's Budget were not appropriated. Nonetheless, the Agency maximized the available flexibilities and provided the full FTE increments to those programs in FY 2016.

Additionally, the Agency has worked to find the best value to be derived from detailed workload analysis. Over the last few years, the EPA used workload analysis tools to examine several task-driven functions, including grants officers, project officers, IT security officers, and funds control officer duties. These analyses focused on understanding how much time managers and staff invest in each function's major tasks. The EPA used these analyses to identify major challenges and opportunities, target streamlining and Lean efforts, clarify guidance, prioritize training and structure other support efforts and initiatives.

Rather than trying to create detailed FTE models, the EPA focused its workload analyses on current operations. The Agency found that detailed FTE models created a sense of false precision, quickly became out-of-date due to changing regulations, requirements, and systems, and were overly sensitive to relatively small changes in the inputs. Reflecting this experience, the workload analysis guidance that EPA added to the Funds Control Manual (per the OIG's recommendation) provides information about several types of workload analyses rather than solely discussing FTE workload models. Instead, the guidance discusses several workload tools that can help managers better manage their program, operations and resources.

The EPA will continue to work with the OIG on its current Superfund workload allocation review and use workload and trend analyses to better understand agency programs and help inform budget decisions. In an era of limited financial resources, making difficult trade-offs between many different environmental programs remains one of senior management's greatest responsibilities and challenges.

In addition to its workload analysis efforts, the Agency is piloting a workforce planning tool during the 1st quarter of FY17. The WFP tool compares needed skills with the current supply of skills so that competency gaps can be identified and addressed through strategic hiring and training/development. Use of the WFP tool will (1) allow the Agency to assess the workforce regularly at all organizational levels, ensuring Agency employees possess the skills and abilities necessary to meet current and future mission goals and objectives and (2) align workforce planning with Agency and organizational strategic plans, corresponding action plans, and budget. The pilot will allow insight and emphasis on workforce flexibility and development to facilitate faster adjustment to change and improved workplace performance, supporting maximum responsiveness as job functions, roles, and technology evolve. It is expected that the WFP tool will be available Agency-wide by the end of FY17.

Challenge #3 – Enhance Information Technology Security to Combat Cyber Threats

Agency Response: The Agency is committed to protecting its information and technology assets. EPA understands the threat and pervasiveness of cyber-attacks and is aware of the potential impact to the Agency's mission if information assets are compromised. The Agency published a five-year Information Security Strategic Plan for the Information Security Program, as well as Continuous Monitoring and Risk Management Strategic Plan, to provide the vision and focus for and to drive the program where the agency believes it will provide appropriate risk based protection for EPA's information and information systems.

The following summarizes the Agency's progress in addressing growing concerns.

- Established a 30-day maximum number of days that an account can remain inactive before the system automatically disables the account's technology function in the agency.
- Developed a process to manage annual security assessments, which includes oversight by the Senior Agency Information Security Official (SAISO).
- Coordinating with the U.S. DHS and the General Services Administration to implement capabilities under the Continuous Diagnostics and Mitigation Program, which includes vulnerability management.
- Chartered an Information Security Task Force to identify how best to implement SAISO improvement recommendations for centralizing and consolidating cyber security.

The Agency will make every effort to complete corrective actions for all open recommendations by the originally agreed-upon completion dates, where feasible, by utilizing and refining processes already in place.

Challenge #4 – EPA Continues to Need Improved Management Oversight to Combat Waste, Fraud and Abuse

Agency Response: The Agency believes that enhancements and improved internal controls implemented over the past fiscal year address concerns raised by OIG. Since FY 2013, the EPA has made considerable efforts to strengthen internal controls over time and attendance reporting and employee travel. The Agency revised its T&A procedure, which enhanced senior leadership attention and support to ensure that employees report, review, correct, and attest to the accuracy of their time promptly in the Agency's payroll system. Additionally, the Agency continues to audit 100 percent of its travel vouchers prior to payment to confirm all expenses over $75 are verified by a receipt and expenses are consistent with regulations and policy.

As for concerns regarding segregation of duties for key financial transactions, OIG states that the Agency has not taken steps to ensure the new financial system, Compass, contain an automated control to ensure personnel could not process financial transactions that are inconsistent with the Agency's policy. EPA has a continued need to waive the segregation of duties until a systemic internal control process to prevent the inadvertent processing of financial transactions is developed. The current waiver process includes effective internal controls, which are reviewed routinely by management, to detect and prevent fraudulent transactions.

- OIG believes the Agency's current mindset towards printing allows for the storing of large quantities of printed materials. The Agency acknowledges that it has one centralized in-house print plan approved by the Joint Committee on Printing for which decentralized authorization within the regions is not applicable. Currently, the Agency is updating the Printing Management Manual (PMM) to provide guidance and direction for printing. The updated manual will outline roles and responsibilities, include efficient and economical methods for printing, and an inventory management concept. Additionally, the Agency convened a work group, consisting of printing control officers, to review and recommend updates and/or changes to the PMM roles and responsibilities. The Agency anticipates the updates to the PMM will be completed by FY 2017.

Progress in Addressing FY 2016 Material Weaknesses

In FY 2016, EPA continued to address its material weakness related to recording of transactions and capitalization of software costs. Corrective actions are currently underway and the Agency is scheduled to close the weakness in FY 2018.

Material Weakness

EPA Failed to Capitalize Software Costs

In FY 2014, the Agency found it had undercapitalized software, which resulted in a material misstatement of financial statements and led to the restatement of the FY 2013 financial statements. The OIG declared the material misstatement of the financial statements contributed to the assessment that the Agency's accounting for software is a material weakness, related to the recording of transactions and capitalization of software costs.

To address this weakness, the Agency developed a corrective action plan to resolve the issues identified in the FY 2014 audit. The plan includes using LEAN techniques to improve the accuracy of recording IT transactions in the fixed asset system, and correcting data entries related to depreciation of IT software assets. Additionally, the Agency plans to validate the costs of IT software development projects prior to moving into production. To ensure that software project costs are appropriately capitalized, the Office of the Chief Financial Officer is working with the Office of Environmental Information and other EPA program offices to evaluate software projects costs before capitalizing.

The projected closure date for this material weakness is FY 2018.

EPA Cannot Adequately Support FIFRA Costs

During the FY 2014 financial statement audit for the Pesticides Reregistration and Expedited Processing Fund, OIG indicated that EPA could not adequately support payroll costs in the amounts of $34 million.

To address this material weakness, the Agency has developed a phased-pilot approach that will allow EPA to account for FIFRA program cost activities and expenses and capture direct and indirect costs.

The Agency expects the corrective actions for this weakness to be fully implemented by FY 2018.

EPA Cannot Adequately Support PRIA Costs

During the FY 2014 financial statement audit for the Pesticides Registration Fund, OIG indicated that EPA could not adequately support payroll costs in the amounts of $28 million.

To address this material weakness, the Agency has developed a phased-pilot approach that will allow EPA to account for PRIA program cost activities and expenses and capture direct and indirect costs.

The Agency expects the corrective actions for this weakness to be fully implemented by FY 2018.

EPA/s Accounting for Unearned Revenue

During the FY 2016 financial statement audit, OIG identified a material weakness related to the recording and reconciliation of unearned revenue for Superfund special accounts.

The Agency will develop a corrective action plan to address the OIG's finding.

Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Capitalized Software Cost(1)	1	0	0	0	1
Accounting for Unearned Revenue(2)	0	1	0	0	1
Total Material Weaknesses	1	1	0	0	2

(1) In the FY 2015 Agency Financial Report under the Summary of Financial Statement Audit and the Summary of Management Assurance, the capitalized software costs material weakness was inadvertently labeled as property management.

(2) This new material weakness identified by the OIG on November 7, 2016, and will be included as a carryover material weakness in the FY 2017 AFR. EPA addresses this new material weakness in our response to OIG's draft financial statement audit results in Section II of this report.

Summary of Management Assurance

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) (A-123 Appendix A)

Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Capitalized Software Cost	1	0	0	0	1	0
FIFRA Fund Costs	0	1	0	0	0	1
PRIA Fund Costs	0	1	0	0	0	1
Total Material Weaknesses	1	2	0	0	1	2

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 System Requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance With FFMIA

	Agency	Auditor
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

Freeze the Footprint

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 “Freeze the Footprint” (FTF) 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 2012 baseline.

Freeze the Footprint Baseline Comparison			
	FY 2012 Baseline	FY 2015	Change
Square Footage (SF)	5,906,847	5,657,993	(248,854)

EPA’s FTF baseline, derived from the Agency’s FY 2012 FRPP submission and FY 2012 GSA Occupancy Agreement, is 5,906,847 square feet (SF). The Freeze the Footprint offset square footage is composed of office and warehouse assets reported as excess to GSA. EPA’s FTF total in FY 2015 was 5,657,993 SF, a reduction of 248,854 SF from the baseline.

Reporting of Operation & Maintenance Costs-Owned and Direct Lease Buildings			
	FY 2012 Reported Cost	FY 2015	Change
Operations & Maintenance Costs	$3,761,779	$1,095,199	($2,666,580)

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 hoteling as alternative work strategies once associated costs and impacts are identified.

Schedule of Spending

The Statement of Spending (SOS) presents an overview of how and where EPA is spending money. The SOS that follows reflects total budgetary resources available to the Agency, gross outlays, and fiscal year-to-date total obligations for the Agency.

"What Money is Available to Spend" represents the authority that EPA was given to spend by law and the status of that authority. In this section:

a) **"Total Resources"** represents amounts approved for spending by law.

b) **"Less Amount Not Agreed to be Spent"** represents amounts that EPA was allowed to spend but did not take actions to spend.

c) **"Less Amount Not Available to be Spent"** represents the amount of total budgetary resources that were not approved for spending.

d) **"Total Amounts Agreed to be spent"** represents the amount of spending actions taken by EPA for the fiscal year. This represents contracts, orders and other legally binding obligations of the federal government to pay for goods and services when received.

"How was the Money Spent" identifies the major categories for which EPA made payments during the year. In this section:

a) **"Total Spending"** represents the sum of all payments EPA made during each year against "Amounts Agreed to be Spent". Balances include payments made to liquidate "Amounts Agreed to be Spent" originating in both the current as well as from prior fiscal years.

b) **"Amounts Remaining to be Spent"** represents the difference between "Total Spending" versus "Amounts Agreed to be Spent". Since payments can relate to spending activity initiated in the current and prior years, it is not unusual for total payments in a fiscal year to exceed the amount of the new spending actions originated that year, that are reported under "Amounts Agreed to be Spent". When this condition occurs, negative amounts will be displayed as the balance of "Amounts Remaining to be Spent".

Environmental Protection Agency
Schedule of Spending
For the Fiscal Years Ending September 30, 2016 and 2015
(Dollars in Thousands)

		FY2016		FY2015
What Money is Available to Spend?				
Total Resources	$	14,293,400	$	14,474,129
Less: Amount Not Agreed to be Spent		4,213,473		3,941,984
Less: Amount Not Available to be Spent		43,045		47,466
Total Amount Agreed to be Spent	$	10,036,882	$	10,484,679
How was the Money Spent?				
Environmental Programs and Management				
Contracts	$	737,014	$	714,345
Grants		226,447		222,053
Payroll		1,449,182		1,427,640
Rent, Communications and Utilities		5,229		39,494
Structures and Equipment		192,609		191,034
Travel		25,032		22,548
	$	2,635,513	$	2,617,114
Leaking Underground Storage Tanks				
Contracts		$4,089		$4,909
Grants		87,705		86,006
Payroll		7,331		7,315
Rent, Communications and Utilities		39		71
Structures and Equipment		635		639
Financial Transfer		100,000		-
Travel		273		233
	$	200,072	$	99,173
Superfund				
Contracts		856,905		$793,344
Grants		105,473		92,189
Payroll		391,115		384,381
Rent, Communications and Utilities		10,554		18,397
Structures and Equipment		50,927		53,992
Travel		11,887		9,395
	$	1,426,861	$	1,351,698
Science and Technology				
Contracts		280,980		$272,039
Grants		76,255		77,513
Payroll		336,349		325,956
Rent, Communications and Utilities		12,089		18,999
Structures and Equipment		65,672		72,994
Travel		5,437		5,594
	$	776,782	$	$773,095
State and Tribal Assistance Grants				
Contracts		70,843		$80,796
Grants		3,911,753		4,210,342
Payroll		958		606
Rent, Communications and Utilities		16		23
Structures and Equipment		153		34
Travel		53		32
	$	3,983,776	$	4,291,833
Other Funds				
Contracts		1,025,358		1,178,177
Grants		3,246		3,140
Payroll		115,128		119,766
Rent, Communications and Utilities		720		1,695
Structures and Equipment		43,191		45,649
Travel		2,227		2,339
	$	1,189,870	$	1,350,766
Total Spending	$	10,212,874	$	10,483,679
Amounts Remaining to be Spent		(175,992)		1,000
Total Amounts Agreed to be Spent	$	10,036,882	$	10,484,679

Improper Payments Compliance

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), 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 (PAR).

EPA is dedicated to reducing fraud, waste, and abuse and presents the following improper payment information in accordance with IPIA, as amended; OMB implementing guidance in Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments; and IPIA reporting requirements contained in OMB Circular A-136, Financial Reporting Requirements.

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 (hereafter referred to as "risk-susceptible"), defined as gross annual improper payments exceeding the statutory threshold of both 1.5 percent of program outlays and $10 million of all program or activity payments during the fiscal year reported, or $100 million (regardless of the rate).

2) Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities that are identified as susceptible to significant improper payments.

3) Implement a plan to reduce improper payments in risk-susceptible programs or activities.

4) Report estimates of the annual amount of improper payments in risk-susceptible programs, activities undertaken to reduce them, and progress achieved.

IPIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

The term "payment" means any payment or transfer of federal funds (including a commitment for future payment, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-federal person, non-federal entity, or 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. The term "payment" includes federal awards subject to the Single Audit Act Amendments of 1996 that are expended by both recipients and sub-recipients.

The information in this report describes the Agency's efforts to prevent, detect, and reduce improper payments in its principal payment streams. EPA is committed to improving performance by taking corrective action for any payment stream that is determined to be susceptible to significant improper payments.

I. Risk Assessments

OMB Circular A-123, Appendix C, requires that agencies conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments, and the guidance permits agencies to adopt a three-year risk assessment cycle for low risk programs. The Agency utilizes both qualitative and quantitative methods to assess the risk of improper payments in its programs. The Agency's qualitative risk assessments enable the evaluation of its payment streams for the following 12 risk factors, which are tailored from the OMB guidance:

- The age of the payment stream.
- The complexity of the payment stream with respect to determining correct payment amounts.
- The percentage of payment eligibility decisions made outside the Agency.
- Whether the number or frequency of payments increased substantially.
- Whether there were major changes in the level of program funding.
- The impact of any major procedural changes.
- The impact of any changes in technology.
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
- The level of risk associated with any audit or internal control findings.
- Whether the Agency uses effective systems, techniques, and technologies to prevent or identify illegal, improper, or erroneous purchases.
- The inherent risks of improper payments due to the nature of the payment stream or its operations.
- The level of risk associated with prior year improper payment work.

The qualitative risk assessments consist of a questionnaire and an integrated scorecard to evaluate these risk factors while also identifying internal controls designed to mitigate risks. Directions for completion are provided to the program managers of each payment stream, who assign a score to every risk factor on a scale of 1 to 10. Each score is further supported by a brief narrative providing a rationale for the selection. Upon completion, OCFO performs a calculation to tabulate the scorecard and normalizes the scoring on a scale of 1 to 100, which is the overall risk rating assigned to the payment stream. If the final score falls below 35, the payment stream is at low risk of significant improper payments; if the score is between 35 and 70, the payment stream is susceptible to significant improper payments; and if the score is above 70, the payment stream is at high risk of significant improper payments. For all of its low risk programs, EPA requires that a qualitative risk assessment be performed at least every third year.

The Agency also requires that some of its low risk programs perform quantitative risk assessments annually. Quantitative risk assessments involve transaction testing to identify the potential for significant improper payments. Performing a combination of both quantitative and qualitative risk assessments provides a more in-depth analysis of the Agency's payment streams for the purpose of determining susceptibility to significant improper payments.

In FY 2016, a qualitative risk assessment was performed in contracts, and quantitative risk assessments were performed in grants, contracts, commodities, and payroll. The agency's current risk-susceptible programs — CWSRF, DWSRF, and Hurricane Sandy — remain below the statutory threshold. The SRFs are deemed risk-susceptible by OMB, and Hurricane Sandy is automatically considered risk-susceptible by statute. In addition, the grants payment stream has been newly identified as risk-susceptible based upon the results of transaction testing performed in FY 2016. Therefore, robust statistical sampling will be initiated for the grants payment stream in FY 2017 and beyond in order to ensure accurate improper payment rates and estimates. Finally, none of the Agency's programs were found to be at high risk of improper payments, defined as exceeding $750 million of annual estimated improper payments. Table 1.1, "Risk

Assessment Results," summarizes the status of the Agency's risk assessments for all payment streams.

A) Grants

Based upon the results of transaction testing conducted in FY 2016, it was determined that the grants payment stream exceeded the statutory threshold for significant improper payments. Since the grants payment stream was identified as risk-susceptible, a valid statistical sampling methodology has been developed to ensure the accuracy of improper payment measurements for future year reporting. The sampling methodology has been submitted to OMB and will be applied during the FY 2017 improper payments reporting cycle and beyond, enabling the Agency to report a statistically valid baseline measurement for the grants payment stream.

For FY 2016 reporting, the preceding calendar year remains the scope period for improper payments reporting in the grants payment stream. Thus, the risk assessment for grants reflects the results of recipient reviews closed during calendar year 2015. In FY 2016, the Office of Administration and Resources Management's (OARM's) Office of Grants and Debarment (OGD) conducted advanced monitoring reviews on recipients with active grant awards. Transaction testing was performed, and the results constituted a quantitative risk assessment. OGD selected the recipients via random attribute sampling and stratified them into five categories: state governments, local governments, tribes, universities, and nonprofits. A proportionate number was randomly selected from each group for review. Grants Management Offices are permitted to substitute a minimal number of recipients that are believed to be at a higher risk of non-compliance, as long as the new recipient originates from the same category. Using a standard protocol, an onsite or desk review was performed, and each recipient's administrative and financial management controls were examined. These reviews include an examination of the recipient's administrative policies and procedures and also included the testing of a judgmental sample of three non-consecutive draws.

When the advanced administrative monitoring reviews are closed, results from transaction testing are finalized. Some reviews cannot be closed during the calendar year in which they were originally selected. Recipients have appellate rights whenever the Agency questions costs, which sometimes results in unresolved questioned costs, or there may be open compliance issues requiring resolution by the recipient, which can require substantial time to resolve. For example, the review of a recipient selected for review in Calendar Year 2012 may not be closed until Calendar Year 2014 due to compliance issues requiring resolution. Therefore, improper payment results are reported during the calendar year in which the reviews are closed. In Calendar Year 2015, the Agency closed 48 recipient reviews. Of these closed reviews, 17 recipients were randomly selected in Calendar Year 2015; 18 recipients were selected in Calendar Year 2014; 9 were selected in Calendar Year 2013; 1 was selected in Calendar Year 2012; and 3 were selected in Calendar Year 2011 and prior years. Collectively, the transaction testing results for the 48 reviews closed in Calendar Year 2015 indicated that the grants payment stream had exceeded the statutory threshold during the FY 2016 improper payments reporting cycle, triggering risk-susceptible status for FY 2017 reporting and beyond.

In addition to transaction testing, the Agency also responds to Single Audits and OIG Audits to recover improper payments. These are additional sources of improper payments discovered outside the scope of transaction testing. In addition to the 48 closed recipient reviews, there were 87 Single Audits and three OIG Audits closed in Calendar Year 2015. EPA also identifies improper payments originating from Grant Adjustments and other Enforcement Actions, which occur when a recipient draws down funds but does not fully expend them before the award period ends, or when it has been determined that a recipient received improper payments by other means. The excess funds must be returned to EPA prior to close out of the grant and are considered overpayments, which are tracked and recovered by OCFO's Las Vegas Finance Center (LVFC).

The Agency maintains internal controls to help prevent improper payments in grants. Since 2008, EPA has implemented annual "baseline" monitoring of all active assistance agreements to review fund drawdowns for appropriateness. As part of the baseline monitoring, each assistance agreement is reviewed programmatically by a Project Officer and administratively by a Grants Specialist, both of whom review financial drawdowns for consistency with the project's duration and progress. Any irregularities found are examined with the recipient and further scrutinized when warranted. Project Officers also review progress reports submitted by recipients to ensure that projects are on schedule and progress matches the amount of funding used. Additionally, LVFC routinely monitors all grant payments for irregularities.

B) Commercial Payments (Contracts and Commodities)

The contracts and commodities payment streams are collectively known as commercial payments. The commercial payment streams had very low error rates and were determined to be at low risk of significant improper payments. Given the historically low percentage of improper payments in these payment streams, the Agency relies on its internal review process to detect and recover improper payments.

In FY 2015, both commercial payment streams completed quantitative risk assessments, which confirmed their low risk status. In addition, the contracts payment stream updated and expanded upon its qualitative risk assessment in FY 2016, assessing the level of risk associated with the twelve risk factors tailored from the OMB guidance. The updated qualitative risk assessment for contracts addresses a recommendation from the OIG's May 2016 IPERA compliance audit by incorporating risk and internal control information associated with the contracting activities performed by the Office of Acquisition Management. Both the quantitative and qualitative risk assessments conducted in the contracts payment stream support the low risk determination. Since the commodities payment stream completed a qualitative risk assessment in FY 2015, which had confirmed its low risk status at that time, the next qualitative risk assessment will be required in FY 2018, barring any significant changes in legislation or funding levels. Both commercial payment streams will continue performing annual quantitative risk assessments by continuously monitoring expenditures for improper payments.

The Agency produces monthly improper payment reports for both types of commercial payments and uses these reports as its primary tool for tracking 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 dollar amount of recoveries made for current and prior years.

The Agency's 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 improper payments. 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 Research Triangle Park (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 Agency 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, EPA Contracting Officers perform annual review of invoices on each contract they administer, and DCAA performs audits 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). 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 an offer in which the required processing time for payment exceeds the number of days of the discount offer; and 2) a situation in which it is not economically advantageous to take the discount (i.e., the discounted amount is not economically advantageous in comparison to the Treasury's current value of funds rate). All improper payments stemming from lost discounts are tracked in the monthly improper payment reports.

C) Payroll

The Agency utilizes the prior fiscal year as the basis for improper payments reporting in payroll. During the FY 2015 scope period, the Agency disbursed over $2.2 billion in payroll payments. To determine the level of risk associated with payroll, EPA performed a quantitative risk assessment utilizing statistical sampling. No improper payments were identified in the sample, confirming the payment stream's low risk status. For FY 2015 reporting, payroll had completed a qualitative risk assessment examining the 12 previously identified risk factors, which also confirmed the payment stream's low risk status. Therefore, the next qualitative risk assessment will be required in FY 2018, barring any significant changes in legislation or funding levels. Payroll is largely an automated process driven by the submission of employee time and attendance records and personnel actions. When a debt is identified, the employee is notified of the debt, given the right to dispute the debt, and provided payment options. Then an accounts receivable is recorded. For out-of-service debt, EPA establishes the debt and tracks recovery status. By contrast, in-service debt is monitored by the Interior Business Center, which EPA utilizes as a shared service provider. Interior Business Center (IBC) provides personnel and payroll support to multiple federal agencies.

The following internal controls are related to the prevention, identification and recovery of improper payments in the payroll payment stream. On a bi-weekly basis, employees, timekeepers and managers are required to attest, review or approve employee time in the Agency's time and attendance system, PeoplePlus, prior to the time entry and approval deadlines. Automated reminder notifications are sent as needed. When corrections are made to an employee's timesheet, PeoplePlus overwrites the original timesheet with the corrected version to prevent duplicate payments. The original timecards, as well as all corrected entries, are maintained in the EPA Audit Summary Page and the Payable Time Detail. OCFO's Office of the Controller performs quarterly reviews of all PeoplePlus access roles to identify separated employees who no longer need functional user access. As an additional control, the recertification of roles assigned in PeoplePlus ensures that the authority to approve employee time is only granted to the appropriate front line managers and supervisors assigned to review employee time. The review of certifications ensures that authorized managers have certified that the hours reported on automatically approved timecards are accurate. Finally, EPA has eliminated or enforced various processes (e.g., Mass Approval, Default Pay, and placing stop and start dates in PeoplePlus where the pay cap lift cannot exceed 90 days) that will prevent overpayments in payroll.

D) Travel

The Agency's travel program completed a qualitative risk assessment in FY 2015 and remains at low risk of significant improper payments. Barring any significant changes in legislation or funding levels, the next risk assessment will be completed in FY 2018.

E) Purchase Cards

The Agency's travel program completed a qualitative risk assessment in FY 2015 and remains at low risk of significant improper payments. Barring any significant changes in legislation or funding levels, the next risk assessment will be completed in FY 2018.

II. Statistical Sampling

A) State Revolving Funds

The SRFs are state-administered programs that provide federal funds to the states and Puerto Rico to capitalize revolving loan fund programs. The states receive invoices from fund recipients, review them for eligibility and accuracy, and electronically submit cash draw requests for batches of invoices to EPA. A cash draw is a disbursement from Treasury for the payment of state grants. Each disbursement can refer to a single invoice or a batch of invoices. The Agency makes payments to the revolving loan funds and conducts annual onsite reviews in each state. During the Agency's state reviews, EPA conducts improper payment sampling, reviews invoices for eligibility, confirms that the total amount of invoices matches the amount of cash drawn, and examines accounting records to confirm that the states made matching deposits.

The SRFs are deemed by OMB to be risk-susceptible programs. In FY 2013, the Agency developed a rigorous sampling methodology to determine a statistically valid estimate of improper payments for each SRF. This methodology continues to be applied annually and is used to calculate error rates for each SRF, which are published in Table 1, "Improper Payments Reduction Outlook."

The statistical sampling methodology used for the CWSRF and DWSRF programs draws a random, statistically valid, stratified sample of payments made by each SRF during the preceding federal fiscal year. For FY 2016 reporting, statistical sampling was conducted on each SRF's universe of FY 2015 payments. The samples were randomly selected and stratified by dollar amount, then tested for improper payments during the annual state reviews conducted by the Agency's financial analysts. In states where no samples were randomly selected for review, supplemental transaction testing was conducted to ensure that at least four transactions were reviewed per state. Results of these supplemental reviews are reported in Table 4, "Overpayment Payment Recaptures with and without Recapture Audit Programs."

The sampling methodology for the CWSRF and DWSRF programs provides a sample size sufficient to estimate the proportion of erroneous payments within a margin of error of plus or minus 2.5 percent and a 90 percent confidence level. The CWSRF and DWSRF samples conservatively assume an estimated proportion of erroneous payments of 3.0 percent. Given the variability in the distribution of dollar payments within each SRF, the Agency uses stratified random sampling, which involves a greater probability of selecting larger payments relative to the smaller payments and increases the precision of the estimated percentage of erroneous payments. The dollar value of sampled CWSRF payments represents 27 percent of all CWSRF dollars paid. Similarly, the dollar value of sampled DWSRF payments represents 13 percent of all DWSRF dollars paid.

B) Hurricane Sandy

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, which provides a total of $50.5 billion in aid for Hurricane Sandy disaster victims and their communities. Under the Act, EPA was appropriated over $600 million of funds for Hurricane Sandy recovery and other disaster-related activities, including $500 million for CWSRF, $100 million for DWSRF, $5 million for LUST grants, $2 million for Superfund, and about $700 thousand for other repairs. Sequestration subsequently reduced these amounts by 5 percent for an EPA total of $577 million.

Pursuant to OMB Memorandum M-13-07, Accountability for Funds Provided by the Disaster Relief Appropriations Act, programs and activities receiving funds under the Act were automatically deemed susceptible to significant improper payments and were required to calculate and report an improper payment estimate. As a result, EPA designed a statistical sampling plan for testing Hurricane Sandy expenditures. The sampling plan describes the methodology used for deriving a statistically valid estimate of improper payments. The Agency implemented the sampling plan for use in FY 2014 reporting and beyond, grouping all Hurricane Sandy appropriated funds into a consolidated payment stream, stratifying them by component payment stream, conducting statistical sampling within each stratum, and reporting improper payments on the basis of expenditures made during the preceding fiscal year.

The Agency applies a disproportionate stratified random sampling methodology to select payments for review. The Hurricane Sandy payment population was divided into four strata by payment type, including grants, contracts, commodities, and payroll. Within each stratum, a simple random sample of payments was selected for review. The strata for grants, contracts, and commodities were sampled in their entirety due to the small number of transactions, and the stratum for payroll was sampled in proportion to the dollars within that stratum. The impact of this stratification approach is to maximize the total number of dollars being selected for review while also ensuring the efficient use of Agency resources. It is important to note that the stratum for grants-related expenditures includes all SRF and non-SRF grant draws. To date, all SRF funds have been obligated and will be sampled for improper payments during the fiscal year following expenditure.

Given the time required to plan, design and build complicated construction projects, EPA forecasts that the states will expend the SRF portion of the Hurricane Sandy funding over many years. For this reason, the Agency requested and obtained a waiver from OMB from the Act's two-year expenditure requirement. Improper payment sampling will continue annually until all funds have been expended.

III. Improper Payment Reporting

Table 1, "Improper Payment Reduction Outlook," summarizes the Agency's improper payment results in its risk-susceptible programs, which include the Clean Water SRF, Drinking Water SRF, and Hurricane Sandy.

Table 1: Improper Payment Reduction Outlook (1)
($ in millions)

Program	FY15 Outlays	FY15 IP%	FY15 IP $	FY16 Outlays	FY16 IP%	FY16 IP $	FY16 Over-pmt	FY16 Under-pmt	FY17 Est. Outlays	FY17 Est. IP%	FY17 Est. IP $	FY18 Est. Outlays	FY18 Est. IP%	FY18 Est. IP $	FY19 Est. Outlays	FY19 Est. IP%	FY19 Est. IP $
Clean Water SRF (2)	$1,549.93	0.10%	$1.51	$1,668.30	0.01%	$0.08 (3)	$0.06 (4)	$0.02 (4)	$979.00 (est.)	1.43% target	$14.00 (est.)	$999.00 (est.)	1.40% target	$13.99 (est.)	$1,019.00 (est.)	1.37% target	$13.96 (est.)
Drinking Water SRF (2)	$1,162.90	0.19%	$2.23	$1,223.48	0.01%	$0.17 (3)	$0.07 (4)	$0.10 (4)	$933.00 (est.)	1.98% target	$18.47 (est.)	$729.00 (est.)	1.97% target	$14.36 (est.)	$739.00 (est.)	1.96% target	$14.48 (est.)
Hurricane Sandy (5)	$1.29	0.03%	$0.0004	$1.43	0.00%	$0.00	$0.00	$0.00	$138.62 (est.)	1.50% target	$2.08 (est.)	$121.30 (est.)	1.50% target	$1.82 (est.)	$109.74 (est.)	1.48% target	$1.62 (est.)
Total (6, 7)	$2,714.12	0.14%	$3.74	$2,893.21	0.01%	$0.25	$0.13	$0.12	$2,050.62	1.68%	$34.55	$1,849.30	1.63%	$30.17	$1,867.74	1.61%	$30.06

(1) In this table, the fiscal year designations in each column refer to the year in which improper payment results are reported. Since the SRFs and Hurricane Sandy report improper payments on the basis of expenditures made during the prior fiscal year, the actuals data displayed in this table are derived from the statistical sampling of prior year expenditures. For example, the outlays displayed in the "FY15 Outlays" column represent FY 2014 actuals, and the outlays displayed in the "FY16 Outlays" column represent FY 2015 actuals. The out-year estimates are not similarly adjusted; for example, the "FY17 Est. Outlays" column represents current projections for outlays in FY 2017.
(2) The reduction targets provided for CWSRF and DWSRF are aggressive yet also realistic. They are consistent with each program's historical record of performance while also encouraging the maintenance of improper payment rates to levels that are near or below the statutory threshold for significant improper payments. From FY 2013 to FY 2016, the actual improper payment rates in both SRFs declined dramatically. Thus, both programs have set appropriate out-year reduction targets that are designed to sustainably maintain improper payment reductions over the long term. For DWSRF, FY 2015 and FY 2016 are the first years in which the improper payment rate does not reflect a large proportionality error. More time is needed to ensure this type of error is not recurring.
(3) These are estimates derived by extrapolating the error rate identified from statistical sampling to the full population of each program's payments.
(4) These are estimates derived by taking the ratio of actual overpayments and underpayments to total actual errors identified in the sample, then multiplying by the overall estimate of improper payments calculated for each SRF.
(5) Hurricane Sandy outlay estimates are derived from EPA's Hurricane Sandy Internal Control Plan.
(6) Does not include the grants payment stream, which was newly identified as risk-susceptible in FY 2016 based on the results of transaction testing. The Agency has developed a new statistical sampling methodology in order to take a baseline measurements in FY 2017, which will be reported in the FY 2017 AFR.
(7) The total does not represent a true statistical estimate for the Agency.

Table 1.1: Risk Assessment Results						
Payment Stream	Risk Assessments Performed in FY16	Scope Period for Reporting	Low Risk	Risk-Susceptible	Next Qualitative Risk Assessment	Next Quantitative Risk Assessment
Grants (1)	Quantitative	CY 2015 (1)		X (2)	n/a	Annual sampling
Contracts	Both (3)	FY 2016	X		FY 2019	FY 2017
Commodities	Quantitative	FY 2016	X		FY 2018	FY 2017
Payroll	Quantitative	FY 2015	X		FY 2018	FY 2017
Travel	n/a	FY 2015	X		FY 2018	n/a
Purchase Cards	n/a	FY 2015	X		FY 2018	n/a
CWSRF	Annual sampling	FY 2015		X	n/a	Annual sampling
DWSRF	Annual sampling	FY 2015		X	n/a	Annual sampling
Hurricane Sandy	Annual sampling	FY 2015		X	n/a	Annual sampling

(1) In this table, "CY" refers to "Calendar Year."
(2) Statistical sampling, along with all other requirements associated with Grants as a newly identified risk-susceptible program, will begin with FY 2017 improper payments reporting. Also see Note #6 to Table 1.
(3) "Both" refers to a combination of quantitative and qualitative risk assessments.

Table 1.2: Stratification of Clean Water State Revolving Fund Payments					
Stratum	Payment Range	Total Number of Payments	Total Dollars	Number of Payments Sampled	Dollars Sampled
1	<$100,000	940	$22,423,042	17	$321,854
	$100,000–$999,999	644	$254,591,551	12	$3,830,358
2	$1,000,000–$1,649,999	121	$152,166,745	2	$2,767,374
	$1,650,000–$3,499,999	125	$298,767,223	49	$113,843,956
	$3,500,000–$9,999,999	85	$468,967,911	34	$192,470,477
	$10,000,000-$39,999,999	18	$277,404,149	5	$85,130,954
	>$40,000,000	3	$193,976,719	1	$44,386,986
Total		1,936	$1,668,297,340	120	$442,751,959

Table 1.3: Stratification of Drinking Water State Revolving Fund Payments					
Stratum	Payment Range	Total Number of Payments	Total Dollars	Number of Payments Sampled	Dollars Sampled
1	<$100,000	2,620	$73,087,634	30	$573,887
	$100,000–$299,999	786	$139,233,210	4	$760,186
	$300,000–$599,999	364	$157,077,868	2	$1,013,293
2	$600,000–$999,999	206	$155,551,403	42	$31,271,441
	$1,000,000–$9,999,999	218	$491,329,772	40	$93,064,405
	$10,000,000–$39,999,999	9	$163,580,732	2	$32,152,021
	>$40,000,000	1	$43,615,821	0	$0
Total		4,204	$1,223,476,440	120	$158,835,233

Table 1.4: Stratification of Hurricane Sandy Payments				
Payment Type	Total Number of Payments	Total Dollars	Payments Sampled	Dollars Sampled
Payroll	74	$240,129	34	$121,601
Contracts	32	$695,944	14	$354,023
Commodities	2	$9,529	2	$9,529
Grants	8	$370,986	8	$370,986
Total	116	$1,316,588	58	$856,139

IV. Improper Payment Root Cause Categories

Table 2, "Improper Payment Root Cause Category Matrix," classifies by root cause all improper payments identified in the Agency's risk-susceptible programs.

Table 2: Improper Payment Root Cause Category Matrix (1) (2) *($ in millions)*							
Reason for Improper Payment		CWSRF		DWSRF		Hurricane Sandy	
		Overpay	Underpay	Overpay	Underpay	Overpay	Underpay
Program Design or Structural Issue							
Inability to Authenticate Eligibility							
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	$0.06	$0.02	$0.07	$0.10		
	Other Party						
Medical Necessity							
Insufficient Documentation to Determine							
Other Reason							
Total		$0.06	$0.02	$0.07	$0.10	$0.00	$0.00
(1) CWSRF, DWSRF, and Hurricane Sandy report improper payments from the preceding fiscal year. (2) The figures presented in this table are extrapolated estimates. See Table 1, note #3 for further explanation.							

V. Corrective Actions

Not applicable. EPA's current risk-susceptible programs – CWSRF, DWSRF, and Hurricane Sandy – do not exceed the statutory threshold. Starting with FY 2017 reporting, a baseline measurement will be taken for the grants payment stream. If the baseline measurement exceeds the statutory threshold, then a corrective action plan would be required in the FY 2017 AFR.

VI. Internal Control over Payments

Not applicable. Table 3 is not required.

VII. Accountability

Not applicable.

VIII. Agency Information Systems and Other Infrastructure

Not applicable.

IX. Barriers

Not applicable.

X. Recapture of Improper Payments Reporting

IPERA requires agencies to conduct payment recapture audit reviews in any program expending more than $1 million annually. EPA's payment streams meet this requirement, so payment recapture activities are performed in every payment stream, and the work is performed internally by Agency employees who continuously monitor each payment stream to identify and recapture overpayments. Past experience 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 contractor to continue performing recapture activities. Therefore, EPA no longer uses a private firm to recapture overpayments and operates an internal program with Agency resources. The results of the Agency's efforts to identify and recover overpayments are published annually in the AFR. The Agency's payment recapture audit program is part of its overall program of internal control over disbursements, which includes establishing and assessing internal controls to prevent improper payments, reviewing disbursements to identify improper payments, assessing root causes of error, developing corrective action plans where appropriate, and tracking the recovery of overpayments. The specific actions and methods used to prevent, identify, and recover overpayments are generally described within each program's narrative. Each payment stream follows Agency-wide improper payments guidance, in addition to established internal procedures.

Within the Agency's low risk programs, EPA takes steps to minimize errors to the extent possible. In contracts and commodities, improper payments may include typographical errors, payments to incorrect vendors, duplicate payments, or lost discounts. For grants, the errors principally consist of ineligible expenses and lack of supporting documentation. For payroll, out-of-service debt is a known cause of error, which occurs when an employee leaves the Agency and owes funds back to EPA following separation, or is in-service debt, which arises during the time of employment. For travel, improper payments can include ineligible expenses, and for purchase cards, improper payments can include ineligible purchases. When an overpayment is identified, the appropriate finance center establishes an account receivable, and existing procedures are followed to ensure prompt recovery.

To recover improper payments in grants, EPA's OGD reconciles unallowable cost repayment information maintained by LVFC with data posted in the Grantee Compliance and Recipient Activity (GCRA) Database. When improper payments are identified, LVFC establishes a receivable, and EPA staff follows up with the recipient to recapture all improper payments. In instances where it is unclear whether unallowable costs have been recaptured, or if there is limited information in the GCRA database addressing how unallowable costs were recovered, the Compliance Team follows up with the Grants Management Officer (GMO) assigned to the respective assistance agreement to ensure that all supporting documentation related to an action is uploaded into the database. To help prevent improper payments in grants, OGD conducts pre-award certification of all recipients that receive awards in excess of $200K to ensure their written policies and procedures specify acceptable administrative, financial management systems and internal controls to safeguard federal funds prior to issuance of the grant award, and recertifications are conducted every four years. GMOs are also required to ensure that recipients are not listed in the Excluded Parties List System within the System for Award Management (SAM).

Additionally, 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. Recipients that have been deemed "high-risk" are put on a reimbursement payment plan and are required to submit cost documentation (receipts, invoices, etc.) in support of allowable costs for review and approval, prior to receiving reimbursement for those costs. Furthermore, to strengthen internal controls regarding improper payments, EPA is currently revising its "Pre Award Certification" Training program to include provisions for the implementation of the Uniform Grants Guidance. In order to ensure consistent review and analysis of recipient documentation, OGD has developed and implemented an Advanced Administrative Monitoring standard operating procedure for Grant Specialists to use when performing transaction testing and analyzing the recipient's administrative and financial management systems. Similarly, OGD will launch an advanced monitoring forum to serve as a platform to discuss and provide technical assistance to the grants management community in resolving complex advanced monitoring reviews.

For contracts and commodities, 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. Due to the inclusion of lost discounts as improper payments, there has been an increase in the number of improper payments reported as compared to prior years. However, EPA continues to explore ways in which the "discount taken" rate can be increased in order to reduce improper payments.

In the purchase card program, the Agency implemented a block of an additional 130 Merchant Category Codes to prevent transactions considered high risk, including codes considered non-applicable for routine Agency purchase card transactions. Transactions are declined at the point of sale. For blocked transactions, cardholders are required to contact the purchase card program office to discuss the acquisition and provide written supporting documentation for the purchase which is reviewed by a team member. Determinations are made on a case-by-case basis providing closer review and scrutiny of transactions. These controls reduce potential risks associated with abuse or misuse. EPA also utilizes the following charge card vendor reports to detect possible card misuse: suspected split transactions, transactions greater than $3,000, declined transaction report, inactive 365+ day report, approving official span of control, bars/restaurant transaction report, training officer report, and convenience check report.

Within the Agency's risk-susceptible programs, which consisted of CWSRF, DWSRF, and Hurricane Sandy for FY 2016 reporting, EPA has a greater focus on the prevention of improper payments. Errors typically 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. EPA Regions are required to conduct annual reviews of state SRF programs using checklists developed by Headquarters. Included in the checklist are questions about improper payments which the Regions discuss with the state SRF staff during the reviews. 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 EPA's Program Evaluation Report, and the Agency follows up with the state to ensure compliance.

Despite the Agency's best efforts to collect all overpayments, some overpayments are unrecoverable. For example, lost discounts can occur when the Agency is unable to pay an invoice within the time period specified by the vendor and are uncollectible by their very nature.

The tables that follow provide detailed information concerning the Agency's efforts to identify and recapture improper payments across all payment streams.

Table 4: Overpayment Payment Recaptures with and without Recapture Audit Programs (1) (2) (3)

($ in millions)

	Overpayments Recaptured Through Payment Recapture Audits																	Overpay Recaptured Outside of Payment Recapture Audits	
	Contracts					Grants					Other					Total			
Program or Activity	Amount Identified	Amount Recaptured	CY Recapture Rate	CY+1 Recapture Rate Target	CY+2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY+1 Recapture Rate Target	CY+2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY+1 Recapture Rate Target	CY+2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
CWSRF						$0.003	$0.003	100%	90.6%	90.7%						$0.003	$0.003	$0.002	$0.002
DWSRF						$0.01	$0.01	100%	90.6%	90.7%						$0.01	$0.01	$1.22	$1.23
Grants						$0.19	$0.10	52.6%	89.0%	89.1%						$0.19	$0.10	$2.73	$1.95
Contracts (4)	$1.091	$1.046	95.9%	93.0%	93.4%											$1.091	$1.046	$0.004	$0.00
Commodities (4)	$0.146	$0.144	98.6%	93.5%	93.7%											$0.146	$0.144	$0.00	$0.00
Hurricane Sandy						$0.00	$0.00	n/a	90.6%	90.7%						$0.00	$0.00	$0.00	$0.00
Payroll																$0.00	$0.00	$0.94	$0.92
Travel																$0.00	$0.00	$0.004	$0.00
Purchase Cards																$0.00	$0.00	$0.04	$0.00
Other (5)																$0.00	$0.00	$0.96	$0.51
Total	$1.24	$1.19	96.0%	n/a	n/a	$0.20	$0.11	55.0%	n/a	n/a	$0.00	$0.00	n/a	n/a	n/a	$1.44	$1.30	$5.90	$4.61

(1) Amounts shown in the "Overpayments Recaptured Through Payment Recapture Audits" portion of this table were recovered by the Agency's internal payment recapture audit program via statistical sampling. Amounts in the "Overpayments Recaptured Outside of Payment Recapture Audits" portion were recovered through additional means available to the Agency.
(2) All payment streams except grants, contracts, and commodities report on the prior fiscal year basis for improper payments reporting; grants report on a prior calendar year basis, while contracts and commodities report on a current fiscal year basis.
(3) Amounts may not sum to total due to rounding. Current year recapture rates are calculated using non-rounded amounts to provide greater precision.
(4) Dollar values for contracts and commodities do not include lost discounts, which are uncollectible by definition.
(5) Includes sensitive pay areas that cut across multiple payment streams.

Table 5: Disposition of Funds Recaptured Through Payment Recapture Audit Programs *($ in millions)*								
Program or Activity	Amount Recaptured	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
CWSRF	$0.003 (1)	Grants	$0.06 (2)	$0.00	$0.00	$0.00	$0.00	$0.00
DWSRF	$0.01 (1)	Grants	$0.06 (2)	$0.00	$0.00	$0.00	$0.00	$0.00
Grants	$0.10	Grants	$0.53 (3)	$0.00	$0.00	$0.00	$0.00	$0.00
Contracts	$1.046	Contracts	$0.08 (4)	$0.00	$0.00	$0.97	$0.00	$0.00
Commodities	$0.144	Contracts	$0.08 (4)	$0.00	$0.00	$0.06	$0.00	$0.00
Hurricane Sandy	$0.00	Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Payroll	$0.00	Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Travel	$0.00	Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Purchase Cards	$0.00	Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other	$0.00	Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total	$1.30	n/a	$0.81	$0.00	$0.00	$1.03	$0.00	$0.00

(1) All SRF recoveries are automatically returned to the program since the SRFs are funded with no-year money that does not expire.
(2) The same cost estimate applies to each SRF.
(3) Includes Calendar Year 2015 costs for post award monitoring contract and the cost of EPA personnel performing reviews.
(4) The same cost estimate applies to both contracts and commodities.

Table 6: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (1) (2) *($ in millions)*					
Program or Activity	Type of Payment	Amount Outstanding (0 to 6 Months)	Amount Outstanding (6 Months to 1 Year)	Amount Outstanding (Over 1 Year)	Amount determined to not be collectable
CWSRF	Grants	$0.00	$0.00	$0.00	$0.00
DWSRF	Grants	$0.00	$0.00	$0.00	$0.00
Grants	Grants	$0.00	$0.06	$0.03	$0.00
Contracts	Contracts	$0.044	$0.001	$0.00	$0.00
Commodities	Contracts	$0.002	$0.00	$0.00	$0.00
Hurricane Sandy	Grants	$0.00	$0.00	$0.00	$0.00
Payroll	Other	$0.00	$0.00	$0.00	$0.00
Travel	Other	n/a	n/a	n/a	n/a
Purchase Cards	Other	n/a	n/a	n/a	n/a
Other	Other	n/a	n/a	n/a	n/a
Total	n/a	$0.05	$0.06	$0.03	$0.00

(1) This table shows the age of outstanding overpayments identified by statistical sampling, consistent with Table 4.
(2) The aging of an overpayment begins at the time the overpayment is detected.

XI. Additional Comments

None.

XII. Reduction of Improper Payments with the Do Not Pay Initiative

The enactment of IPERIA in January 2013 codified requirements for federal agencies to implement the Do Not Pay (DNP) initiative, which is a government-wide solution designed to prevent payment errors and detect waste, fraud, and abuse in programs administered by the federal government.

Since March 2013, EPA has used Treasury's DNP system for reviewing disbursements for improper payments. Treasury analyzes each Agency's payments and provides a monthly report itemizing any payments 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 databases contained in Treasury's DNP system. In FY 2016, EPA used the following DNP databases on a post-payment basis: the Death Master File (DMF) and the SAM Exclusion List. Additionally, agency payments are monitored by the Treasury Offset Program, which is a pre-payment tool used by Treasury to offset federal payments to recipients with delinquent federal nontax debt.

Treasury's monthly DNP report is reviewed by LVFC. LVFC uses the online single search feature in the DNP portal to determine whether the potential matches identified by Treasury are conclusive. For conclusive matches, LVFC notifies the appropriate Contracting Officer or Grants Official, who would review the payment records, supporting documentation, and any circumstances involved to determine whether the payment was proper or improper. Within 30 days of receiving Treasury's DNP report, the Agency submits an adjudication report back to Treasury detailing the results of its analysis, including the dollar value of any improper payments identified, recovery status, and outstanding items requiring further research.

In FY 2016, approximately $1.9 billion of EPA payments were screened on a post-payment basis by the DNP system's DMF and SAM Exclusion List. No improper payments were identified. In addition, over 62,100 EPA payments totaling $4.25 billion were made via the Automated Standard Application for Payments (ASAP). ASAP's grantee listing is continuously monitored against DNP data sources for changes in grantee status. Table 7, "Results of the Do Not Pay Initiative in Preventing Improper Payments," summarizes results from EPA's use of Treasury's DNP system.

Table 7: Results of the Do Not Pay Initiative in Preventing Improper Payments (1) ($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	202,031	$1,877.61	0	$0.00	4	$0.23
Reviews with databases not listed in IPERIA (2)	62,100	$4,250.10	0	$0.00	0	$0.00

(1) This table presents data for all of FY 2016.
(2) Includes ASAP amounts.

Finally, EPA conducts pre-award verification prior to issuing grant and contract awards. The Agency consults SAM, which contains a variety of federal databases, prior to the issuance of an award. Although some of these databases are separate from the DNP system, they are useful in preventing improper payments to ineligible recipients.

Conclusions

The Agency commits to the following activities in FY 2017:

- Commence annual statistical sampling in the grants payment stream.
- Pursue the recovery of outstanding overpayments from prior years.
- Review and refine sampling strategies as appropriate.
- Sample Hurricane Sandy relief funding for improper payments until fully disbursed.
- Use Treasury's DNP program to identify payments made to potentially ineligible recipients.

Civil Monetary Penalty Adjustment for Inflation

Report on Inflationary Adjustments to Civil Monetary Penalties

Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvement Act of 2015 (“2015 Act”), EPA issued an interim final rule to adjust each of EPA’s statutory penalty levels with an initial “catch up” adjustment. This “catch up” adjustment was intended to capture inflation that has accrued since the year each penalty level was enacted. Consistent with the 2015 Act, EPA published its 2016 Civil Monetary Penalty Inflation Adjustment Rule (“Rule”) on July 1, 2016, which was effective on August 1, 2016. For details on the 2016 Penalty Rule, *see* 81 *Fed. Reg.* 43,091-43,096 (July 1, 2016), codified at Table 2 of 40 CFR § 19.4. Beginning January 15, 2017, EPA will be amending its Rule annually to adjust penalty levels to reflect changes in inflation since the last adjustment.

Current Statutory Maximum/Minimum Civil Penalties under EPA’s 2016 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)	Current statutory civil penalties for violations that occurred after November 2, 2015 and that are assessed on or after August 1, 2016
7 U.S.C. 136*l*.(a)(1)	FIFRA	1972	2016	$18,750
7 U.S.C. 136*l*.(a)(2)	FIFRA	1972	2016	$2,750
7 U.S.C. 136*l*.(a)(2)	FIFRA	1978	2016	$2,750/$1,772
15 U.S.C. 2615(a)(1)	TSCA	2016	2016	$37,500
15 U.S.C. 2647(a)	TSCA	1986	2016	$10,781
15 U.S.C. 2647(g)	TSCA	1990	2016	$8,908
31 U.S.C. 3802(a)(1)	PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)	1986	2016	$10,781
31 U.S.C. 3802(a)(2)	PFCRA	1986	2016	$10,781
33 U.S.C. 1319(d)	CWA	1987	2016	$51,570
33 U.S.C. 1319(g)(2)(A)	CWA	1987	2016	$20,628/$51,570
33 U.S.C. 1319(g)(2)(B)	CWA	1987	2016	$20,628/$257,848
33 U.S.C. 1321(b)(6)(B)(i)	CWA	1990	2016	$17,816/$44,539
33 U.S.C. 1321(b)(6)(B)(ii)	CWA	1990	2016	$17,816/$222,695
33 U.S.C. 1321(b)(7)(A)	CWA	1990	2016	$44,539/$1,782

Current Statutory Maximum/Minimum Civil Penalties under EPA's 2016 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)	Current statutory civil penalties for violations that occurred after November 2, 2015 and that are assessed on or after August 1, 2016
33 U.S.C. 1321(b)(7)(B)	CWA	1990	2016	$44,539
33 U.S.C. 1321(b)(7)(C)	CWA	1990	2016	$44,539
33 U.S.C. 1321(b)(7)(D)	CWA	1990	2016	$178,156/$5,345
33 U.S.C. 1414b(d)(1)	MARINE PROTECTION, RESEARCH, AND SANCTUARIES ACT (MPRSA)	1988	2016	$1,187
33 U.S.C. 1415(a)	MPRSA	1972	2016	$187,500/$247,336
33 U.S.C. 1901 note (*see* 1409(a)(2)(A))	CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO)	2000	2016	$13,669/$34,172
33 U.S.C. 1901 note (*see* 1409(a)(2)(B))	CACSO	2000	2016	$13,669/$170,861
33 U.S.C. 1901 note (*see* 1409(b)(1))	CACSO	2000	2016	$34,172
33 U.S.C. 1908(b)(1)	ACT TO PREVENT POLLUTION FROM SHIPS (APPS)	1980	2016	$70,117
33 U.S.C. 1908(b)(2)	APPS	1980	2016	$14,023
42 U.S.C. 300g-3(b)	SDWA	1986	2016	$53,907
42 U.S.C. 300g-3(g)(3)(A)	SDWA	1986	2016	$53,907
42 U.S.C. 300g-3(g)(3)(B)	SDWA	1986/1996	2016	$10,781/$37,561
42 U.S.C. 300g-3(g)(3)(C)	SDWA	1996	2016	$37,561
42 U.S.C. 300h-2(b)(1)	SDWA	1986	2016	$53,907
42 U.S.C. 300h-2(c)(1)	SDWA	1986	2016	$21,563/$269,535
42 U.S.C. 300h-2(c)(2)	SDWA	1986	2016	$10,781/$269,535
42 U.S.C. 300h-3(c)	SDWA	1974	2016	$18,750/$40,000

Current Statutory Maximum/Minimum Civil Penalties under EPA's 2016 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)	Current statutory civil penalties for violations that occurred after November 2, 2015 and that are assessed on or after August 1, 2016
42 U.S.C. 300i(b)	SDWA	1996	2016	$22,537
42 U.S.C. 300i-1(c)	SDWA	2002	2016	$131,185/$1,311,850
42 U.S.C. 300j(e)(2)	SDWA	1974	2016	$9,375
42 U.S.C. 300j-4(c)	SDWA	1986	2016	$53,907
42 U.S.C. 300j-6(b)(2)	SDWA	1996	2016	$37,561
42 U.S.C. 300j-23(d)	SDWA	1988	2016	$9,893/$98,935
42 U.S.C. 4852d(b)(5)	RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992	1992	2016	$16,773
42 U.S.C. 4910(a)(2)	NOISE CONTROL ACT OF 1972	1978	2016	$35,445
42 U.S.C. 6928(a)(3)	RESOURCE CONSERVATION AND RECOVERY ACT (RCRA)	1976	2016	$93,750
42 U.S.C. 6928(c)	RCRA	1984	2016	$56,467
42 U.S.C. 6928(g)	RCRA	1980	2016	$70,117
42 U.S.C. 6928(h)(2)	RCRA	1984	2016	$56,467
42 U.S.C. 6934(e)	RCRA	1980	2016	$14,023
42 U.S.C. 6973(b)	RCRA	1980	2016	$14,023
42 U.S.C. 6991e(a)(3)	RCRA	1984	2016	$56,467
42 U.S.C. 6991e(d)(1)	RCRA	1984	2016	$22,587
42 U.S.C. 6991e(d)(2)	RCRA	1984	2016	$22,587
42 U.S.C. 7413(b)	CAA	1977	2016	$93,750
42 U.S.C. 7413(d)(1)	CAA	1990	2016	$44,539/$356,312
42 U.S.C. 7413(d)(3)	CAA	1990	2016	$8,908
42 U.S.C. 7524(a)	CAA	1990	2016	$44,539/$4,454
42 U.S.C. 7524(c)(1)	CAA	1990	2016	$356,312
42 U.S.C. 7545(d)(1)	CAA	1990	2016	$44,539

Current Statutory Maximum/Minimum Civil Penalties under EPA's 2016 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)	Current statutory civil penalties for violations that occurred after November 2, 2015 and that are assessed on or after August 1, 2016
42 U.S.C. 9604(e)(5)(B)	COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA)	1986	2016	$53,907
42 U.S.C. 9606(b)(1)	CERCLA	1986	2016	$53,907
42 U.S.C. 9609(a)(1)	CERCLA	1986	2016	$53,907
42 U.S.C. 9609(b)	CERCLA	1986	2016	$53,907/$161,721
42 U.S.C. 9609(c)	CERCLA	1986	2016	$53,907/$161,721
42 U.S.C. 11045(a)	EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA)	1986	2016	$53,907
42 U.S.C. 11045(b)(1)(A)	EPCRA	1986	2016	$53,907
42 U.S.C. 11045(b)(2)	EPCRA	1986	2016	$53,907/$161,721
42 U.S.C. 11045(b)(3)	EPCRA	1986	2016	$53,907/$161,721
42 U.S.C. 11045(c)(1)	EPCRA	1986	2016	$53,907
42 U.S.C. 11045(c)(2)	EPCRA	1986	2016	$21,563
42 U.S.C. 11045(d)(1)	EPCRA	1986	2016	$53,907
42 U.S.C. 14304(a)(1)	MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT)	1996	2016	$15,025
42 U.S.C. 14304(g)	BATTERY ACT	1996	2016	$15,025

Appendices

Appendix A
Public Access

EPA invites the public to access its website at 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 EPA's historical database.

- American Recovery and Reinvestment Act of 2009: www.epa.gov/recovery
- EPA newsroom: www.epa.gov/newsroom
  News releases: www.epa.gov/newsroom/news-releases
  Regional newsrooms: www2.epa.gov/newsroom/news-releases#regions
- Laws, regulations, guidance and dockets: www2.epa.gov/laws-regulations
  Major environmental laws: www2.epa.gov/laws-regulations/laws-and-executive-orders
  EPA's *Federal Register* website: www.epa.gov/fedrgstr
- Where you live: www.epa.gov/home/epa-your-state
  Search your community: www.epa.gov/cleanups/cleanups-my-community
  EPA regional offices: www.epa.gov/epahome/regions.htm
- Information sources: www.epa.gov/epahome/resource.htm
  Hotlines and clearinghouses: www.epa.gov/epahome/hotline.htm
  Publications: www.epa.gov/epahome/publications.htm
- Education resources: www.epa.gov/students/
  Office of Environmental Education: www.epa.gov/education
- About EPA: www.epa.gov/aboutepa
  EPA organizational structure: www.epa.gov/aboutepa/epa-organizational-structure
- EPA programs with a geographic focus: www.epa.gov/epahome/places.htm
- Partnerships: www.epa.gov/partners
  Central Data Exchange: www.epa.gov/cdx
  Business Guide to Climate Change Partnerships:
  www.epa.gov/partners/Biz_guide_to_epa_climate_partnerships.pdf
- EPA for business and nonprofits: www.epa.gov/home/epa-businesses-and-non-profits
  Small Business Gateway: www.epa.gov/osbp/
  Grants, fellowships, and environmental financing: www.epa.gov/epahome/grants.htm

- **Budget and performance:** www.epa.gov/planandbudget
- **Careers:** www.epa.gov/careers/
  EZ Hire: www.epa.gov/privacy/EZHire
- **EPA en Español:** espanol.epa.gov
- **EPA 中文：繁體版:** www.epa.gov/chinese
- **EPA 中文：简体版:** www.epa.gov/chinese/simple/
- **EPA tiếng Việt:** www.epa.gov/vietnamese
- **EPA 한국어:** www.epa.gov/korean

Appendix B
Acronyms and Abbreviations

A

AFR	*Agency Financial Report*
AICPA	American Institute of Certified Public Accountants
APG	Agency Priority Goal
APPS	Act to Pollution From Ships
APR	*Annual Performance Report*
ASAP	Automated Standard Application for Payments

B

B&F	building and facilities
BFS	Bureau of Fiscal Services

C

CAA	Clean Air Act
CACSO	Certain Alaskan Cruise Ship Operations
CAP	Cross-Agency Priority
CARE	Community Assistance to Resiliency and Excellence (WaterCARE)
CERCLA	Comprehensive Environmental Response Compensation and Liability Act
CFO	Chief Financial Officer
CO_2	carbon dioxide
CPIC	Capital Planning and Investment Control
CSRS	Civil Service Retirement System
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
CY	Calendar Year

D

DATA	Data Accountability and Transparency Act
DCAA	Defense Contract Audit Agency
DELCORA	Delaware County Regional Control Authority
DHS	U.S. Department of Homeland Security
DMF	Death Master File
DM&R	deferred maintenance and repairs
DNP	Do Not Pay
DOJ	U.S. Department of Justice
DOT	U.S. Department of Transportation
DWSRF	Drinking Water State Revolving Fund

E

EDSP	Endocrine Disruptor Screening Program
EJ	environmental justice
EPA	U.S. Environmental Protection Agency
EPCRA	Emergency Planning and Community Right-to-Know Act
EPM	Environmental Programs and Management

F

FAS	Fixed Assets Subsystem
FASAB	Federal Accounting Standards Advisory Board
FBWT	fund balance with Treasury
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act
FTE	full-time equivalent
FTF	Freeze the Footprint
FY	fiscal year

G

GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GCRA	Grantee Compliance and Recipient Activity
GDB	Government Development Bank
GHG	greenhouse gas
GMO	Grants Management Officer
GPRAMA	Government Performance and Results Modernization Act of 2010
GSA	U.S. General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System

H

HFC	hydrofluorocarbon
HSSTF	Hazardous Substance Superfund Trust Fund

I

IBC	Interior Business Center
ICIS	Integrated Compliance Information System
IPERA	Improper Payments Elimination and Recovery Act

IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IRIS	Integrated Risk Information System
IT	information technology

L

LUST	leaking underground storage tank
LVFC	Las Vegas Finance Center

M

MOA	Memorandum of Agreement
MPRSA	Marine Protection Research, and Sanctuaries Act

N

NAAQS	National Ambient Air Quality Standards
NEPPS	National Environment Performance Partnership System
NMFS	National Marine and Fisheries Service
NPDES	National Pollutant Discharge Elimination System
NPL	National Priorities List
NPM	National Program Manager

O

OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPA	Oil Pollution Act
OPM	Office of Personnel Management
ORD	Office of Research and Development

P

PAR	Performance and Accountability Report
PFC	perfluorocarbon
PFCRA	Program Fraud Civil Remedies Act
PFOA	perfluoroctanoic acid
PFOS	perfluorooctane sulfonate
PMM	Printing Management Manual
PMN	Pre-Manufacturing Notice
PPB	parts per billion
PP&E	Plant, Property and Equipment
PRDOH	Puerto Rico Department of Health
PREQB	Puerto Rico Environmental Quality Board
PRFA	Pollution Removal Funding Agreements
PRIA	Pesticides Registration Funds Act
PRIFA	Puerto Rico Infrastructure Financing Authority
PRP	Potential Responsible Party

R

RCRA	Resource Conservation and Recovery Act
RIDOT	Rhode Island Department of Transportation
ROE	Report on the Environment
RP	Responsible Party
RRP	Renovation, Repair and Painting
RTP	Research Triangle Park
RTR	Residential Risk and Technology Review

S

SAISO	Senior Agency Information Security Official
SAM	System for Award Management
SAO	Senior Accountable Officer
SARA	Superfund Amendments & Reauthorization Act
SDNY	Southern District of New York
SDWA	Safe Drinking Water Act
SEPS	Supplemental Environmental Projects
SF	Square Footage
SF_6	sulfur hexafluoride
SFFAS	Statement of Federal Financial Accounting Standards
SPA	State Program Approval
SOS	Schedule of Spending
SRF	State Revolving Fund
SSC	Superfund State Contracts
S&T	Science & Technology
STAG	State and Tribal Assistance Grants

T

T&A	time and attendance
TAS	treatment as state
TMB	trimethylbenzenes
TMDL	Total Maximum Daily Loads
TSCA	Toxic Substances Control Act

U

UNEP	United Nations Environment Program
USSGL	U.S. Standard General Ledger
US	United States
USC	U.S. Code
USDA	U.S. Department of Agriculture
USFW	U.S. Fish and Wildlife Services

V

VOC	volatile organic compound

W

WCF	Working Capital Fund

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