Fiscal Year 2015

Agency Financial Report

U.S. Environmental Protection Agency

ABOUT THIS REPORT

The U.S. Environmental Protection Agency is pleased to present the Fiscal Year 2015 *Agency Financial Report (AFR),* produced in accordance with the Chief Financial Officers Act and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Using the fiscal and high-level performance results presented annually in the *AFR*, the President, Congress, and the public can evaluate the agency's accomplishments for each fiscal year beginning October 1 through September 30.

The FY 2015 *AFR* contains EPA's *FY 2015 Financial Statements Audit Report*; *FY 2015 Management Integrity Act Report*, including the Administrator's assurance statement on the soundness of the agency's internal controls for financial and programmatic activities; and, in compliance with the Inspector General Act of 1978 as amended, EPA's report on FY 2015 progress in addressing Office of Inspector General (OIG) audit recommendations.

EPA's AFR is supplemented by its *Annual Performance Report (APR)* and *Financial and Program Performance Highlights*. Together, these reports present a complete picture of the agency's activities, accomplishments, progress, and finances for each fiscal year.

EPA's *FY 2015 APR*, which will be incorporated in the Agency's *FY 2017 Annual Performance Plan and Budget*, presents the agency's FY 2015 performance results measured against the targets established in its FY 2015 performance plan and budget and discuss progress toward achieving the goals established in its *FY 2011–2015 Strategic Plan*. The *APR* is prepared according to 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 will post the *FY 2015 APR* on the agency's website at http://www2.epa.gov/planandbudget/results in February 2016.

EPA's Web-based *Financial and Program Performance Highlights* summarizes key financial and performance information from both the *AFR* and *APR* in a brief, nontechnical, user-friendly format. The *Highlights* will be posted on the agency's website at http://www2.epa.gov/planandbudget in February 2016.

How the Report Is Organized

Administrator's Letter

The Administrator's letter transmits EPA's *FY 2015 AFR* from the Agency to the President and Congress. The letter assures that financial and performance data presented in the *AFR* are reliable and complete. It also assures that the report communicates significant internal control weaknesses and actions EPA is taking to resolve them.

Section I—Management's Discussion and Analysis

Section I contains information on EPA's mission and organizational structure; selected agency performance results; an analysis of the financial statements and stewardship figures; information on systems, legal compliance, and controls; and other management initiatives.

Section II—Financial Section

Section II includes a message from the Chief Financial Officer (CFO) and the agency's independently audited financial statements, which are in compliance with the CFO Act. This section also contains the related Independent Auditor's Report and other information on the agency's financial management.

Section III—Other Accompanying Information

This section provides additional material as specified under OMB Circular A-136*, Financial Reporting Requirements,* and the Reports Consolidation Act of 2000. The subsection titled "Management Challenges and Integrity Weaknesses" discusses EPA's progress toward strengthening management practices to achieve program results and presents OIG's list of top management challenges and the agency's response.

Appendices

The appendices include links to relevant agency websites and a glossary of acronyms and abbreviations.

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MESSAGE FROM THE ADMINISTRATOR

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

Dear Mr. President:

I am presenting to you the U.S. Environmental Protection Agency's FY 2015 Agency Financial Report. Within this report, you will find that the EPA has made robust progress during the year in our mission to protect human health and the environment. While doing so, we have ensured that we are executing our mission in a financially responsible and transparent manner.

We continue our ongoing success in combating climate change. In FY 2015 the EPA announced historic, first-ever national standards to limit carbon pollution from power plants, cutting U.S. carbon pollution from the power sector by 870 million tons or 32 percent below 2005 levels in 2030. Power plants are the largest drivers of climate change in the U.S., accounting for roughly one-third of all carbon-pollution emissions, but there were previously no national limits on carbon pollution. This action will avert up to 90,000 asthma attacks among the American public, and Americans will spend up to 300,000 more days in the office or the classroom instead of being sick at home. Additionally, up to 3,600 families will be spared the grief of losing a loved one due to air pollution. The plan reflected unprecedented public participation, including more than 4.3 million public comments on the proposal and hundreds of meetings with stakeholders. The final rule establishes guidelines for states to follow in developing and implementing their plans to cut carbon pollution, including requirements that vulnerable communities have a seat at the table with other stakeholders.

In a historic step for clean-water protection, the EPA and the U.S. Army finalized the Clean Water Rule to clearly protect from pollution and degradation the streams and wetlands that form the foundation of the nation's water resources. Before this rule the protection status for approximately 60 percent of the nation's streams and millions of acres of wetlands was rendered unclear by Supreme Court decisions, resulting in a jurisdictional determination process that was confusing, complex and time-consuming for both the agencies and the affected public. Now, the rule ensures that waters protected under the Clean Water Act are more precisely defined and predictably determined, making the permitting process less costly, easier and faster for businesses and industry. The rule is grounded in law and the latest science and is shaped by significant public comment. The rule does not create any new permitting requirements for agriculture and maintains all previous exemptions and exclusions. People need clean water for their health; about 117 million Americans – one in three people – rely on streams that lacked clear protection before the Clean Water Rule for their drinking water. Further, America's cherished way of life depends on clean water as healthy ecosystems provide wildlife habitat and places to fish, paddle, surf and swim. Clean and reliable water is also an economic driver, especially for manufacturing, farming, tourism, recreation and energy production. The Clean Water Rule is critical because the health of our rivers, lakes, bays and coastal waters are impacted by the streams and wetlands where they begin.

The EPA also finalized in FY 2015 the Steam Electric Limitation Guidelines that will eliminate the annual discharge of 1.4 billion pounds of pollutants into America's waterways from steam-electric power plants, including a substantial volume of toxic metals and will reduce water withdrawal by 57 billion gallons per year. These guidelines are strong but reasonable, based on technologies that are readily available and broadly used in the industry today, reinforcing the ongoing trend toward cleaner, more modern plants. The standards also provide flexibility in implementation through a phased-in approach, allowing plant owners to pursue integrated strategies to meet these requirements. While being responsive to industry needs, the standards recognize that toxic pollutants from these plants, including mercury, arsenic, lead and selenium, can cause neurological damage in children; can result in cardiovascular, pulmonary and neurological disorders in people exposed to these pollutants through eating contaminated fish; and can lead to cancer and damage to the circulatory system, kidneys and liver. In reducing plant discharges, Americans will reap an estimated benefit of $463 million per year in health benefits across the nation.

As another key accomplishment, the EPA published the Definition of Solid Waste final rule, which added safeguards for recycling hazardous materials to protect our communities while promoting sustainable materials management. The rule improves accountability and state-federal oversight of hazardous-materials recycling while reducing regulatory burden and encouraging recycling. The rule included a groundbreaking environmental-justice analysis that addressed the rule's potential impacts on low-income and minority communities. It also helps foster environmental, economic and social benefits through sustainable materials management, which preserves resources in a manner that creates jobs and supports a strong economy. And it demonstrates that protecting communities and leveraging economic advantages for sustainable recycling and materials manufacturing can go hand-in-hand.

Our environmental enforcement continues to be solid. In FY 2015, the EPA announced the largest civil penalty in the history of the Clean Air Act, a historic settlement with the automakers Hyundai and Kia. The settlement will resolve alleged Clean Air Act violations based on the automakers' sale of close to 1.2 million vehicles that will emit approximately 4.75 million metric tons of greenhouse gases in excess of what the automakers certified to the EPA. The automakers will pay a $100 million civil penalty to resolve violations concerning the testing and certification of vehicles sold in America and spend approximately $50 million on measures to prevent any future violations. Hyundai and Kia will also forfeit 4.75 million greenhouse-gas-emission credits that the companies previously claimed, which are estimated to be worth more than $200 million. The settlement also considers that Hyundai and Kia gave consumers inaccurate information about the real-world fuel economy performance of many of their vehicles. Hyundai and Kia must audit their fleets for model years 2015 and 2016 to ensure that vehicles sold to the public conform to the description and data provided to the EPA.

Finally, advancing our work to protect vulnerable communities, the EPA revised the Agricultural Worker Protection Standard in FY 2015 to increase protection from pesticide exposure for the nation's two million agricultural workers and their families. These changes afford farmworkers similar protections that are already provided to workers in other industries while taking into account the unique working environment of many agricultural jobs. Changes include annual mandatory training to inform farmworkers on required protections, expanded training to reduce take-home exposure from pesticides on work clothing, minimum age requirement for handling of pesticides, mandatory signage for the most hazardous pesticides and new, no-entry application-exclusion zones surrounding pesticide-application equipment to protect workers from exposure to pesticide overspray. These updated standards help close opportunity gaps and protect workers while preserving the strong traditions of family farms and ensuring the continued growth of the agricultural economy.

Additional details on the EPA's accomplishments will be provided in the Annual Performance Report for FY 2015, which will be released this winter. At this juncture, I can assure you that the EPA's financial and performance data are reliable and complete and provide full transparency into our program 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 reflects that we did not identify any new material weaknesses for FY 2015. Section III of this report provides details about corrective actions underway to address a previously identified material weakness and a number of other less severe weaknesses and deficiencies. We will continue monitoring progress toward correcting these issues.

I am proud to be part of an agency with the mission to protect our environment and the health of the American people and future generations. The hard work and dedication of the EPA's men and women make our accomplishments possible.

Respectfully,

Gina McCarthy

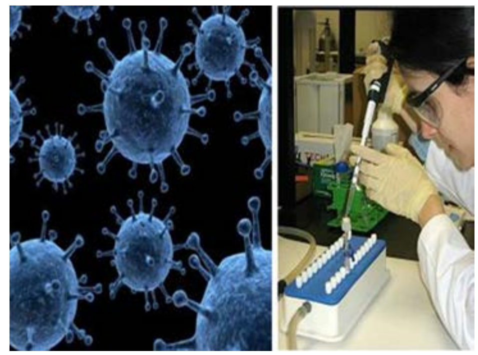
SECTION I

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT EPA

History and Purpose

All Americans are entitled to a clean, healthy environment where they live, work, and play. Established in 1970 as the hazards of environmental pollution became increasingly evident, EPA has worked for over four decades to identify, evaluate, and execute scientifically sound, sustainable solutions to existing and emerging environmental concerns.



Testing to measure chemical and biological pollutants in media, such as wastewater, ambient water, sediment, and biosolids (sewage sludge), per methods promulgated under Clean Water Act Section 304(h).

EPA unites environmental research, monitoring, standard-setting, and enforcement functions under the banner of a single agency. In doing so, the agency helps ensure that environmental protection is an integral part of all U.S. policies, whether they concern economic growth, natural resource use, energy, transportation, agriculture, or human health.

Since its inception, EPA has made great strides in protecting the nation's air, water, and land. Focused cleanup efforts have helped remediate the mistakes of the past, while EPA's work to monitor and regulate pollutants, evaluate new chemicals, and encourage reuse, recycling, and better decision-making are helping to safeguard our environmental future.

EPA does not work alone. Addressing the complex environmental issues facing the nation and the world requires diligent, effective cooperation among a diverse and dynamic group of stakeholders, from state, tribal, and local governments to foreign governments and international organizations.

Everyone has a role to play in creating a healthy, sustainable environment. By serving as the primary federal source of rigorously researched, scientific information on the environment, EPA empowers individuals and organizations to better understand and engage in environmental protection and create lasting solutions in their own backyards and around the world.

Mission

> ### *What EPA Does*
>
> - ✓ ***Develops and enforces regulations***
> - ✓ ***Responds to the release of hazardous substances***
> - ✓ ***Gives grants to states, local communities, and tribes***
> - ✓ ***Studies environmental issues***
> - ✓ ***Sponsors partnerships***
> - ✓ ***Teaches people about the environment***

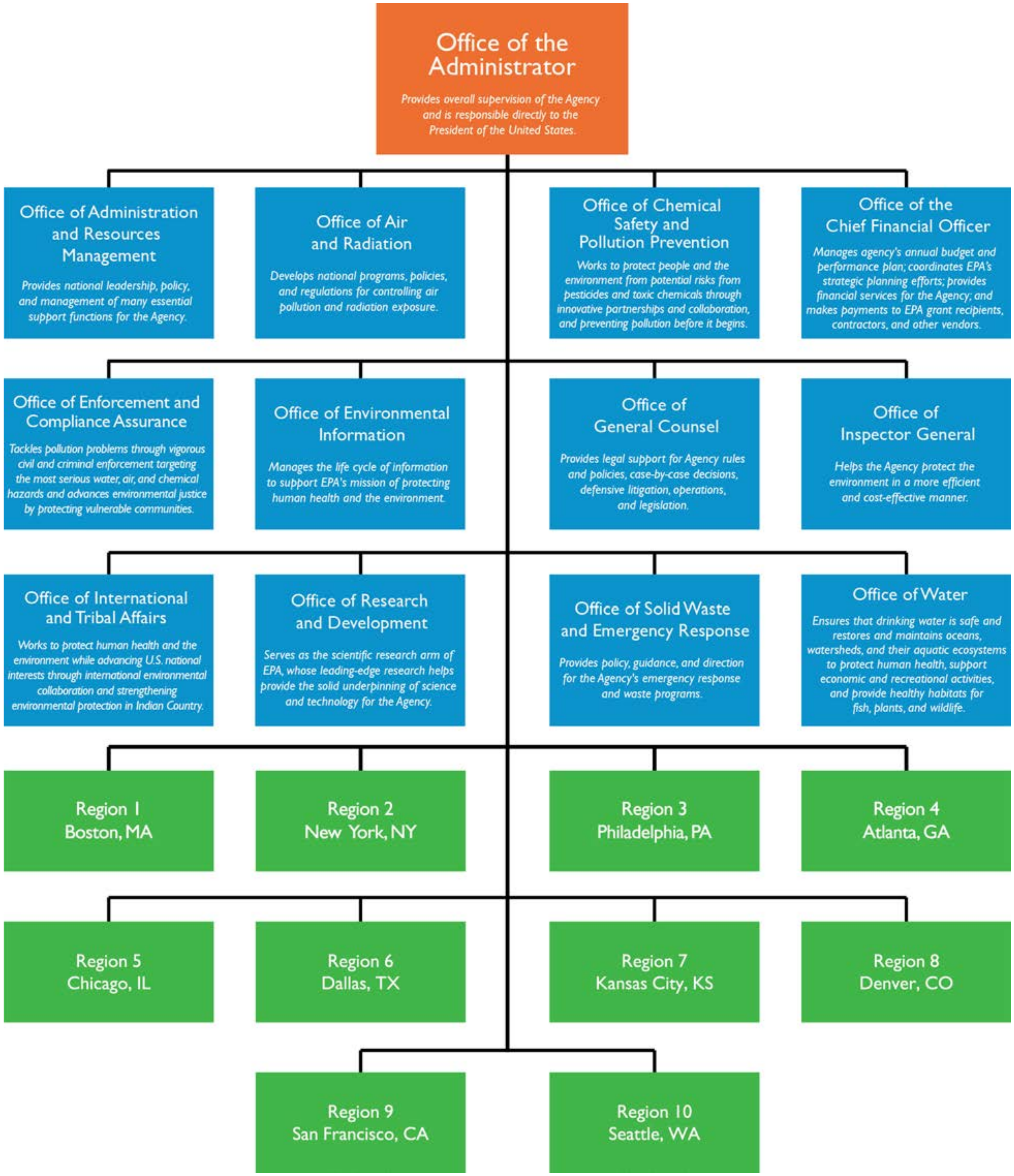
EPA's mission is to protect human health and the environment.

In executing this mission, EPA relies on the best available scientific information to inform policy decisions and enforcement actions that protect diverse, sustainable ecosystems and safeguard the nation's human health and environment.

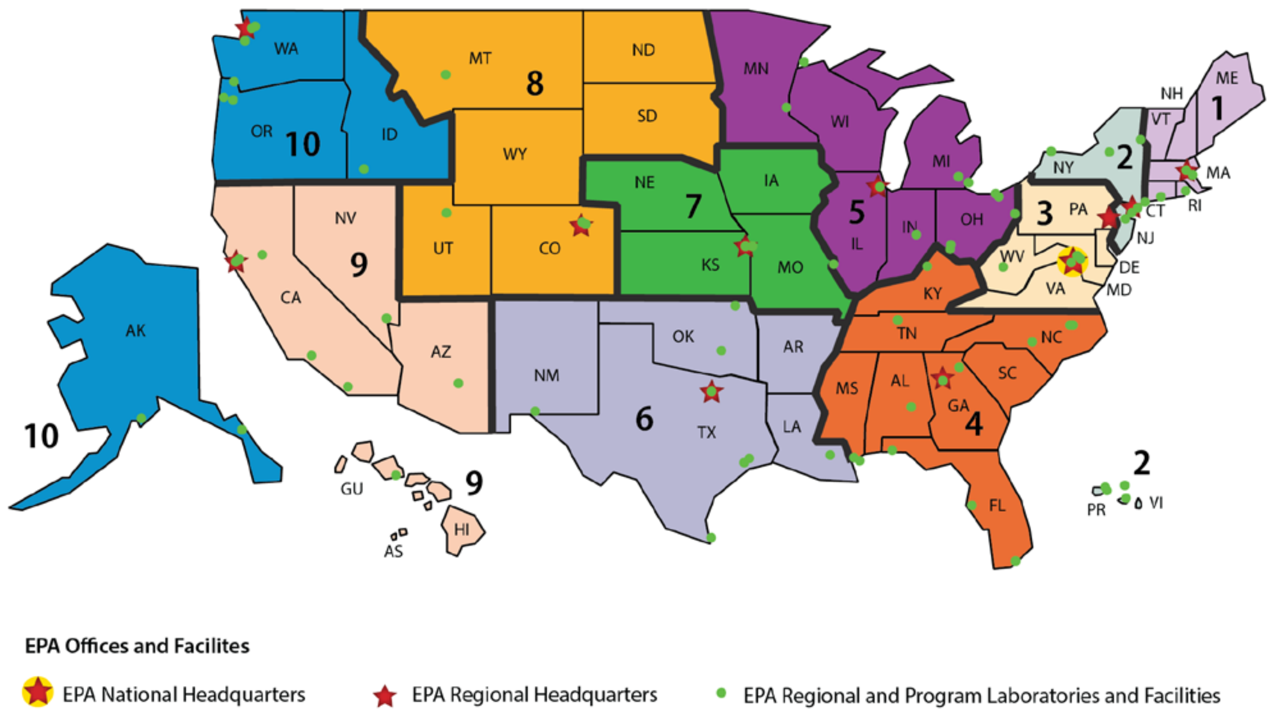
EPA remains committed to rigorous, peer-reviewed science as the foundation for its decision-making and the basis for understanding and addressing future environmental concerns. By making scientifically sound environmental information easily accessible to all stakeholders, EPA advances its mission and furthers public trust and understanding of its work.

Organization

EPA's headquarters are in Washington, D.C. Together, EPA's headquarters offices, 10 regional offices, and more than a dozen laboratories and field offices across the country employ a diverse, highly educated, and technically trained workforce of roughly 15,000 people.


Office of the Administrator
Provides overall supervision of the Agency and is responsible directly to the President of the United States.
Office of Administration and Resources Management
Provides national leadership, policy, and management of many essential support functions for the Agency.
Office of Air and Radiation
Develops national programs, policies, and regulations for controlling air pollution and radiation exposure.
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.
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.
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.
Office of Environmental Information
Manages the life cycle of information to support EPA's mission of protecting human health and the environment.
Office of General Counsel
Provides legal support for Agency rules and policies, case-by-case decisions, defensive litigation, operations, and legislation.
Office of Inspector General
Helps the Agency protect the environment in a more efficient and cost-effective manner.
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.
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.
Office of Solid Waste and Emergency Response
Provides policy, guidance, and direction for the Agency's emergency response and waste programs.
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.
Region 1
Boston, MA
Region 2
New York, NY
Region 3
Philadelphia, PA
Region 4
Atlanta, GA
Region 5
Chicago, IL
Region 6
Dallas, TX
Region 7
Kansas City, KS
Region 8
Denver, CO
Region 9
San Francisco, CA
Region 10
Seattle, WA

Regional Map

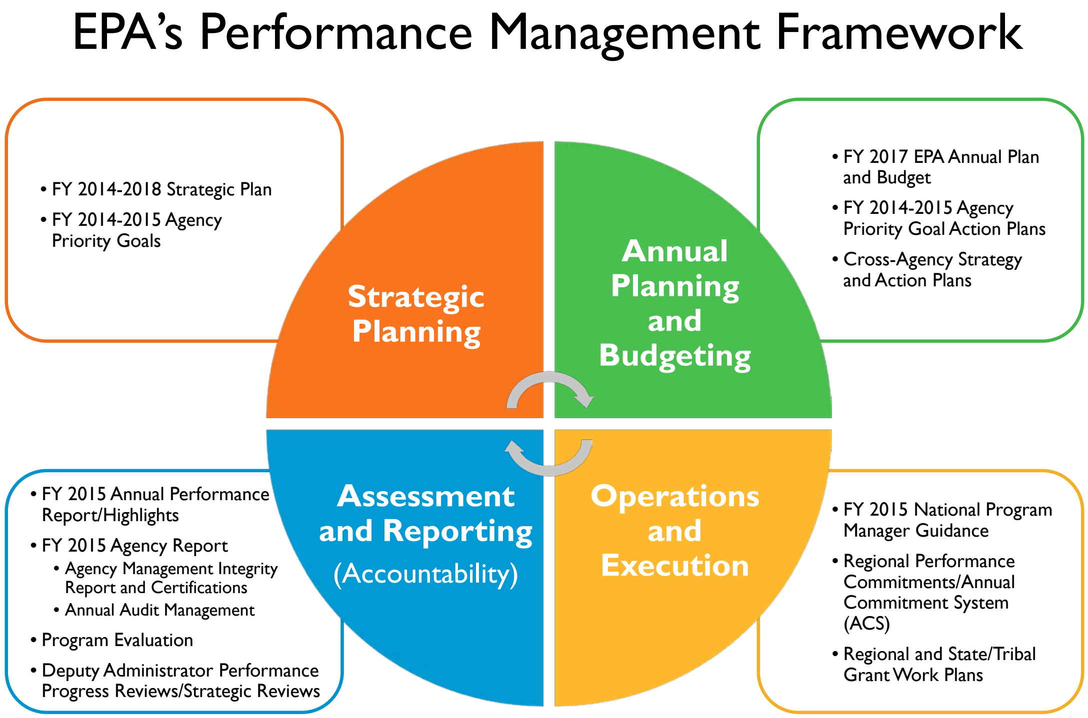


Collaborating with Partners and Stakeholders

EPA's partnerships with states, tribes, local governments, and the global community are central to the success of the national environmental protection enterprise. EPA places high value on strengthening these partnerships and has established a cross-agency strategy, "Launching a New Era of State, Tribal, Local and International Partnerships," to focus its work. EPA works in concert with its partners to improve coordination, promote innovation, and leverage resources. Along with its co-regulators, EPA works with the regulated community, private industry, nonprofit organizations, and the public to use new tools and strategies to enhance coordination, manage resources effectively, and share information. For example, through tools such as ECHO, "Enforcement and Compliance History Online," the agency has improved the availability and transparency of environmental data. EPA will continue working with its partners and stakeholders to improve implementation of national environmental programs, seeking the most efficient use of resources, streamlining business processes, and developing innovative solutions to achieve results. As we work together, our relationships will continue to be based on integrity, trust, and shared accountability to leverage our expertise, authorities, resources, and capabilities.

A Framework for Performance Management

In compliance with GPRAMA, EPA develops a *Strategic Plan*, which establishes its long-term strategic goals, objectives, and measures to carry out its 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 2015 Advances in Performance Management

During FY 2015, 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 2015, EPA accomplished all six of its FY 2014–2015 APGs. Some examples of key results include making more than 18,900 additional sites ready for anticipated use, completing more than 250 assessments of pesticides and other commercially available chemicals, and updating state nonpoint source management programs to comport with new grant guidelines. EPA also established five FY 2016-2017 APGs and drafted 2-year action plans to advance its priorities:

- Reducing greenhouse gas (GHG) emissions from cars and trucks.
- Advancing resilience in the nation's water infrastructure, while protecting public health and the environment, particularly in high-risk and vulnerable communities.
- Cleaning up contaminated sites to enhance the livability and economic vitality of communities.
- Assessing and reducing risks posed by chemicals and promoting the use of safer chemicals in commerce.
- Strengthening environmental protection through business improvements enabled by joint governance and technology.

EPA reports progress on APG milestones and targets quarterly at http://www.performance.gov and will report end-of-year progress for FY 2014–2015 APGs in its *FY 2015 Annual Performance Report.*

EPA also contributes to CAP goals across the federal government, notably for cybersecurity, benchmarking, infrastructure permitting, and people and culture. EPA's Acting Deputy Administrator discusses progress in these areas at monthly meetings of the President's Management Council. More information on CAP goals and quarterly updates on government-wide progress are available at http://www.performance.gov.

Streamlined End-of-Year Performance Reporting and Analysis Process: In June, EPA's Office of the Chief Financial Officer (OCFO) held an Agency-wide Lean event to streamline EPA's end-of-year reporting and analysis process and increase the value of performance analyses and products to inform agency decision-making. Key outcomes included streamlined reporting to meet GPRMA and OMB requirements, more effective use of eight-year performance results data as a springboard for analysis and to support senior leadership end-of-year discussions, a streamlined *APR* in EPA's *Annual Performance Plan and Budget*, and enhancements to EPA's Web-based *Financial and Program Performance Highlights*.

Midyear and Strategic Reviews: In FY 2015, EPA convened strategic reviews and midyear performance progress discussions with the Acting Deputy Administrator and Acting Chief Financial Officer earlier in the year to better inform FY 2017 planning and budgeting, as well as to support the new FedStat meeting held with EPA, OMB, and General Services Administration (GSA) officials. The reviews focused on each of EPA's five strategic goals and five cross-agency strategies. EPA reported its strategic review summaries of findings on http://www.performance.gov and will discuss end-of-year results in its *FY 2015 APR*.

National Program Manager (NPM) Guidance: In FY 2015, EPA published its new two-year FY 2016–2017 NPM Guidances, 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 the agency'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*. Key changes in the FY 2016–2017 NPM Guidance process included earlier and more meaningful state and tribal engagement in priority-setting, clear and transparent support for flexibility within the NPM Guidances, better alignment of NPM Guidances and grant guidances, and earlier and more meaningful state and tribal engagement in commitment-setting. EPA's OCFO and the NPM Guidance/NEPPS Workgroup are working collaboratively to implement and assess these key changes.

Strategic Foresight Pilot Project: EPA's OCFO and Office of the Science Advisor launched this project to set the stage for the agency's next round of strategic planning and development of the *FY 2018–2022 EPA Strategic Plan*. This effort responds to National Academy of Science, Science Advisory Board, and National Advisory Council for Environmental Policy and Technology recommendations to anticipate future environmental problems and build EPA's resiliency in light of rapid technological change by engaging in futures analysis as a regular component of agency operations. The pilot includes convening an agency-wide Strategic Foresight Lookout Panel within a broader community of practice to identify emerging opportunities and challenges and develop actionable recommendations to inform annual and strategic planning.

Stronger Stewardship: During FY 2015, EPA took a number of steps to increase attention to senior leadership stewardship responsibilities and ensure that it responds to OIG audit findings and recommendations and implements needed corrective actions timely to strengthen its programs and operations. EPA's OCFO developed and offered new online Management Audit Tracking System training, designated audit management as a focus area for its FY 2015 Management Integrity Program, reviewed senior managers' responsibilities for overseeing audit follow-up, and continued to conduct onsite Management Accountability Reviews in selected regional and national program offices to promote effective and efficient management of programs and resources.

FY 2015 PROGRAM PERFORMANCE

During FY 2015, 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 2015 performance results, including the agency's progress in implementing its cross-agency strategies, will be presented in EPA's *FY 2015 APR*, which the agency will issue with its *FY 2017 Annual Performance Plan and Budget* and post on its website at http://www2.epa.gov/planandbudget in February 2016.

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 for controlling GHG emissions, air pollution, and radiation exposure to protect human health and the environment. On August 3, 2015, EPA announced the final Clean Power Plan (CPP) standards, which are expected to cut U.S. carbon pollution from the power sector by 870 million tons in 2030, 32 percent below 2005 levels. The power sector accounts for roughly one-third of all carbon pollution emissions, but there were no national limits on carbon pollution until CPP. The final rule establishes guidelines for states to follow in developing and implementing their plans with a focus on emissions trading mechanisms to make sure utilities have broad flexibility to reach their carbon pollution reduction goals. As a result of the CPP, SO_2 emissions from power plants are projected to be 90 percent lower, and nitrogen oxide emissions 72 percent lower, than in 2005. Americans would avoid up to 90,000 asthma attacks and spend up to 300,000 more days in the office or the classroom, instead of sick at home. CPP also reflects EPA's unprecedented public outreach, including more than 4.3 million public comments on the proposal and hundreds of meetings with stakeholders.

As part of the President's Climate Action Plan, EPA proposed standards to cut methane emissions from the oil and gas sector by 40 to 45 percent from 2012 levels by 2025. Methane is the second most prevalent GHG emitted in the United States from human activities, and nearly 30 percent of those emissions come from oil production and the production, transmission, and distribution of natural gas. These standards are projected to yield net climate benefits of $120 to $150 million in 2025, and are also expected to reduce 170,000 to 180,000 tons of ozone-forming volatile organic compounds, along with 1,900 to 2,500 tons of air toxics, in 2025. The standards complement voluntary efforts, including EPA's Methane Challenge Program, and are based on current industry practices and technology.

To further support the Climate Action Plan, EPA also issued two proposals to reduce emissions of methane-rich gas from municipal solid waste (MSW) landfills. Under these proposals new, modified, and existing landfills would begin collecting and controlling landfill gas at emission levels nearly a third lower than current requirements. MSW landfills receive non-hazardous waste from homes, businesses, and institutions. As the landfill waste decomposes, it produces a number of air toxics, CO_2, and methane. MSW landfills are the third-largest source of human-related methane emissions in the U.S., accounting for 18 percent of methane emissions in 2013—the equivalent of approximately 100 million metric tons of CO_2 pollution. The proposed rules are expected to reduce methane emissions by an estimated 487,000 tons a year beginning in 2025—equivalent to the carbon pollution emissions from more than 1.1 million homes. EPA estimates the climate benefits of the combined proposals at nearly $750 million in 2025, or nearly $14 for every dollar spent to comply.

Working with the U.S. Department of Transportation, EPA proposed standards for medium- and heavy-duty vehicles to improve fuel efficiency and cut carbon pollution to reduce the impacts of climate change, while bolstering energy security and spurring manufacturing innovation. The standards build on current standards that have delivered all-time-high fuel economy in 2013 for new vehicles. Medium- and heavy-duty vehicles currently account for about 20 percent of GHG emissions and oil use in the U.S. transportation sector. The proposed standards are expected to lower CO_2 emissions by approximately 1 billion metric tons, cut fuel costs by about $170 billion, and reduce oil consumption by up to 1.8 billion barrels over the lifetime of the vehicles sold. The total oil savings under the program would be greater than a year's worth of U.S. imports.

EPA continued to promote expanded use of air quality monitoring through the use of portable, real-time sensors to gain a more intricate picture of air pollution on both regional and local scales. In FY 2015, EPA expanded its Village Green Project—adding four new U.S. locations and a school in Hong Kong. Housed in a park bench, the solar- and wind-powered system provides real-time measurements of air pollutants and weather conditions. Lower-cost air monitoring technologies, like the Village Green Project, provide the public and communities with previously unavailable information about their local air quality and raise their air pollution awareness. In July 2015, EPA hosted a community air monitoring training for community groups and individuals interested in conducting citizen science projects involving next generation air monitoring technology. Training covered the basics of air quality monitoring and sensors and best practices for using citizen science methodology for data collection; promoting community engagement in environmental protection; supporting the collection, interpretation, and communication of high-quality data by community groups; and connecting EPA and community leaders.

EPA continues to face challenges in completing reviews of air toxics standards for stationary sources required by the Clean Air Act (CAA), due to competing priorities in an environment of limited resources. Within eight years, EPA must review and revise as necessary all of the air toxics standards that have been 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 must also review the risk that remains after the implementation of the air toxics rule within eight years. EPA prioritizes its sector reviews based on legal deadlines, resources, and the impact individual sectors have on disproportionately impacted communities.

Goal 2: Protecting America's Waters

The nation's water resources are the lifeblood of our communities, supporting our economy and way of life. Today we enjoy reliable sources of clean and safe water, but this was not always the case. In the past, drinking water was too often the cause of illnesses, and many of our surface waters were so polluted that swimming and fishing were extremely unsafe. The country has made significant progress since the enactment of landmark clean water legislation over 40 years ago. However, serious challenges remain, and we continue to look for ways to make improvements as we deal with persistent water quality problems.

The Safe Drinking Water Act gives EPA the authority to publish health advisories for contaminants not subject to any national primary drinking water regulation. In FY 2015, EPA issued critical Drinking Water Health Advisories (HAs) and technical guidance for public water systems dealing with cyanotoxins generated by harmful algal blooms in drinking water sources. These HAs are non-regulatory values that serve as informal technical guidance to help federal, state, and local officials, and managers of public or community water systems protect public health from the cyanobacterial toxins microcystins and cylindrospermopsin. Human exposure to cyanotoxins can result in a host of adverse health effects, including gastroenteritis, liver damage, and kidney damage. The HA values represent concentrations in drinking water below which adverse noncarcinogenic effects are not expected to result from the ingestion of drinking water.

EPA also published supporting technical guidance to accompany the health advisories and to provide information that public water systems and others can use to inform their decisions on managing the risks from cyanotoxins in drinking water. The document includes a stepwise approach that can inform public water systems' decisions on whether and how to monitor for and treat cyanotoxins and communicate with stakeholders. Many states and utilities are using the guidance as a technical resource as they consider how best to confront cyanotoxin challenges in their waters. The agency also published analytical methods that support monitoring for several cyanotoxins of interest: Method 544 (for six specific microcystin congeners and nodularin) and Method 545 (for cylindrospermopsin and anatoxin-a).

On June 29, 2015, EPA and the U.S. Department of the Army published the final Clean Water Rule in the *Federal Register*, which clarifies those waters that are protected under the Clean Water Act. The rule ensures that waters protected from pollution and degradation under the Clean Water Act are more precisely defined, more predictably determined, and easier for businesses and industry to understand. Supporting the rule was an EPA state-of-the-science report, *Connectivity of Streams and Wetlands to Downstream Waters: A Review and Synthesis of the Scientific Evidence*, a review of more than 1,200 peer-reviewed publications and summary of the current scientific understanding about the connectivity and mechanisms by which streams and wetlands, singly or in aggregate, affect the physical, chemical, and biological integrity of downstream waters.

On June 4, 2015, EPA released its draft *Assessment of the Potential Impacts of Hydraulic Fracturing for Oil and Gas on Drinking Water Resources.* This study advances scientific understanding of the potential impacts of hydraulic fracturing on drinking water resources and the factors that may influence those impacts. The assessment is an important resource for states, tribes, industry, and the public, as well as stakeholders seeking to develop unconventional oil and gas resources while protecting human health and the environment. EPA expects to finalize the assessment in 2016.

On January 16, 2015, EPA Administrator Gina McCarthy joined Vice President Biden to announce EPA's new Water Infrastructure and Resiliency Finance Center. The Center serves as a resource to communities to improve their wastewater, drinking water, and stormwater systems, particularly through innovative financing and increased resiliency to climate change. The Center will be holding a series of Regional Finance Forums throughout the country to provide communities with the opportunity to meet key regional federal and state agency contacts, technical assistance providers and an opportunity to discuss financing challenges and solutions and learn about alternative financing and other innovative tools.

EPA, states, and eight automotive industry groups signed the Copper-Free Brake Initiative on January 21, 2015. This voluntary memorandum of understanding will decrease copper, mercury, lead, cadmium, asbestiform fibers, and chromium-6 salts in motor vehicle brake pads, thereby reducing the amount of these materials that enters our nation's streams, rivers, and lakes from road runoff.

While these accomplishments attest to our progress in protecting the nation's waters, challenges remain. For example, nutrient pollution, largely from nonpoint sources, is one of America's most widespread, costly, and challenging environmental problems. Nutrient pollution from excess nitrogen and phosphorus in the air and water can cause major environmental damage as well as serious health problems in people and animals. Nutrient pollution is a primary driver of harmful algal blooms, which in addition to the impacts to drinking water discussed above, impair our nation's waters for recreation, fishing, and other uses. EPA is increasingly concerned about challenges posed by harmful algal blooms andhypoix "dead" zones in the Great Lakes, Gulf of Mexico, and other areas impacted by nutrient pollution.

Current methods for measuring nutrient loads are costly and do not capture the full complexity of how nutrients impact and move within ecosystems. More accurate and affordable sensors are needed to help reduce the high cost and complexity of collecting data. The Nutrient Sensor Challenge, launched in December 2014, continues to address nutrient pollution in America's waterways. Through a partnership of federal agencies and stakeholders, this Challenge and supporting activities aim to identify next-generation solutions and tools from across the world that can help monitor and inform decisions pertaining to nutrient pollution and be commercially available by 2017. The Challenge extends beyond sensor technology and addresses the market and economics of nutrient monitoring. The Challenge is collaborating with states and other organizations to identify and encourage incentives that will promote the deployment of nutrient sensors and the sharing of ensuing data.

Goal 3: Cleaning Up Communities and Advancing Sustainable Development

Uncontrolled releases of waste and hazardous substances can contaminate our rivers, streams, drinking water and land and threaten healthy ecosystems. Local land use and infrastructure investments can also generate unanticipated environmental consequences, such as increased stormwater runoff, loss of open space, and increased GHG emissions. EPA continues working to prevent and reduce exposure to contaminants, to accelerate the pace of cleanups, and to promote smart growth and the reuse of formerly contaminated land sites.

During FY 2015 EPA continued its work to achieve milestones established under the August 2013 Executive Order, "Improving Chemical Facility Safety and Security," making significant progress in implementing the action items the agency established in its May 2014 final report to the President. The agency reviewed approximately 100,000 public comments submitted under the RMP Request for Information; developed and implemented guidance and online training for local, state, and tribal emergency planning commissions; updated the chemical advisory for the safe storage, handling, and management of ammonium nitrate; and developed standard operating procedures for joint inspections, data sharing, outreach, and emergency response training based on a New York–New Jersey state pilot.

On January 13, 2015, EPA published the "Definition of Solid Waste" (DSW) final rule, which added safeguards for recycling of hazardous materials to protect our communities while promoting sustainable materials management (SMM). The DSW rule improves accountability and state–federal oversight of hazardous materials recycling, while reducing regulatory burden and encouraging recycling. The rule included a groundbreaking environmental justice analysis that addresses the rule's potential impacts on low-income and minority communities. The DSW rule helps foster environmental, economic, and social benefits through SMM, which preserves resources in a manner that creates jobs and supports a strong economy in an environmentally protective manner. It demonstrates that protecting communities and leveraging economic advantages for sustainable recycling and materials manufacturing can go hand-in-hand. In 2015, EPA collaborated with the G7 to advance resource efficiency and SMM, culminating in the inclusion of SMM language in a G7 Declaration.

EPA published revised underground storage tank (UST) regulations in July 2015, strengthening the 1988 federal UST regulations by increasing the emphasis on properly operating and maintaining UST equipment. The revisions will help prevent and detect UST releases, a leading source of groundwater contamination, and also help ensure that all USTs in the United States, including those in Indian country, meet the same minimum standards. This is the first major revision to the federal UST regulations since 1988.

July also marked the release of EPA's Report on the Environment (ROE), for the first time made available to the public completely online in an interactive format. The ROE is a comprehensive source of scientific indicators which describe the status and trends in the nation's environment and human health condition. It contains 85 environmental indicators associated with five human health and environmental protection themes—Air, Water, Land, Human Exposure and Health, and Ecological Condition—and uses a systems-based sustainability framework to show how indicators relate to each other, to the themes, and to key issues of concern to EPA. The scientific information presented in the ROE allows EPA to track its progress in carrying out its mission and meetings its strategic goals and helps improve the agency's communications.

In 2015, EPA's EnviroAtlas made data available to the public on six additional communities (Fresno, CA, Green Bay, WI, Woodbine, IA, New Bedford, MA, Paterson, NJ, and Portland OR). EnviroAtlas is a web-based tool which allows users to explore nature's benefits (ecosystem services) and better understand how decisions can affect an array of ecological and human health outcomes. EPA is developing the land cover data from which metrics linking ecosystem services to human health and well-being outcomes will be created. The additional EnviroAtlas communities will have access to more local-scale data to inform their decisions related to the natural and built environment.

EPA's Integrated Risk Information System (IRIS) released a final assessment of Libby Amphibole Asbestos in December 2014, a critical step in protecting the health of the people of Libby, Montana. Libby, Montana, was placed on the Superfund National Priorities List in 2002, and in 2009, EPA and the U.S. Department of Health and Human Services announced a public health emergency at the site. The IRIS assessment will be a key piece of information in determining whether further cleanup will be required at the site.

As part of EPA's celebration of the 30th anniversary of the November 8, 1984, foundational Policy for the Administration of Environmental Programs on Indian Reservations, on December 1, 2014, Administrator McCarthy issued a policy statement addressing the importance and role that Indian treaties play in EPA decision-making and reiterating elements of President Obama's Executive Order establishing the White House Council on Native American Affairs, which set national policy on important native issues. Consistent with the Administrator's directive, in August 2015, EPA launched a national consultation with tribal leaders on draft guidance describing how the agency should address resource-based treaty rights when consulting with tribes on planned EPA actions.

Goal 4: Ensuring the Safety of Chemicals and Preventing Pollution

Chemicals are released into the environment as a result of manufacturing, industrial and commercial processing, household use, and disposal. 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 February 2015, EPA's "Design for the Environment" program was rebranded with a new "Safer Choice" name and label. 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. 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. More than 2,000 products currently carry the "Safer Choice" logo. The program also helps manufacturers find safer chemical alternatives that already meet the "Safer Choice" criteria through the Safer Chemical Ingredients List, which currently includes more than 720 chemicals that are safer to use in product formulation.

EPA's Chemical Safety Program continued to make progress towards its goal to assess all of the originally identified Toxic Substances Control Act (TSCA) Work Plan Chemicals by the end of FY 2018 (http://www2.epa.gov/assessing-and-managing-chemicals-under-tsca/assessments-tsca-work-plan-chemicals). The program completed its fifth risk assessment—for NMP (n-methyl-2-pyrrolidone), a paint remover—and issued problem formulation documents for public comment and review for 11 chemicals, addressing 1,4-dioxane and three clusters of flame retardants. Additionally, the program released a data needs assessment for another flame-retardant cluster of seven chemicals, identifying critical gaps in toxicity, exposure, and commercial mixtures data to guide the collection of additional data and information. In FY 2015 EPA also initiated rulemaking actions under TSCA Sections 5 and 6 to reduce risks identified for three chemicals from the TSCA Work Plan for which risks were identified in assessments completed in FY 2014: TCE (trichloroethylene), NMP, and DCM (methylene chloride).

EPA also finalized revisions to the Agricultural Worker Protection Standard (WPS). The changes made to the 1992 WPS will afford farmworkers health protections similar to those already afforded workers in other industries, taking into account the unique agricultural working environment (www2.epa.gov/pesticide-worker-safety/revisions-worker-protection-standard). The WPS seeks to protect and reduce the risks of injury or illness resulting from agricultural workers' (those who perform hand-labor tasks in pesticide-treated areas such as harvesting, thinning, and pruning) and pesticide handlers' (those who mix, load, and apply pesticides) use and contact with pesticides on farms. Major changes made to the regulation include annual mandatory training and expanded training on topics such as how reducing take-home exposure from pesticides and prohibiting children under 18 from handling pesticides.

To advance risk-based decision-making, in FY 2015 EPA applied computational toxicology capacity to its Endocrine Disruptor Screening Program, using ToxCast and Tox21 data (http://www2.epa.gov/chemical-research/toxicity-forecaster-toxcasttm-data) to further 21st-century exposure research. EPA published its intention to incorporate validated high-throughput assays and a computational model as alternatives for three of the 11 EDSP Tier 1 assays. This approach provided an opportunity to collaborate with National Institute of Environmental Health Sciences and to demonstrate how the emerging data and models can undergo "validation" in the specific context of the decision (fit for purpose), and be applied to accelerate the pace of decision-making. Using this approach, EPA published partial screening results for the estrogen receptor pathway for more than 1,800 chemicals, and is developing additional HTS and CompTox methods for screening chemicals for other endocrine pathways. These and other innovations will significantly accelerate the pace of screening, decrease costs, and reduce animal testing.

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. During FY 2015, as a co-leader of the President's Pollinator Health Task Force, EPA continued taking action to help protect pollinators, as outlined in the Strategy to Promote the Health of Honey Bees and Other Pollinators, and accepted comments on its Proposal to Protect Bees from Acutely Toxic Pesticides.

In early FY 2015, EPA's Pollution Prevention Program initiated a pilot testing draft guidelines intended to help federal buyers select those private ecolabels and standards that are environmentally preferable and appropriate for federal procurement. The U.S. government, one of the largest purchasers in the world, buys everything from lighting to cleaning products, and its footprint includes the environmental and public health impact of its 360,000 buildings, 650,000 fleet vehicles, and $400 billion spent annually on products and services. While undertaking the multi-stakeholder pilot, EPA also issued interim recommendations on specifications, environmental performance standards, and ecolabels to help federal agencies purchase environmentally preferable products and services in accordance with Executive Order 13693 (issued March 2015) and reduce the impact on public health and environmental associated with the federal government's extensive supply chain.

As part of its international efforts under Goal 4, EPA worked closely with the Office of the U.S. Trade Representative, the U.S. State Department, and other federal agencies to complete the environment and investment chapters of the TransPacific Partnership (TPP), a multilateral trade and investment agreement among 12 Pacific countries, including some of the largest U.S. trading partners. The TPP includes provisions requiring countries to enforce their domestic environmental laws; prevents countries from relaxing environmental regulations to attract additional trade or investment; and requires countries to effectively implement Multilateral Environmental Agreements they have ratified, such as the Montreal Protocol and MARPOL. EPA engagement was crucial in reaching consensus on language that allows EPA to carry out its mission of protecting human health and the environment while also safeguarding American investors doing business in TPP countries.

In addition, negotiations were completed in March 2015 on the first mandatory Polar Code for ship safety and environment protection under the International Maritime Organization (IMO). While the IMO has long sought to address ship safety in the polar regions, the inclusion of a mandatory environment chapter is unprecedented. The environment chapter is designed to significantly reduce or eliminate oil, chemicals, sewage, and garbage discharges from ships in Arctic waters. EPA led the development of a unified U.S. government position supporting strong environmental protections in the sensitive and changing ecosystem of the Arctic, and worked with the U.S. Coast Guard, Department of State, and National Oceanic and Atmospheric Administration to prevent attempts to weaken these provisions during negotiations at the IMO. The Polar Code will become effective on January 1, 2017.

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 2015, 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. For example, in the largest CAA penalty to date, EPA concluded an action against automakers Hyundai and Kia that required them to pay a $100 million civil penalty to resolve alleged CAA violations and addressed their sale of more than 1 million vehicles that collectively will emit approximately 4.75 million metric tons of GHGs in excess of what the automakers certified to EPA. EPA also concluded a landmark case against Kerr-McGee Corporation and related subsidiaries of Anadarko Petroleum Corporation. The settlement provides $5.15 billion to a litigation trust, making it the largest recovery for cleanup of environmental contamination in history and ensuring that over 2,700 sites in 47 states receive funds to help pay for cleanup.

EPA's criminal enforcement program investigates and assists the DOJ in prosecuting deliberate or egregious violations of environmental laws and regulations. In FY 2015, significant cases were often tied to individual conduct, resulting in incarceration of over than 129 years, plus individuals and corporations being fined $88 million, with an additional $4 billion in court-ordered environmental projects and $112 million in restitution. On May 14, 2015, three subsidiaries of North Carolina–based Duke Energy Corporation, the largest utility in the United States, pleaded guilty to nine criminal violations of the Clean Water Act at several of its North Carolina facilities and agreed to pay a $68 million criminal fine and spend $34 million on environmental projects and land conservation to benefit rivers and wetlands in North Carolina and Virginia. Additionally, under the plea agreement, both Duke Energy Carolinas and Duke Energy Progress, must certify that they have reserved sufficient assets to meet legal obligations with respect to its coal ash impoundments within North Carolina, obligations estimated to be $3.4 billion.

Under its National Enforcement Initiatives, EPA also addressed pollution problems that make a difference in communities. For example, the Energy Extraction Initiative concluded its first global oil and gas settlement against Noble Energy Inc. for violating the Colorado State Implementation Plan, which sets requirements for the installation, operation, maintenance, design, and sizing of vapor control systems at condensate tanks. As part of the settlement, Noble Energy will spend approximately $60 million in injunctive relief, $4.95 million on a civil penalty, $4.5 million on mitigation projects, and $4 million on Supplemental Environmental Projects. Meanwhile, under the Mineral Processing Initiative, EPA also reached a settlement with three gold mining and mineral processing facilities in Nevada: Barrick Goldstrike Mine Inc., Newmont USA Limited, and Veris USA Jerritt Canyon. As a result of this settlement, process changes at these facilities will reduce or eliminate 120 million pounds per year of Resource Conservation and Recovery Act (RCRA) hazardous waste with combined penalties exceeding $1.6 million.

Today's pollution challenges require a modern approach to compliance, and EPA continued to make significant progress in advancing next generation transparency measures and new tools and approaches. On September 24, 2015, EPA finalized the Clean Water Act National Pollutant Discharge Elimination System (NPDES) Electronic Reporting Rule, which requires electronic reporting of NPDES information rather than the paper-based reports that are currently required from permitted facilities that discharge to U.S. waters. In alignment with the agency's larger EPA E-Enterprise business strategy, the NPDES E-rule moves EPA and states into the 21st century by taking advantage of advances in information technology; expands EPA's efforts to provide meaningful data to the public; and supports the EPA-wide effort to move from paper to electronic reporting. It will provide EPA and states the strategic ability to address the most serious water pollution problems by using limited resources efficiently. When fully implemented, the rule is estimated to save authorized state NPDES programs, NPDES regulated entities, and EPA over $24 million annually.

In addition, EPA issued the Next Gen Enforcement 2015 Memorandum, a public memorandum setting forth the agency's commitment to actively consider the use of Next Generation Compliance tools within all civil enforcement settlements. EPA included requirements for advanced monitoring in several case settlements (e.g., Marathon Petroleum Corp. and Total Petroleum Puerto Rico Corp.) and included advanced monitoring, public transparency, and other tools in such rules as the Refinery National Emission Standards for Hazardous Air Pollutants (NESHAP) under the Clean Air Act and the rule on combustion of coal combustion residuals under the RCRA. EPA also enhanced partnerships with state and local agencies through day-long visits to 12 states to build support for and obtain input on Next Generation work.

EPA continued its efforts to advance environmental justice through its programs, policies, and activities and to support its cross-agency strategy on making a visible difference in environmentally overburdened, underserved, and economically distressed communities. EPA released the draft framework for the EJ 2020 Action Agenda for public comment over the summer of 2015, receiving more than 500 comments during an extended commenting period. EPA expects to finalize this Action Agenda by February 2016, following a final round of public comment.

As an accompaniment to the EJ 2020 Action Agenda, the EJ Interagency Working Group (IWG) is also developing a three-year strategic plan to guide the development and work of its subcommittees. The IWG released the plan for public comment in summer 2015 and expects to finalize it by the end of 2015.

The agency also released EJSCREEN to strong public approval and interest. EJSCREEN is an online tool for identifying environmentally overburdened communities. Since its release, the EJSCREEN site has received over 200,000 unique visits and steady media attention from local, regional, and national media outlets.

FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

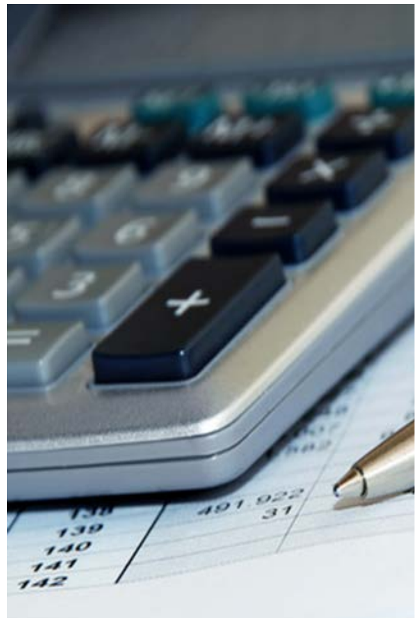
Sound Financial Management: Good for the Environment, Good for the Nation

EPA carries out its mission to protect human health and the environment while adhering to the rigorous financial management standards. Highlighted below are some of EPA's most significant financial achievements in FY 2015:

- **Clean opinion.** For the 16th consecutive year, EPA's OIG issued a "clean" audit opinion, unqualified and unmodified, in the agency's financial statements. This means EPA's financial statements are presented fairly in all material aspects, and conform to generally accepted accounting principles used by the federal government. Simplistically, a clean opinion means EPA's financial data are reliable and accurate.
- **Process improvements in financial management.** In FY 2015, the agency held three Lean events as noted below:
    - **Software applications accountability process.** Improved the process to inventory, manage, and account for software applications and personal property across the agency.
    - **End-of-year performance reporting process.** Improved process to identify opportunities that eliminate redundancies, achieve efficiencies, and reduce workload while at the same time maintaining accountability during the end-of-year performance reporting process.
- **New leave management module.** EPA launched a new leave management module with one single point of entry within its time and attendance (T&A) system allowing for greater T&A tracking and is easier to audit.
- **Enhanced unliquidated obligation tool.** EPA developed a new software tool that lets managers review its unliquidated open actions (i.e., contracts, grants, travel orders, etc., that have been obligated but not yet fully outlaid). The new tool dramatically improved managers' ability to manage the nearly $10 billion worth of unliquidated obligations by combining financial and administrative data for each action, updating data daily, capturing all previous certifications of funds, targeting efforts at only actions with no activity, and providing summary report capabilities. EPA was able to deobligate $1.2 billion of unliquidated obligations in part due to the visibility provided by this tool.
- **Capturing costs identified for user fees.** EPA implemented a new agency-wide process to improve the accuracy of user fees in its financial management system. This new process saves taxpayer dollars by reducing the administrative burden in gathering user fee cost data, automating the tracking of user fee costs, and increasing efficiency and accuracy of reporting financial data.
- **New executive resource center.** Also in FY 2015, EPA launched a new application that provides executives with easy-to-use summary-level financial and administrative information to serve as a tool to improve management oversight and internal controls. It contains near-real-time information, in chart format, and is customizable to user needs to help executives identify potential areas of concern in their particular organizations.

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.



Key Terms

Assets: What EPA owns and manages.

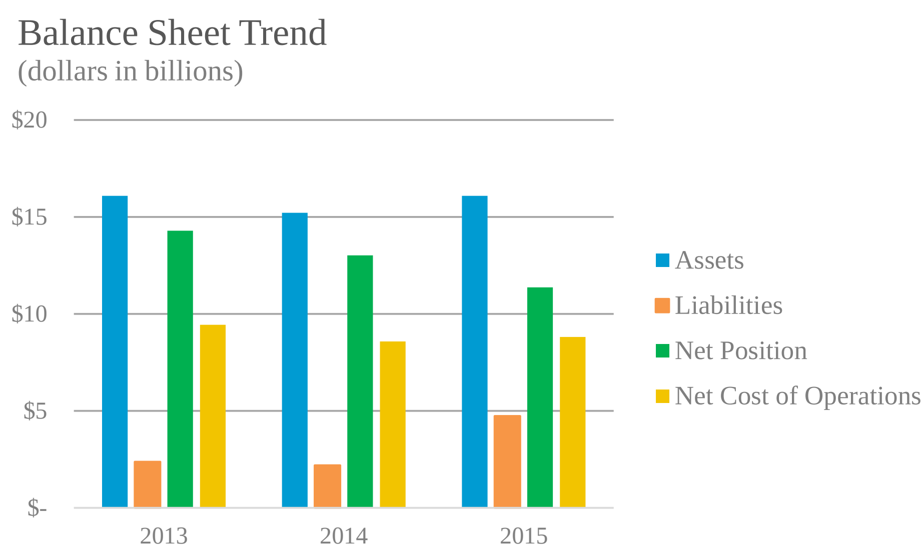
Liabilities: Amounts EPA owes because of past transactions or events.

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.

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.

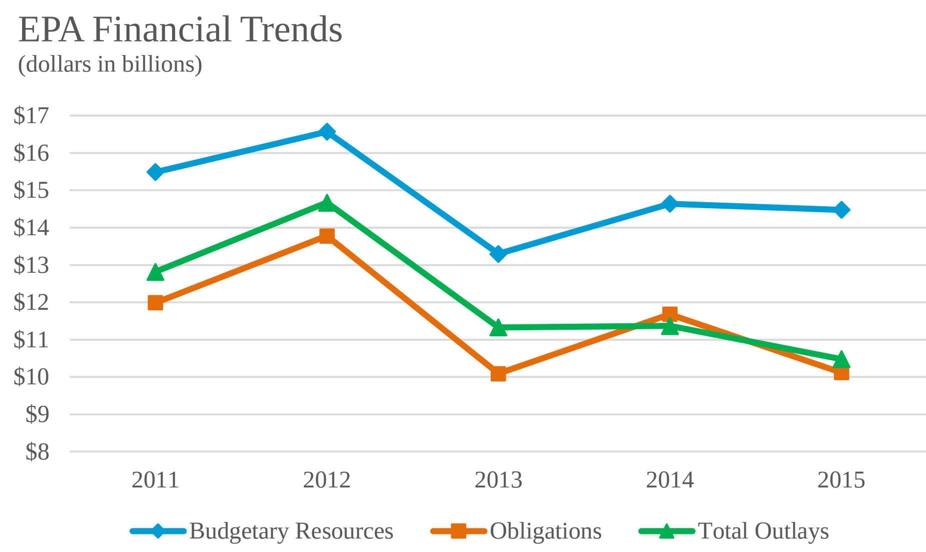
The **balance sheet** displays assets, liabilities, and net position as of September 30, 2015, and September 30, 2014. The **statement of net cost** shows EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components 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 2013.



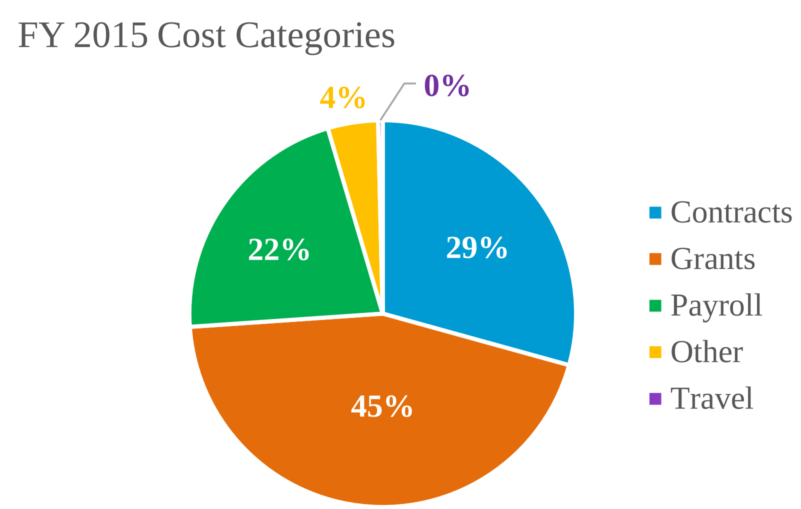
In FY 2015, Superfund cashout advances received from the Anadarko settlement and a change to the agency's process for accounting for Superfund cashout advances, resulted in significant differences from FY 2014 balances in assets, liabilities, and revenue (See Section II of this report for additional information).

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.

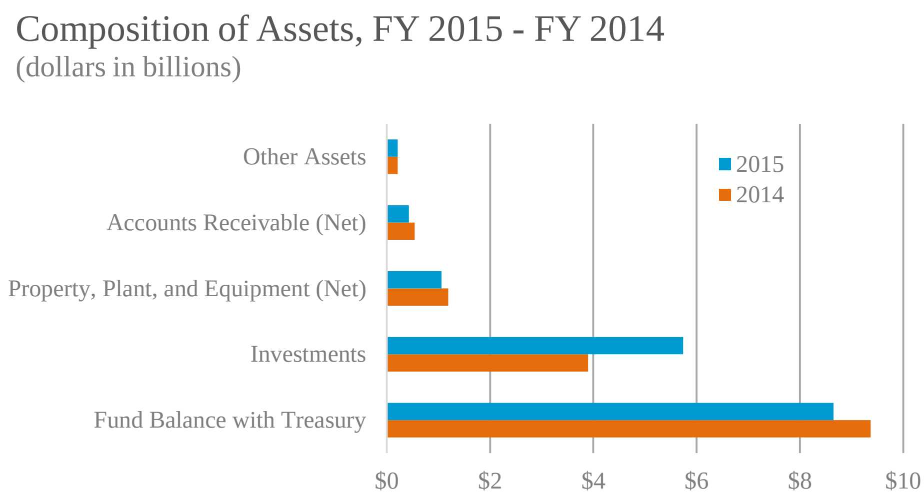


The figure below presents EPA's FY 2015 costs (expenses for services rendered or activities performed) by category.



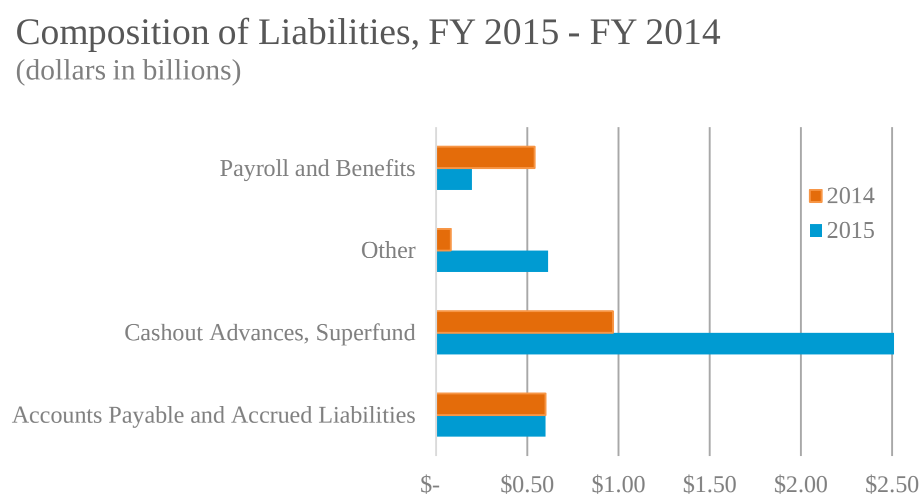
Assets—What EPA Owns and Manages

EPA's assets totaled $16.1 billion at the end of FY 2015, an increase of $90 million from the FY 2014 level. In FY 2015, 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 graph below compares the agency's FY 2015 and FY 2014 assets by major categories.



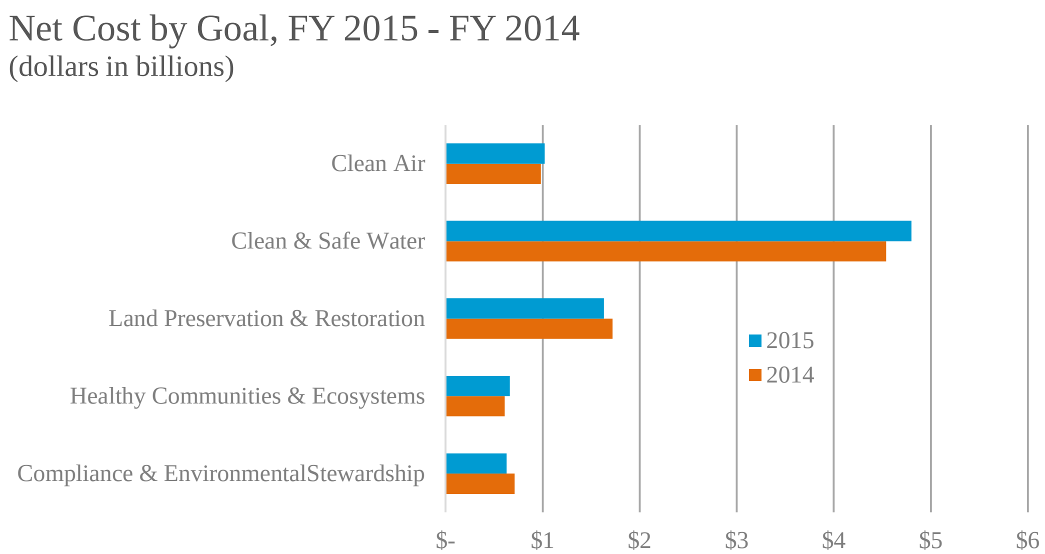
Liabilities—What EPA Owes

EPA's liabilities were $4.73 billion at the end of FY 2015, an increase of $2.54 billion from the FY 2014 level. In FY 2015, EPA's largest liability (70 percent) 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 compare FY 2015 and FY 2014 liabilities by major categories.



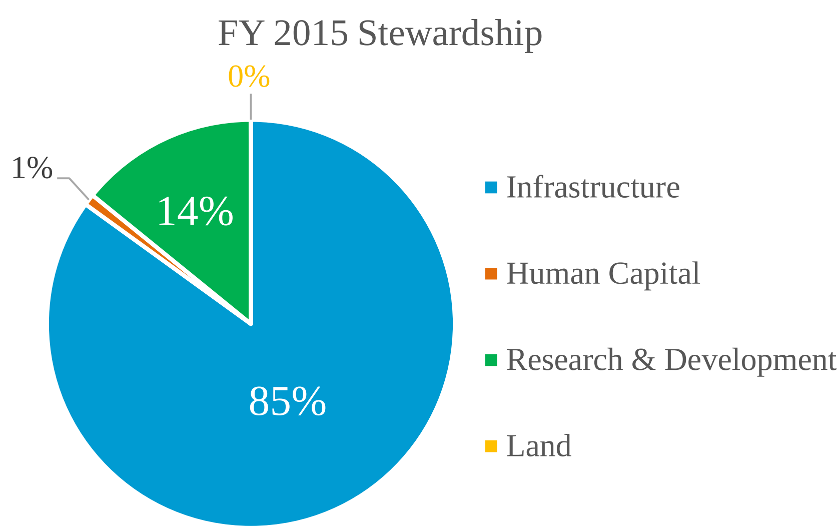
Net Cost of Operations—How EPA Used Its Funds

The graph that follows show how EPA's funds are expended among its five program goal areas in FY 2015 and FY 2014.



Stewardship Funds

EPA serves as a steward on behalf of the American people. The chart below presents four categories of stewardship: land, research and development, infrastructure, and human capital. In FY 2015, EPA devoted a total of $4.3 billion to its stewardship activities.



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 (SRF) 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 $3 billion in FY 2015 appropriated funds for states' use. In addition, states lent billions of dollars from funds they received as repayments from previous SRF loans. These funds provide assistance to public drinking water systems for the enhancement of wastewater infrastructures, allowing for crucial access to cleaner and safer drinking water for millions of people.
- 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 EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, EPA acquires easements that are in good and usable condition. These easements also serve to isolate the site and restrict usage while the cleanup is taking place.

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

Systems: In FY 2015, EPA used 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 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 additional components, subject to future review by OMB:

- Account code structure
- Budget formulation
- Superfund imaging and cost accounting
- Payment systems, such as for travel, purchase card, and grant payments

EPA is ready to begin operations and maintenance on the first phase of its new budget formulation system in the fourth quarter of FY 2015 and is cross-walking data for the 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 2015, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 474 recommendations accounting for over $130 million in potential savings and recoveries;
- 296 actions taken by the agency for improvement from OIG recommendations; and
- 74 criminal, civil, or administrative enforcement actions.

As well, recommendations from prior years led to $594 million in costs saved or avoid in FY 2015.

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 develop and report outcome-based goals and measures for the combined sewer overflow (CSOs) consent decrees, develop a national consent decree tracking system for regional and headquarters use, and provide a public website for CSO consent decree information (OIG report 15-P-0280).
- Agreed to assemble a team of experienced asbestos experts to advise the agency in producing an updated and consolidated guidance with practical application to the regulated community (OIG Report 15-P-0168).
- Agreed to enforce grant requirements that states input all necessary data in the project-level tracking database and review data completeness as part of the agency's annual review of state performance. Additionally, the agency agreed to enhance coordination between the Drinking Water State Revolving Fund and Public Water System Supervision programs and periodically evaluate program results (OIG Report 15-P-0032).

Additionally:

- OIG recommended that EPA deobligate $4.6 million in unneeded funds identified during its annual unliquidated obligation reviews (OIG Report 15-1-0021)
- OIG recommended that EPA recover $910,000 in overbilled costs for helpdesk services (OIG Report 15-P-0042)
- OIG recommended that EPA make better use of $8.9 million through improved warehouse management of personal property (OIG Report 15-P-0033)

Grants Management

EPA has two major grants management metrics, one for grant competition, the other for grants closeout. For FY 2015, the agency exceeded the grant competition metric by 6%, and was just 0.5% shy of the 99% grant closeout target.

Grants Management Performance Measures for EPA			
Performance Measure	**Target**	**Progress in FY 2015**	**Progress in FY 2014**
Percentage of eligible grants closed out	90%*	93.2% of grants that expired in 2014	92% of grants that expired in 2013
	99%**	98.5% of grants that expired in 2013 and earlier	98% of grants that expired in 2012 and earlier
Percentage of new grants subject to the competition policy that are competed	90%	96%	96%

*Percentage of open grants that expired in 2014 that were closed in performance year
**Percentage of open grants that expired in 2013 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. During FY 2015, the agency continued to conduct Management Accountability Reviews in selected national program and regional offices to assess its implementation of the FMFIA and new audit management procedures. These reviews combined previously separate Management Integrity Compliance Reviews and Audit Management Reviews into one single review and yielded results that will be used to improve the agency's technical guidance to senior managers.

To evaluate its internal controls over financial reporting (as required by *OMB Circular A-123,* Appendix A), the agency reviewed 10 key financial processes and 71 key controls. Based on this evaluation, no new material weaknesses were identified. Subsequent to the agency's review, EPA's OIG identified no new material weakness and 12 new significant deficiencies during the FY 2015 financial statement audit. Based on the results of the agency's and OIG's FY 2015 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 2015 Annual Assurance Statement

The U.S. Environmental Protection Agency conducted its FY 2015 assessment of the effectiveness of internal controls over programmatic operations and financial activities as well as conformance of financial systems to government-wide standards. The assessment was conducted in compliance with the *Federal Managers' Financial Integrity Act*, Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control* and other applicable laws and regulations.

Based on the results of the EPA's assessment and no findings of material weaknesses, I am providing reasonable assurance that the agency's internal controls over programmatic operations were operating effectively and financial systems conform to government-wide standards as of September 30, 2015.

In addition, EPA conducted its assessment of the effectiveness of internal controls over financial activities. As of June 30, 2015, no new material weaknesses were identified. However, the agency continues to address a material weakness identified in FY 2014 related to the recording of transactions and capitalization of software costs. The agency expects to complete corrective actions by FY 2018.

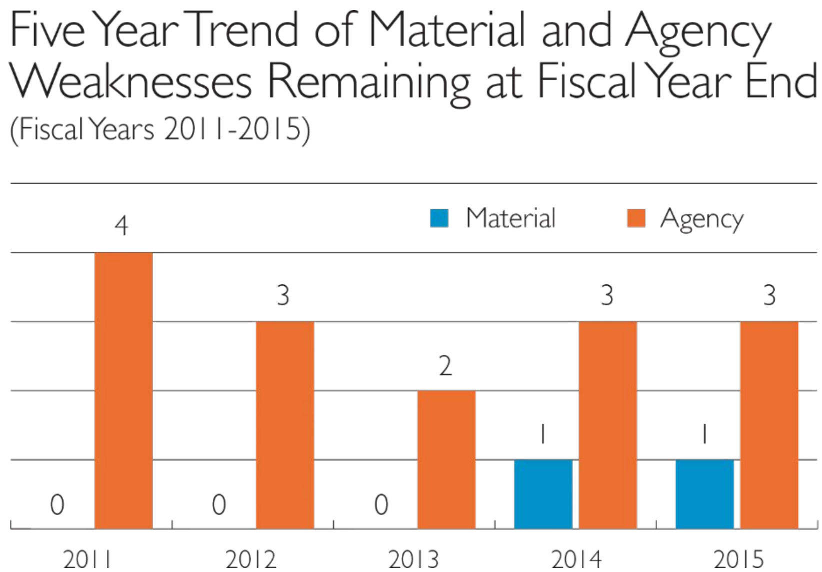
As a result, I can provide reasonable assurance that, except for the material weakness over the agency's recording of transactions and capitalization of software costs, the EPA's internal controls over financial activities were operating effectively as of September 30, 2015.

Gina McCarthy
Administrator

NOV 16 2015
Date

Management Assurances

EPA did not identify any new material weaknesses for FY 2015. However, 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 a previously identified material weakness, and a number of other less severe weaknesses and deficiencies. 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 2011. EPA continues to emphasize the importance of maintaining effective internal controls.



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 2015 assessment included the following:

- A-123 review found no significant deficiencies.
- OIG's FY 2015 financial statement audit identified no new material weakness.
- 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 2015.

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 2015 FISMA Report and the OIG's FY 2015 FISMA audit status meeting cites no material weaknesses in information security. The FY 2015 OIG report, however, noted where EPA needs to make significant improvements in overseeing systems operated on its behalf by contractors or other entities. EPA will continue improving oversight of systems operations through 2016. The agency plans to focus on the other Administration Priorities (APs) for information security as well in FY 2016 to progress on meeting the AP standards.

Biennial User Fees

In accordance with OMB Circular A-25 Revised ("User Charges") and the CFO Act of 1990, agencies conduct the biennial review of their user fee programs. The objective was to determine whether additional fees should be assessed for services provided and/or recommend adjustments to reflect unanticipated changes in costs or market values.

In FY 2015, EPA implemented a new agency-wide process to improve the accuracy of user fees in its financial management system, and to reduce the costs to taxpayers for the management of the user fee programs. EPA will conduct a user fee review in FY 2016 to capture a full fiscal years' worth of costs by using the new business process. This will ensure that the agency is charging the most up-to-date fees for user fees programs in an efficient and effective manner. Below is a table listing the user fee programs EPA collected funds from in FY 2015, and the account number the funds are deposited in.

User Fee	Deposit Account
Clean Air Part 71 Operating Permit Program	685295
Lead-based Paint Fees Program	685295L
Motor Vehicle & Engine Compliance Program	685295A
Pesticide Maintenance Fee	68X4310
Pesticides Registration Service Program	68X5374.1
Pre-Manufacture Notice Program	680895

Miscellaneous Receipts Act

The EPA experienced seven Miscellaneous Receipts Act violations that occurred between FY 1983 through 2012. EPA is also evaluating three related potential Antideficiency 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. 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 is continuing to strengthen its audit management, addressing audit follow-up issues and working to complete corrective actions expeditiously and effectively to improve environmental results. By the end of FY 2015, for 73 percent of OIG program/performance audits, the OIG and agency reached agreement on recommendations and corrective action upon issuance of the final audit. Examples of FY 2015 efforts to strengthen audit management include:

- EPA's OCFO developed and implemented a strategy for increasing the agency's attention to its audit follow-up responsibilities, including timely completion of corrective actions in response to OIG audit recommendations. At the end of FY 2015, EPA had reduced the number of late corrective actions by 28 percent from FY 2014.

- In December 2014, OCFO launched new online training for using EPA's Management Audit Tracking System (MATS) to ensure timely and effective audit follow-up in compliance with agency policy (*EPA Manual 2750: Audit Management Procedures)* and accurate, complete, and up-to-date audit data.

- EPA made oversight of audit follow-up a focus area for its FY 2015 Management Integrity Program. All national program and regional offices reviewed a sample of their OIG audits using a standardized checklist and reported findings in their FY 2015 assurance letters to the Administrator. Results indicated no agency-level internal control weaknesses in audit management.

- The agency began updating its *Manual 2750*: *Audit Management Procedures,* which was last revised in FY 2012. Manual 2750 is a comprehensive audit management guide which addresses OIG, Government Accountability Office, and Defense Contract Audit Agency audits. The agency expects to complete the update by December 2015.

In addition, OCFO continued to conduct onsite reviews of national and program offices, initiated in FY 2009 and scheduled on a rotating basis. These QA/QC reviews focus on offices' audit follow-up procedures, data entered in MATS, and availability of supporting documentation. The CFO continued to issue first and third quarter audit management progress reports to senior agency managers, highlighting the status of management decisions and corrective actions.

In FY 2015, EPA was responsible for addressing OIG recommendations and tracking follow-up activities for 309 OIG reports. The agency achieved final action (completing all corrective actions associated with the audit) on 108 audits, including program evaluation/program performance, assistance agreement, and single audits. This total excludes Defense Contract Audit Agency audits issued after January 1, 2009; these audits are discussed separately below.

EPA's FY 2015 management activities for 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	56	$ 8,259,708	88	$ 322,578,854
B. Audits for which management decisions were made during the period (i) Management decisions with disallowed costs (1) and with better use funds (2) (ii) Management decisions with no disallowed costs (60) and with no better use funds (34)	61	$ 0	36	$ 16,975,192
C. Total audits with management decision pending final action during the period (A+B)	117	$ 8,259,708	124	$ 339,554,046
D. Final action taken during the period:	67	$ 94,109	41	$ 5,954,049
(i) Recoveries				
a) Offsets		$ 0		
b) Collection		$ 94,109		
c) Value of Property		$ 0		
d) Other		$		
(ii) Write-offs		$ 0		
(iii) Reinstated through grantee appeal		$ 0		
(iv) Value of recommendations completed				$ 5,771,870
(v) Value of recommendations management decided should/could not be completed				$ 182,179
E. Audits with management decision but without final action at end of period (C-D)	50	$ 8,165,599	83	$ 333,599,997

*Any differences in numbers of reports and amounts of disallowed costs or funds put to better use between this report and EPA's previous AFR result from corrections made to 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 309 audits that EPA tracked, a total of 143 audits with management decision were without final action and not yet fully resolved at the end of FY 2015. (The 12 audits with management decisions under administrative appeal by the grantee are not included in the 143 total; see discussion below.)

Final Corrective Action Not Taken Beyond One Year. Of the 143 audits without final action, EPA officials had not completed final action on 78 audits (four of which involve multiple offices) 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. These audits are listed below by category—audits of program performance (54), single audits (12), assistance agreements (8), 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, 2015, EPA is tracking 54 audits without final action in the program performance category (4 of which involve multiple offices).

Office of the Administrator

14-P00017	EPA Does Not Sufficiently Follow National Security Information Classification Standards

Office of Administration and Resources Management

10-P00002	Review of Hotline Complaint on Employee Granted Full-Time Work-at-Home Privilege
11-P00136	EPA Needs Better Agency-Wide Controls Over Staff Resources
12-P00836	EPA Should Improve Management Practices and Security Controls for Its Network Directory Service System
13-P00028	Improvements Needed in Estimating and Leveraging Cost Savings Across EPA
13-P00200	Improvements Needed in EPA's Smartcard Program to Ensure Consistent Physical Access Procedures and Cost Reasonableness
13-P00208+	EPA Should Increase Fixed Price Contracting for Remedial Actions
13-P00209	Opportunities for EPA-Wide Improvements Identified During Review of a Regional Time and Materials Contract
14-P00338	Increased Emphasis on Strategic Sourcing Can Result in Substantial Savings for EPA

Office of Air and Radiation

11-P00701	EPA Should Update Its Fee Rule to Recover More Motor Vehicle and Engine Compliance Program Costs
13-100434	Effectiveness of Strategies to Reduce Ozone Precursors
13-P00161	EPA Needs to Improve Air Emissions Data for the Oil and Natural Gas Production Sector
13-P00373	The EPA Should Improve Monitoring of Controls in the Renewable Fuel Standard Program

Office of Chemical Safety and Pollution Prevention

10-P00066	EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities
12-P00600	Review of Hotline 2011-0027 (Lead- Renovation Painting and Repair Program) - Review of Hotline Complaint Concerning Cost and Benefit Estimates for EPA's Lead-Based Paint Rule
13-P00163	EPA Is Not Recovering All Its Costs of the Lead-Based Paint Fees Program
14-P00322	Impact of EPA's Conventional Reduced Risk Pesticide Program Is Declining
14-P00349	EPA Can Help Consumers Identify Household and Other Products with Safer Chemicals by Strengthening
14-P00350	EPA's Risk Assessment Division Has Not Fully Adhered to Its Quality Management Plan

Office of the Chief Financial Officer

2006-P00013	SF Mandate: Program Efficiencies
11-P00031	EPA Needs to Strengthen Internal Controls for Determining Workforce Levels
11-P00630	EPA Needs Workload Data to Better Justify Future Workforce Levels
13-P00366	The EPA Needs to Improve Timeliness and Documentation of Workforce and Workload Management Corrective Actions

Office of Enforcement & Compliance Assurance

2001-P00013	State Enforcement Effectiveness- National Audit
10-P00007	EPA Oversight and Policy for High Priority Violations of Clean Air Act Need Improvement
10-P00224+	EPA Should Revise Outdated or Inconsistent EPA-State Clean Water Act Memoranda of Agreement
10-P00230	Data Quality Audit of ECHO System Phase II
11-P00315	Agency-Wide Application of Region 7 NPDES Program Process Improvements Could Increase EPA Efficiency
13-P00431	EPA Needs to Update Its Pesticide and Chemical Enforcement Penalty Policies and Practices
14-P00270+	EPA Has Not Implemented Adequate Management Procedures to Address Potential Fraudulent Environmental Data

Office of Environmental Information

14-P00122	EPA Needs to Improve Safeguards for Personally Identifiable Information
14-P00142	EPA's Information Systems and Data Are at Risk Due to Insufficient Training of Personnel With Significant Information Security Responsibilities
14-P00143	EPA Needs to Improve Management of the Cross-Media Electronic Reporting Regulation Program in Order to Strengthen Protection of Human Health and the Environment
14-P00270+	EPA Has Not Implemented Adequate Management Procedures to Address Potential Fraudulent Environmental Data

Office of Grants and Debarment

14-P00317+	EPA Should Improve Oversight and Assure the Environmental Results of Puget Sound Cooperative Agreements

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 Solid Waste and Emergency Response

2007-P00002	Asbestos Cleanup in Libby Montana
10-P00042	Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks
11-P00173	EPA Promoted the Use of Coal Ash Products with Incomplete Risk Information
12-P00253	EPA Needs to Further Improve How It Manages Its Oil Pollution Prevention
12-P00289	Controls Over State Underground Storage Tank Inspection Programs in EPA Regions Generally Effective
12-P00508	EPA Inaction in Identifying Hazardous Waste Pharmaceuticals May Result in Unsafe Disposal
13-P00152	EPA Could Improve Contingency Planning for Oil and Hazardous Substance Response
13-P00176	Results and Benefits Information Is Needed to Support Impacts of EPA's Superfund Removal Program
13-P00178	Improvements Needed in EPA Training and Oversight for Risk Management Program Inspections
13-P00208+	EPA Should Increase Fixed Price Contracting for Remedial Actions
13-P00298	Improved Information Could Better Enable EPA to Manage Electronic Waste and Enforce Regulations
14-P00270+	EPA Has Not Implemented Adequate Management Procedures to Address Potential Fraudulent Environmental Data
14-P00302	EPA Has Made Progress in Assessing Historical Lead Smelter Sites But Needs to Strengthen Procedures

Office of Water

10-P00224+	EPA Should Revise Outdated or Inconsistent EPA-State Clean Water Act Memoranda of Agreement
14-P00129	EPA Did Not Conduct Thorough Biennial User Fee Reviews
14-P00318	Unliquidated Obligations Resulted in Missed Opportunities to Improve Drinking Water Infrastructure
14-P00348	EPA Needs to Work With States to Develop Strategies for Monitoring the Impact of State Activities on the Gulf of Mexico Hypoxic Zone
14-P00363	More Action Is Needed to Protect Water Resources From Unmonitored Hazardous Chemicals

Region 6

14-P00109	Internal Controls Needed to Control Costs of Emergency and Rapid Response Services Contracts, as Exemplified in Region 6

Region 8

11-P00430	An Overall Strategy Can Improve Communication Efforts at Asbestos Superfund Site in Libby, Montana

Region 9

2008-P00196	Making Better Use of Stringfellow SF Special Accounts
11-P00725	Region 9 Technical and Computer Room Security Vulnerabilities Increase Risk to EPA's Network

Region 10

14-P00317+	EPA Should Improve Oversight and Assure the Environmental Results of Puget Sound Cooperative Agreements

+ Indicates audits involving more than one office

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, 2015, EPA is tracking completion of corrective action on the following 12 single audits.

Region 2

2007-300139	State of New York, FY 2006
11-300022	United States Virgin Islands Government FY 2007
11-300038	United States Virgin Islands Government FY 2008
12-300444	New Jersey State FY 2011
13-300119	United States Virgin Islands FY 2010

Region 9:

10-300208	City of Nogales FY 2008
13-300164	City of Nogales Arizona FY 2011
13-300346	City of Nogales Arizona FY 2012
13-300355	Guam Waterworks Authority GU FY 2012

Region 10

2003-300047	Stevens Village Council
2003-300117	Stevens Village Council
2003-300145	Circle Village Council^

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

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 8 audits in this category as of September 30, 2015.

Office of Grants and Debarment

2001-100073	Napoleon City Schools-ASHAA (Hotline)
10-400067	Incurred Cost Audit of Three EPA Cooperative Agreements Awarded to National Tribal Environment
12-R00749	Examination of Costs Claimed Under EPA Cooperative Agreement 2A-83440701 Awarded Under the Recovery Act to Cascade Sierra Solutions, Eugene, Oregon

Region 3

2001-100101	Center for Chesapeake Communities (CCC) Assist. Agreements^
2008-400156	Canaan Valley Institute

Region 5

2008-200039	Village of Laurelville, Ohio^

Region 6

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

Region 9

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

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

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 4 financial statement audits as of September 30, 2015.

Office of Administration and Resource Management

11-100015 Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements

Office of the Chief Financial Officer

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

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

Office of Environmental Information

14-100039 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 2015, 12 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, 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. Beginning January 1, 2009, however, EPA's Office of Acquisition Management assumed responsibility for requesting DCAA audits. Accordingly, these audits are now reported separately from OIG audits. The following provides an overview of DCAA audit activity for the period October 1, 2014 through September 30, 2015.

Summary of Audit Activities for the Period Ending September 30, 2015

Category	Number	Questioned Costs
A. Audits for which no management decision was made by 10/1/2014	32	$ 1,774,479
B. Audits which were issued during the period	28	$ 199,537
C. Subtotal (A+B)	60	$ 836,446
D. Audits for which a management decision was made during the reporting period	33	$ 836,446
E Audits for which no management decision was made by 9/30/15	23	$ 0
F. Reports for which no management decision was made within six months of issuance	24	$ 0

During this reporting period, EPA management was accountable for monitoring 60 DCAA audits. The agency achieved final action on 33 audits. EPA's FY 2015 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 (i) Management decisions with disallowed costs (20) (ii) Management decisions with no disallowed costs (13)	33	$ 836,446	0	$ 0
C. Total audits pending final action during the period (A+B)	37	$1,176,231	0	$ 0
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of property d) Other (ii) Write-offs (iii) Reinstated through appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	33	$ 836,446 $ 0 $ 0 $ 0 $ 836,446 $ 0 $	0	$ 0 $ 0 $ 0
E. Audits without final action at end of period (C-D)	4	$ 278,942	0	$ 0

Final Corrective Action Not Taken on DCAA Audit Reports: Of the 60 DCAA audits EPA tracked, 27 were without final action and not yet fully resolved at the end of FY 2015.

DCAA Audits Awaiting Decision on Appeal: As of September 30, 2015, there were no management decisions in administrative appeal status.

DCAA Audits Without Management Decision in 180 Days: As of September 30, 2015, 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, 2015.

2012-114475	Avanti Corporation FY 2006, 2007 and 2008 Incurred Costs
2012-114800	Alpha Gamma FY 2005 Incurred Costs
2012-114841	TechLaw Inc. FY 2006, 2007, 2008 Incurred Costs

SECTION II – FINANCIAL SECTION

MESSAGE FROM THE DEPUTY CHIEF FINANCIAL OFFICER

I am pleased to join the Administrator in presenting the EPA's FY 2015 Agency Financial Report, which provides financial and high-level programmatic performance information to facilitate the understanding of the EPA's mission and achievements. 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 toward addressing key management initiatives.

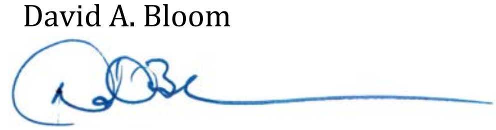
As required by Office of Management and Budget Circular A-123 and the Federal Managers' Financial Integrity Act, the EPA conducted an annual assessment of the effectiveness of internal controls over financial activities and reporting and programmatic operations. Based on the results of the agency's FY 2015 evaluations and reviews, the agency can provide reasonable assurance on the adequacy and effectiveness of the agency's internal controls over programs, financial activities, and financial systems. Additionally, the EPA did not identify any new material weaknesses for FY 2015. Section III of this report provides details about corrective actions underway to address a previously identified material weakness, and a number of other less severe weaknesses and deficiencies. We will continue monitoring progress toward correcting these issues.

For FY 2015, the agency achieved an unmodified audit opinion for the 16th consecutive year on the EPA's financial statements. This unmodified opinion means the EPA's financial data is reliable and accurate. The agency's leadership continues its commitment of practicing sound financial management and good stewardship over taxpayer resources.

During this fiscal year, we strengthened operational processes to reduce risks and enhance internal controls. The agency developed more robust management oversight practices to facilitate better utilization of resources--dramatically improving our ability to advance the mission of the agency. The agency also launched an executive dashboard providing managers with summary financial and administrative data to identify potential areas of concern within their respective organization.

As we enter into a new fiscal year, we are committed to expanding our management integrity process to provide an integrated approach to evaluating strategic decisions, internal controls, and risk management. We continue to uphold our commitment to financial excellence and strive to ensure we are using taxpayer dollars effectively in fulfilling our mission. I look forward to the agency's continued success through collaboration with our partners and stakeholders to help deliver the best results to the American people.

David A. Bloom



Deputy Chief Financial Officer
November 16, 2015

EPA'S FISCAL 2015 AND 2014 CONSOLIDATED FINANCIAL STATEMENTS

Principal Financial Statements

Financial Statements

Notes to Financial Statements

Required Supplementary Information (Unaudited)

1. Deferred Maintenance
2. Stewardship Land
3. Supplemental Combined Statement of Budgetary Resources

Required Supplementary Stewardship Information (Unaudited)

1. Investment in the Nation’s Research and Development
2. Investment in the Nation’s Infrastructure
3. Human Capital

United States Environmental Protection Agency
Consolidated Balance Sheet
As of September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 8,646,354	$ 9,370,002
Investments (Note 4)	5,738,556	3,900,385
Accounts Receivable, Net (Note 5)	10,688	10,573
Other (Note 6)	216,802	229,018
Total Intragovernmental	14,612,400	13,509,978
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	415,757	526,859
Loans Receivable, Net - Non-Federal (Note 7)	337	398
Property, Plant & Equipment, Net (Note 9)	1,054,915	1,185,888
Other (Note 6)	6,842	3,288
Total Assets	$ **16,090,261**	$ **15,226,421**
Stewardship PP& E (Note 11)		
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	$ 67,037	$ 68,609
Debt Due to Treasury (Note 10)	38	62
Custodial Liability (Note 12)	35,067	96,495
Other (Notes 13 and 17)	86,998	92,435
Total Intragovernmental	189,140	257,601
Accounts Payable & Accrued Liabilities (Note 8)	529,977	535,250
Pensions & Other Actuarial Liabilities (Note 15)	46,166	49,060
Environmental Cleanup Costs (Note 21)	36,165	21,610
Cashout Advances, Superfund (Notes 1 and 16)	3,322,735	971,666
Commitments & Contingencies (Note 17)	901	901
Payroll & Benefits Payable (Note 32)	195,615	198,265
Other (Note 13)	409,793	114,183
Total Liabilities	4,730,492	2,148,536
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	16,579	(2,497)
Unexpended Appropriations - Other Funds	7,783,251	8,508,269
Cumulative Results of Operations - Funds from Dedicated Collections (Notes 1 and 18)	2,776,111	3,642,573
Cumulative Results of Operations - Other Funds	783,828	929,540
Total Net Position	11,359,769	13,077,885
Total Liabilities and Net Position	**$ 16,090,261**	**$ 15,226,421**

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

United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
COSTS		
Gross Costs (Note 19)	$ 9,512,628	$ 9,054,107
Less:		
Earned Revenue (Note 19)	775,606	548,690
NET COST OF OPERATIONS (Notes 25 and 35)	**$ 8,737,022**	**$ 8,505,417**

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

United States Environmental Protection Agency
Statement of Net Cost by Goal
For the Fiscal Year Ending September 30, 2015
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 169,915	382,821	328,868	168,421	228,095
With the Public	871,335	4,419,378	1,882,664	566,612	494,519
Total Costs	1,041,250	4,802,199	2,211,532	735,033	722,614
Less:					
Earned Revenue, Federal	23,110	(17,866)	39,688	28,375	9,255
Earned Revenue, non Federal	726	27,579	537,143	42,744	84,852
Total Earned Revenue (Note 19)	23,836	9,713	576,831	71,119	94,107
NET COST OF OPERATIONS	**$ 1,017,414**	**4,792,486**	**1,634,701**	**663,914**	**628,507**

Costs:	Consolidated Totals
Intragovernmental	$ 1,278,120
With the Public	8,234,508
Total Costs	9,512,628
Less:	
Earned Revenue, Federal	82,562
Earned Revenue, non Federal	693,044
Total Earned Revenue (Note 19)	775,606
NET COST OF OPERATIONS	**$ 8,737,022**

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

United States Environmental Protection Agency
Statement of Net Cost by Goal
For the Fiscal Year Ending September 30, 2014
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 162,818	412,244	338,293	149,398	248,160
With the Public	836,368	4,160,915	1,774,828	518,293	452,790
Total Costs	999,186	4,573,159	2,113,121	667,691	700,950
Less:					
Earned Revenue, Federal	16,972	5,570	41,185	12,361	5,701
Earned Revenue, non Federal	865	24,837	350,118	44,643	46,438
Total Earned Revenue (Note 19)	17,837	30,407	391,303	57,004	52,139
NET COST OF OPERATIONS	**$ 981,349**	**4,542,752**	**1,721,818**	**610,687**	**648,811**

	Consolidated Totals
Costs:	
Intragovernmental	$ 1,310,913
With the Public	7,743,194
Total Costs	9,054,107
Less:	
Earned Revenue, Federal	81,789
Earned Revenue, non Federal	466,901
Total Earned Revenue (Note 19)	548,690
NET COST OF OPERATIONS	**$ 8,505,417**

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

United States Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 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
Nonexchange Revenue - Securities Investment (Note 34)		26,707	-	26,707
Nonexchange 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
Other Financing Sources		-	-	-
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	$	**2,776,111**	**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
Consolidating Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2014
(Dollars in Thousands)

		FY 2014 Funds from Dedicated Collections	FY 2014 All Other Funds	FY 2014 Consolidated Total
Cumulative Results of Operations:				
Net Position - Beginning of Period	$	4,576,942	731,208	5,308,150
Beginning Balances, as Adjusted		4,576,942	731,208	5,308,150
Budgetary Financing Sources:				
Appropriations Used		1,984	8,385,104	8,387,088
Nonexchange Revenue - Securities Investment (Note 34)		29,919	-	29,919
Nonexchange Revenue - Other (Note 34)		192,559	2	192,561
Transfers In/Out (Note 30)		(1,012,576)	28,825	(983,751)
Trust Fund Appropriations		940,508	(938,387)	2,121
Other		(2,122)	-	(2,122)
Total Budgetary Financing Sources		150,272	7,475,544	7,625,816
Other Financing Sources (Non-Exchange)				
Transfers In/Out (Note 30)		(53)	(298)	(350)
Imputed Financing Sources (Note 31)		23,124	120,790	143,914
Total Other Financing Sources		23,071	120,492	143,564
Net Cost of Operations		(1,107,713)	(7,397,704)	(8,505,417)
Net Change		(934,370)	198,332	(736,037)
Cumulative Results of Operations	$	**3,642,573**	**929,540**	**4,572,113**

		FY 2014 Funds from Dedicated Collections	FY 2014 All Other Funds	FY 2014 Consolidated Total
Unexpended Appropriations:				
Net Position - Beginning of Period	$	-	8,980,012	8,980,012
Budgetary Financing Sources:				
Appropriations Received		3,674	7,933,169	7,936,843
Other Adjustments (Note 33)		(4,187)	(19,808)	(23,995)
Appropriations Used		(1,984)	(8,385,104)	(8,387,088)
Total Budgetary Financing Sources		(2,497)	(471,743)	(474,240)
Total Unexpended Appropriations		(2,497)	8,508,269	8,505,772
TOTAL NET POSITION	$	**3,640,076**	**9,437,809**	**13,077,885**

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

United States Environmental Protection Agency
Combining Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2015 and 2014
Dollars in Thousands)

	FY 2015	FY 2014
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1:	$ 2,963,076	$ 3,242,602
Recoveries of prior year unpaid obligations (Note 26)	227,283	397,697
Other changes in unobligated balance	(15,107)	(62,229)
Unobligated balance from prior year budget authority, net	3,175,252	3,578,070
Appropriations (discretionary and mandatory)	10,560,343	10,172,972
Borrowing Authority (discretionary and mandatory)	290	-
Spending Authority from offsetting collection (discretionary and mandatory)	738,244	887,854
Total Budgetary Resources	14,474,129	14,638,896
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	10,123,499	11,676,560
Unobligated Balance, end of year:		
Apportioned	4,242,190	2,742,774
Unapportioned	108,440	219,562
Total Unobligated balance, end of period (Note 27)	4,350,630	2,962,336
Total Status of Budgetary Resources	14,474,129	14,638,896
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	9,692,881	9,784,031
Obligations incurred, net	10,123,499	11,676,560
Outlays (gross)	(10,484,265)	(11,370,070)
Recoveries of prior year unpaid obligations	(227,283)	(397,697)
Unpaid obligations, end of year (gross)	9,104,832	9,692,826
Uncollected Payments		
Uncollected customer payments from Federal Sources, brought forward, October 1)	(259,642)	(296,176)
Change in uncollected customer payments from federal sources	24,113	36,534
Uncollected customer payments from Federal Sources, end of year	(235,529)	(259,642)
Memorandum entries:		
Obligated balance, start of year	9,433,183	9,487,855
Obligated balance, end of year (net)	8,869,303	9,433,183
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	11,298,877	11,060,827
Actual offsetting collections (discretionary and mandatory)	(762,357)	(924,388)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	24,113	36,534
Budget Authority, net (discretionary and mandatory)	10,560,633	10,172,973
Outlays, gross (discretionary and mandatory)	10,484,265	11,370,070
Actual offsetting collections (discretionary and mandatory)	(762,357)	(924,388)
Outlays, net (discretionary and mandatory)	9,721,908	10,445,682
Distributed offsetting receipts (Note 29)	(2,716,279)	(1,045,029)
Agency outlays, net (discretionary and mandatory	$ 7,005,629	$ 9,400,653

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

United States Environmental Protection Agency
Statement of Custodial Activity
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 198,087	$ 119,295
Other	56,334	(2,040)
Total Cash Collections	254,421	117,255
Accrual Adjustment	(60,173)	2,218
Total Custodial Revenue (Note 24)	194,248	119,473
Disposition of Collections:		
Transferred to Others (General Fund)	254,423	117,255
Increases/Decreases in Amounts to be Transferred	(60,174)	2,218
Total Disposition of Collections	194,248	119,473
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, 2015 and September 30, 2014
(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 2015 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of 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 strategic goals.

C. Budgets and Budgetary Accounting

1. General Funds

Congress adopts 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 to the respective appropriations. As the agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at 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 reestimates 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 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.

2. 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.

3. 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 National 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.

4. 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).

5. Trust Funds

Congress adopts an annual appropriation amount for the Superfund, Leaking Underground Storage Tank (LUST) and the Inland Oil Spill Programs Accounts to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has 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 Fund 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 adopts 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 US 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."

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 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 Trust Fund.

Special Accounts Funds Accounting Process Change

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

- 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 (US 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:
    - Appropriations (Mandatory) increased by $1.4 Billion
    - Spending Authority from Offsetting Collections was not used to record the Anadarko collection.

- In FY 2016, all new agency cash outs will go into the receipt account 68X8145.006 which allows the agency to have the funds invested immediately in U.S. Government Securities.

- For collections in FY 2015 and prior years, except for the Anadarko settlement, which is approximately $1.4 Billion, the funds are treated as Reimbursable Authority and are shown on Statement of Budgetary Resources line "Spending Authority from Offsetting Collections."

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

- Prior to FY 2015, 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 2015, 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 FY 2015, EPA collected an additional $290 million in past costs that was classified as unearned revenue, intended for future site cleanups.

<u>Other Funds</u>

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 US Government Securities

Investments in US 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.

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 and Restatements

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

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, 2015, EPA expended over $7.1 billion, with $2.1 million deobligated 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:

- $4.4 billion for State and Tribal Assistance Grants (STAG) that in turn include:
  - $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);
  - $100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program);
  - $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);
- $600 million for the cleanup of hazardous sites (Superfund program);
- $200 million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank program); and
- $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 National 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 2015, 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: http://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):

- The Clean Water State Revolving Fund received $475 million for work on clean water infrastructure projects in New York and New Jersey.
- The Drinking Water State Revolving Fund received $95 million for work on drinking water infrastructure projects in New York and New Jersey.
- The Leaking Underground Storage Tanks program received $4.75 million for work on projects impacted by Hurricane Sandy.
- The Superfund program received $1.9 million for work on Superfund sites impacted by Hurricane Sandy.
- 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, 2015, EPA obligated $576.7 million of these funds and expended $2.7 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, resulting in the largest bankruptcy-related award that EPA has ever received for environmental claims and liabilities. The settlement addresses Kerr-McGee's enormous legacy environmental and tort liabilities, including its liability at Federal Superfund sites. EPA has received the collections from DOJ regarding the Anadarko settlement.

Y. 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.

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2015 and September 30, 2014, consists of the following:

	FY 2015			FY 2014		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	$ 39,078	-	39,078	$ 18,817	-	18,817
LUST	24,358	-	24,358	32,390	-	32,390
Oil Spill	7,694	-	7,694	4,020	-	4,020
Revolving Funds:						
FIFRA/Tolerance	22,400	-	22,400	16,480	-	16,480
Working Capital	72,238	-	72,238	83,214	-	83,214
Cr. Reform Finan.	36	-	36	398	-	398
e-Manifest	3,411	-	3,411	-	-	-
NRDA	3,196	-	3,196	549	-	549
Appropriated	8,044,387	-	8,044,387	8,821,029	-	8,821,029
Other Fund Types	419,081	10,475	429,556	389,306	3,799	393,105
Total	**$ 8,635,879**	**10,475**	**8,646,354**	**$ 9,366,203**	**3,799**	**9,370,002**

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:		**FY 2015**		**FY 2014**
Unobligated Amounts in Fund Balance:				
Available for Obligation	$	4,226,754	$	894,141
Unavailable for Obligation		108,424		2,068,195
Net Receivables from Invested Balances		(4,991,953)		(3,416,491)
Balances in Treasury Trust Fund (Note 36)		3,867		12,140
Obligated Balance not yet Disbursed		8,851,913		9,433,183
Non-Budgetary FBWT		447,349		378,834
Totals	$	**8,646,354**	$	**9,370,002**

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 2015 and FY 2014 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, 2015 and September 30, 2014, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2015 and September 30, 2014 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 2015	$	5,731,240	(4,278)	3,038	5,738,556	5,738,556
Non-Marketable	FY 2014	$	3,886,652	(8,836)	4,897	3,900,385	3,900,385

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, 2015 and September 30, 2014 consist of the following:

		FY 2015	FY 2014
Intragovernmental:			
Accounts & Interest Receivable	$	11,372	11,266
Less: Allowance for Uncollectibles		(684)	(693)
Total	$	**10,688**	**10,573**
Non-Federal:			
Unbilled Accounts Receivable	$	124,494	126,170
Accounts & Interest Receivable		2,416,585	2,303,339
Less: Allowance for Uncollectibles		(2,125,322)	(1,902,650)
Total	**$**	**415,757**	**526,859**

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, 2015 and September 30, 2014 consist of the following:

Intragovernmental:		FY 2015	FY 2014
Advances to Federal Agencies	$	216,692	228,982
Advances for Postage		110	36
Total	**$**	**216,802**	**229,018**
Non-Federal:			
Travel Advances	$	339	4

Other Advances		6,121	2,914
Inventory for Sale		382	370
Total	**$**	**6,842**	**3,288**

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, 2015 and September 30, 2014 are as follows:

		FY 2015			FY 2014		
		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 After FY 1991	$	-	337	337	32	366	398
Total	**$**	**-**	**337**	**337**	**32**	**366**	**398**

* 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):

		Interest Rate Re-estimate	Technical Re-estimate	Total
Upward Subsidy Reestimate – FY 2015	$			-
Downward Subsidy Reestimate - FY 2015		2	-	2
FY 2015 Totals	**$**	**2**	**-**	**2**
Upward Subsidy Reestimate – FY 2014	$	302	96	398
Downward Subsidy Reestimate - FY 2014				-
FY 2014 Totals	**$**	**302**	**96**	**398**

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

	FY 2015	FY 2014
Beginning balance of the subsidy cost allowance	$ 366	27
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	-	96
Total of the above subsidy expense components	366	123
Adjustments:		
Subsidy allowance amortization	-	304
Other	(31)	-
End balance of the subsidy cost allowance before reestimates	(31)	304
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	2	(47)
(b) Technical/default reestimate	-	(14)
Total of the above reestimate components	2	(61)
Ending Balance of the subsidy cost allowance	$ 337	366

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, 2015 and September 30, 2014:

		FY 2015	FY 2014
Intragovernmental:			
Accounts Payable	$	824	533
Subsidy Payable		(339)	-
Accrued Liabilities		66,552	68,076
Total	$	**67,037**	**68,609**

Non-Federal:		**FY 2015**	**FY 2014**
Accounts Payable	$	69,361	75,387
Advances Payable		5	11
Interest Payable		5	7
Grant Liabilities		304,929	308,521
Other Accrued Liabilities		155,677	151,324
Total	$	**529,977**	**535,250**

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, 2015 and September 30, 2014, General PP&E consisted of the following:

	FY 2015				FY 2014		
	Acquisition Value	**Accumulated Depreciation**	**Net Book Value**		**Acquisition Value**	**Accumulated Depreciation**	**Net Book Value**
EPA-Held Equipment	291,669	(188,779)	102,890	$	291,021	(182,473)	108,548
Software	964,670	(503,328)	461,342		993,293	(420,968)	572,325
Contractor Held Equip.	37,261	(21,746)	15,515		36,085	(18,345)	17,740
Land and Buildings	707,564	(239,925)	467,639		702,658	(223,647)	479,011
Capital Leases	30,613	(23,084)	7,529		35,285	(27,021)	8,264
Total	**2,031,777**	**(976,862)**	**1,054,915**	$	**2,058,342**	**(872,454)**	**1,185,888**

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, 2015 and September 30, 2014 is as follows:

	FY 2015			FY 2014		
	Beginning Balance	**Net Borrowing**	**Ending Balance**	**Beginning Balance**	**Net Borrowing**	**Ending Balance**
Intragovernmental:						
Debt to Treasury	$ 62	(24)	38	$ 28	34	62

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 cleanup sites. The property rights are in the form of fee interests (ownership) and easements to allow access to cleanup 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 cleanup. 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, 2015 and 2014, the agency possesses the following land and land rights:

	FY 2015	FY 2014
Superfund Sites with Easements		
Beginning Balance	35	36
Additions	1	0
Withdrawals	0	1
Ending Balance	36	35
Superfund Sites with Land Acquired		
Beginning Balance	34	33
Additions	1	1
Withdrawals	0	0
Ending Balance	35	34

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2015 and September 30, 2014, custodial liability is approximately $35.067 million and $96.495 million, respectively.

Note 13. Other Liabilities

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

Other Liabilities – Intragovernmental		**Covered by Budgetary Resources**		**Not Covered by Budgetary Resources**	**Total**
Current					
Employer Contributions & Payroll Taxes	$	10,132	$	-	10,132
WCF Advances		1,155		-	1,155
Other Advances		4,881		-	4,881
Advances, HRSTF Cashout		38,310		-	38,310
Deferred HRSTF 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**

Other Liabilities consist of the following as of September 30, 2014:

Other Liabilities – Intragovernmental		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current				
Employer Contributions & Payroll Taxes	$	11,200	-	11,200
WCF Advances		1,208	-	1,208
Other Advances		6,568	-	6,568
Advances, HRSTF Cashout		30,693	-	30,693
Non-Current				
Unfunded FECA Liability		-	20,566	20,566
Unfunded Unemployment Liability		-	200	200
Payable to Treasury Judgment Fund		-	22,000	22,000
Total Intragovernmental	$	**49,669**	**42,766**	**92,435**

Other Liabilities - Non-Federal				
Current				
Unearned Advances	$	89,682	-	89,682
Liability for Deposit Funds		4,123	-	4,123
Non-Current				
Capital Lease Liability		-	20,378	20,378
Total Non-Federal	$	**93,805**	**20,378**	**114,183**

Note 14. Leases

Capital Leases:

The value of assets held under Capital Leases as of September 30, 2015 and 2014 are as follows:

Summary of Assets Under Capital Lease:		FY 2015	FY 2014
Real Property	$	30,613	35,285
Personal Property		-	-
Total		**30,613**	**35,285**
Accumulated Amortization	$	23,084	27,201

EPA had two capital leases for land and buildings housing scientific laboratories and computer facilities. Both 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, U.S. Department of Labor. EPA's leases terminate in FY 2025.

The total future minimum capital lease payments are listed below.

Future Payments Due		
Fiscal Year		**Capital Leases**
2016	$	4,215
2017		4,215
2018		4,215
2019		4,215
After 5 years		22,480
Total Future Minimum Lease Payments		39,340
Less: Imputed Interest		(19,750)
Net Capital Lease Liability		19,590
Liabilities not Covered by Budgetary Resources	**$**	**19,590**

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 had two direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. The two leases expire in FY 2017 and FY 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

Fiscal Year		**Operating Leases, Land and Buildings**
2016	$	89
2017		83
2018		53
2019		53
Beyond 2019		8
Total Future Minimum Lease Payments	**$**	**286**

Note 15. FECA Actuarial Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, 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, 2015 and 2014 was $46.17 million and $49.06 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2015 present value of these estimated outflows is calculated using a discount rate of 3.143 percent in the first year, and 3.143 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by 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, 2015 and September 30, 2014, cashouts are approximately $3,323 million and $972 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:

- Various personnel actions, suits, or claims brought against the agency by employees and others.
- Various contract and assistance program claims brought against the agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- 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, 2015 and 2014 total accrued liabilities for commitments and potential loss contingencies is $901 thousand for both years, respectively. The recorded amount is comprised of two cases and discussed below.

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 2015 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 U.S. government actions. Subject to the materiality threshold, the agency will begin to report on such matters when claims are filed and contingent legal liabilities are known.

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, 2015, there are two cases pending against EPA that are reported under Environmental Liabilities below: Bob's Home Service Landfill ($900 thousand) and the Seaboard Chemical/Riverdale Landfill Site matter ($1 thousand) are reported as a probable liability. The $901 thousand will be recorded as an accrual.
There are two matters concerning CERCLA involving the Appvion Lower Fox River and Green Bay Site and the Hudson Oil Refinery site (associated with Land O'Lakes). The amounts are estimated at $174 million and $17.6 million respectively but they are only possible and the final outcomes are not probable.

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, 2015, there are two cases pending: Trinity Marine Products, Inc. v. United States and Frederick McKenzie et al v. United States. The Trinity Marine Products case has been denied twice, but Trinity appealed to US Court of Appeals for the Fifth Circuit. The possibility of loss is only reasonably possible so no liability has been accrued. An estimate of possible damages is $1 million to $4.4 million. For the McKenzie case, the Government has filed a motion to dismiss the complaint and the Court has decided to issue its decisions on the briefs without oral arguments. The Court has also determined that it will not rule on this case until the Trinity Marine Products case has been decided. An estimate of the possible damages is $1 million to $2.8 million.

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 2015-201

Note 18. Funds from Dedicated Collections (Unaudited)

Balance sheet as of September 30, 2015	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
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	629,091	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

Balance sheet as of September 30, 2014		Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Assets						
Fund Balance with Treasury	$	370,053	32,760	27,393	42,168	472,374
Investments		-	446,455	3,453,929	-	3,900,384
Accounts Receivable, Net		-	85,924	319,640	5,407	410,971
Other Assets		-	686	119,991	3,145	123,822
Total Assets		370,053	565,825	3,920,953	50,720	4,907,551
Other Liabilities		8	93,619	1,127,129	46,719	1,267,475
Total Liabilities		8	93,619	1,127,129	46,719	1,267,475
Unexpended Appropriations		-	(4,187)	-	1,690	(2,497)
Cumulative Results of Operations		370,045	476,393	2,793,824	2,311	3,642,573
Total Liabilities and Net Position		370,053	565,825	3,920,953	50,720	4,907,551
Statement of Net Cost for the Period Ended September 30, 2014						
Gross Program Costs		-	103,665	1,395,175	83,808	1,582,648
Less: Earned Revenues		-	2,829	405,391	66,715	474,935
Net Cost of Operations		-	100,836	989,784	17,093	1,107,713
Statement of Changes in Net Position for the Period ended September 30, 2014						
Net Position, Beginning of Period		358,632	1,390,286	2,827,897	127	4,576,942
Nonexchange Revenue- Securities Investments		-	4,350	25,565	3	29,918
Nonexchange Revenue		11,413	182,340	732	(1,926)	192,559
Other Budgetary Finance Sources		-	(1,004,187)	909,562	22,045	(72,580)
Other Financing Sources		-	253	19,852	845	20,950
Net Cost of Operations		-	(100,836)	(990,741)	(17,093)	(1,108,670)
Change in Net Position		11,413	(918,080)	(35,030)	3,874	(937,823)
Net Position	$	370,045	472,206	2,792,867	4,001	3,639,119

Funds from Dedicated Collections are as follows:

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.

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.

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.

Other Funds from Dedicated Collections:

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.

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.

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.

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).

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.

	FY 2015			FY 2014		
	Intragovern-mental	With the Public	Total	Intragovern-mental	With the Public	Total
Clean Air						
Program Costs	$ 169,915	871,335	1,041,250	$ 162,818	836,368	999,186
Earned Revenue	23,110	726	23,836	16,972	865	17,837
NET COST	146,805	870,609	1,017,414	145,846	835,503	981,349
Clean and Safe Water						
Program Costs	382,821	4,419,378	4,802,199	412,244	4,160,915	4,573,159
Earned Revenue	(17,866)	27,579	9,713	5,570	24,837	30,407
NET COSTS	400,687	4,391,799	4,792,486	406,674	4,136,078	4,542,752
Land Preservation & Restoration						
Program Costs	328,868	1,882,664	2,211,532	338,293	1,774,828	2,113,121
Earned Revenue	39,688	537,143	576,831	41,185	350,118	391,303
NET COSTS	289,180	1,345,521	1,634,701	297,108	1,424,710	1,721,818
Healthy Communities & Ecosystems						
Program Costs	168,421	566,612	735,033	149,398	518,293	667,691
Earned Revenue	28,375	42,744	71,119	12,361	44,643	57,004
NET COSTS	140,046	523,868	663,914	137,037	473,650	610,687
Compliance & Environmental Stewardship						
Program Costs	231,381	491,233	722,614	248,160	452,790	700,950
Earned Revenue	3,559	90,548	94,107	5,701	46,438	52,139
NET COSTS	227,822	400,685	628,507	242,459	406,352	648,811
Total						
Program Costs	1,281,406	8,231,222	9,512,628	1,310,913	7,743,194	9,054,107
Earned Revenue	76,866	698,740	775,606	81,789	466,901	548,690
NET COSTS	$ 1,204,540	7,532,482	8,737,022	$ 1,229,124	7,276,293	8,505,417

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 one acquisition of stewardship land at a cost of $532,000 for the year ending September 30, 2015. There were relocation services costs of $70,000 related to the acquisition of stewardship land for the year ending September 30, 2015. 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:

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

EPA has 16 sites responsible for cleanup 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:

- Cleanup from federal operations resulting in hazardous waste
- Accidental damage to nonfederal property caused by federal operations, and
- Other damage to federal property caused by federal operations or natural forces.

The key to distinguishing between future cleanup cost 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 cleanup cost as a liability and record changes to the estimate in subsequent years.

As of September 30, 2015, EPA has 2 sites that require cleanup stemming from its activities. Two claimants' chances of success are characterized as probable with costs amounting to $901 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 cleanup work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2015 or in FY 2014.

Accrued Cleanup Cost

EPA has 16 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2015 the estimated costs for site cleanup were $36.2 million unfunded and $3.8 million funded respectively. In 2014 the estimated costs for site cleanup were $21.6 million unfunded, $2 million funded, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

In FY 2015, the estimate for unfunded cleanup cost increased by $14.6 million from the FY 2014 estimate. This increase is primarily due to the closure of several EPA buildings at the University of Nevada, Las Vegas (UNLV). Also, in FY 2015 an increase of funds of $1.8 million were incurred compared to FY 2014 as 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, 2015 and September 30, 2014, the total remaining state credits have been estimated at $22.4 million and $24.5 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, 2015, EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $6.2 million. As of September 30, 2014, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 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 2015	FY 2014
Fines, Penalties and Other Miscellaneous Receipts	**$**	**193,850**	**119,474**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:			
Accounts Receivable	$	170,246	229,581
Less: Allowance for Uncollectible Accounts		(133,444)	(132,606)
Total	**$**	**36,802**	**96,975**

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 2015 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2015

Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2015 has not yet been published. We expect it will be published by early 2016, and it will be available on the OMB website at http://www.whitehouse.gov/.

The actual amounts published for the year ended September 30, 2014 are listed immediately below (dollars in millions):

FY 2014		**Budgetary Resources**	**Obligations**	**Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources	**$**	14,472	11,618	1,045	10,444
Reported in Budget of the U. S. Government	**$**	14,472	11,618	1,045	10,444

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, 2015 and September 30, 2014:

		FY 2015	**FY 2014**
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$	227,283	397,697
Temporarily Not Available - Rescinded Authority		(7,466)	(2,002)
Permanently Not Available:			
Payments to Treasury		(28)	-
Rescinded authority		(40,000)	-
Canceled authority		(74,171)	(60,107)
Total Permanently Not Available	**$**	**(114,199)**	**(60,107)**

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, 2015 and September 30, 2014:

	FY 2015	**FY 2014**
Unexpired Unobligated Balance	4,242,295	2,852,876
Expired Unobligated Balance	108,335	109,460
Total	**4,350,630**	**2,962,336**

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2015 and September 30, 2014 were $8.65 billion and $9.25 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, 2015 and September 30, 2014, the following receipts were generated from these activities:

		FY 2015	FY 2014
Trust Fund Recoveries	$	274,173	79,755
Special Fund Environmental Service		27,784	11,421
Trust Fund Appropriation		2,389,251	938,387
Miscellaneous Receipt and Clearing Accounts		25,071	15,466
Total	**$**	**2,716,279**	**1,045,029**

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

Appropriation Transfers, In/Out:

For September 30, 2015 and September 30, 2014, 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, 2015 and September 30, 2014:

Fund/Type of Account		**FY 2015**	**FY 2014**
Army Corps of Engineers	$	-	-
Total Appropriation Transfers (Other Funds)	$	-	-
Net Transfers from Invested Funds	$	2,576,013	2,172,898
Transfers to Another Agency		-	-
Allocations Rescinded		-	-
Total of Net Transfers on Statement of Budgetary Resources	$	**2,576,013**	**2,172,898**

Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2015 and September 30, 2014, 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, 2015 and September 30, 2014:

		FY 2015		FY 2014	
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	$	(28,089)	28,089	(28,987)	28,987
Transfers-in nonexpenditure, Oil Spill		(18,209)		(18,209)	
Transfers-in (out) nonexpenditure, Superfund		29,296		30,947	
Transfer-out LUST		-		1,000,000	-
Total Transfer in (out) without Reimbursement, Budgetary	$	**(17,002)**	**28,089**	**983,751**	**28,987**

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 2015 were $120.1 million. For FY 2014, the estimates were $143.9 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 2015 total imputed costs were $9.1 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 2015 entries for Judgment Fund payments totaled $5.1 million. For FY 2014, entries for Judgment Fund payments totaled $16.6 million.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2015 and September 30, 2014 consist of the following:

FY 2015 Payroll & Benefits Payable		**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accrued Funded Payroll & 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**

FY 2014 Payroll & Benefits Payable				
Accrued Funded Payroll and Benefits	$	15,674	-	15,674
Withholdings Payable		30,412	-	30,412
Employer Contributions Payable-TSP		1,403	-	1,403
Accrued Unfunded Annual Leave		-	150,776	150,776
Total - Current	$	**47,489**	**150,776**	**198,265**

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 2015	**Other Funds FY 2014**
Rescissions to General Appropriations	$	-	-
Canceled General Authority		54,063	23,995
Total Other Adjustments	**$**	**54,063**	**23,995**

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, 2015 and September 30, 2014 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2015	Funds from Dedicated Collections FY 2014
Interest on Trust Fund	$	26,707	29,919
Tax Revenue, Net of Refunds		178,382	182,355
Fines and Penalties Revenue		1,286	718
Special Receipt Fund Revenue		23,719	9,488
Total Nonexchange Revenue	**$**	**230,094**	**222,480**

Note 35. Reconciliation of Net Cost of Operations to Budget

		FY 2015	FY 2014
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	$	10,123,499	11,676,561
Less: Spending Authority from Offsetting Collections and Recoveries		(965,527)	(1,285,551)
Obligations, Net of Offsetting Collections		9,157,972	10,391,009
Less: Offsetting Receipts		(2,716,279)	(2,029,100)
Net Obligations		6,441,693	8,361,909
Other Resources			
Transfers In/Out Without Reimbursement, Property		-	(351)
Imputed Financing Sources		134,286	143,914
Income from Other Appropriations		-	-
Net Other Resources Used to Finance Activities		134,286	143,563
Total Resources Used To Finance Activities	$	6,575,979	8,505,473
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:			
Change in Budgetary Resources Obligated	$	(316,397)	185,191
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:			
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances		5,916	9
Offsetting Receipts Not Affecting Net Cost		302,032	90,713
Resources that Finance Asset Acquistion		(41,368)	(353,695)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost		-	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		(49,817)	(77,782)
Total Resources Used to Finance the Net Cost of Operations	$	6,526,162	8,427,691

		FY 2015	FY 2014
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	$	(6,696)	(7,048)
Increase in Environmental and Disposal Liability		14,556	60
Increase in Unfunded Contingencies		-	(24,299)
Upward/Downward Reestimates of Credit Subsidy Expense		(1,940)	61
Increase in Public Exchange Revenue Receivables		2,022,910	(141,954)
Increase in Workers Compensation Costs		13,872	10,027
Other		98	(42,238)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods		2,042,800	(205,391)
Components Not Requiring/Generating Resources:			
Depreciation and Amortization		167,844	191,543
Revaluation of Assets and Liabilities		-	-
Expenses Not Requiring Budgetary Resources		216	91,574
Total Components of Net Cost that Will Not Require` or Generate Resources		168,060	283,117
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		2,210,860	77,726
Net Cost of Operations	**$**	**8,737,022**	**8,505,417**

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.

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, 2015 and September 30, 2014. 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.

SUPERFUND FY 2015		EPA	Treasury	Combined
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**

In FY 2015, the EPA received an appropriation of $1,088 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, 2015 and September 30, 2014, the Treasury Trust Fund has a liability to EPA for previously appropriated funds and special accounts of $5.2 billion and $3.4 billion, respectively.

SUPERFUND FY 2014		EPA	Treasury	Combined
Undistributed Balances				
Uninvested Fund Balance	$	-	122	122
Total Undisbursed Balance		-	122	122
Interest Receivable		-	3,242	3,242
Investments, Net		3,331,307	119,381	3,450,688
Total Assets		3,331,307	122,745	3,454,052
Liabilities & Equity				
Equity		3,331,307	122,745	3,454,052
Total Liabilities and Equity		3,331,307	122,745	3,454,052
Receipts				
Corporate Environmental		-	15	15
Cost Recoveries		-	79,754	79,754
Fines & Penalties		-	1,035	1,035
Total Revenue		-	80,804	80,804
Appropriations Received		-	940,509	940,509
Interest Income		-	25,565	25,565
Total Receipts		-	1,046,878	1,046,878
Outlays				
Transfers to/from EPA, Net		1,109,279	(1,109,279)	-
Total Outlays		1,109,279	(1,109,279)	-
Net Income	$	**1,109,279**	**(62,401)**	**1,046,878**

LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2015 and 2014, 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.

LUST FY 2015		**EPA**		**Treasury**		**Combined**
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**

LUST FY 2014		EPA	Treasury	Combined
Undistributed Balances				
Uninvested Fund Balance	$	-	2,596	2,596
Total Undisbursed Balance		-	2,596	2,596
Interest Receivable		-	1,655	1,655
Investments, Net		85,924	358,877	444,801
Total Assets		85,924	363,128	449,052
Liabilities & Equity				
Equity		85,924	363,128	449,052
Receipts				
Highway TF Tax		-	172,913	172,913
Airport TF Tax		-	72	72
Inland TF Tax		-	9,354	9,354
Total Revenue		-	182,339	182,339
Interest Income		-	4,350	4,350
Total Receipts		-	186,689	186,689
Outlays				
Transfers to/from EPA, Net		1,094,566	(1,094,566)	-
Total Outlays		1,094,566	(1,094,566)	-
Net Income	$	**1,094,566**	**(907,877)**	**186,689**

Note 37. Miscellaneous Receipts Act Violations and Potential Antideficiency Act Violations

The EPA experienced seven Miscellaneous Receipts Act violations that occurred between FY 1983 through 2012. EPA is also evaluating three related potential Antideficiency 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	Antideficiency 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
	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. 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, OMB is reviewing EPA's 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 Antideficiency Act violations.

Required Supplementary Information (Unaudited)
Environmental Protection Agency
As of September 30, 2015, and September 30, 2014
(Dollars in Thousands)

1. 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 2015:

Asset Category	2015	2014
Buildings	$ 123,833	$ 42,833
EPA Held Equipment	250	675
Vehicles	9	Not available
Total Deferred Maintenance	$ 124,092	$ 43,508

In Fiscal Year 2015, 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:

1. Describe their maintenance and repairs policies and how they are applied.
2. Discuss how they rank and prioritize maintenance and repair activities among other activities.
3. Identify factors considered in determining acceptable condition standards.
4. State whether deferred maintenance and repairs relate solely to capitalized or fully depreciated general PP&E.
5. 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.
6. Provide beginning and ending deferred maintenance and repairs balances by
7. Explain significant changes from the prior year.

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

Required Supplementary Information (Unaudited)

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. Local facility managers identify and prioritize their local repair and improvement (R&I) projects.
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. In FY 2015, the agency adopted the NASA method to estimate deferred maintenance and moved away from an anecdotal and subjective facilities management approach used in FY 2014.
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 first year detailed assessments were performed.

Required Supplementary Information (Unaudited)

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.

Required Supplementary Information (Unaudited)

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 first year vehicles have been reported.

2. Stewardship Land

Stewardship land is acquired as contaminated sites in need of remediation and cleanup; 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.

Required Supplementary Information (Unaudited)

3. Supplemental Combined Statement of Budgetary Resources For the Period Ending September 30, 2015

		Env. Prog. & Mgmt.	Leaking Underground Storage Tank	Superfund	Science & Tech.	State & Tribal Ass. Grants	Other	Total
BUDGETARY RESOURCES								
Unobligated Balance, Brought Forward, October 1:	$	373,542	7,561	2,035,534	167,060	216,629	162,750	2,963,076
Recoveries of Prior Year Unpaid Obligations		34,649	1,895	94,323	22,559	53,239	20,618	227,283
Other changes in unobligated balance		(41,822)	(4,188)	(1,044)	(24,592)	-	56,539	(15,107)
Unobligated balance from prior year budget authority, net		366,369	5,268	2,128,813	165,027	269,868	239,907	3,175,252
Appropriations (discretionary and mandatory)		2,613,679	91,941	2,508,170	734,648	3,505,161	1,106,744	10,560,343
Borrowing authority (discretionary and mandatory)							290	290
Spending authority from offsetting collections		41,523	24	431,161	24,839	455	240,242	738,244
Total Budgetary Resources	$	3,021,571	97,233	5,068,144	924,514	3,775,484	1,587,183	14,474,129
STATUS OF BUDGETARY RESOURCES								
Obligations incurred	$	2,704,063	93,090	1,576,865	776,782	3,593,221	1,379,478	10,123,499
Unobligated balance, end of year:								
Apportioned		267,251	3,674	3,541,913	126,610	159,707	143,035	4,242,190
Unapportioned		50,256	470	9,473	21,121	22,557	4,563	108,440
Total unobligated balance, end of period		317,507	4,144	3,551,386	147,731	182,264	147,598	4,350,630
Total Status of Budgetary Resources	$	3,021,570	97,234	5,128,251	924,513	3,775,485	1,527,076	14,474,129
CHANGE IN OBLIGATED BALANCE								
Unpaid Obligations								
Unpaid Obligations, Brought Forward, October 1 (gross)	$	1,129,609	103,292	1,272,408	355,890	6,639,253	192,429	9,692,881
Obligations incurred		2,704,063	93,090	1,576,865	776,782	3,593,221	1,379,478	10,123,499
Outlays (gross)		(2,617,114)	(99,174)	(1,352,698)	(773,095)	(4,291,803)	(1,350,381)	(10,484,265)
Recoveries of prior year unpaid obligations		(34,649)	(1,895)	(94,323)	(22,559)	(53,239)	(20,618)	(227,283)
Unpaid obligations, end of year (gross)	$	1,181,909	95,313	1,402,252	337,018	5,887,432	200,908	9,104,832
Uncollected customer payments from Federal Sources, brought forward, Oct. 1	$	(61,884)	-	(10,325)	(19,911)	-	(167,522)	(259,642)
Change in uncollected customer payments from Federal sources		(1,317)	-	2,066	2,090	-	21,274	24,113
Uncollected customer payments from Federal sources, end of year	$	(63,201)	-	(8,259)	(17,821)	-	(146,248)	(235,529)
BUDGET AUTHORITY AND OUTLAYS, NET:								
Budget authority, gross (discretionary and mandatory)	$	2,655,202	91,965	2,939,331	759,487	3,505,616	1,347,276	11,298,877
Actual offsetting collections (discretionary and mandatory)		(40,205)	(23)	(433,227)	(26,929)	(455)	(261,518)	(762,357)
Change in uncollected customer payments from Federal sources		(1,317)	-	2,066	2,090	-	21,274	24,113
Budget authority, net (discretionary and mandatory)	$	2,613,680	91,942	2,508,170	734,648	3,505,161	1,107,032	10,560,633
Outlays, gross (discretionary and mandatory)	$	2,617,114	99,174	1,352,698	773,095	4,291,803	1,350,381	10,484,265
Actual offsetting collections (discretionary and mandatory)		(40,205)	(23)	(433,227)	(26,929)	(455)	(261,518)	(762,357)
Outlays, net (discretionary and mandatory)		2,576,909	99,151	919,471	746,166	4,291,348	1,088,863	9,721,908
Distributed offsetting receipts		-	-	-	-	-	(2,716,279)	(2,716,279)
Agency outlays, net (discretionary and mandatory)	$	2,576,909	99,151	919,471	746,166	4,291,348	(1,627,416)	7,005,629

Environmental Protection Agency
Required Supplemental Stewardship Information (Unaudited)
For the Year Ended September 30, 2015
(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 2015, the full cost of the agency's Research and Development activities totaled over $613 million. Below is a breakout of the expenses (dollars in thousands): [1]

		FY2011	FY2012	FY2013	FY2014	FY2015
Programmatic Expenses	$	597,558	580,278	531,901	510,911	535,352
Allocated Expenses	$	80,730	133,637	78,189	73,622	78,028

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

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

Required Supplemental Stewardship Information (Unaudited)

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.

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.

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):

		FY2011	FY2012	FY2013	FY2014	FY2015
Construction Grants	$	35,339	14,306	6,944	1,447	17,462
Clean Water SRF	$	2,299,721	1,925,057	1,976,537	1,534,453	1,715,630
Drinking Water SRF	$	1,454,274	1,240,042	1,027,613	1,187,212	1,268,360
Other Infrastructure Grants	$	269,699	196,085	166,050	118,706	96,439
Allocated Expenses	$	548,375	777,375	524,326	516,102	590,595

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

Required Supplemental Stewardship Information (Unaudited)

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):

		FY2011	FY2012	FY2013	FY2014	FY2015
Training and Awareness Grants	$	23,386	21,233	20,769	23,255	27,047
Fellowships	$	9,538	10,514	11,157	8,082	6,579
Allocated Expenses	$	4,448	7,311	4,118	4,226	5,146

AUDIT OF EPA'S FISCAL YEARS 2015 AND 2014 CONSOLIDATED FINANCIAL STATEMENTS

U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

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

Report No. 16-F-0040 **November 16, 2015**

Abbreviations

AC	Access Control
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFC	Cincinnati Finance Center
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
GSA	General Services Administration
LVFC	Las Vegas Finance Center
NIST	National Institute of Standards and Technology
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCI DSS	Payment Card Industry Data Security Standards
RAS	Reporting and Analysis Staff
RMDS	Resources Management Directive System
SCORPIOS	Superfund Cost Recovery Package Imaging and On-Line System
SFFAS	Statement of Federal Financial Accounting Standards
SP	Special Publication
SSC	Superfund State Contracts

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U.S. Environmental Protection Agency
Office of Inspector General

16-F-0040
November 16, 2015

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.

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

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2015 and 2014, meaning that they were fairly presented and free of material misstatement.

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

Internal Control Material Weakness and Significant Deficiencies Noted

We noted the following material weakness:

- Software costs of about $124 million and associated amortization totaling $56 million from prior years were not properly classified.

We noted significant deficiencies involving:

- Misstating earned and unearned revenue for Superfund Special Accounts.
- Reconciling property and financial systems.
- Resolving long-standing cash differences with the U.S. Treasury.
- Clearing transactions from the suspense account.
- Reviewing cancellation of accounts receivable and collection transactions.
- Recording accounts receivable from a Superfund judgment.
- Reconciling accounts receivable subsidiary ledgers and general ledgers.
- Overbilling a state for a Superfund State Contract.
- Overseeing user access to the Payment Tracking System.
- Complying with controls for financial and mixed-financial applications.
- Managing HelpDesk procedures for distributing passwords.
- Improving a travel system's credit card data protection.

Noncompliance With Laws and Regulations Noted

We noted an instance of noncompliance with laws and regulations related to complying with federal accounting standards for recording interest.

Recommendations and Planned Agency Corrective Actions

The EPA generally agreed with our findings and recommendations. We clarified Recommendation 23 to have the EPA develop reports to reconcile accounts receivable principal and non-principal charges to the general ledger.

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

OFFICE OF
INSPECTOR GENERAL

November 16, 2015

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements
Report No. 16-F-0040

FROM: Paul C. Curtis, Director
Financial Statement Audits

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

Karl Brooks, Acting Assistant Administrator
Office of Administration and Resources Management

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2015 and 2014 consolidated financial statements. We are reporting one internal control material weakness and 12 significant deficiencies. Attachment 1 contains details on the material weakness and significant deficiencies. We also noted one instance of noncompliance, 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

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

cc: See Appendix III, Distribution

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Appendices

Inspector General's Report on EPA's Fiscal Years 2015 and 2014 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, 2015, and September 30, 2014, and the related consolidated statements of net cost, net cost by goal, 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 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 goal, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters – Changes in Accounting

As discussed in Note 1 to the financial statements, Section E, Revenues and Other Financing Sources, in FY 2015 the agency developed a new business process for managing its special account funds. The change increased appropriations (mandatory) by $1.4 billion. Other cash-out collections have been treated as reimbursable authority and are accounted for as "spending authority from offsetting collections." The new business process will put all future cash outs into a receipt account to have the funds immediately invested in U.S. Government securities. The effect of this change impacts the statement of budgetary resources only.

The EPA also changed its accounting treatment to record special account settlement proceeds as unearned revenue after determining that collections previously recorded as past costs were being used for future site cleanup. The EPA reclassified $1.1 billion from equity to unearned in fiscal year (FY) 2015 to reflect this change in accounting. In FY 2015, the EPA collected an additional $290 million in past costs that was classified as unearned, intended for future site cleanups. Our report is not modified with respect to these matters.

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 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 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 Weakness 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, one of which we consider to be a material weaknesses. These issues are summarized below and detailed in Attachment 1.

Material Weakness

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. In FY 2015, the agency found that it had not properly classified software totaling approximately $124 million and associated amortization totaling $56 million from the current and prior years. In FY 2014, the agency found that it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors. While the agency has made progress and taken steps to correct weaknesses in this area, these problems continue to highlight the continued efforts the agency needs to take to improve its internal controls over accounting for software. Failure to properly record capital software transactions in the agency's property management system and Compass, the agency's accounting system, compromises the accuracy of the EPA's property accounts, depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report the accounting for software as a material weakness.

Significant Deficiencies

SPECIAL ACCOUNTS

EPA Incorrectly Recorded Superfund Special Account Collections and Receivables

For Superfund Special Accounts, the EPA misstated $226,336,107 of earned and unearned revenue, and incorrectly recorded $5,310,918 of Superfund accounts receivable as earned rather than unearned revenue. Statement of Federal Financial Accounting Standards (SFFAS) No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue. The EPA incorrectly recorded the special account collections for a site by recording the funds received as earned revenue for past costs. The settlement indicated the funds for the site were to be used for prospective or future costs and should have been recorded as unearned revenue. The EPA incorrectly recorded the special accounts receivable because it did not follow the terms of the consent decrees, which indicated the funds were for future work at the sites. As a result, liabilities, earned revenue and unearned revenue are misstated on the financial statements.

PROPERTY

EPA Did Not Reconcile the Property Management System to Compass

The EPA did not reconcile $356.4 million of capital equipment within Maximo (a property management system) to relevant financial data within Compass. EPA policy requires reconciliations between the property module and general ledger be performed monthly by the responsible security organization. Various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as the processing of journal vouchers to correct software costs and an integration error between Maximo and Compass. The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting.

CASH

EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury

The EPA did not resolve long-standing cash differences of $2.6 million between EPA and U.S. Treasury cash balances. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. The EPA's Office of the Chief Financial Officer (OCFO) did not have effective internal controls to adequately monitor the internal cash differences to ensure the EPA resolved all the differences with the Treasury. Unresolved differences may result in the misstating of the EPA's Fund Balance with Treasury and financial statements and increase the risk of fraud.

SUSPENSE ACCOUNT

Cincinnati Finance Center 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, 2015, we identified 136 federal transactions, totaling $9,020,680, remaining in suspense beyond 60 business days. 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 primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. Untimely clearing of suspense transactions was also due to opening records in Compass to apply credits for interagency agreements, reconciling cost reports prior to project officer approval, and managing Working Capital Fund funding issues. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

RECEIVABLES AND COLLECTIONS

EPA Improperly Canceled Accounts Receivable and Collections

The EPA canceled 72 accounts receivable and 113 collection transactions without proper reviews of the justification and authorizing approval in Compass. OMB Circular A-123 cites separation of duties and supervision as one of its specific management control standards. However, EPA management has not established internal control procedures for review and approval of cancellation transactions. Without approval of cancellation transactions, the EPA increases the risk of fraud, misuse and errors.

EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment

The EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree. Federal accounting standards require agencies to record accounts receivable based on legal provisions. CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document. By not recording receivables at the amount stated in the legal document, the EPA may understate accounts receivable on the financial statements.

Improvement Needed in Reconciling Accounts Receivable

The EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. The EPA did not correct reconciliation variances, separately reconcile federal and non-federal receivables, or develop accurate detail reports. We previously reported the EPA's reconciliation of accounts receivable as a significant deficiency in our FY 2014 financial audit report. 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 directs the agency to perform quarterly accounts receivable reconciliations, investigate discrepancies and correct any differences. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger and correct differences, the agency cannot ensure financial statements are properly stated.

EPA Overbilled Superfund State Contract Cost Share

The EPA overbilled a state $1,139,306 for one Superfund State Contract. EPA guidance directs regional finance and program offices to reconcile Superfund State Contract financial data by site. Regions use Superfund project expenditures to calculate the amount of a state's cost share billed under a Superfund State Contract. An error in the EPA's cost recovery process caused duplicate charges in the site's cost recovery report that the region did not identify. When costs are not properly reconciled, states and other entities may overpay for expenditures never incurred.

INFORMATION TECHNOLOGY

OCFO Lacked Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems

OCFO assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring the system had documentation covering key account management procedures. OMB Circular A-123 states that internal control needs to be in place over information systems. Also, the circular reiterates that general control applies to all information systems including end-user environments.

Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls

EPA financial and mixed-financial applications complied with 11 of the 28 required account management controls selected for review, or 39 percent. For the majority of the five key applications noted, the EPA implemented processes for establishing conditions for groups and role membership. However, more management emphasis is needed to ensure responsible individuals fully develop and implement required account management controls. In particular, we found that the EPA's Payment Tracking System and travel system (Concur) show the greatest need for improvement to comply with federal requirements. The possibility exists that the unauthorized access could be used to commit fraud that could go undetected for a significant amount of time.

OCFO Needs to Strengthen Password Change Procedures

OCFO needs better HelpDesk procedures for distributing passwords to users locked out of OCFO's financial systems. In particular, the OCFO HelpDesk does not have a process to verify the user's identity prior to providing new passwords over the phone. Criteria require the adequate protection of system passwords. A perpetrator could access applications— such as PeoplePlus and the Payment Tracking System—and manipulate leave records or process unauthorized financial transactions.

EPA's Travel System Needs Improved Credit Card Data Protection and Independent Compliance Reviews

The EPA's Concur travel system (1) allows users more access to credit card information than users need, and (2) lacks required independent reviews of the Concur service provider's compliance with Payment Card Industry Data Security Standards. In particular, there are currently 623 Concur users who could unnecessarily view employees' full credit card numbers in clear text. Also, Concur currently has a Service Provider Level II Validation that does not meet the standard for the number of credit card transactions processed. Concur processed 955,804 transactions through June 2015, but any service providing that processes over 300,000 transactions per year must obtain a Service Provider Level I Validation.

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 2015. 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 continues to report software as a material weakness in the design or operation of internal controls over financial reporting as of June 30, 2015.

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.

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 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 2014 audit. We will not issue a separate management letter.

EPA Did Not Comply With Federal Accounting Standards for Recording Interest

The EPA did not record all applicable interest for some Superfund and installment interest as required by applicable laws, federal accounting standards and EPA policy that require the EPA to assess interest on delinquent accounts receivable. In following up on the agency's proposed corrective actions, we found that the EPA did not implement a correction in the Compass 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 audit of the FY 2014 financial statements that the EPA did not comply with accounting standards for recording interest. Further details on this noncompliance issue are in Attachment 2.

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.
- The EPA did not capitalize lab renovation costs.
- The EPA’s internal controls over 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.
- Unneeded funds were not obligated timely.
- 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.
- CFC should clear suspense transactions timely.
- The EPA should improve controls over expense accrual reversals.
- Financial management system user account management needs improvement.

Attachment 3 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues.

Agency Comments and OIG Evaluation

In a memorandum dated November 10, 2015, the Chief Financial Officer responded to our draft report.

The EPA generally agreed with our findings and recommendations. We clarified Recommendation 23 to have the EPA develop reports to reconcile accounts receivable principal and non-principal charges to the general ledger. 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 16, 2015

Attachment 1

Internal Control Material Weakness and Significant Deficiencies

Table of Contents

1 – 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. In FY 2015, the agency found that it had not properly classified software totaling approximately $124 million and associated amortization totaling $56 million from the current and prior years. In FY 2014, the agency found that it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors. While the agency has made progress and taken steps to correct weaknesses in this area, these problems continue to highlight the continued efforts the agency needs to take to improve its internal controls over accounting for software. Failure to properly record capital software transactions in the agency's property management system and Compass, the agency's accounting system, compromises the accuracy of the EPA's property accounts, depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report the accounting for software as a material weakness.

After declaration of the material weakness in FY 2014 regarding the expensing of $255 million in undercapitalized software costs over a 7-year period, the EPA took steps to improve its internal accounting and controls over software costs. According to OCFO, the "Lean" process was used to evaluate the agency's software accounting process. The agency conducted an OMB Circular A-123 review of internal controls over its capitalization of software process. OCFO met with program offices as part of its outreach efforts to validate software costs in development and asset values in production. In addition, OCFO reviewed a sample of several software projects in development and put into production over the last 7 years to validate costs and determine the correct value.

The agency identified approximately $124 million in software costs recorded in Software In-Development that should have been placed in production in the current and prior years and $56 million that should have been amortized. 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. 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 policy is to capitalize software costs exceeding its annual capitalization threshold of $250,000 over 7 years. However, the agency did not properly classify all appropriate software costs because:

- Software costs already incurred and recorded may not have been accurate and complete.
- Staff and officials responsible for ensuring software project costs are correctly captured may not have followed existing policies in identifying and coding information technology investments.
- Data entry errors for some transactions caused incorrect accounting.

Failure to properly record property transactions in the agency's property management system and Compass compromises the accuracy of 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.

Recommendations

We recommend that the Chief Financial Officer:

1. Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production.

2. Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency's property management system and Compass; and that an audit trail is maintained for software projects analyzed.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. The EPA responded that it completed the corrective action for Recommendation 2 on October 21, 2015. However, we are listing the corrective action as ongoing and unresolved pending an estimated completion date.

2 – EPA Incorrectly Recorded Superfund Special Account Collections and Receivables

For Superfund Special Accounts, the EPA misstated $226,336,107 of earned and unearned revenue, and incorrectly recorded $5,310,918 of Superfund accounts receivable as earned rather than unearned revenue. SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue. The EPA incorrectly recorded the special account collections for a site by recording the funds received as earned revenue for past costs. The settlement indicated the funds for the site were to be used for prospective or future costs and should have been recorded as unearned revenue. The EPA incorrectly recorded the special accounts receivable because it did not follow the terms of the consent decrees, which indicated the funds were for future work at the sites. As a result, liabilities, earned revenue and unearned revenue are misstated on the financial statements.

Section 122(b) (3) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. 9622(b)(3), authorizes 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 records special account settlement funds received for past costs at a site as earned revenue and future costs as unearned revenue.

SFFAS applies to general purpose financial reports of U.S. Government reporting entities. SFFAS No. 7 is the accounting standard for revenue and other financing sources, and directs agencies to record a cash advance for long-term projects as unearned revenue. Revenue should not be recognized until costs are incurred from providing the goods and services. The EPA's Resources Management Directive System (RMDS) 2540-03, *Cash Management Collections and Deposits*, directs servicing finance offices to analyze each collection it receives to determine the reason for the remittance and collection type, which helps the EPA to classify the collection to the proper fund. RMDS 2550D-15-P1, *Financial Management of the Special Accounts*, directs agencies to record settlement amounts for costs to be incurred (work to be performed) in the future as unearned revenue.

The EPA received special account collections of $226,336,107 as earned revenue for past costs. However, the settlement agreement classified the funds for the site as "prospective work." Agency personnel reported that future work is projected at the site until 2038, and stated that if the settlement agreement designated the receipts as "prospective work," the receipts should be recorded as future costs. EPA recorded two special accounts receivable listed within the consent decrees as revenue for past costs spent instead of unearned revenue for future response actions at the sites.

The consent decrees required each of the settling defendants to make cash payments (including premiums) to resolve their alleged liability to the United States with respect to the sites. EPA personnel did not properly interpret the language of the consent decrees due to the following reasons:

- CFC did not receive a Superfund accounts receivable control form for an EPA Region 5 receivable. Regions provide CFC with Superfund control forms to help CFC accurately record and reclassify Superfund receivables. The U.S. Department of Justice provided the consent decree to CFC for this receivable, and the EPA did not request a control form from Region 5 until after we had identified the error.

- EPA Region 6's Superfund accounts receivable control form did not specify the type of special accounts receivable, and CFC did not request additional information from Region 6 to properly classify the receivable type.
- EPA personnel overlooked relevant portions of the consent decree that described the receivable type.

Recommendations

We recommend that the Chief Financial Officer:

3. Reclassify the $226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated.

4. Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded.

5. Reclassify special accounts receivable totaling $5,310,918 that were previously recorded as past costs, classifying them instead as future costs to ensure current year financial statements are properly stated.

6. Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

3 – EPA Did Not Reconcile the Property Management System to Compass

The EPA did not reconcile $356.4 million of capital equipment within Maximo (a property management system) to relevant financial data within Compass (the agency's accounting system). RMDS 2540-11-T2, *Reconciliation Requirements for Capital Property*, requires reconciliations between the property module and general ledger be performed monthly by the responsible security organization. Various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as the processing of journal vouchers to correct software costs and an integration error between Maximo and Compass. The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting.

RMDS 2540-11-T2, states, "Reconciliations between the property module and general ledger within Compass shall be performed monthly by the responsible security organization. The results of the reconciliation shall be verified quarterly by the cognizant regional finance management officer (RFMO), Research Triangle Park Finance Center, Cincinnati Finance Center (CFC) and Las Vegas Finance Center (LVFC)." The directive also states "Within 60 days of discovery of discrepancies, corrections should be entered into Maximo and Compass as necessary."

During our analysis of the fourth quarter certifications of the property reconciliations, we found several discrepancies with respect to what was reported and the amounts that should have been reported. OCFO's Reporting and Analysis Staff (RAS), CFC, and LVFC did not submit accurate quarterly certifications reflecting actual differences between Maximo and Compass, which contributed to the reconciliation issues. Specifically, we found:

- CFC only reported property before beginning budget FY 2013, omitting property with beginning budget FY 2013 through 2015. This resulted in an increased difference of $589,170 between their original certification and revised certification.
- RAS did not report adjustments it made to software and overhead corrections. The reconciliation difference increased by $327 million between their original certification and revised certification.
- LVFC originally reported a difference of $94,500. After our analysis, the amount was reduced to $5,500 due to an incorrect amount reported on their original certification.

RAS and the finance centers submitted revised certifications after we questioned OCFO staff regarding these discrepancies. According to RAS officials, various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as the processing of journal vouchers to correct software costs and an integration error between Maximo and Compass. In addition, capital equipment and software was not entered into Maximo timely. RAS stated it will not correct those balances associated with the integration errors until the Compass enhancement is completed in the third quarter of FY 2016.

Inaccurate personal property records compromise the EPA's property control system and can lead to the loss or misappropriation of agency assets. The failure to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting, including possible misstatements within the financial statements. This is a continuing issue, as we have previously reported on this issue in prior financial audit reports.

Recommendations

We recommend that the Chief Financial Officer:

7. Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.

8. Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.

9. Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS are recorded in Maximo accurately and timely.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. The EPA responded that it completed the corrective action for Recommendation 9 on October 21, 2015. However, we are listing the corrective action as ongoing pending an estimated completion date.

4 – EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury

The EPA did not resolve long-standing cash differences of $2.6 million between EPA and U.S. Treasury cash balances. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. OCFO did not have effective internal controls to adequately monitor the internal cash differences to ensure the EPA resolved all the differences with the Treasury. Unresolved differences may result in the misstating of the EPA's Fund Balance with Treasury and financial statements and increase the risk of fraud.

Treasury Financial Manual, Volume 1, Section 3335, *Reconciling FMS 224, Section II*, states that agencies should reconcile regional finance center transactions separately from Intra-governmental Payments and Collections transactions by comparing transactions reported in their accounting systems with the transactions reported to Treasury by the regional finance centers and through the Intra-governmental Payment and Collection system. In the month following the reporting month, agencies should correct any disclosed differences.

The EPA's RMDS No. 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the EPA to monthly review and track differences between the Treasury's and EPA's fund balance. The directive requires the OCFO's RAS to monthly review the agency financial system of record and report issues to the respective finance center. The RAS is responsible for tracking all budget clearing account items from posting to final disposition. The EPA finance centers are required to provide comments, as needed, to the RAS on the monthly cash differences report.

OCFO prepares a monthly cash difference report by accounting point and treasury symbol, using internal statement of differences submitted by the EPA finance centers, to identify and resolve any differences between Treasury and EPA records. We found that the accounting points for the Payroll accounting point and Washington Finance Center had long-standing unresolved cash differences. As of September 30, 2015, the RAS reported $4.9 million in cash differences, including $1.2 million for Payroll and $1.4 million for Washington Finance Center unresolved for 5 and 12 months, respectively.

The OCFO did not adequately monitor the internal cash differences at the transaction level to ensure that the EPA resolved all the differences with Treasury. The RAS relied on the accounting points to resolve individual cash differences. However, the accounting points for Payroll and Washington Finance Center did not resolve their long-standing differences. Therefore, the RAS did not have effective internal controls to resolve the individual cash differences.

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

Recommendations

We recommend that the Chief Financial Officer:

10. Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.

11. Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

5 – Cincinnati Finance Center 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, 2015, we identified 136 federal transactions, totaling $9,020,680, remaining in suspense beyond 60 business days. 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 primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. Untimely clearing of suspense transactions was also due to opening records in Compass to apply credits for interagency agreements, reconciling cost reports prior to project officer approval, and managing Working Capital Fund funding issues. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

CFC records federal disbursements and collections in a suspense account. The accounting system notifies the project officers by email of a transaction waiting for their approval. The system sends follow-up emails at 20 days, 30 days, and then weekly if the project officer does not act on the approval request. Disbursement transactions remain in suspense until an EPA project officer approves or disapproves them. 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 suspense until CFC applies them to the corresponding receivable.

The EPA's RMDS No. 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, dated June 24, 2015, requires 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. 2011-06, dated June 30, 2012, directs federal agencies to certify annually that suspense accounts for the preceding yearend 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 primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. CFC staff stated that they were not required to follow up with the project officers to obtain their approval. CFC relied on the system-generated reminder emails to the project officers and did not make many follow-up attempts to get the project officers' approval. Untimely clearing of suspense transactions was also due to:

- Time spent working with the EPA Office of Technology Solutions to open records in Compass to apply credits received for U.S. Department of Health and Human Services interagency agreements.
- Time spent reconciling cost reports to ensure they included appropriate costs and then waiting on the project officer approval.
- Time spent obtaining funding for Working Capital Fund expenditures.

We identified and communicated the issue of untimely clearing of suspense transactions to the agency during our FY 2014 financial statement audit. We recommended that the Assistant Administrator for Administration and Resources Management require project officers to approve federal disbursements timely and that the Chief Financial Officer require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. The agency concurred with our recommendations. According to the agency's corrective action status report as of May 6, 2015, the agency completed corrective action for the second recommendation but not the first. Since we found in our FY 2015 review that, once again, CFC did not clear the federal suspense account within 60 business days, we consider the corrective actions for both recommendations to be incomplete.

Recommendations

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

12. Complete the planned corrective actions to require project officers to approve federal disbursements timely.

We recommend that the Chief Financial Officer:

13. Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

6 – EPA Improperly Canceled Accounts Receivable and Collections

The EPA canceled 72 accounts receivable and 113 collection transactions without proper reviews of the justification and authorizing approval in Compass. OMB Circular A-123 cites separation of duties and supervision as one of its specific management control standards. However, EPA management has not established internal control procedures for review and approval of cancellation transactions. Without approval of cancellation transactions, the EPA increases the risk of fraud, misuse and errors.

OMB Circular A-123 states: "Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities."

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

We identified 72 accounts receivable and 113 collection transactions that the EPA canceled without approval in Compass. The EPA personnel who recorded the receivable and collection transactions also canceled the transactions, contrary to Government Accountability Office and OMB internal control standards and proper segregation of duties. Current EPA practice requires approval for accounts receivable and collection amendments over $100.

Within Compass, no secondary approval is necessary to cancel accounts receivables and the EPA has no procedure requiring secondary approval for cancellations. This is an internal control weakness in Compass and EPA policy. Cancellation procedures would provide the system of checks and balances necessary to ensure the integrity of accounts receivables and collections. Without approval of transaction cancellations, the EPA increases the risk of fraud, misuse and errors.

Recommendations

We recommend that the Chief Financial Officer:

14. Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.

15. Modify Compass to route accounts receivable and collection cancellations for secondary approval.

16. Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.

Agency Comments and OIG Evaluation

The agency generally concurred with our findings and recommendations, agreeing to review existing separation of duties policy and update policies and procedures if applicable. The agency responded to Recommendation 15 that the system has controls for secondary approval, but the agency did not address the act of secondary approval for canceling receivables. Therefore, we consider Recommendation 15 to be unresolved.

7 – EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment

The EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree. Federal accounting standards require agencies to record accounts receivable based on legal provisions. CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document. By not recording receivables at the amount stated in the legal document, the EPA may understate accounts receivable on the financial statements.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities,* requires agencies to recognize a receivable when an entity establishes a claim based on legal provisions. Agencies should recognize an allowance for estimated uncollectible amounts to reduce the gross amount of receivables to its net realizable value.

A Settling Defendant agreed to a judgment of $9 million for unreimbursed past costs and future costs to be incurred at a Superfund site. The consent decree directed the defendant to satisfy a portion of its judgment through a cash payment and the remainder from the sale of property and proceeds from insurance policy claims. Instead of recording the receivable at the judgment amount of $9 million, the EPA recorded the receivable for $714,185, which represented the amount the EPA anticipated from a cash payment and the sale of property.

The EPA recorded the receivable at the anticipated cash receipt amount of $714,185 based on its discussions with EPA regions and headquarters, instead of abiding by the provisions in the legal document. Email correspondence regarding the recording of the receivable referred to the amount of cash the EPA expected to receive from settling defendant instead of the judgment amount. According to the consent decree, the settling defendant is a responsible party pursuant to Section 107(a) of CERCLA, 42 U.S.C Section 9607(a), and is jointly and severally liable for response costs incurred and to be incurred at the site. Cash payment made by the settling defendant is to be credited toward the judgment. The remainder of the judgment is to be satisfied from sale and insurance proceeds.

The EPA looks to regions and the EPA Office of General Counsel to provide information to support the recording of accounts receivable. Recording a receivable based on the amount collected versus the amount owed violates accounting standards, which require receivables to be recorded based on legal provisions or goods or services provided. By not recording receivables at the amount stated in the legal document, the EPA could misstate accounts receivable on the financial statements.

Recommendations

We recommend that the Chief Financial Officer:

17. Require CFC to record accounts receivable as provided in legal documents.

18. Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

8 – Improvement Needed in Reconciling Accounts Receivable

The EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. The EPA did not correct reconciliation variances, separately reconcile federal and non-federal receivables, or develop accurate detail reports. We previously reported the EPA's reconciliation of accounts receivable as a significant deficiency in our FY 2014 financial audit report. 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 directs the agency to perform quarterly accounts receivable reconciliations, investigate discrepancies and correct any differences. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger and correct differences, the agency cannot ensure financial statements are properly stated.

The EPA's RMDS 2540-9-T2, *Receivables and Billings*, directs EPA's Reporting and Analysis Staff to perform quarterly accounts receivable reconciliations and Office of Financial Services to research discrepancies, and correct any differences.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, requires federal agencies to report receivables from federal entities separately from receivables from non-federal entities.

The U.S. Government Accountability Office'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. The standard for control activities requires accurate and timely recording of transactions and events.

OMB Circular A-123, *Appendix D*, requires financial management systems to provide complete, reliable, consistent and timely financial management information on federal government operations.

We found that the EPA's accounts receivable reconciliation did not properly reconcile the accounts receivable subsidiary ledger to the general ledger. The accounts receivable subsidiary ledger maintains the activity and current balances for each account receivable. The general ledger is a control account with the total of all accounts receivable. Several factors caused the improper reconciliation:

- The EPA did not investigate variances between the accounts receivable detail and the general ledger.
- The EPA addressed only prior year variances and not variances between the bill detail and the general ledger identified during each reconciliation.
- The EPA's FY 2015 receivable reconciliations that we reviewed did not separate federal and non-federal receivables.
- The EPA included journal vouchers in its accounts receivable bill detail.
- The EPA could not prepare a 6-month reconciliation due to a Compass report issue that caused the report to not run.

We had previously found during our audit of the FY 2014 financial statements a significant deficiency in that the agency did not reconcile the accounts receivable subsidiary ledger to the general ledger. This was reported in Report No. 15-1-0021, *Audit of EPA's Fiscal Years 2014 and 2013 (Restated) Consolidated Financial Statements*, issued November 17, 2014. Table 1 below notes our FY 2014 recommendations, made to OCFO, and the status of EPA actions.

Table 1: FY 2014 recommendations, corrective actions and OIG evaluation

No.	OIG Recommendation	EPA Corrective Action	OIG Evaluation
23	Investigate variances between the general ledger control accounts and the accounts receivable subsidiary ledger bill detail and correct errors by recording entries to the control accounts and/or the accounts receivable bill detail, as needed.	Concur. OCFO corrected many of the variances from the prior year in the 3rd and 4th quarters of FY 2014. The remaining variances will be corrected in the 2nd quarter of FY 2015.	As of September 30, 2015, the EPA had not completed this corrective action. For the quarterly reconciliations we analyzed, the EPA did not investigate variances between the accounts receivable detail and the general ledger. Also, the EPA's corrective action did not completely address the problem because it only addressed prior-year variances and not variances between the bill detail and the general ledger identified during each reconciliation
24	Reconcile federal and non-federal accounts receivable separately.	Concur. OCFO will design a framework for providing timely and accurate reconciliations of federal and non-federal accounts receivable.	As of September 30, 2015, the EPA had not completed this corrective action. EPA FY 2015 receivable reconciliations we reviewed did not separate federal and non-federal receivables.
25	Develop accurate reports for accounts receivable principal charges and non-principal charges.	Concur. The agency acknowledges that we made an error for not reporting principal, interest, handling charges, and penalties correctly for March 2014. The agency has corrected the error in the subsequent reconciliation and will continue oversight for all reconciliations going forward.	The agency's corrective action was not effective for the following reasons: (1) the agency could not prepare a 6-month reconciliation due to a Compass report issue, which caused the report to not run; (2) the bill report for 9-month and year-end erroneously included bill charges (interest, handling, penalty); and (3) the year-end report included FY 2016 activity.

Source: OIG analysis of EPA data.

The agency's current accounts receivable reconciliation process does not identify and resolve differences between the accounts receivable general ledger control accounts and their corresponding accounts receivable detail accounts to ensure that both the control and detail accounts are properly stated. The purpose of a reconciliation is to identify and resolve differences between the accounts receivable subsidiary ledger bill detail and the accounts receivable general ledger control accounts to ensure accuracy and completeness in the financial statements. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger control accounts, the agency cannot ensure:

- Accounts receivable general ledger control account balances are accurate.
- Accounts receivable subsidiary ledger bill detail is accurate.
- Federal and non-federal receivables are properly classified in the financial statements.
- Financial statements are properly stated.

Recommendations

We recommend the Chief Financial Officer:

19. Complete the corrective actions previously identified in Table 1.

20. Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.

21. Reconcile federal and non-federal accounts receivable separately.

22. Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.

23. Develop accurate reports for accounts receivable principal and non-principal charges (such as interest, handling and penalties) to reconcile such charges to the general ledger accounts.

24. Correct the Compass reporting issues that prevent the proper reports to be produced.

Agency Comments and OIG Evaluation

The agency concurred with our findings and Recommendations 19, 20, 21, 22 and 24. The agency did not concur with our recommendation to develop accurate reports (Recommendation 23). We revised our recommendation to clarify that the agency needs accurate reports to properly reconcile receivable principal and non-principal charges to the general ledger.

9 – EPA Overbilled Superfund State Contract Cost Share

The EPA overbilled a state $1,139,306 for one Superfund State Contract (SSC). EPA guidance directs regional finance and program offices to reconcile SSC financial data by site. Regions use Superfund project expenditures to calculate the amount of a state's cost share billed under an SSC. An error in the EPA's cost recovery process caused duplicate charges in the site's cost recovery report that the region did not identify. When costs are not properly reconciled, states and other entities may overpay for expenditures never incurred.

CERCLA, as amended, authorizes the EPA to bill states for their cost share of expenditures under the SSC program. The EPA uses the Superfund Cost Recovery Package Imaging and On-Line System (SCORPIOS) to accumulate and report costs expended on cleanup of Superfund sites.

The EPA's RMDS 2550D-09-P1, *State Cost Share Provisions for Superfund State Contracts and Remedial Cooperative Agreements*, describes the EPA's process for managing the financial aspects of Superfund state cost share provisions in Superfund state contracts. The policy directs regional finance and program offices to prepare, track, manage and reconcile SSC financial data by site.

The EPA overbilled the state for duplicate costs charged under an SSC for site 0737. The SCORPIOS cost report for site 0737 contained duplicate charges of $11,393,060.26 for two interagency agreements. Because the state's share of EPA costs expended under the SSC is 10 percent, the EPA overbilled the state $1,139,306.

Table 2: Duplicate charges included in SSC bills for site 0737

Site Number	Interagency Agreement No.	SCORPIOS Costs	Compass Costs	Duplicate Charges
0737	MO DW96412301	$9,315,872.86	$4,693,230.43	$4,622,642
0737	MO DW96952301	$19,845,510.72	$13,075,092.89	$6,770,418
Calculated Costs				$11,393,060
Cost Share				10%
Amount Overbilled				$1,139,306

Source: OIG analysis of EPA data.

A duplicate charge in the site's cost recovery report occurred when the region did not properly reconcile the site costs with Compass. As a result, the EPA misstated accounts receivables. Without reconciling SCORPIOS costs to Compass, other sites could have contained duplicate charges. Thus, the EPA may have double billed costs, creating a potential for refunds.

Recommendation

We recommend the Chief Financial Officer:

25. Work with the Assistant Administrator for Solid Waste and Emergency Response to direct the regions to track, manage and reconcile SSC financial data by site.

Agency Comments and OIG Evaluation

The agency concurred with our findings and agreed to issue new SSC model provisions that include an updated final financial statement reconciliation and new language on periodic reviews.

10 – OCFO Lacked Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems

OCFO assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring the system had documentation covering key account management procedures. OMB Circular A-123 states that internal control needs to be in place over information systems. Also, the circular reiterates that general control applies to all information systems including end-user environments.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, April 2013, *Security and Privacy Controls for Federal Information Systems and Organizations*, security control number Access Control (AC)-1, *Access Control Policies and Procedures*, requires an organization to develop, document, and disseminate procedures to facilitate the implementation of the access control policy and associated access controls. Additionally, NIST SP 800-53's security control number AC-2, *Account Management*, requires the organization to, among other things:

- Identify and select [organization-defined] types of information system accounts to support organization missions/business functions;
- Establish conditions for group and role membership;
- Create, enable, modify, disable, and remove information system accounts in accordance with [organization-defined procedures or conditions]; and
- Review accounts for compliance with account management requirements [on an organization defined frequency].

Account management for the Payment Tracking System is performed by the Application Management Staff under OCFO's Office of Technology Solutions. Application Management Staff use a contractor to assist with account management for the Payment Tracking System. Control of the Payment Tracking System's account management was transferred to the Application Management Staff group around July 2012. However, there was no established process for transitioning account management responsibilities when an application's account management was taken over by the Application Management Staff. There was no process to document procedures specific to OCFO applications, such as the Payment Tracking System. Additionally, no documentation was transferred or developed to establish consistent account management procedures.

Without documented procedures for access management of the Payment Tracking System application, institutional knowledge of the performance of account management procedures is not maintained, and management lacks a standard to measure whether employees are carrying out established processes as intended. The lack of oversight over access management can lead to employees being granted access to information systems without documented approval and users maintaining access to systems they no longer need to perform their duties.

Recommendations

We recommend that the Chief Financial Officer:

26. Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.

27. Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.

28. 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. This should include establishing a date when the contractors would start using the updated account management documentation.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. Subsequent to its response to the draft report, in an amended response to Recommendation 26, the agency agreed to implement a process for transferring the management of an application's user access.

11 – Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls

EPA financial and mixed-financial applications complied with 11 of the 28 required account management controls selected for review, or 39 percent. For the majority of the five key applications noted in Table 3, the EPA implemented processes for establishing conditions for groups and role membership (control requirement AC-2c). However, more management emphasis is needed to ensure responsible individuals fully develop and implement required account management controls. In particular, we found that the EPA's Payment Tracking System and travel system (Concur) show the greatest need for improvement to comply with federal requirements. The possibility exists that the unauthorized access could be used to commit fraud that could go undetected for a significant amount of time.

Table 3: EPA's compliance with required NIST access controls for account management

	Access controls tested							
Systems	**Account manager assigned (AC-2b)**	**Establishes conditions for user group/role membership (AC-2c)**	**Authorized official approves accounts (AC-2e)**	**Monitors for the use of information system accounts (AC-2g)**	**Account managers notified of changes in need to restrict access (AC-2h)**	**Authorized information system access based on criteria (AC-2i)**	**Accounts reviewed for compliance with account management requirements (AC-2j)**	**Overall compliance percent**
Compass	✓	✓	✓	**X**	**X**	✓	✓	**71%**
Payment Tracking System	**X**	✓	**X**	**X**	**X**	**X**	**X**	**14%**
PeoplePlus	✓	✓	✓	**X**	**X**	✓	✓	**71%**
Concur	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**0%**
% Compliant	**50%**	**75%**	**50%**	**0%**	**0%**	**50%**	**50%**	**39%**

✓= Application was compliant with the access control tested.
X= Application was not fully compliant with the access control tested.
Source: Generated by OIG based on NIST SP 800-53 controls tested.

NIST SP 800-53, Revision 4, Security Control AC-2, *Account Management*, requires the organization to implement the following:

- AC-2b. Assign account managers for information system accounts.
- AC-2c. Establish conditions for group and role membership.
- AC-2e. Requires approvals by [Assignment: organization-defined personnel or roles] for requests to create information system accounts.
- AC-2g. Monitors the use of information system accounts.
- AC-2h. Notifies account managers:
    - i. When accounts are no longer required.
    - ii. When users are terminated or transferred.
    - iii. When individual information system usage or need-to-know changes.

- AC-2i. Authorizes access to the information system based on:
    1. A valid access authorization.
    2. Intended system usage.
    3. Other attributes as required by the organization or associated missions/business functions.
- AC-2j. Review accounts for compliance with account management requirements [on an organization defined frequency]

According to EPA representatives in OCFO, weaknesses within the agency's account management practices stem from the following:

- Creating user accounts is a manual process that relies on account management personnel's institutional knowledge.
- Account management personnel, for Compass, rely on an automated access request systems, for which the approval routing list contains unauthorized approvers, to control the access approval and notification processes.
- Within Concur, a user's access privileges can be increased by any user with those privileges without supervisory approval.
- The capability to log user account creation and system activity exists, but regular reviews of the logs for anomalies and suspicious activity are not part of established procedures.
- Account management procedures for access recertification are not established or documented.

Notwithstanding the above reasons, our analysis indicated there is a lack of oversight processes to ensure that responsible individuals (1) perform required controls and (2) report compliance with information system security controls as required by EPA policy. For the Payment Tracking System and Concur, responsible individuals had not performed user access recertifications or entered data into Xacta[2] regarding how the system complied with information system security requirements. We also noted that Concur was not listed in Xacta and, therefore, lacked management oversight of the system's compliance with mandated information system security requirements.

Account management is important because it helps to prevent unauthorized access to the EPA's systems that manage resources used to protect human health and the environment. Weaknesses in account management controls reduce the integrity of financial data and user accountability.

[2] The EPA implemented Xacta to be the EPA's official system for recording and maintaining information about the agency's compliance with mandated information system security requirements.

Recommendations

We recommend that the Chief Financial Officer:

29. Review and update account management documentation and establish procedures for financial systems, as needed, to include implementation of the following controls:

    a. Assign account managers for user accounts.
    b. Establish role conditions for system access privileges.
    c. Require approvals to create accounts.
    d. Monitor use of accounts.
    e. Notify account managers when accounts are removed or changed.
    f. Authorize access based on valid authorizations.
    g. Review accounts for appropriateness of current access privileges.

30. Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures—specifically, periodic access reviews and proper access removal.

31. Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.

32. Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

12 – OCFO Needs to Strengthen Password Change Procedures

OCFO needs better HelpDesk procedures for distributing passwords to users locked out of OCFO's financial systems. In particular, the OCFO HelpDesk does not have a process to verify the user's identity prior to providing new passwords over the phone. NIST and EPA criteria require the adequate protection of system passwords. A perpetrator could access applications—such as PeoplePlus and the Payment Tracking System—and could manipulate leave records or process unauthorized financial transactions.

NIST SP 800-53, security control for Identification and Authentication 5, *Authenticator Management*, states that organizations must manage information system passwords by protecting them from unauthorized disclosure and modification. EPA Chief Information Officer Transmittal No. 12-003 states that, "Users should be permitted access to the HelpDesk to release their account prior to the 30 minutes lock out period if it hinders productivity." Additionally, the Transmittal No. 12-003 states that "Authenticator content must be protected from unauthorized disclosure or modification."

The conditions existed because the OCFO HelpDesk procedures need improvement. Specifically, the OCFO HelpDesk escalation procedures—supported by two separate EPA contractors who manage password resets for EPA employees—require HelpDesk personnel to (1) distribute temporary passwords to users locked out of OCFO applications verbally over the phone and (2) instruct users to change the password upon their next log in. The HelpDesk personnel create a ticket for the issue and sends an automated email with the ticket number and problem description to the user's government email address. To resolve the ticket, HelpDesk personnel verbally provide them with a temporary password. We found that individuals can obtain a new password over the phone by providing the HelpDesk with a user's name and Local Area Network identification that predominantly consist of the employee's first initial and last name.

By distributing OCFO application passwords over the phone and not assuring that the caller is the account user, HelpDesk personnel could expose passwords to unauthorized users. While automated emails are sent to the user's government email to track the creation and closing of the ticket related to the password issue, this process is not secure because the HelpDesk does not require the email recipient to refer to the email before issuing the recipient a new password verbally. A perpetrator could execute an attack on the user's account when the user would not be checking their email. This could compromise the security of the EPA's financial resources used to protect human health and the environment.

Recommendation

We recommend that the Chief Financial Officer:

33. Establish new procedures and update the OCFO HelpDesk Escalation Procedures to require validation of users before the distribution of passwords.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendation.

13 – EPA's Travel System Needs Improved Credit Card Data Protection and Independent Compliance Reviews

The EPA's Concur travel system (1) allows users more access to credit card information than users need, and (2) lacks required independent reviews of the Concur service provider's[3] compliance with Payment Card Industry Data Security Standards (PCI DSS). In particular:

- There are currently 623 Concur users who could unnecessarily view employees' full credit card numbers in clear text.
- Concur currently has a Service Provider Level II Validation that does not meet the PCI DSS standard for the number of credit card transactions processed. Concur processed 955,804 transactions through June 2015, but any service providing that processes over 300,000 transactions per year must obtain a Service Provider Level I Validation.

NIST SP 800-53, security control number AC-6, *Least Privilege*, states that the organization must only allow the authorized access to users that is necessary to accomplish their tasks in accordance with organization missions. The PCI DSS' *Requirements and Security Assessment Procedures*, Version 3.0, dated November 2013, and Version 3.1, dated April 2015, provide a minimum set of standards for protecting account data that allow the service provider to enhance with additional controls. The EPA issues MasterCard credit cards to its travelers and MasterCard has enhanced these standards by requiring service providers that process over 300,000 transactions per year to obtain a Level 1 Validation. A Level I Validation includes an annual onsite assessment conducted by a Qualified Security Assessor. Concur currently conducts a Level II Validation, which only requires Concur to conduct an annual self-assessment.

The EPA obtained travel services from the Concur service provider through issuing Task Order EP-G13C-00378 on General Services Administration (GSA) contract GS-33f-y0026. Since Concur stores credit card information to process credit card transactions between government travelers and merchants, Concur appears to meet the definition of a service provider and, therefore, is subject to enhanced PCI DSS requirements. Concur processed 955,804 transactions through June 2015 and, therefore, must obtain a Service Provider Level I Validation to meet the PCI DSS requirement. The EPA representative provided us with a GSA point of contact to discuss security concerns discovered during our audit. Upon raising this issue with GSA, its representative stated that GSA believed the PCI DSS compliance process may not apply to their contract or their government customers. The GSA representative further stated that the representative will contact others within GSA to find more information about PCI DSS compliance. However, GSA has not provided further updates on whether Concur must meet PCI DSS requirements.

Personnel have excessive access to credit card information because the EPA users with the Federal Agency Travel Administrator role in Concur can see the full credit card number for travelers under their purview. Our analysis of 10 EPA Concur users with the Federal Agency Travel Administrator role disclosed that they were mistaken about how much access they needed to the employee's full credit card information. The users with the Federal Agency Travel

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[3] The PCI Security Standards Council defines a service provider as a business entity that is not a payment brand directly involved in the processing, storage or transmission of cardholder data. This also includes companies that provide services that control or could impact the security of cardholder data.

Administrator role stated they needed access to a traveler’s full credit card information in order to perform queries of a user’s credit card history in Compass Data Warehouse. Our analysis disclosed that full credit card numbers are unnecessary to query a user’s credit card history in the Compass Data Warehouse. Users with special Compass Data Warehouse system access can view credit card history by entering the employee’s name. Also, the EPA implemented a basic Compass Data Warehouse access process that gives users the ability to obtain credit card charge history by providing the last eight digits of the card number (part of the traveler’s account number and checksum) and not the entire 16-digit number.

The PCI DSS standard was created to increase controls around cardholder data to reduce credit card fraud via its exposure. By not ensuring the Concur service provider is adequately protecting this data, the EPA and all Concur users are potentially faced with the responsibility and expense of providing breach notification and remediation services in the magnitude of the cost similar to the most recent data breaches experienced by the Office of Personnel Management. Because EPA management is unaware of the service provider’s ability to protect credit card data, the EPA lacks the information and ability to make plans needed to implement risk-based decisions to minimize the agency’s exposure. By not taking steps to restrict access to credit card data unnecessarily needed by individuals within the agency, the EPA increases the potential this data could be used for unauthorized purposes. This also places an undue financial expense on EPA in order to protect the effected employee from fraud.

Recommendations

We recommend that the Chief Financial Officer:

34. Work with the contracting officer to have the Concur service provider limit the visibility of credit card numbers for people with the Federal Agency Travel Administrator role.

35. Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

Attachment 2

Compliance With Laws and Regulations

Table of Contents

14 – EPA Did Not Comply With Federal Accounting Standards for Recording Interest

The EPA did not record all applicable interest for some Superfund and installment interest as required by applicable laws, federal accounting standards and EPA policy that require the EPA to assess interest on delinquent accounts receivable. In following up on the agency's proposed corrective actions, we found that the EPA did not implement a correction in the Compass 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.

CERCLA Section 107 states that the amounts recoverable in an action under this section shall include interest on the amounts recoverable. Such interest shall accrue from the later of the date payment of a specified amount is demanded in writing or the date of the expenditure concerned.

The Debt Collection Act of 1982 [Public Law 97-365, Section 11(e)(1)] addresses the collection of amounts owed to the federal government and provides for a minimum annual rate of interest to be charged on overdue debts owed.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities,* paragraph 53, states that interest receivable should be recognized for the amount of interest income earned but not received for an accounting period.

The EPA's RMDS 2550D, Chapter 14, *Superfund Accounts Receivable and Billings,* page 14, states that pursuant to Section 107 of CERCLA, the EPA will assess interest on all overdue amounts.

The EPA's RMDS 2540-9-P2, *Non-Federal Delinquent Debt,* pages 6–7, directs the agency to assess and record overdue interest, handling and penalty charges in 30-day increments for late payments as appropriate. The finance centers calculate interest, handling and penalty charges manually, or rely on the agency financial management system to automatically calculate and post all charges.

We had previously reported in our audit of the FY 2014 financial statements that the EPA did not comply with accounting standards for recording interest. Table 4 below notes our FY 2014 recommendations and status of EPA actions. These recommendations, made to OCFO, involved actions involving CFC and LVFC.

Table 4: FY 2014 recommendations, corrective actions and OIG evaluation

No.	OIG Recommendation	EPA Corrective Action	OIG Evaluation
35	Instruct CFC to perform an analysis of delinquent receivables to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards and EPA policy, and record any unrecorded interest.	Concur. OCFO will continue to review delinquent receivables to ensure interest is accruing properly and will continue to work closely on Compass issues to resolve them on a long-term basis in cases where interest has not been calculated in Compass (and it should be).	Corrective action not effective. CFC did not perform an analysis to determine whether Compass is properly recording interest. At FY 2014 year-end, CFC sampled several bills to ensure the interest was calculated correctly and in Compass for the year-end financial statements. CFC submits tickets as issues arise. At FY 2015 year-end, CFC did not perform an overarching interest review and instead reviewed interest as the receivable status was updated or when collections were received.
36	Instruct CFC to follow the terms in the legal source documents when recording interest receivables.	Concur. OCFO will explore having Compass functionality enhanced to allow for interest to be calculated from a date other than the receivable date.	As of September 30, 2015, the agency's corrective action was not complete. In FY 2015, we found that CFC personnel still relied on the Department of Justice and EPA regional personnel direction and did not record interest related to a large settlement, instead of following the provisions in the legal document.
37	Instruct LVFC to follow EPA policy and the terms of the legal source document and record the document effective date in Compass as the account receivable document date for grant receivables.	Concur. OCFO will work with the Grants Management Office to ensure source documentation for grant receivables is submitted to the LVFC in a timely manner.	LVFC began recording FY 2015 transactions for grant receivables with the effective date of the originating document. This corrective action is effective at eliminating the interest noncompliance. LVFC took sufficient corrective action for Recommendation 37 related to grant receivables. Consequently, no further recommendations are made to LVFC.
38	Determine and correct the cause of Compass system problems related to Superfund and installment interest.	Concur. OCFO implemented a fix on November 16, 2014, to correct the known system issues related to interest.	System issues related to interest were not corrected; therefore, corrective action was not effective. On November 18, 2014, Compass deleted over $7 million of interest on over 70 Superfund receivables. Compass also stopped calculating interest on numerous other receivables on April 20, 2015. When Compass deletes and/or does not calculate interest on Superfund receivables, there is no assurance interest is properly recorded.

Source: OIG analysis of EPA data.

When the EPA does not record interest, the agency may not collect all the funds to which it is entitled and does not comply with applicable laws, federal accounting standards and EPA policy.

Recommendations

We recommend that the Chief Financial Officer:

36. Complete the corrective actions previously identified in Table 4.

37. Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.

38. Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either through Compass automatic calculations or manual interest calculations prepared by CFC.

39. Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why:

    - Compass deletes Superfund interest and implement a correction.
    - Compass stops calculating interest and implement a correction.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

Status of Prior Audit Report Recommendations

The EPA is continuing to strengthen its audit management to address audit follow-up issues and complete corrective actions expeditiously and effectively to improve environmental results. During FY 2015, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, developed and implemented a strategy for increasing the agency's attention to its audit follow-up responsibilities, including timely completion of corrective actions in response to OIG audit recommendations. As one component of the strategy, the Chief Financial Officer issued a memorandum to senior agency leadership, reminding senior managers of their stewardship responsibilities for audit management and reviewing their Action Official roles and responsibilities. Other notable actions included:

- In December 2014, the agency launched new online training for using its Management Audit Tracking System to ensure timely and effective audit follow-up in compliance with *EPA Manual 2750: Audit Management Procedures*. All new Audit Follow-up Coordinators completed the online training, which focuses on how to use the system, including generating reports, to ensure that EPA audit data are accurate, complete and up to date.
- The EPA made oversight of audit follow-up a focus area for its FY 2015 Management Integrity Program, requiring all national program and regional offices to review a sample of their OIG audits using a questionnaire and template developed by OCFO and report findings in their FY 2015 assurance letters to the Administrator. Results indicated no agency-level internal control weaknesses in audit management.
- The agency undertook an update of EPA Manual 2750, *Audit Management Procedures,* which was last revised in FY 2013. Manual 2750 is a comprehensive audit management guide that addresses OIG, Government Accountability Office, and Defense Contract Audit Agency audits. OCFO expects to release the updated policy in December 2015.
- OCFO continued to issue first and third quarter audit management 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.
- Additionally, OCFO continued to conduct onsite reviews of national and program offices, initiated in FY 2009 and scheduled on a rotating basis. These quality assurance/quality control reviews focus on offices' audit follow-up procedures, data entered in the Management Audit Tracking System, and availability of supporting documentation. In FY 2015, OCFO completed on-site reviews in two regional offices and one national program office.

Based on a review of Management Audit Tracking System data, OCFO reported that the number of OIG audits closed on issuance increased to 77 percent in FY 2015 (up from 57 percent in FY 2014), indicating sustained OIG-agency progress in reaching timely agreement on audit recommendations and corrective actions. In addition, the number of late corrective actions at the end of FY 2015 decreased by 28 percent from FY 2014.

Table 5: Significant deficiencies—issues not fully resolved

• **EPA Failed to Capitalize Software Costs, Leading to Restated Fiscal 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. Corrective actions for the remaining two recommendations are not due to be completed until 2018.
• **EPA Did Not Capitalize Lab Renovation Costs** In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovation as a capital improvement. The agency capitalized and booked the Research Triangle Park lab renovation costs 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 2016.
• **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, we again reported this weakness as a significant deficiency; therefore, the EPA's corrective actions were not yet effective.
• **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 2015, while we noted improvements in CFC's timely receipt of legal documents, we still identified instances of untimely receipt, principally 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 2016.

• **EPA Did Not Properly Reconcile Accounts Receivable** During FY 2014, we found 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 investigating variances between the accounts receivable detail and the general ledger; reconciling federal and non-federal accounts receivable separately; or developing accurate reports. Because the EPA did not change its process from the prior year, we reported the agency's accounts receivable reconciliation process as a significant deficiency again in FY 2015.
• **Unneeded Funds Not Deobligated Timely** In FY 2014, we reported weaknesses with the agency's management of unliquidated obligations. We found $4.4 million in idle unliquidated obligations for which the EPA had not taken timely actions to notify the appropriate offices to deobligate the unneeded funds. The average age (days funds sat idle since last activity) of these funds was 732 days old, with the oldest being 996 days old. The agency concurred with our finding. The agency planned corrective action to update and implement a new unliquidated obligations tool to improve its unliquidated obligations review process and timely deobligations of funds deemed unneeded by program /regional offices. To streamline and simplify the unliquidated obligations management process, the OCFO Office of Financial Management in FY 2015 developed a new tracking tool and updated requirements for review of all open obligations. The Office of Financial Management developed and provided unliquidated obligation reviewers a comprehensive user guide and instructions upon release of the new tool. We believe the agency's corrective action is resulting in timely review of unliquidated obligations. However, there are still significant amounts of idle funds that agency unliquidated obligation reviewers have deemed valid unliquidated obligations. Many of these unliquidated obligations remain open but idle with significantly large age dates. For those unliquidated obligations that were identified for deobligation or were not reviewed by the agency's due date, we will continue to monitor these unliquidated obligations for actual deobligation and inactivity.
• **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. While the EPA and the CFC have made some improvements with recording interest, we found in FY 2015 that the agency corrective actions were not effective at eliminating the noncompliance primarily due to Compass system problems. Therefore, we will continue to evaluate the agency's recording of interest in FY 2016.
• **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. In 2015, while we noted improvements in CFC's timely receipt of legal documents, we still identified instances of untimely receipt. Therefore, we do not consider the agency's corrective actions completely effective and will continue to evaluate the effectiveness in FY 2016.

• **Cincinnati Finance Center Should Clear Suspense Transactions Timely** During our FY 2014 audit, we found that CFC was not clearing collection and disbursement transactions from the federal budget clearing (suspense) account within 60 days after posting. EPA guidance, requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing accounts to appropriate general ledger accounts within 60 days. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund. We recommended that the Assistant Administrator for Administration and Resources Management require project officers to approve federal disbursements timely and that the Chief Financial Officer require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. The agency concurred with our recommendations and agreed to take corrective actions. According to the agency's corrective action status report as of May 6, 2015, the agency completed corrective action for the second recommendation but not the first. However, in our FY 2015 review, we found that, once again, the CFC did not clear the federal suspense account within 60 business days; therefore, we consider the corrective actions for both recommendations to be incomplete. We reported untimely clearance of transactions in the suspense account as a significant deficiency again in our FY 2015 report.
• **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, the EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. EPA 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 final 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. However, during FY 2015, the EPA revised the target due date to update the policy until December 31, 2016, as the EPA considers the opportunity to explore new methods to streamline the accrual processes and take advantage of efficiencies available in Compass upgrade scheduled for February 2016 prior to revising the policy.
• **Financial Management System User Account Management Needs Improvement** The EPA had previously considered these recommendations closed; however, OCFO agreed in FY 2014 to develop alternative corrective action for Recommendation 27 from our FY 2009 audit report. OCFO is in the process of performing those corrective actions with an estimated completion date of December 2015.

Source: OIG analysis.

Attachment 3

Status of Current Recommendations and Potential Monetary Benefits

		RECOMMENDATIONS				POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	14	Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production.	C	Chief Financial Officer	9/30/18		
2	14	Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency's property management system and Compass; and that an audit trail is maintained for software projects analyzed.	U	Chief Financial Officer			
3	16	Reclassify the $226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated	C	Chief Financial Officer	10/30/15		
4	16	Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded	C	Chief Financial Officer	8/13/15		
5	16	Reclassify special accounts receivable totaling $5,310,918 that were previously recorded as past costs, classifying them instead as future costs to ensure current year financial statements are properly stated.	C	Chief Financial Officer	10/30/15		
6	16	Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.	C	Chief Financial Officer	8/13/15		
7	18	Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.	O	Chief Financial Officer	6/30/16		
8	18	Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.	C	Chief Financial Officer	10/28/15		
9	18	Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS are recorded in Maximo accurately and timely.	U	Chief Financial Officer			
10	20	Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.	C	Chief Financial Officer	9/30/15		
11	20	Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.	O	Chief Financial Officer	2/28/16		

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
12	22	Complete the planned corrective actions to require project officers to approve federal disbursements timely.	O	Assistant Administrator for Administration and Resources Management	3/31/16		
13	22	Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.	C	Chief Financial Officer	11/10/15		
14	23	Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.	O	Chief Financial Officer	9/30/16		
15	23	Modify Compass to route accounts receivable and collection cancellations for secondary approval.	U	Chief Financial Officer			
16	24	Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.	C	Chief Financial Officer	11/6/15		
17	25	Require CFC to record accounts receivable as provided in legal documents.	C	Chief Financial Officer	11/10/15		
18	25	Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.	C	Chief Financial Officer	11/10/15		
19	29	Complete the corrective actions previously identified in Table 1.	O	Chief Financial Officer	3/31/17		
20	29	Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.	O	Chief Financial Officer	1/31/16		
21	29	Reconcile federal and non-federal accounts receivable separately.	O	Chief Financial Officer	3/31/17		
22	29	Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.	C	Chief Financial Officer	6/15/15		
23	29	Develop accurate reports for accounts receivable principal and non-principal charges (such as interest, handling and penalties) to reconcile such charges to the general ledger accounts.	U	Chief Financial Officer			
24	29	Correct the Compass reporting issues that prevent the proper reports to be produced.	C	Chief Financial Officer	9/30/15		
25	30	Work with the Assistant Administrator for Solid Waste and Emergency Response to direct the regions to track, manage and reconcile SSC financial data by site.	O	Chief Financial Officer	12/31/15		
26	33	Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.	U	Chief Financial Officer			
27	33	Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	U	Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
28	33	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. This should include establishing a date when the contractors would start using the updated account management documentation.	U	Chief Financial Officer			
29	36	Review and update account management documentation and establish procedures for financial systems, as needed, to include implementation of the following controls: a. Assign account managers for user accounts. b. Establish role conditions for system access privileges. c. Require approvals to create accounts. d. Monitor use of accounts. e. Notify account managers when accounts are removed or changed. f. Authorize access based on valid authorizations. g. Review accounts for appropriateness of current access privileges.	U	Chief Financial Officer			
30	36	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures—specifically, periodic access reviews and proper access removal.	U	Chief Financial Officer			
31	36	Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.	U	Chief Financial Officer			
32	36	Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.	U	Chief Financial Officer			
33	37	Establish new procedures and update the OCFO HelpDesk Escalation Procedures to require validation of users before the distribution of passwords.	U	Chief Financial Officer			
34	39	Work with the contracting officer to have the Concur service provider limit the visibility of credit card numbers for people with the Federal Agency Travel Administrator role.	O	Chief Financial Officer	7/30/16		
35	39	Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.	O	Chief Financial Officer	1/31/16		
36	43	Complete the corrective actions previously identified in Table 4.	U	Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
37	43	Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.	O	Chief Financial Officer	9/30/16		
38	43	Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either through Compass automatic calculations or manual interest calculations prepared by CFC.	U	Chief Financial Officer			
39	43	Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why: o Compass deletes Superfund interest and implement a correction. o Compass st0ps calculating interest and implement a correction.	O	Chief Financial Officer	9/30/16		

[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 2015 and 2014 Consolidated Financial Statements

Agency Response to Draft Report

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

NOV 10 2015

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY15-0176, "*Audit of EPA's Fiscal 2015 and 2014 Consolidated Financial Statements,*" dated November 9, 2015

FROM: David A. Bloom
Deputy Chief Financial Officer

TO: Paul C. Curtis, Director
Financial Statement Audits

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. 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 38 of the recommendations and non-concurs with one recommendation. We have attached technical comments which explains the agency's position on some of the report findings.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1	Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production.	Concur. The agency will continue to review software project cost in-development and in-production to correct the values of the software assets. Also, the agency will validate all software expenses before they are entered into the agency fixed assets system.	September 30, 2018 September 30, 2016

16-F-0040

2	Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency’s property management system and Compass; and that an audit trail is maintained for software projects analyzed.	Concur. OCFO/OFM will continue to validate all software expenses and record them into FAS. All documentation for the software transactions will be kept in a project file.	October 21, 2015 (ongoing activity)
3	Reclassify the $226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated.	Concur. The agency changed its accounting practice to record special accounts settlement proceeds as unearned revenue as these collections are generally used for future clean-up activities. The FY 2015 financial statements reflect this change. OECA is evaluating how this change will affect enforcement settlements and will coordinate with OCFO. (See attached technical comments.)	Completed October 30, 2015
4	Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded.	Concur. OCFO already has established procedures contained in EPA’s Resource Management Directives System 2550D-14-T1, Superfund Accounts Receivables and Billings. It was revised on August 13, 2015, in coordination with Office of Enforcement and Compliance Assurance, to require the Superfund Accounts Receivable Standard Control Form to be completed by legal counsel and forwarded to CFC. CFC will ensure that regional contacts fill out the control form completely for both administrative and judicial documents, including the fund type(s) to be used as the basis for the receivable.	Completed August 13, 2015
5	Reclassify special accounts receivable totaling $5,310,918 that were previously recorded as past costs, classifying them instead as future costs to ensure current year financial statements are properly stated.	Concur. The agency changed its accounting practice to record special accounts settlement proceeds as unearned revenue as these collections are generally used for future clean-up activities. The FY 2015 financial statements reflect this change. OECA is evaluating how this change will	Completed October 30, 2015

		affect enforcement settlements and will coordinate with OCFO. (See attached technical comments.)	
6	Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.	Concur. OCFO already has established procedures contained in EPA's Resource Management Directives System 2550D-14-T1, Superfund Accounts Receivables and Billings. It was revised on 8/13/15, in coordination with Office of Enforcement and Compliance Assurance, to require the Superfund Accounts Receivable Standard Control Form to be completed by legal counsel and forwarded to CFC. CFC will ensure that regional contacts fill out the control form completely for both administrative and judicial documents, including the fund type(s) to be used as the basis for the receivable.	Completed August 13, 2015
7	Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.	Concur. OCFO has developed a process to research and resolve differences between Compass and the agency property management system. To date, the agency has resolved over $50M of the differences between Compass and Maximo. The agency will continue to clear the differences and anticipates completing by June 30, 2016.	June 30, 2016
8	Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.	Concur. The policy has been sent to all FMO's ensuring policy is followed. We currently have concurrence from all Security Orgs.	Completed October 28, 2015
9	Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS	Concur. OCFO will ensure that software adjustments are processed correctly in the agency property module in Compass (e.g., FAS); however, no coordination with OARM is required because software	Completed October 21, 2015 (ongoing activity)

	are recorded in Maximo accurately and timely.	transactions are not entered into MAXIMO.	
10	Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.	Concur. In September, RAS initiated a process to require the Centers to provide the transactional details for the identifiable differences, not including timing differences, per the revised policy RMDS 2540-03-P1. RAS will continue to monitor all internal cash differences working with the finance centers to report their differences at the transaction level.	Completed September 30, 2015
11	Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.	Concur. The Office of Financial Services will update our reconciliation procedures and reinforce our current reconciliation procedures to research and resolve cash differences for payroll and the WFC.	February 28, 2016
12	Complete the planned corrective actions to require project officers to approve federal disbursements timely.	Concur. In September of each fiscal year, OGD issues this guidance for consideration in assessing Project Officer and Supervisor/Manager compliance with key grants and IA management policies during end-of-year performance appraisals and developing next year's PARS performance agreements. IASSC has completed a comprehensive review of the existing EPA 1610 manual and identified necessary changes, including a description of the billing requirement. That description will be contained in the revised version of the Manual.	Completed September 30, 2015 March 31, 2016
13	Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal	Concur. The Cincinnati Finance Center (CFC) has procedures in place to monitor, follow-up, and address suspense account items that remain for more than 60 days. CFC will continue to stress the importance of clearing items	Completed (ongoing activity)

	budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.	out of the suspense account in less than 60 days. The Payment Branch Chief will review the open items more frequently and elevate on a shorter time table.	
14	Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.	OCFO will review the existing separation of duties policy to ensure that it's being implemented as designed. Under the reorganization, OCFO will review all waivers and take appropriate action based on our new structure. Based upon the review, OCFO will update policy/procedures if applicable.	September 30, 2016
15	Modify Compass to route accounts receivable and collection cancellations for secondary approval.	Concur. Secondary approval already exists in Compass.	N/A
16	Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.	Concur. CFC has reviewed all of the 72 cancellations cited in the position paper and all have appropriate documentation supporting the cancellation, either in the file or attached in Compass.	Completed November 6, 2015
17	Require CFC to record accounts receivable as provided in legal documents.	Concur. CFC will continue to record the accounts receivable as provided in legal documents. See the attached technical comments for the specific issue cited in the audit report.	Completed (ongoing activity)
18	Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.	Concur. CFC reviews all settlement documents to ensure the accounts receivables are established for the amounts due (or claim amounts related to bankruptcies). They will continue to thoroughly review documents to ensure receivables are established for the appropriate amounts.	Completed (ongoing activity)
19	Complete the corrective actions previously identified.	See below for information for Recommendations 20 thru 24 for the agency's planned actions to complete these recommendations.	See dates for Recommendations 20 through 24

20	Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.	Concur. Starting in FY 2016, RAS will reconcile balances in the accounts receivable general ledger account to its subsidiary ledgers going forward. [RAS]	January 31, 2016
21	Reconcile federal and non-federal accounts receivable separately.	Concur. RAS designed a framework for providing separate timely and accurate reconciliations of federal and non-federal accounts receivable. Changes within Compass are needed to implement this design. Due to the pending Compass version enhancement, system changes have been placed on hold until CVE is completed. CVE implementation is currently scheduled as Compass 7.3 for February 2016. We will obtain an estimate of when change will be made in Compass.	March 31, 2017
22	Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.	Concur. The scope of the recommendation in 2014 was to correct the remaining FY 2011 period 16 billing document activity that did not post to the general ledger. This was completed June 30, 2015. The Reporting and Analysis Staff continues to identify and correct the variances that occur during the current year.	Completed June 30, 2015 (continuing activity)
24	Correct the Compass reporting issues that prevent the proper reports to be produced.	Concur. OCFO implemented redundancy amongst staff to ensure backup in the event a report does not execute.	Completed September 30, 2015
25	Work with the Assistant Administrator for Solid Waste and Emergency Response to direct the regions to track, manage and reconcile SSC financial data by site.	The agency agrees that the regions should continue to follow the practices outlined in the Resource Management Directive System 2550D-09-P1 related to tracking, managing and reconciling SSC financial data by site. By the end of the calendar year, OSWER will issue new SSC model provisions that include an updated final financial reconciliation provision and new language on periodic financial review, which reinforce for both	December 31, 2015

		states and regions the need to carefully track site-specific remedial action costs and state cost share payments.	
26	Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.	Concur. Upon the reallocation of resources, OCFO will transfer the management of all application user access processes to the OTS Application Management Staff.	TBD/based on available resources
27	Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	Concur. Upon allocation of resources, OTS will conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	TBD/based on available resources
28	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. This should include establishing a date when the contractors would start using the updated account management documentation.	Concur. Upon the reallocation of resources, we will work with the contracting officer to update the contract clauses and update distribute access management documentation.	TBD/based on available resources
29	Review and update account management documentation and establish procedures for financial systems, as needed, to include implementation of the following controls: a. Assign account managers for user accounts. b. Establish role conditions for system access privileges. c. Require approvals to create accounts. d. Monitor use of accounts.	Concur. Upon the reallocation of resources, OCFO will review the account management documentation, document the results of the review and make any necessary updates/additions.	TBD/based on available resources

	e. Notify account managers when accounts are removed or changed. f. Authorize access based on valid authorizations. g. Review accounts for appropriateness of current access privileges.		
30	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures—specifically, periodic access reviews and proper access removal.	Concur. OCFO will issue a memorandum emphasizing access control procedures.	TBD/based on available resources
31	Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.	Concur. OCFO will conduct an inventory or all financial applications and ensure the systems are entered in XACTA.	TBD/based on available resources
32	Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.	Concur. OTS will implement a process to notify the CFO of the status of corrective actions in XACTA, in addition to current practices including: OCFO's PISO conducting weekly meetings with OCFO ISSOs and reviewing the corrective actions/POAMs in XACTA, along with OCFO's CMA and risk assessment processes.	TBD/based on available resources
33	Establish new procedures and update the OCFO HelpDesk Escalation Procedures to require validation of users before the distribution of passwords.	Concur. OCFO will change the procedure to add an encrypted email to the user's EPA address to communicate the temporary password while the Help Desk analyst remains on the phone and verifies that the individual was able to log in.	TBD/based on available resources
34	Work with the contracting officer to update the EPA's task order with the Concur service provider to include a clause limiting visibility of	Concur. OCFO will bring the issue of the visibility of credit card numbers to the attention of the Concur service provider to evaluate the feasibility of limiting	July 30, 2016

	credit card numbers for people with the Federal Agency Travel Administrator role.	the visibility of credit card numbers with the Federal Agency Travel Administrator role.	
35	Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.	Concur. OCFO will contact the GSA of OIG's finding that the required assessments are not being performed as required to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes.	January 31, 2016
36	Complete the corrective actions previously identified.	See below for information for Recommendations 37 thru 39 for the agency's planned actions to complete these recommendations.	See dates for Recommendations 37 through 39.
37	Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.	Concur. On a daily basis, CFC staff analyze, review, and update Superfund receivables. As issues arise, help tickets are submitted. CFC pulled a sample of receivables and manually compared interest to what Compass accrued, and found that the differences were immaterial. CFC will continue to review interest on Superfund receivables and submit help tickets for any differences that may arise. After the new version of Compass is rolled out in 2016, CFC will complete a larger review of receivables to ensure that the new version of Compass is calculating interest appropriately.	September 30, 2016
38	Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either	Concur. CFC will ensure that Compass is set to accrue interest when a debt becomes delinquent. Compass was customized to account for Superfund interest to	TBD

	through Compass automatic calculations or manual interest calculations prepared by CFC.	accrue on a daily basis. Since it is based on the receivable date, Compass would start accruing interest on day 2 (though the debt is not delinquent until day 30 or later). To resolve this, the interest flag is checked so that interest does not accrue when first established. Once the debt becomes delinquent, staff has to manually uncheck the waiver flag so that interest will begin accruing. Until this is changed in Compass, staff will have to continue to manually uncheck the flag.	
39	Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why: ■ Compass deletes Superfund interest and implement a correction. ■ Compass stops calculating interest and implement a correction.	Concur. Many of the causes for the Compass system problems related to Superfund will be resolved with the Compass version enhancement scheduled for implementation in 2016. OCFO will validate how the enhanced system handles Superfund and installment interest and submit requests for any further system adjustments that might be needed. In the interim, CFC will continue to monitor Superfund and installment interest calculations to ensure they are correct.	September 30, 2016

Disagreements

No.	**Recommendation**	**High-Level Intended Corrective Action(s)**	**Estimated Completion by Quarter and FY**
23	Develop accurate reports for accounts receivable principal charges and non-principal charges that do not include interest, handling and penalties; or journal vouchers.	Non-concur. The use of line numbers in the bill report designates interest, penalties and handling charges. This is necessary to ensure that the proper calculation of these charges with applicable laws and agency policy in Compass. The bill report RAS uses clearly identifies the interest, handling and penalty amounts.	N/A

		Journal vouchers should also be included as bill detail. To the extent practical, the agency makes corrections within the individual billing documents. In other cases, in order to properly reflect balances in the general ledger accounts, journal vouchers are required to fairly state the accounts receivable balances.	

CONTACT INFORMATION

If you have any questions regarding this response, please contact Stefan Silzer, Director, Office of Financial Management on (202) 564-4905.

Attachment

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Technical Comments Related to OIG's Draft Audit Report No. OA-FY154-0176, "*Audit of EPA's Fiscal 2015 and 2014 Consolidated Financial Statements,*" dated November 10, 2015

OIG Finding #2 - "*EPA Incorrectly Recorded Superfund Special Account Collections and Receivables*"

OIG Statement: In the last statement of the first paragraph OIG stated that," In addition, not having the funds available in the future to fund site clean-up costs could require additional funds from taxpayers."

Agency Position on Finding: This is an incorrect statement. Whether the funds are recorded as past costs (earned revenue) placed into a special account (i.e., "TR2B" fund code) or future costs (unearned revenue) placed into a special account (i.e., "TR2" fund code), they are available for future work at a site by the fact they are in a special account. Their designation as earned or unearned revenue would not change their availability to be used for future site clean-up costs and would not have any effect as to whether additional funds from taxpayers will be needed for the site.

OIG Finding #7 - "*EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment*"

OIG Statement: OIG stated that, "*EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree…CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document.*"

Agency Position on Finding: CFC reviews and records accounts receivables per the payment terms of the settlement documents. For the settlement outlined above, there is not an accounts receivable due and owing in the amount of $9 million from LPA in this settlement. All of the site costs (past and future) are a joint and several liability for all of the PRPs at the Portland Harbor site. However, when a PRP settles with the United States, both parties agree to a payment amount which is usually less than the full joint and several amount incurred by the EPA and the PRPs at any given site. Thus, the amount to be entered as an accounts receivable is the amount the settlement document says that particular PRP owes the United States as a payment, not the overall judgment amount. In certain instances, for purposes of recovering proceeds from a PRP's insurance policies, the PRP may confess to how much money it owes the EPA (the United States), which then allows the United States to pursue insurance proceeds based on that amount. The size of the confessed judgment is not indicative of the amount that the United States could recover from insurance, as that depends on various factors specific to the insurance policies on hand. If a PRP were to make a confession to judgment for a lesser amount, or not make a confession to judgment at all, then, due to how insurance law works, the insurance companies would have a good argument for reducing any possible payouts considerably, as they would argue that the PRPs remaining liability is limited to only that lesser amount. Any insurance recovery is always quite speculative, we may recover funds, or not recover any at all.

Distribution

Office of the Administrator
Chief Financial Officer
Assistant Administrator for Administration and Resources Management
Assistant Administrator for Solid Waste and Emergency Response
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Agency Audit Follow-Up Coordinator
Assistant Deputy Chief Financial Officer
Director, Office of Policy and Resource Management, Office of Administration and Resources Management
Director, Office of Grants and Debarment, Office of Administration and Resources Management
Director, Office of Acquisition Management, Office of Administration and Resources Management
Director, Office of Administration, Office of Administration and Resources Management
Director, Office of Superfund Remediation and Technology Innovation, Office of Solid Waste and Emergency Response
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Audit Follow-Up Coordinator, Office of Solid Waste and Emergency Response
Audit Follow-Up Coordinator, Office of Grants and Debarment, Office of Administration and Resources Management

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 2015 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 2015, no new material weakness was identified by OIG. (See following subsection for a discussion of new, existing, and corrected weaknesses and significant deficiencies.)

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.

2015 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 2015, 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).

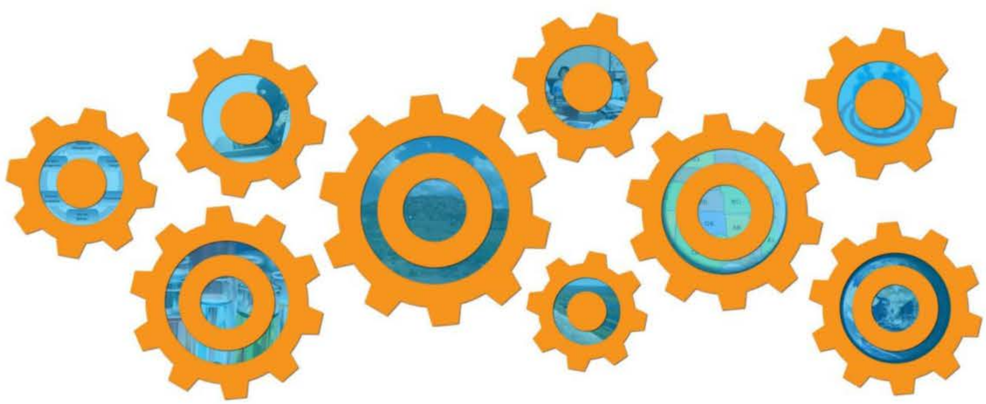
OIG-Identified Key Management Challenges for the EPA	FY 2013	FY 2014	FY 2015	EPA strategic goal
Oversight of Delegations to States: Due to differences between state and federal policies, interpretation, strategies and priorities, the EPA needs to more consistently and effectively oversee its delegation of programs to the states, assuring that delegated programs are achieving their intended goals.	•	•	•	Cross-Goal
Safe Reuse of Contaminated Sites: The EPA's duty is to ensure that reused contaminated sites are safe for humans and the environment. The EPA must strengthen oversight of the long-term safety of sites, particularly within a regulatory structure in which non-EPA parties have key responsibilities, site risks change over time, and all sources of contamination may not be removed.	•	•	•	Goal 3
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
EPA's Framework for Assessing and Managing Chemical Risks: The EPA's effectiveness in assessing and managing chemical risks is limited by its authority to regulate chemicals under the Toxic Substances Control Act. Chemicals manufactured before 1976 were not required to develop and produce data on toxicity and exposure, which are needed to properly and fully assess potential risks.	•	•	•	Goal 4
Workforce Planning / Workload Analysis: The EPA's human capital is of concern in part due to requirements released under the President's Management Agenda. The OIG identified significant concerns with the EPA's management of human capital. The EPA has not developed analytical methods or collected data needed to measure its workload and the corresponding workforce levels necessary to carry out that workload.	•	•	•	Cross- Goal
Abuse in Time and Attendance, Computer Usage, 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 2015

EPA Management Challenges



Scan this mobile code to learn more about the EPA OIG.

15-N-0164

May 28, 2015

Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAO	U.S. Government Accountability Office
OIG	Office of Inspector General
RCRA	Resource Conservation and Recovery Act

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

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More information at www.epa.gov/oig/hotline.html.

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U.S. Environmental Protection Agency
Office of Inspector General

15-N-0164

May 28, 2015

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, the Office of Inspector General is providing the issues we consider as the U.S. Environmental Protection Agency's (EPA's) major management challenges for fiscal year 2015.

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)

The full report on management challenges is at:
www.epa.gov/oig/reports/2015/20150528-15-N-0164.pdf

EPA's Fiscal Year 2015 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 Authorized to Accomplish Environmental Goals:

- We have identified the absence of robust oversight by the EPA of the states authorized to implement environmental programs. Oversight of state activities requires that the EPA establish consistent national baselines that states must meet, and the EPA must monitor the states.

Limited Controls Hamper the Safe Reuse of Contaminated Sites:

- As the EPA promotes and encourages the redevelopment and reuse of contaminated properties, it must strengthen its oversight of the long-term safety of sites, particularly when non-EPA parties have key responsibilities.

The EPA Faces Challenges in Managing Chemical Risks:

- EPA needs to enhance program management and overcome statutory limitations on data availability to effectively ensure that the production and use of chemicals does not harm human health or the environment.

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

- The EPA's program and regional offices have not conducted a systematic workload analysis or identified workforce needs for budget justification purposes; such analysis is critical to mission accomplishment.

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

- The EPA faces information security challenges involving risk management planning, implementation of security tools, computer security incident response capability, and follow-up on remediation actions taken.

The EPA Continues to Need Improved Management Oversight to Combat Fraud and Abuse and Take Prompt Action Against Employees Found to Be Culpable:

- Recent events and activities indicate a possible "culture of complacency" among some supervisors at the EPA regarding time and attendance controls, employee computer usage, real property management, and taking prompt action against employees.

May 28, 2015

MEMORANDUM

SUBJECT: EPA's Fiscal Year 2015 Management Challenges Report No. 15-N-0164

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 considers as key management challenges confronting the U.S. Environmental Protection Agency (EPA). 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 Reports Consolidation Act of 2000 requires our office to report what we consider the most serious management and performance challenges facing the agency. We used audit, evaluation and investigative work, as well as additional analysis of agency operations, to identify the challenges presented in the attachment. 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.

While the EPA has made progress, we retained all six 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 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 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 regulatory programs that give states the opportunity to enact and enforce laws. The EPA may authorize states to implement environmental laws when they request authorization and the EPA determines a state capable of operating the program consistent with federal standards. The EPA performs oversight of state programs to provide reasonable assurance that they achieve national goals to protect human health and the environment. Oversight of state activities requires that the EPA establish consistent national baselines that state programs must meet, and monitor state programs to determine whether they meet federal standards.

The EPA relies heavily on authorized states to obtain environmental program performance data and implement compliance and enforcement programs. Forty-nine of 50 states administer Safe Drinking Water Act programs, 48 states are authorized to administer the Resource Conservation and Recovery Act (RCRA) hazardous waste program, 46 states administer point source programs under the Clean Water Act, and every state administers Title V of the Clean Air Act. These states 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 oversee state programs, and to enforce environmental laws when states do not. Many EPA programs implement a variety of formal and informal oversight processes that are not always consistent across EPA regions and states.

THE AGENCY’S PROGRESS

The OIG has identified EPA oversight of authorized state 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 programs, using EPA authority when states 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 EPA priority. The EPA developed a "key performance indicator" and included it in the EPA's FYs 2012 and 2013 Action Plans for Strengthening State, Tribal, and International Partnerships. In 2013, the EPA developed the new performance indicator referred to as *Oversight of State Delegations Key Performance Indicator*. The EPA presented the new performance indicator in a 2013 report that identified a number of other improvement areas on the EPA's oversight and relationships with states. 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 developed an initial set of common principles. The EPA is drafting a series of draft principles and best practices for state oversight activities for improving the oversight process for the National Pollutant Discharge Elimination System, Title V, and RCRA Subtitle C permitting programs. It plans to issue its report in the summer of 2015. 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."

The EPA has made positive changes in response to recommendations contained in our reports. For example, 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.

Our March 2014 quick reaction report identified continuing challenges the EPA faces in overseeing authorized state and U.S. territory environmental programs. In that report, we found that the U.S. Virgin Islands experienced a lapse in monitoring under the Beaches Environmental Assessment and Coastal Health Act—a portion of the Clean Water Act. The EPA had known of key challenges that the U.S. Virgin Islands' Department of Natural Resources was having with its beach monitoring program and had attempted to resolve the matters. However, sampling lapsed without the EPA's awareness. The EPA had not developed a contingency plan for ensuring that sampling of the USVI beaches continued or that the public was notified of sampling results, but did so after we issued our report.

WHAT REMAINS TO BE DONE

We continue to conduct reviews of the EPA's oversight of state authorized programs. For example:

- In an April 2015 report, in addition to the issue cited in the 2014 quick reaction report above, we found that the U.S. Virgin Islands has not met 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. Moreover, EPA Region 2 oversight identified numerous program deficiencies in the U.S. Virgin Islands over the last few years, but the deficiencies continued. 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, and the completion of actions is pending.

- In a February 2015 report, we found that EPA Region 8 is not conducting inspections at establishments that produce pesticides in North Dakota. Moreover, since 2011, Region 8 has failed to conduct inspections of pesticides imported into North Dakota. The failure to conduct inspections 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, and the completion of actions is pending.

- In December 2014, we reported that the EPA does not obtain all required Drinking Water State Revolving Fund 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 Drinking Water State Revolving Fund 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 Drinking Water State Revolving Fund and Public Water System Supervision programs and periodically evaluate program results. The EPA agreed to these recommendations, and the completion of corrective actions is pending.

- In October 2014, we reported weaknesses in the EPA's 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. The agency's weaknesses in identifying and obtaining corrective actions for Title V revenue sufficiency and accounting practices, coupled with declining resources for some permitting authorities, jeopardizes state and local Title V program implementation. These weaknesses also increase the risk of permitting authorities misusing funds. 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 in Title V program evaluations; 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 the 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 that 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 the completion of actions is pending.

- In 2012, we recommended that the EPA's Office of Solid Waste and Emergency Response require the EPA and states to enter into memorandums of agreement that reflect program changes from the 2005 Energy Policy Act and address oversight of municipalities conducting underground storage tank inspections. The EPA expects to finalize regulations by June 30, 2015. The EPA also announced in 2014 that it will be conducting its own evaluation of the effectiveness and protectiveness of third party programs in the underground storage tank inspection program.

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: LIMITED CONTROLS HAMPER THE SAFE REUSE OF CONTAMINATED SITES

CHALLENGE FOR THE AGENCY

As the EPA promotes and encourages the redevelopment and reuse of contaminated properties, it must strengthen its oversight of the long-term safety of sites, particularly within a regulatory structure in which non-EPA parties have key responsibilities and authority but can lack resources to effectively carry out long-term oversight of reused contaminated sites.

Photo of the former Intel Mountain View Plant, Mountain View, California. (EPA photo)

BACKGROUND

Many contaminated sites, such as Superfund sites, must be monitored for decades because contamination is not fully removed or cleaned up, and controls to keep the public and environment protected from contamination must be maintained and enforced. The EPA has multiple and complex challenges to ensuring that long-term monitoring of contaminated sites is done and done properly. These include a regulatory structure in which the EPA has delegated authority or lacks the authority to ensure long-term monitoring is performed, and those who do have the authority lack resources and information to properly or fully execute long-term monitoring. The EPA's emphasis on reusing contaminated sites for a variety of purposes, including residential use, has amplified its existing challenges in ensuring that contaminated sites are safe and remain safe for reuse in the long term.

The EPA's FYs 2014–2018 Strategic Plan states that the EPA is establishing an Agency Priority Goal for FYs 2014–2015 to measure and report sites ready for anticipated use, which is a continuation of the Priority Goal for FYs 2012–2013. Ready for Anticipated Use is an indicator that the local, state or federal agency has determined that the necessary cleanup goals, engineering controls and institutional controls have been implemented at the site to make it available for a community's current or reasonably anticipated future use or reuse. The EPA's Superfund, RCRA corrective action, Leaking Underground Storage Tank and Brownfields cleanup programs all contribute to the Priority Goal to make sites ready for anticipated use.

THE AGENCY'S PROGRESS

According to the agency's FY 2014 financial report, the EPA has advanced significant efforts to oversee and manage the long-term stewardship of contaminated sites within its control to address the management challenges. For example, the EPA states that:

- The agency has developed a guide, *Institutional Controls: A Guide to Preparing Institutional Controls Implementation and Assurance Plans at Contaminated Sites,* that will assist regions in systematically establishing and documenting the activities associated with implementing and ensuring the long-term stewardship of institution controls. Among other things, these plans will provide information to stakeholders on the legal authorities for enforcing institutional controls, including relevant state laws, agency orders or agreements, or voluntary cleanup agreements.

- The agency will continue to encourage state and tribal response program funding of tracking and management systems for land use and institutional controls.

- The agency has developed general education and outreach materials about institutional controls and their importance in supporting safe land reuse. The EPA continues to include training sessions on institutional controls as part of its national Brownfields program. The EPA will also continue to develop and maintain information systems—such as "Cleanups in My Community"—to educate and inform the public regarding federally funded contaminated site assessment and cleanup activities.

- The agency is continuing to promote reuse and involves communities in clean-up and reuse discussions. The EPA will continue to explore tools to ensure appropriate reuse and enhance long-term protectiveness, including:

    - Ready for Reuse determinations (environmental status reports on site reuse).
    - Comfort and status letters (which convey status of the site remediation and liability issues).
    - EPA-funded reuse planning.
    - Site reuse fact sheets (which highlight critical remedial components in place, long-term maintenance activities and institutional controls).

- The most current toxicity values used when evaluating human risks follow a hierarchy of peer-reviewed toxicity value data. This hierarchy was issued in 2003 and expanded in 2013; further, the EPA has updated the toxicity values for two common chlorinated volatile contaminants often identified at Superfund sites as VI chemicals of concern—tetrachloroethylene (also known as perchloroethylene) and trichloroethylene.

WHAT REMAINS TO BE DONE

The OIG has made previous recommendations designed to help the Office of Solid Waste and Emergency Response manage this challenge. Some of the recommendations remain unimplemented. Specifically, our 2014 report, *EPA Needs to Improve Its Process for Accurately Designating Land as Clean and Protective for Reuse,* recommended that the office improve controls over its guidance, review and reporting of site reuse accomplishments. Until these recommendations are completed, the risk that designations may not be sufficiently protective of human health remains. Our 2013 report, *Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks,* recommended that the office issue final vapor intrusion guidance. We also recommended that the office train EPA and state staff and managers and other parties on the newly updated, revised and finalized guidance document. These recommendations continue to be addressed by the Office of Solid Waste and Emergency Response.

We continue to conduct additional evaluation work related to this challenge and plan to issue additional reports in 2015. Until the Office of Solid Waste and Emergency Response improves its management controls for designating sites as Ready for Anticipated Use and maintains an accurate designation in the long term, and addresses unimplemented OIG recommendations on risks from vapor intrusion, we believe this issue should remain as a management challenge.

CHALLENGE: THE EPA FACES CHALLENGES IN MANAGING CHEMICAL RISKS

CHALLENGE FOR THE AGENCY

The EPA's ability to effectively ensure that the production and use of chemicals does not harm human health or the environment is dependent upon statutory authorities, availability of data required by laws, and the effectiveness of the EPA's program management. Limited authorities and data on chemical toxicities and exposures inhibit the EPA's effective implementation of the laws that regulate chemical use and production. In addition, the EPA's management and oversight of its implementation of existing authorities and initiatives to reduce chemical risks are falling short in several programs.

BACKGROUND

The EPA manages chemical risks under several statutes. Under the Toxic Substances Control Act, the EPA is charged with the responsibility for assessing the safety of commercial chemicals and regulating those chemicals if there are significant risks to human health or the environment. The act places legal and procedural requirements on the EPA before the agency can compel the generation and submission of data on the health and environmental effects of existing chemicals. The act requires that the EPA demonstrate that certain health or environmental risks are likely before the EPA can require companies to develop and provide it with toxicity and exposure information. Even when the EPA has toxicity and exposure information and determines that chemicals pose an unreasonable risk, the agency has had difficulty banning or placing limits on the production or use of chemicals. The EPA has used its authority to limit or ban the use of only five chemicals since the act was enacted.

The EPA has developed a three-part strategy for addressing potential risks from existing chemicals:

- Identify existing chemicals for risk assessment and take actions as appropriate (the EPA's Existing Chemicals Program Strategy).
- Increase opportunities for industry to move toward using safer chemicals (the EPA's Design for the Environment and Green Chemistry programs).
- Increase public access to data on chemicals that have been developed by the EPA and/or provided by industry (the EPA's ChemView initiative).

Chemical risks are also managed under the Federal Insecticide, Fungicide, and Rodenticide Act and the Pollution Prevention Act. The Federal Insecticide, Fungicide, and Rodenticide Act regulates the sale and use of pesticides through the registration and labeling of pesticide products. Pesticides are widely used in agricultural, commercial and household settings and have the potential to pollute air, water and land. The Pollution Prevention Act established a national policy to achieve pollution prevention by reducing industrial pollution at its source. Pollution prevention is defined as reducing or eliminating waste at the source by modifying production processes, promoting the use of non-toxic or less-toxic substances, implementing conservation techniques, and re-using materials rather than putting them into the waste stream.

THE AGENCY'S PROGRESS

In February 2012, the EPA issued its Existing Chemicals Program Strategy to pursue a multi-pronged approach focusing on risk assessment and reduction, data collection, screening, and furthering public access to chemical data and information. While it has made progress implementing this approach to manage Toxic Substances Control Act chemicals, at its current pace, it would take the EPA at least 10 years to complete risk assessments for the 83 chemicals identified in Toxic Substances Control Act work plans.

In 2013, the EPA launched ChemView—an online database with information on more than 1,500 chemicals designed to help businesses, consumers and others make more informed decisions about the chemicals they use. The EPA has also committed that by September 30, 2015, it will have completed more than 250 assessments of pesticides and other commercially available chemicals to evaluate risks they may pose to human health and the environment, including the potential for some of these chemicals to disrupt endocrine systems.

WHAT REMAINS TO BE DONE

To ensure the continued effectiveness of the various chemical programs, the agency will conduct several evaluations over the next 4 years. In FY 2015, the EPA will initiate a Pesticide Registration Review Program. The EPA plans to conduct the Integrated Pest Management in Schools Program Review in FY 2016, and the Endocrine Disruptors Screening Program Review and the Antimicrobial Testing Program Review in FY 2017. To help formulate Toxic Substances Control Act reform legislation, the EPA has set forth six essential reform principles that encompass the EPA's review authority, access to data, timeliness, transparency, safety of sensitive populations, and implementation funding.

The agency is also responding to program management and data availability challenges identified by the OIG and GAO:

- A 2014 OIG evaluation of the implementation of quality management policies in the EPA's Office of Pollution Prevention and Toxics' Risk Assessment Division found that, without a robust quality management system, the EPA risks making environmental and human health policy decisions that rest on a faulty foundation. The agency needs to complete planned internal quality assurance audits, an analysis of staff training needs, and a review quality assurance needs in other related divisions.

- A 2014 OIG report on the implementation of the Design for the Environment Safer Product Labeling Program found that strengthened controls in the program are needed to help consumers better identify safer products. The agency needs to complete a review of partnership agreement compliance, and develop transparent and adequately supported performance measures that capture the program's results.

- A 2014 OIG evaluation on the EPA's Conventional Reduced Risk Pesticide Program found that the number of newly registered reduced risk pesticides may continue to decline unless the EPA can reduce barriers to industry participation. The agency needs to explore fees charged to applicants for reduced risk products when the authorizing statute is reauthorized and use available data to create a standardized measure for non-agricultural uses.

- A 2010 OIG evaluation of the EPA's policies, procedures and authority for managing risks posed by new chemicals found that the EPA had limitations in three processes intended to identify and mitigate new risks—assessment, oversight and transparency. The agency still needs to complete work to establish criteria and procedures for identifying classes of chemicals to undergo assessments for low-level and cumulative exposure assessments, and propose a regulation to establish sunsetting provisions for confidential business information claims.

- *Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals* has been on GAO's High Risk List since 2009 due to concerns about the EPA's ability to conduct credible and timely assessments of the risks posed by chemicals. Specifically, GAO has highlighted the EPA's need to ensure that sufficient resources are dedicated to implement the Toxic Substances Control Act, and its ability to demonstrate progress by its risk assessment and risk reduction initiatives.

The OIG has initiated evaluations to determine the efficacy of the EPA's oversight of the states' implementation of Federal Insecticide, Fungicide, and Rodenticide Act programs and will also evaluate the EPA's oversight of genetically engineered corn registrants.

Given the work that remains—coupled with the size, complexity and significance of chemical risks to human health and the environment—we believe this issue warrants retention as an agency management 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 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 included this as an agency management challenge for 2013, 2014, and again this year.

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 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.

The EPA's workload has continued to increase over the years while its workforce levels have declined. This trend is likely to continue, with downward pressure on budgets.

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. The Office of the Chief Financial Officer also 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 as well as 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 models 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 Office of Management and Budget and receiving and incorporating that office's comments.

WHAT REMAINS TO BE DONE

The EPA continues to test the Table Top approach for conducting workload analysis in the EPA's grants program. The Office of the Chief Financial Officer is in the process of updating its Funds Control Manual to provide program offices and regions with guidance on collecting and using data for workload analysis. While the EPA continues to take action to improve its workload analysis capabilities, agencywide implementation is far from complete and will require a concerted effort by all program managers. 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 2015 and we will continue to monitor agency progress.

CHALLENGE: THE EPA NEEDS TO ENHANCE INFORMATION TECHNOLOGY SECURITY TO COMBAT CYBER THREATS

CHALLENGE FOR THE AGENCY

The EPA's information security challenge stems from five key areas: (1) risk management planning, (2) security information and event management tool implementation, (3) computer security incident response capability and network operation integration, (4) computer security incident response capability relationship building, and (5) audit follow-up to ensure timely and effective actions are being taken to remediate cyber security weaknesses identified. Management oversight underlies all five areas and needs to ensure comprehensive implementation of the information security program throughout the agency; and that offices follow through with executing EPA policies, procedures and practices, as well as taking timely and effective actions to remediate cyber security weaknesses identified.

BACKGROUND

The EPA, like other federal agencies, has adapted to the increase of global Internet usage to become more citizen-focused and enhance its business operations. The EPA's decentralized structure to implement security controls makes it increasingly important for the EPA's executives to adopt information technology and cyber security strategies that ensure these practices are fully integrated throughout the agency.

The EPA previously had significant deficiencies in the following security areas: Continuous Monitoring Management, Configuration Management, Risk Management, Plans of Action and Milestones, and Contractor Systems. While the EPA has made plans to address many of these areas, weaknesses continue to exist. The EPA needs senior leadership emphasis; follow-through to ensure planned corrective actions are taken, are taken timely, and are effective at remediating the cyber security deficiencies identified via various sources including OIG reports; and an oversight structure that ensures implementation of key information security practices. Without such actions, the EPA will continue to not 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

The agency acknowledges that advanced persistent cyber threats pose a significant challenge. The EPA has to prioritize its security funds and make some hard choices on where/how to expend its security resources. Within these budget constraints, the agency indicated it has undertaken a number of actions, including implementing specific automated tools to address cyber security challenges. The following are examples from the EPA's FY 2014 *Agency Financial Report* of activities the agency is conducting to improve cyber security:

- Reviewing users with container administrator access rights and reducing the number of users per program or regional office with this level of access to no more than three.

- Conducting continuous monitoring of privileged user access to the Decision Support System—including roles, responsibilities and procedures—to ensure that the activities of privileged users are appropriate.

- Continuing to expand the Security Information and Event Management tool's field of coverage to encompass as many enterprise assets as possible.

- Tracking remediation activities from audits, continuous monitoring assessments and server vulnerability scans via the Plan of Actions & Milestones Monitoring and Validation Process.

- Conducting monthly vulnerability scans and transmitting the results to Information Security Officers and system owners for remediation according to agency policy.

- Developing role-based training and credentialing programs that encompass all agency roles with significant information security responsibilities. Roles have been documented using standard terminology and definitions of responsibilities.

Based on discussions with the EPA, the agency is finalizing the specific training requirements for the roles with the biggest impact on security and has initiated a workgroup under the Information Security Task Force to review and make recommendations on the plan. The agency is also making plans to implement a new credentialing program for the identified roles, which will also be reviewed by the task force.

Our 2011 report on the key actions EPA needs to take to combat cyber threats highlights the need for more management vigilance to address this challenge. In particular, our audit highlighted the growing concerns and made recommendations that could help the agency strengthen cyber security practices. However, some of those recommendations remain unimplemented, and we continue to find and report on similar weaknesses at other EPA locations. We noted that the EPA should address open recommendations, be proactive in implementing agreed-upon actions without further delay, and take steps to improve cyber security practices throughout the entire agency.

According to our 2014 audit report on training personnel with significant information security responsibilities, the EPA's decentralized structure provides management with the flexibility to tailor information security controls to address local needs. However, the structure proves to be problematic in ensuring that controls are consistently implemented agencywide and that weaknesses are properly reported for remediation tracking. The EPA's leadership must continue to meet the information technology and cyber security challenge head on as it defines ways to protect its infrastructure and the data within the network. Stronger executive leadership—with emphasis on enhancing the information technology management control structure and holding EPA offices accountable for following the structure—is needed. OIG audit work, including our FY 2014 Federal Information Security Management Act report, continues to highlight the need for management to take recommended actions to strengthen information technology security practices pivotal to combating the growing cyber threat.

Without immediate action, the EPA will not have the requisite tools to implement an effective, risk-based security program capable of addressing the most sophisticated threats on the horizon.

WHAT REMAINS TO BE DONE

The EPA acknowledges that advanced persistent threats pose a significant challenge for all federal agencies. Our recent reports identified five areas that need to be addressed to meet cyber security challenges:

1. Establishing methods to control network access and evaluate inactive accounts.

2. Strengthening internal control processes for monitoring and completing corrective actions for agreed-to audit recommendations.

3. Developing a vulnerability remediation program and incorporating needed modifications to the agency's vulnerability management standard operating procedure. This includes implementing oversight to ensure EPA offices correct known vulnerabilities and provide training on the use of vulnerability reporting tools and management reports.

4. Implementing the drafted training requirements for the roles with the biggest impact on information by the end of the fourth quarter of FY 2015 and providing additional training options specific to the federal information security environment and EPA information security roles.

5. Developing and implementing management oversight processes of the audit follow-up process for cyber security deficiencies to provide adequate monitoring to ensure:

    - Corrective actions for all open recommendations are completed by the originally agreed-upon completion dates.

    - Appropriate supporting documentation is maintained and readily available.

    - Data are recorded accurately in the EPA's Management Audit Tracking System.

    - The corrective actions taken actually fix the deficiency that led to the recommendation.

    - The offices continue to use the improved processes.

CHALLENGE: THE EPA CONTINUES TO NEED IMPROVED MANAGEMENT OVERSIGHT TO COMBAT FRAUD AND ABUSE AND TAKE PROMPT ACTION AGAINST EMPLOYEES FOUND TO BE CULPABLE

CHALLENGE FOR THE AGENCY

Recent events and activities indicate a possible “culture of complacency” among some supervisors at the EPA regarding time and attendance controls, employee computer usage, real property management and taking prompt action against employees. 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. Issues we noted recently could lead the public to conclude that there is a lack of commitment to management policies and internal control at the EPA:

- Based on work we did in response to fraud committed over more than a dozen years by an EPA Senior Policy Advisor, we have initiated several audits to determine whether internal control deficiencies exist, and have recently completed assignments on retention pay and passports:

    a. The EPA did not comply with Office of Management and Budget regulations or agency policies for retention pay, resulting in unauthorized bonuses being paid. These bonuses were paid due to management confusion, lack of adequate system controls, and lack of follow-up by managers and Human Resources.

    b. The EPA did not comply with guidance over the control of agency passports. Of the 417 passports reported to be in the agency’s possession, 199 could not be located. This happened because the agency did not adequately maintain its passport database and was not enforcing passport guidance.

- Additional audits are in process regarding hiring practices, time and attendance, overtime, and administrative leave. Our early warning report on administrative leave identified eight employees who had administrative leave totaling 20,926 hours and cost the government an estimated $1,096,868.

In some cases, the agency has not taken prompt action on OIG Reports of Investigation that substantiate employee misconduct, which delays holding employees accountable. Some examples are:

- In June 2013, our Office of Investigations determined that an EPA senior executive employee failed to adequately oversee another EPA employee’s travel vouchers and time and attendance, as the person's responsibilities required. Our investigation revealed that the senior executive approved or authorized the approval of fraudulent time and attendance and travel vouchers for this EPA employee from 2000 to 2010. A Report of Investigation was submitted to the Office of Air and Radiation on April 17, 2014, and the senior executive employee retired on February 28, 2015, without administrative action ever being taken.

- In December 2013, a Report of Investigation was issued to the Office of Administration and Resources Management concerning a senior executive employee who, the investigation found, had engaged in private business activities during official work time and misused government property. During the period of the investigation, this employee received a Presidential Meritorious Rank Award for $33,928. In November 2014, approximately 11 months after we issued the Report of Investigation, the EPA issued a Notice of Proposed Removal of the employee. The employee has been on paid administrative leave since November 2014 and is appealing the decision.

- In November 2013 and May 2014, respectively, EPA management was made aware that two EPA employees, in two separate cases, were viewing and downloading pornography on EPA computers during work hours. The investigations disclosed that the employees spent approximately 1 to 6 hours a day viewing and downloading pornography. On March 24, 2015, both employees received a Notice of Proposed Removal from the EPA for the misconduct. One employee retired and the other is appealing the decision and remains on paid administrative leave.

We previously reported this as a concern in our report, *The EPA Needs to Respond More Timely to Reports of Investigation* (Report No. 2007-M-00003, issued May 7, 2007). In that report, we found that it took the EPA, on average, almost 200 days to initiate disciplinary action when EPA policies required action within 30 days of an OIG Report of Investigation. We also found that the EPA did not take severe enough disciplinary action considering the nature of the misconduct. We made various recommendations, including assuring that disciplinary actions are sufficient and appropriate, and re-evaluating the 30-day reporting requirement. The agency generally agreed with our recommendations, although, the agency has yet to revise its April 1998 "Disciplinary Process Handbook" to consider a timeframe more in line with the length of time necessary to accomplish the EPA's disciplinary process. We noted in 2007 that we would like to see the agency make more of a commitment to dealing with employee misconduct. The agency's response at that time was "to explore modifying our current leadership development program and mentoring and coaching activities to emphasize to supervisors and managers the importance of holding employees accountable for performance and conduct issues." However, lingering issues remain, as noted in the bullets above.

Lastly, one EPA office has impeded OIG investigations. EPA's Office of Homeland Security, which is a component of the Office of the Administrator, is an administratively created component with no law enforcement or investigative authority. Its mission is to serve as the agency's liaison for intelligence and homeland security issues. EPA's Office of Homeland Security continues to impede the OIG by withholding critical information about a variety of activities it conducts—or information it possesses—about matters within OIG purview. EPA's Office of Homeland Security fails to refer certain information to the OIG. Among these matters are employee misconduct, cyber intrusions, and matters which the Office of Homeland Security defines as “intelligence” or national security information, even though OIG employees have the requisite security clearances for access to that information. In addition, EPA’s Office of Homeland Security continues to employ one or more criminal investigators, armed with firearms, despite the fact that the office has no authority to engage in law enforcement or investigations.

THE AGENCY’S PROGRESS

Travel and Time and Attendance Fraud:

- The agency completed internal control assessments over the following sensitive payment areas: executive payroll approvals, employee departures, statutory pay limits, parking and transit subsidy, retention incentives, travel reimbursements exceeding the government rate, and executive travel approvals. The agency will codify these new controls into EPA Travel Policy and affected Travel Delegations 1-17-A, 1-17-B and 1-17-C. Also, the agency will track implementation of these actions and assess progress through the agency’s FY 2015 Office of Management and Budget Circular A-123 process.

- The latest corrective actions regarding the internal control assessments are planned to be completed by September 2015.

MANAGEMENT OF REAL PROPERTY:

- The agency agreed with recommendations in our report, *EPA Needs Better Management of Personal Property in Warehouses* (Report 15-P-0033, issued December 8, 2014), and provided corrective actions with estimated completion dates. All nine recommendations we made are resolved and corrective actions are completed or ongoing.
- The agency indicated it will issue policy guidance for warehouses that requires 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. EPA’s Office of Administration and Resources Management will update its contracts accordingly for the three warehouses it operates (Landover, Research Triangle Park and Cincinnati).
- The agency indicated it will issue guidance requiring EPA Senior Resource Officials to (1) assess annually the operations of their warehouses, to efficiently and effectively manage them and to make needed adjustments to their contracts as necessary; (2) assess annually used and unused square feet, to consolidate warehouse space and the storage of personal property located within the same city or metropolitan area; (3) annually assess the warehouses and the need to store property items, to find costs savings and efficiencies in warehouse 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 residing in those warehouses.
- The agency indicated it will 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 indicated it will develop and disseminate best practices for inventory and storage to warehouse managers at Landover, Research Triangle Park and Cincinnati, and to property

management officers.

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. Additionally, the EPA also needs to increase supervision over computer misuse to prevent unauthorized access attempts and inappropriate misuse, as well as verify results and accomplishments achieved during telework.

The agency should take affirmative measures to communicate its commitment to internal controls. Commitment is not demonstrated by a one-time memo and a new policy. The message must be communicated repeatedly throughout the organization by many means, both formal and informal, to reinforce a strong "tone at the top."

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 improve its state oversight practices to ensure consistency by, for example, establishing the State Program Health and Integrity Workgroup. This inter-agency workgroup is composed of 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.
Direct oversight of delegated and approved Clean Air Act (CAA) programs is the responsibility of each regional office, a role for which the national air program office provides support and assistance when necessary and appropriate The distinction between approved and delegated programs is that the former develop their own rules, which must be consistent with enacted federal rules, whereas the latter do not develop their own rules, but rather implement the federal rules as written. For example, the national air program office works to assist in developing tools and guidance to reduce the SIP backlog, and emphasizes efforts to streamline the process with initiatives like the eSIP program. The agency incorporates state oversight responsibilities into the Annual Commitment System suite of regional performance measures. In response to the 2014 OIG Evaluation of CAA Title V Emissions Fees, EPA is developing a fee oversight strategy and guidance and updating other associated Title V oversight guidance documents. These documents will incorporate the principles and best practices developed by the cross-agency oversight workgroup to ensure appropriate national consistency.

Additional efforts the agency is undertaking to address OIG concerns include:

- Publishing the final revised underground storage tank regulations that provides states that have State Program Approval for the UST program three years from the rule's effective date to submit applications for a reinstatement of their SPA.
- Improving the Drinking Water State Revolving Fund (DWSRF) data quality through increased engagement of the regions and state quarterly reports. These reports will focus on projects with missing data for key fields and up-to-date project data.
- Developing a usable format for sharing TRI data on discharges sent to POTWs. The agency will also develop materials to explain the utility of TRI data to NPDES permit writers and pretreatment program personnel.

Challenge #2—Limited Controls Hamper the Safe Reuse of Contaminated Sites

Agency Response: Cleaning up contaminated sites and ensuring their safe reuse over the long term is an agency priority and central to EPA's mission. EPA, state, and tribal response programs continue to make progress in addressing contaminated sites to protect human health and the environment and support the safe use of properties. The agency believes that it is communicating site risks and remedy information and will continue to seek opportunities to improve communication and facilitate an increased understanding of the cleanup process.

As noted by OIG, EPA's authority and control over contaminated sites varies depending on the statutory authority under which the site is being addressed. EPA's ability to oversee and manage the long-term stewardship of contaminated sites must be based on these differences in its legal authority and on state and local governments' responsibilities. The agency has the most direct control over sites undergoing cleanup through the Superfund program, as it has the authority to order cleanups, provide oversight, seek penalties for non-compliance, and negotiate the cleanup process. Forty-four states are authorized to implement the federal RCRA Corrective Action Program and have the primary decision-making responsibility to ensure safe long-term remedies. In unauthorized states, and where work share arrangements have been made, EPA regions are the lead for ensuring protective long-term remedies. The agency retains enforcement authority at state-delegated sites to ensure the proper cleanup and management of hazardous wastes. The Brownfield Program provides funding to eligible entities to clean up sites. Brownfield sites are cleaned up in accordance with state cleanup levels and oversight. Cleanups under the Underground Storage Tanks Program are typically conducted and overseen through state programs; however, EPA typically conducts the cleanup of leaking underground storage tanks on tribal lands. For many of the cleanup programs, the maintenance for long-term stewardship in many circumstances rests with a state or local government, trust or other private entity.

One of EPA's priority goals is the number of sites ready for anticipated use (RAU). This measure is met when (1) a site has no pathway for human exposures to unacceptable levels of contamination based on current site conditions, (2) all cleanup goals are achieved for media that may affect anticipated land use, and (3) all institutional controls identified as part of the response action are in place. Any determination made for the purposes of the RAU measure is based on the information available at the time the determination is made and may change if site conditions change or if new or additional information is discovered regarding the contamination or conditions on the site. RAU is an internal performance measure, and is not an external designation of any type. As such, parties interested in finding out what uses would be protective for a particular property (e.g., land owners or developers) should rely on site-specific cleanup documents and site-specific institutional controls.

Some of the actions the agency has taken to improve communication and understanding of the RAU measure include the following:

- Clarified the language in our public communication materials to emphasize that the RAU is an internal performance measure and not a reporting of site-specific risk.
- Revised Web applications to remove the RAU designation on Brownfield sites.
- Strengthened existing term and conditions language in Brownfields cleanup grants to ensure that information regarding grantee-funded efforts is updated as part of grant closeout activities.[4]
- Worked with states during the midyear reporting period to ensure that Underground Storage Tanks Program data were properly submitted.
- Worked with regional offices and states on how to document the RAU milestones in the RCRA Corrective Action Program.

On June 11, 2015, the agency released two companion guides to address vapor intrusion risk from both petroleum- and non-petroleum-based subsurface contaminants. The first guide, *Technical Guide for Assessing and Mitigating the Vapor Intrusion Pathway from Subsurface Vapor Sources to Indoor Air,* is intended for use at any site being evaluated by EPA pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), as amended, or the corrective action provisions of RCRA, as amended. This guide is also intended for use by EPA's Brownfield grantees, or state agencies acting pursuant to CERCLA or an authorized RCRA corrective action program where vapor intrusion may be of potential concern. The second guide, *Technical Guide for Addressing Petroleum Vapor Intrusion at Leaking Underground Storage Tank Sites,* is intended for use at any site subject to petroleum contamination from underground storage tanks where vapor intrusion may be of potential concern. Consistent with the agency's commitment to OIG, EPA is actively developing outreach and training materials to ensure all relevant stakeholders are familiar with the two guides and their content. EPA expects the training to be available for delivery in the fall of 2015.

Challenge #3—EPA Faces Challenges in Managing Chemical Risks

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[4] This grantee reported data, however, reflects a snapshot in time towards the end of that grant period, and conditions may change after the grant is closed.

***Agency Response*:** EPA agrees that statutory changes are needed to enable it to successfully meet its goal of ensuring chemical safety now and in the future. The agency has put forward a set of essential principles for reform of chemical management legislation that will modernize and strengthen the tools available in TSCA to increase confidence that chemicals used in commerce are safe (http://www2.epa.gov/assessing-and-managing-chemicals-under-tsca/essential-principles-reform-chemicals-management-0).

However, until legislative reform takes place, EPA has adopted and is following an Existing Chemicals Strategy, released in February 2012, which outlines a comprehensive approach for 1) prioritizing chemicals for risk assessment and risk reduction, 2) increasing the public's access to chemical data, and 3) advancing innovation for safer products and green chemistry. Integral to this approach are the steps of identifying chemicals for assessment, collecting and making effective use of chemical data, and pursuing action to reduce risks posed by existing chemicals found to pose unreasonable risks to human health and the environment.

EPA has taken a number of specific steps to strengthen its chemical safety work within existing authorities. Among the most significant are the following:

- Published an updated list of 90 TSCA Work Plan Chemicals for assessment under TSCA to help focus and direct the activities of the Existing Chemicals Program over the *FY 2014–2018 Strategic Plan* cycle. Significant progress has already been made, with five assessments finalized and seven more expected during FY 2015. In addition, EPA has completed multiple risk management actions, including 133 final Significant New Use Rules for new chemicals and six proposed for existing chemicals since 2012. TSCA Section 6 regulatory actions are in progress for certain commercial and consumer uses of TCE and for the paint removers methylene chloride and n-methylpyrrolidone (NMP).
- EPA is filling information gaps on existing chemicals by taking a range of TSCA information gathering actions (including the Chemical Data Reporting Rule and test rules); expanding electronic reporting of Pre-Manufacture Notices (PMNs) and other submissions under TSCA; improving public access to non-confidential chemical information via the agency's online ChemView database; and by reviewing, and where appropriate, challenging: 1) new submissions under TSCA where confidential business information is claimed in health and safety studies, and 2) all CBI cases submitted prior to August 2010. The ChemView database contains information on almost 10,000 chemicals, including more than 640 declassified chemical health and safety studies.

Improving IRIS. In 2009, GAO identified EPA's Integrated Risk Information System (IRIS) Program as a high risk area needing broad-based transformation to address issues of transparency, program management, and timeliness. The IRIS program currently remains on GAO's High Risk List.

EPA's ability to protect public health and the environment depends on credible and timely assessments of the risks posed by toxic chemicals. EPA is implementing significant program enhancements, including formal intra-agency identification and priority setting of assessments, assessment streamlining, expanded stakeholder engagement, and strengthened peer review.

Due to the 2009 IRIS process change, comments received from the interagency reviews of draft IRIS assessments are now posted on the IRIS website and available for the public to view. From May 2009 (when the new IRIS process went into place) to September 2014, the National Center for Environmental Assessment (NCEA) completed 28 IRIS assessments. These completions include some of the agency's highest priorities such as trichloroethylene, tetrachloroethylene, and dioxin (noncancer). The most recent completions include biphenyl, 1, 4-dioxane, methanol (non-cancer), and Libby Amphibole Asbestos. NCEA has also made significant progress on several other high-profile assessments, including formaldehyde, inorganic arsenic, chromium VI, and benzo[a]pyrene. In addition, EPA's IRIS Program is developing assessments of health effects for chemicals found in environmental mixtures such as polycyclic aromatic hydrocarbons (PAHs), phthalates, and polychlorinated biphenyls (PCBs). These cumulative assessments will increase the number of chemicals addressed by the IRIS Program.

The following enhancements and actions address many of GAO's concerns, including issues related to transparency and development of timely, credible assessments:

- Incorporated the public release of preliminary materials in the early stages of developing an assessment.
- Incorporated public meetings early in the assessment development process to identify available scientific information and any data gaps for the chemical being assessed.
- Increased the use of the IRIS website to share information about assessment schedules and public meetings.
- Issued "stopping rules" to help ensure that IRIS assessments are not delayed by new research findings or ongoing debate of scientific issues after certain process points have passed.
- Strengthened peer review practices, including establishing a standing committee of EPA's Science Advisory Board and the Chemical Assessment Advisory Committee, for reviewing IRIS assessments and evaluating conflicts of interests.
- Partnered with the National Academies' National Research Council (NRC) to sponsor an NRC review of the IRIS assessment development process and the changes being implemented or planned by EPA.
- Increased the number of scientific workshops on critical issues in risk assessment.
- Delivered two reports to Congress, the last of which was submitted in 2013 and described the agency's progress in implementing the improvements in the IRIS process.

In 2014, EPA's regulatory program and regional offices were formally requested to identify their programmatic needs for IRIS assessments and the basis for the need. EPA gathered information and analyzed data to develop a coordinated and comprehensive five-year workplan for IRIS Program activities and assessments, positioning the IRIS Program to be well-targeted to provide timely, state-of-the-art assessments in support of EPA programs. In its 2015 report, GAO recognized this effort as addressing its recommendation that EPA "have a clear strategy that formalizes intra-agency coordination and priority." EPA intends to release a version of this plan to the public by the end of 2015.

Also in 2014, EPA engaged the NRC to identify independent scientific experts (screened for conflicts of interest and bias) to participate in the discussions that occur at IRIS bimonthly public meetings. This action was in direct response to concerns raised by the NRC in its 2014 report regarding uneven stakeholder participation during these meetings. These NRC-identified experts immediately began to broaden the range of perspectives represented at the IRIS bimonthly public meetings. For example, speaking on their own behalf, six such experts attended the February IRIS public science meeting on phthalates to contribute to the scientific discussions of issues among EPA, stakeholders, and the public. This was the first meeting where NRC-identified experts joined EPA and the public to discuss key scientific questions and preliminary assessment materials.

EPA will continue to rely on reviews conducted by respected and independent scientific bodies to confirm that the actions being implemented are effectively improving the IRIS program. Remaining actions the agency plans to take include the following:

- Finalize and release a comprehensive five-year workplan for IRIS assessments based on EPA's regulatory and regional program needs for IRIS assessments.

- Update sections of the IRIS Handbook, including identified procedures and protocols to be used to implement systematic review in the IRIS Program.
- Finalize the archiving of out-of-date pesticide assessments from the IRIS database.
- Finalize a process for updating IRIS assessments.
- Continue to develop and apply enhancements that respond to recent reviews and evaluations of the IRIS Program. Enhancements will continue to be applied to individual assessments based on their state of development (i.e., the full suite of enhancements is being implemented only in those assessments in the beginning stage of development).
- Continue to provide sufficient monitoring and oversight. Progress on milestones is assessed weekly by the IRIS Program Director and the IRIS Management Council. Additional oversight is provided by the newly-formed internal executive review committee to ensure that scientific decisions are discussed by a greater number of senior scientists and managers within NCEA to maintain quality and consistency across assessments.

Challenge #4—Improved Workload Analysis to Accomplish Mission Efficiently and Effectively

Agency Response: EPA agrees on the need to analyze workload, but does not believe that existing federal government workload models would accurately capture EPA functions, provide actionable results, or be a wise investment of scarce resources. Detailed workload models require substantial investments of time and resources, and many EPA functions are highly variable and non-linear.

EPA believes that the primary benefit of workload analysis is to better understand what organizations' employees are actually doing to fulfill certain functions. What are the major tasks that take the most time, and why do they take that much time? EPA plans to continue to use workload analysis to investigate major, replicable processes to help managers plan and prioritize processes and procedures and target streamlining and Lean efforts.

Each year during the budget formulation process, EPA must carefully weigh how to fund areas of increased priority, workload and need. In recent years, EPA has had to look at how to provide extra resources for developing needed air rules and meeting the increased need for legal expertise to manage twice as many outside lawsuits and provide counsel to program offices to help craft more legally defensible agency actions. Conversely, the agency must also continually look for reductions elsewhere. In almost all of these cases there are no precise models that provide an answer on how much is needed, and the agency must work within the limits of its budget.

EPA continues to focus analyses on process-oriented functions (such as permits, grants, funds control, or IT security) primarily to better understand workflows, processes, and procedures and identify the most time-consuming tasks, duplication, procedural roadblocks, management challenges and streamlining opportunities. EPA has also focused on functions that cut across programmatic areas. To engage program officials, it is crucial to make clear that the exercise is not designed to re-allocate resources or develop hypothetical total workforce needs, but rather is aimed at better understanding what needs to be done to fulfill a particular function. EPA will continue to use the lessons learned from its survey of 1,000+ frontline managers, benchmarking of 23 other agencies' efforts, and reviews of water and air permitting, grants, and IT security functions.

In FY 2015, EPA incorporated OMB comments and additional OIG suggestions into its updated Funds Control Manual. The new Manual includes a workload analysis section with guidance on how offices can use it to better understand their programs' operations and plan future Lean and other streamlining efforts. Additionally, the agency used workload analysis to streamline project officers' grant oversight assignments and to restructure its IT security program.

Challenge #5—Enhance Information Technology Security to Combat Cyber Threats

***Agency Response*:** EPA acknowledges that advanced, persistent threats continue to pose a significant challenge for all federal agencies and has taken steps to ensure its information technology and cyber security practices are fully integrated throughout the agency. The following summarizes the agency's progress in addressing growing concerns identified by OIG:

- **Establishing methods to control network access and evaluate inactive accounts.** The agency is establishing methods to ensure all accounts are proactively managed, beginning with inactive accounts and accounts with elevated privileges. This approach will enhance existing processes and will include new, repeatable processes to manage, correct and report on all accounts. Additionally, the agency is conducting an inventory of all accounts to consolidate, refine, and standardize processes for assigning and removing inactive accounts. The intent is to minimize the potential impact of cyber threats to systems and/or applications(s) hosted in the agency's network environment. Additionally, the agency is working to improve the integration of personnel actions (e.g., hiring, transfer, termination) with account management.
- **Strengthening internal control processes for monitoring and completing corrective actions for agreed-to audit recommendations.** The agency recognizes the importance of ensuring that corrective actions in response to OIG recommendations are completed in a timely manner and tracked through the agency's tracking systems (MATS and OATS). The agency continues to refine established procedures for communicating, disseminating and resolving corrective actions to improve its audit follow-up practices.
- **Developing a vulnerability remediation.** The agency recognizes that vulnerabilities pose significant risk to the agency and understands the importance of remediating those vulnerabilities in a timely manner. The agency's strategy is to provide security practitioners the necessary guidance, tools and oversight to address vulnerabilities effectively and in a time frame consistent with the associated risk impacts. In the third quarter of FY 2015, the agency initiated a review of the vulnerability management processes. The recommendations from the review are being used to develop a vulnerability management CONOPS that will strengthen the agency's processes and procedures in remediating weaknesses.
- **Implementing the drafted training requirements for the roles with the biggest impact on information.** The agency recognizes the importance of security personnel in the overall protection of information assets. The agency's approach is to develop a comprehensive training program that defines skills and training requirements that correlate with various information security roles. The training program will utilize the agency's internal and external training resources. In the first quarter of FY 2015, the agency initiated a Task Force to make information security program improvement recommendations. The Task Force's recommendations for implementing the draft training framework were approved and are being implemented. For each defined security position, the agency will provide role-based training that employees must obtain or maintain to keep their positions.
- **Developing and implementing processes for management oversight of audit follow-up.** EPA agrees with OIG's assessment and continues to streamline audit follow-up management for cyber security and other deficiencies to provide adequate monitoring. 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. EPA will improve access to supporting documentation and ensure the data are properly and accurately recorded in MATS and that corrective actions taken actually address and correct the deficiency.

Challenge #6—Improved Management Oversight to Combat Fraud and Abuse in Time and Attendance, Computer Usage, and Real Property Management

***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, EPA has made considerable efforts to strengthen internal controls over T&A reporting and employee travel. The agency revised its T&A procedure, enhancing 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, PeoplePlus. During the past three years, EPA has audited 100 percent of its travel vouchers prior to payment to confirm all expenses over $75 are verified by a receipt and that expenses are consistent with regulations and policy.

To address OIG's T&A concerns, the agency also enhanced its payroll system, PeoplePlus, with new controls. The system now:

- Generates automatic system reminders for employees, managers and supervisors to submit and approve time cards on time.
- No longer supports an "approve all" feature for managers, forcing them to review every employee's T&A individually.
- Automatically monitors and requires documentation when an employee's time is entered and/or approved by alternates for three or more pay periods per quarter.
- Verifies that employees enter their time correctly, timekeepers sign off, and supervisors certify.
- No longer allows default pay and mass approval, ensuring that only employees who are in a legitimate pay status receive their pay.
- Includes a leave management feature that allows employees and supervisors to better manage leave requests.

To address employee travel, the agency:

- Created a new framework for approval of executive travel and payroll.
- Created new controls for high-dollar high-risk travel and above-per-diem lodging.
- Strengthened travel-related policies on premium class travel areas, including the 14-hour rule, "mission critical" travel, and travel made with reasonable accommodations considerations.
- Developed a checklist, located on EPA's intranet, to guide travel approvers.
- Implemented a new travel system, Concur, which applies the new controls and policies alongside the new system, and offers associated training.

Regarding real property management, specifically concerns over the management and oversight of property in EPA's headquarters' main warehouse in Landover, Maryland, the agency has issued and amended various policy guidance. To address these concerns, EPA:

- Revised standard operating procedures for warehouse operations and property management.
- Developed a security plan that covers surveillance and CCTV footage retention.
- Discontinued document shredding services to reduce document susceptibility to fraud and abuse.
- Expanded requirements for solicited warehouse inventory and management services.
- Established regular site visits by senior management to ensure internal controls are effective and in compliance with operating policies and procedures.

PROGRESS IN ADDRESSING FY 2015 WEAKNESSES AND SIGNIFICANT DEFICIENCIES

In FY 2015, EPA continued to address its agency-level internal control weaknesses and significant deficiencies. This section discusses the weaknesses and significant deficiencies EPA resolved in FY 2015, as well as those that are new or for which corrective actions are still underway.

Material Weakness

Capitalized 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 EPA plans to perform process improvements using Lean techniques; update and clarify guidance, including the Personal Property Policy and Procedures Manual; and strengthen procedures for the accounting, depreciation, and valuation of software projects. In FY 2015, the Deputy Chief Financial Officer required Assistant and Regional Administrators to certify that the approved payments for the cost of in-development software are in accordance with agency policy. The agency will review the certifications to determine whether additional action is required.

The projected closure date for this material weakness is FY 2018.

Agency Weaknesses

Electronic Content Management at EPA: e-Discovery, Email Records and FOIA

Inconsistencies in how the agency stores, maintains, and assesses electronic content have begun to impact critical processes related to electronic records management. The slow transition from paper-based records management to electronic records management is increasing costs and reducing agency efficiency. The challenges pertain to electronic content retrieval, electronic records management, and email retention.

To implement effective changes to content management practices within the agency, corrective actions must be addressed enterprise-wide. An enterprise approach will allow for integration with the agency's lines of business and replace current piecemeal or ad hoc approaches. To accomplish this, the agency is implementing a system for the effective management of its information assets that includes a governance structure for content management and the selection of enterprise tools as well as the formulation of new policies for content-management responsibilities and processes.

The agency has taken the following corrective actions to address this weakness:

- Developed interim procedures to address the storage and preservation of electronically stored information.
- Launched two pilot projects to evaluate tools for e-Discovery and the management of email records.
- Updated the Records Management Policy to include electronic communications management and to address Instant Messaging (IM) and the use of personal email accounts to conduct agency business.
- Developed Email Record Tool roll out in conjunction with Enterprise Email Platform standardization.

The agency has developed a corrective action plan that focuses on three subareas of electronic content management: FOIA, email records and E-Discovery. Additionally, the agency has developed a validation strategy that will assess the effectiveness of various activities undertaken to address the identified weakness. The validation strategy will consist of processes that allow the agency to review and determine whether policies and tools are being implemented and used.

The projected closure date for this agency-level weakness is FY 2017.

Streamlining EPA's Process for Developing Chemical Assessments Under IRIS

In its January 2009 High Risk Series, GAO identified "Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals" as a high-risk area. GAO's report stated that the agency needs to take actions to increase the transparency of the Integrated Risk Information System (IRIS) and enhance its ability under the Toxic Substance Control Act to obtain health and safety information from the chemical industry.

The agency released a new IRIS process for completing health assessments. The goals of the process were to strengthen program management, increase transparency, and expedite the timeliness of health assessments. The agency's National Center for Environmental Assessment has since completed 27 assessments, which include some of the agency's highest priorities, such as trichloroethylene, tetrachloroethylene and dioxin (noncancer). The agency has made significant progress on several other high-profile assessments, such as formaldehyde, inorganic arsenic, chromium VI, methanol, benzo[a]pyrene and Libby asbestos. In addition, the EPA's IRIS program is developing assessments of health effects for chemicals found in environmental mixtures such as polycyclic aromatic hydrocarbons, phthalates and polychlorinated biphenyls. These cumulative assessments will increase the number of chemicals that are addressed by the IRIS program and are based upon the agency's expressed needs.

In 2014, EPA's regulatory programs (air, water, toxics and Superfund) and regional offices were asked to identify their programmatic needs for IRIS assessments; based on the needs identified, the IRIS program will develop a comprehensive and coordinated five-year work plan. The following enhancements and actions address many of GAO's concerns, including issues related to transparency and development of timely and credible assessments:

- Incorporated public meetings early in the assessment development process to identify available scientific information and any data gaps for the chemical being assessed.
- Increased the use of the IRIS website to share information about assessment schedules and public meetings.
- Issued "stopping rules" to help ensure that IRIS assessments are not delayed by new research findings or ongoing debate of scientific issues after certain process points have passed.
- Strengthened peer review practices, including establishing a standing committee of EPA's Science Advisory Board and the Chemical Assessment Advisory Committee, for reviewing IRIS assessments and evaluating conflicts of interest.
- Partnered with the National Academies' National Research Council to sponsor an NCR review of the IRIS assessment development process and the changes being implemented or planned by EPA.
- Drafted the 2014 Report to Congress that describes the agency's progress and plan for implementing the 2014 NRC recommendations.

EPA will continue to rely on reviews conducted by respected and independent scientific bodies to confirm that actions being implemented are effectively improving the IRIS program.

The projected closure date for this agency-level weakness is FY 2017.

Strengthening the Agency's Management and Accounting of Personal Property and Software

In FY 2014, the EPA declared Strengthening the Agency's Property Management System an agency-level weakness. Property management has been an audit issue for the past several years. Some of the challenges the agency has faced are: procedures for capitalizing internal-use software do not produce required results in Compass;

coordination of processes for managing inventory across offices needs improvements; and, guidance related to the assignment of accounting codes for property such as laboratory equipment is outdated and unclear. While the agency has made several critical improvements to the management of property, there still exist an opportunity to clarify and improve how we manage and account for personal property and software.

To address this weakness, the EPA will perform process improvements using Lean techniques; update and clarify guidance, including the *Personal Property Policy and Procedures Manual*; and strengthen procedures for the accounting, depreciation, and valuation of software projects.

In FY 2014, the agency completed corrective actions related to property management oversight. For instance, assets identified and acknowledged as unaccounted for were entered into the property management system (Maximo) and verified electronically. Additionally, the agency required all Senior Resource Officials to certify semi-annually that assets are updated in accordance with EPA's property bulletin No. 14-004.

The remaining corrective actions for this agency-level weakness are expected to be implemented and completed by 2018.

Significant Deficiencies

EPA's Internal Controls over Accountable Personal Inventory Process Needs Improvements

During the FY 2014 Financial Statement Audit, OIG stated 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 fiscal 2014.

To address this significant deficiency, the agency updated inventory records according to EPA's Property Bulletin No. 14-004, identified and recorded the missing personal property records into Maximo, and required that Board of Survey reviews occur more frequently.

The agency has completed all corrective actions for this significant deficiency.

EPA Did Not Capitalize Lab Renovations Costs

During the FY 2014 Financial Statement Audit, OIG found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations.

To address this significant deficiency, the agency made modifications to the EAS system for the lab renovations costs and reversed the JV in the accounting system.

The agency has completed all corrective actions for this significant deficiency.

EPA Did Not Properly Reconcile Accounts Receivable

During the FY 2014 Financial Statement Audit, OIG found that the EPA did not properly reconcile accounts receivable subsidiary ledger to the general ledger. The EPA improperly treated a general ledger error as an addition to the detail receivables and combined federal and non-federal receivables in the reconciliation.

To address this significant deficiency, the agency corrected many of the variances from the prior year in the third and fourth quarter of FY 2014. The remaining variances were corrected in the second quarter of FY 2015. Additionally, errors related to how the agency handled principal interest, handling charges and penalties were completed during subsequent reconciliations. The agency has designed a framework that provides timely and accurate reconciliations of federal and non-federal accounts receivables.

The agency has completed all corrective actions for this significant deficiency.

Unneeded Funds Not Deobligated Timely
During the FY 2014 Financial Statement Audit, OIG stated that the EPA did not deobligate or notify appropriate offices to deobligate unneeded funds totaling $4.4 million.

To address this significant deficiency, the agency designed a new unliquidated obligation desktop tool that allows the agency to enhance its monitoring of funds.

The agency has completed all corrective actions for this significant deficiency.

EPA Needs to Document Management's Approval for Authorizing Changes to the Accounting Posting Module
During the FY 2014 Financial Statement Audit, OIG stated that the EPA does not officially document management's approval when making updates to the recording of general ledger account activity within the Compass accounting posting module.

To address this significant deficiency, the agency implemented a procedure to document, by way of email, management's approval for authorizing changes to the accounting posting module.

The agency has completed all corrective actions for this significant deficiency.

EPA Needs to Consistently Enforce Restricted Entry Access to Server Rooms
During the FY 2014 Financial Statement Audit, OIG found that personnel were granted access to server rooms without proper approval and that unauthorized personnel had access to a server room door.

The agency has completed all corrective actions for this deficiency.

EPA Needs to Ensure that Information Technology Assets are Properly Monitored and Secured
During the FY 2014 Financial Statement Audit, OIG found that a card reader located at the Las Vegas server room did not consistently log or document alerts of attempts by unauthorized users to gain access, while server racks within the Breidenbach Center telecommunication room and the National Computer Center computer room were unlocked.

To address this significant deficiency, the agency's Las Vegas Finance Center completed recertification of all IT related security controlled area doors. Additionally, server room access control standard operating procedures were modified to reflect new restrictions.

The agency has completed all corrective actions for this significant deficiency.

EPA Needs to Establish Procedures for Protecting Information Technology Assets from Environmental Threats
During the FY 2014 Financial Statement Audit, OIG found that the EPA lacks processes to enable personnel to monitor environmental factors that are used to protect IT assets.

To address this significant deficiency, the agency added humidity sensors in the server rooms, relocated server room water sensors to a more appropriate location, and established 24-hour monitoring of temperature and humidity levels in server rooms.

The agency has completed all corrective actions for this significant deficiency.

Cincinnati Finance Center Should Clear Suspense Transactions Timely
During the FY 2014 Financial Statement Audit, OIG stated that the Cincinnati Finance Center is not clearing

collection and disbursement transactions from the federal budget clearing (suspense) account within 60 days after posting.

To address this significant deficiency, the agency performed regular follow-up with project officers stressing the importance of timely payment approval/disapproval. Also, the agency continues to remind all SROs to monitor outstanding invoices through the IA Approval Performance Report in an effort to reduce/eliminate delinquency.

The projected closure date for this significant deficiency is FY 2016.

EPA Property Management System Does Not Reconcile to its Accounting System Compass

During the FY 2014 Financial Statement Audit, OIG indicated 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).

To address this significant deficiency, the agency improved business processes and verified that capital assets are updated in the agency's Property Management System. Also, the agency resolved the differences between Compass and Maximo as required by the Resource Management Directive System. The differences were partially due to data conversion from IFMS to Compass.

The remaining corrective action for this significant deficiency is for the agency to resolve the software overhead voucher differences between FAS & GL.

The projected closure date for this significant deficiency is FY 2016.

Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to Finance Center

During the FY 2014 Financial Statement Audit, OIG found that the EPA and the Department of Justice did not timely forward 40 accounts receivable source documents totaling $61.7 million to finance centers for recording in the agency's financial system.

To address this significant deficiency, the agency instructed personnel on the importance of providing timely source documents to the Finance Center and updated guidance to require originating offices to timely forward the Superfund Accounts Receivable Control Forms to the Finance Center. Additionally, the agency continues to have quarterly meetings with DOJ to discuss changes in accounts receivable procedures and guidance.

The agency will follow up to ensure that EPA forwards the documents timely.

The projected closure date for this significant deficiency is FY 2016.

Improvements Needed in Controls for Headquarters Personal Property

During the FY 2010 Financial Statement Audit, the OIG identified improvements needed in the controls for Headquarters personal property. During the FY 2010 Financial Statement Audit, the OIG identified improvements needed in the controls for personal property at the EPA headquarters. The agency acknowledged several significant challenges related to tracking personal property for which headquarters is accountable.

The agency continues to make progress in carrying out the corrective actions for this significant deficiency and in strengthening the overall management of the personal property program. To date, the agency has completed all but one of the corrective actions required to close this deficiency. The remaining corrective action includes developing mandatory property training for all managers and revising the current property policy and procedures manual.

The agency is on schedule to implement a new property tracking system that will include individual, as well as location, tracking features. This system will also include contract property tracking features (implementation of the new system is contingent upon the upgrades to the financial system).

The projected closure date for this significant deficiency is 2016.

EPA Should Improve Controls over Expense Accrual Reversals

During the FY 2012 Financial Statement Audit, the OIG declared that the agency did not reverse approximately $18 million of FY 2011 year-end expense accruals in FY 2012.

The agency is updating its policy for recognizing year-end accruals to require reconciliation of accruals and accrual reversals.

The projected closure date for this significant deficiency is FY 2017.

Misstating Earned and Unearned Revenue for Superfund Special Accounts

During the FY 2015 Financial Statement Audit, OIG stated that the EPA misstated $226,336,107 of earned and unearned revenue, and incorrectly recorded $5,310,918 of Superfund accounts receivable as earned rather than unearned revenue.

To address this significant deficiency, the agency changed its accounting practices to record special accounts settlement proceeds and established procedures to ensure that special accounts funds are correctly recorded.

The agency has completed all corrective actions for this significant deficiency as of October 2015 and will report it as closed in FY 2016.

Reconciling Property and Financial Systems

During the FY 2015 Financial Statement Audit, OIG found that the EPA did not reconcile $356.4 million of capital equipment within Maximo (a property management system) to relevant financial data within Compass.
This significant deficiency was also identified during the FY 2014 Financial Statement Audit.

The agency currently has a corrective action plan to address this significant deficiency and will continue to research and resolve differences between Compass and the property management system. The projected closure date for this significant deficiency is FY 2016.

Resolving Long-standing Cash Differences with the U.S. Treasury

During the FY 2015 Financial Statement Audit, OIG stated that the EPA did not resolve long-standing cash differences of $2.6 million between EPA and U.S. Treasury cash balances.

To address this significant deficiency, the agency will work to resolve all internal cash differences to ensure that the differences are resolved with the Treasury. The projected closure date for this significant deficiency is FY 2016.

Cincinnati Finance Center Should Clear Suspense Transactions Timely

During the FY 2015 Financial Statement Audit, OIG stated that the Cincinnati Finance Center (CFC) is not clearing transactions from the federal budget clearing (suspense) account within 60 business days after posting.

This significant deficiency was also identified during the FY 2014 Financial Statement Audit. The agency currently has a corrective action plan to address this significant deficiency and will continue to stress the importance of clearing items out of the suspense account in a timely manner. The projected closure date for this significant deficiency is FY 2016.

Reviewing Cancellation of Accounts Receivable and Collection Transactions
During the FY 2015 Financial Statement Audit, OIG stated that the EPA canceled 72 accounts receivable and 113 collection transactions without proper reviews of the justification and authorizing approval in Compass.

To address this significant deficiency, the agency has reviewed all of the cancellations to ensure that the appropriate supporting documentation is included in Compass and in hard copy file, as appropriate. Also, the agency will review its existing separation of duties policy to ensure that it is being implemented as designed. The projected closure date for this significant deficiency is FY 2016.

Recording Accounts Receivable from a Superfund Judgment
During the FY 2015 Financial Statement Audit, OIG stated that the EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree. Federal accounting standards require agencies to record accounts receivable based on legal provisions.

To address this significant deficiency, the agency will continue to record the accounts receivable as provided in legal documents and will thoroughly review documents to ensure receivables are established for the appropriate amounts.

The agency has completed all corrective actions for this significant deficiency as of October 2015 and will report this significant deficiency as closed in FY 2016.

Reconciling Accounts Receivable Subsidiary Ledgers and General Ledgers
During the FY 2015 Financial Statement Audit, OIG stated that the EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. The EPA did not correct reconciliation variances, separately reconcile federal and non-federal receivables, or develop accurate detail reports.

To address this significant deficiency, the agency designed a framework that provides separate timely and accurate reconciliations of federal and non-federal accounts receivable. Implementation of the design is dependent on version enhancements to Compass. The projected closure date for this significant deficiency is FY 2017.

Overbilling a State for a Superfund State Contract
During the FY 2015 Financial Statement Audit, OIG stated that the EPA overbilled a state $1,139,306 for one Superfund State Contract. EPA guidance directs regional finance and program offices to reconcile Superfund State Contract (SSC) financial data by site.

To address this significant deficiency, the agency plans to issue new SSC model provisions to include an updated final financial reconciliation provision and new language on periodic financial reviews. This action will help reinforce to states and regions the need to carefully track site-specific remedial action costs and state cost share payments. The projected closure date for this significant deficiency is FY 2016.

Overseeing User Access to the Payment Tracking System
During the FY 2015 Financial Statement Audit, OIG stated that the EPA assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring the system had documentation covering key account management procedures.

To address this significant deficiency, the agency plans to implement an internal control process for transferring the management of an application's user access to the appropriate office. Additionally, the agency will conduct an inventory of systems and create/update supporting access management documentation for each application. The agency will develop a detailed corrective action plan that outlines the major milestones and completion dates to address OIG recommendations.

Complying with Controls for Financial and Mixed-Financial Applications
During the FY 2015 Financial Statement Audit, OIG stated that the EPA's financial and mixed-financial applications complied with 11 of the 28 required account management controls selected for review, or 39 percent.

To address this significant deficiency, the agency will review its account management documentation and make any necessary updates/additions. The agency will develop a detailed corrective action plan that outlines the major milestones and completion dates to address OIG recommendations.

Managing HelpDesk Procedures for Distributing Passwords
During the FY 2015 Financial Statement Audit, OIG stated that the EPA needs better HelpDesk procedures for distributing passwords to users locked out of the agency's financial systems.

To address this significant deficiency, the agency will revise its procedures to include an encrypted email to users in order to validate the user before the distribution of passwords. The agency will develop a detailed corrective action plan that outlines the major milestones and completion dates to address OIG recommendations.

Improving a Travel System's Credit Card Data Protection
During the FY 2015 Financial Statement Audit, OIG stated that the EPA's Concur travel system (1) allows users more access to credit card information than users need, and (2) lacks required independent reviews of the Concur service provider's compliance with Payment Card Industry Data Security Standards.

To address this significant deficiency, the agency will work with the Concur service provider to evaluate the feasibility of limiting visibility of credit card numbers for personnel with the Federal Agency Travel Administrator role. Additionally, the agency will inform the GSA that the required assessments necessary to meet the Payment Card Industry Data Security Standard are not being performed. The projected closure date for this significant deficiency is FY 2016.

Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Property Management	1	0	0	0	1
Total Material Weaknesses	1	0	0	0	1

Summary of Management Assurance

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) (A-123 Appendix A)						
Statement of Assurance	Qualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Property Management	1	0	0	0	0	1
Total Material Weaknesses	1	0	0	0	0	1

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
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 substantial non-compliance noted	No lack of substantial non-compliance noted
2. Accounting Standards	No lack of substantial non-compliance noted	No lack of substantial non-compliance noted
3. USSGL at Transaction Level	No lack of substantial non-compliance noted	No lack of substantial non-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" 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 2014**	**Change**
Square Footage (SF)	5,906,847	5,671,794	(235,053)

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 2014 was 5,671,794 SF, a reduction of 235,053 SF from the baseline.

Reporting of Operation & Maintenance Costs-Owned and Direct Lease Buildings			
	FY 2012 Reported Cost	**FY 2014**	**Change**
Operations & Maintenance Costs	$1,938,736	$1,918,631	($20,106)

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

(unaudited)

The Schedule 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"

This represents the authority that EPA was given to spend by law and the status of that authority. In this section:

- **"Total Resources"** represents amounts approved for spending by law.
- **"Less Amount Not Agreed to be Spent"** represents amounts that EPA was allowed to spend but did not take actions to spend.
- **"Less Amount Not Available to be Spent"** represents the amount of total budgetary resources that were not approved for spending.
- **"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"

This identifies the major categories for which EPA made payments during the year. In this section:

- **"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.
- **"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".

United States Environmental Protection Agency
Schedule of Spending
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

	2015	2014
What Money is Available to Spend?		
Total Resources	$ 14,474,129	$ 14,638,896
Less: Amount Not Agreed to be Spent	3,941,984	894,141
Less: Amount Not Available to be Spent	47,466	2,068,195
Total Amount Agreed to be Spent	$ 10,484,679	$ 11,676,560
How was the Money Spent?		
Environmental Programs and Management		
Contracts	$ 714,345	$ 785,725
Grants	222,053	232,514
Payroll	1,427,640	1,528,866
Rent, Communications and Utilities	39,494	29,707
Structures and Equipment	191,034	184,390
Travel	22,548	18,819
	$ 2,617,114	$ 2,780,021
Leaking Underground Storage Tanks		
Contracts	$ 4,909	$ 3,069
Grants	86,006	92,469
Payroll	7,315	8,001
Rent, Communications and Utilities	71	177
Structures and Equipment	639	666
Financial Transfer	-	1,000,000
Travel	233	274
	$ 99,173	$ 1,104,656
Superfund		
Contracts	$ 793,344	$ 904,521
Grants	92,189	93,383
Payroll	384,381	410,303
Rent, Communications and Utilities	18,397	17,201
Structures and Equipment	53,992	55,325
Travel	9,395	8,266
	$ 1,351,698	$ 1,488,999
Science and Technology		
Contracts	$ 272,039	$ 288,222
Grants	77,513	75,557
Payroll	325,956	346,761
Rent, Communications and Utilities	18,999	14,304
Structures and Equipment	72,994	71,371
Travel	5,594	4,984
	$ 773,095	$ 801,199
State and Tribal Assistance Grants		
Contracts	$ 80,796	$ 35,128
Grants	4,210,342	4,147,445
Payroll	606	266
Rent, Communications and Utilities	23	33
Structures and Equipment	34	88
Travel	32	2
	$ 4,291,833	$ 4,182,962
Other Funds		
Contracts	$ 1,178,177	$ 1,220,443
Grants	3,140	23,931
Payroll	119,766	227,065
Rent, Communications and Utilities	1,695	1,047
Structures and Equipment	45,649	54,430
Travel	2,339	2,005
	$ 1,350,766	$ 1,528,921
Total Spending	$ 10,483,679	$ 11,886,758
Amounts Remaining to be Spent	1,000	(210,198)
Total Amounts Agreed to be Spent	$ 10,484,679	$ 11,676,560

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)[5], 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.

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.*

In October 2014, OMB issued revised implementing guidance to federal agencies in the form of OMB memorandum M-15-02, which directs agencies to take the following steps:

1) Review all programs and activities to identify those that are susceptible to significant improper payments, defined as gross annual improper payments exceeding 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[6], 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.

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[5] From this point, unless otherwise indicated, the term "IPIA" denotes "IPIA, as amended by IPERA and IPERIA."
[6] A*pplicable discounts* are "only those discounts where it is both advantageous and within the agency's control to claim them."

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.

In this report, it should be noted that Tables 1 through 7 correspond to the tables required in OMB Circular A-136, and Figures A through H provide additional data collected by the agency to demonstrate results of its improper payments program.

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. Since the definition of an improper payment includes payments made to federal employees, the agency began incorporating the payroll and travel payment streams into its improper payment reporting starting in the FY 2014 reporting cycle, at which time the agency also began reporting on purchase cards. Payroll, travel, and purchase cards were all determined to be at low risk of significant improper payments.

OMB guidance permits agencies to adopt a three-year risk assessment cycle for low risk programs. However, EPA updated and expanded its qualitative risk assessments in FY 2015 to address an OIG recommendation stemming from the following audit report, "EPA Complied with Improper Payment Legislation, But Opportunities for Improvement Exist," dated May 1, 2015. The agency updated and improved the quantitative risk assessments, providing a more complete and accurate reflection of the risks associated with each payment stream. For FY 2015 reporting, the agency introduced qualitative risk assessments in grants, contracts, and commodities, while continuing to perform quantitative assessments in these areas.

The qualitative risk assessments developed by OCFO require an evaluation of 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 risk of the payment stream in accordance with results from prior year improper payment work.

The qualitative risk assessments consist of a questionnaire and an integrated scorecard to evaluate a variety of risk factors while also identifying internal controls designed to mitigate those 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 10 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.

By contrast, quantitative risk assessments involve testing expenditures to identify the potential for significant improper payments. For FY 2015 reporting, the agency performed both quantitative and qualitative risk assessments for grants, contracts, commodities, and payroll, while conducting statistical sampling in its risk-susceptible programs — CWSRF, DWSRF, and Hurricane Sandy. 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.

For FY 2015 reporting, the majority of EPA's payment streams were determined to be at low risk of significant improper payments. The agency's three risk-susceptible programs — CWSRF, DWSRF, and Hurricane Sandy — remain below the statutory thresholds. However, the SRFs are deemed risk-susceptible by OMB, and Hurricane Sandy is automatically considered risk-susceptible by statute. 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. Figure A, "Risk Assessment Results," summarizes the status of the agency's risk assessments for all payment streams.

Figure A: Risk Assessment Results

Payment Stream	Type of Risk Assessment	Scope Period for Reporting	Low Risk	Risk-Susceptible	High Risk
Grants	Both (1)	CY 2014 (2)	X		
Contracts	Both	FY 2015	X		
Commodities	Both	FY 2015	X		
Payroll	Both	FY 2014	X		
Travel	Qualitative	FY 2014	X		
Purchase Cards	Qualitative	FY 2014	X		
CWSRF	Statistical sampling	FY 2014		X	
DWSRF	Statistical sampling	FY 2014		X	
Hurricane Sandy	Statistical sampling	FY 2014		X	

(1) "Both" refers to a combination of quantitative and qualitative risk assessments.
(2) In this table, "CY" refers to "Calendar Year."

A) Grants

The agency's grants payment stream remains at low risk of improper payments. The preceding calendar year is the basis for improper payments reporting; thus, for the FY 2015 improper payments reporting cycle, the agency is publishing the results of recipient reviews closed during calendar year 2014.

Each year, the Office of Administration and Resources Management's (OARM's) Office of Grants and Debarment (OGD) conducts advanced monitoring reviews on recipients with active grant awards. Transaction testing is performed, and the results obtained constitute a quantitative risk assessment for improper payments. OGD selects the recipients via random attribute sampling and stratifies the recipients into five categories: state governments, local governments, tribes, universities, and nonprofits. A proportionate number is randomly selected from each group for review. Grants Management Offices may substitute a minimal number of recipients that they believe may be at a higher risk of non-compliance, as long as both recipients originate from the same category. Using a standard protocol, an onsite or desk review is performed, and each recipient's administrative and financial management controls are examined. These reviews include an examination of the recipient's administrative policies and procedures in addition to the testing of a sample of grant funds drawn for the period.

When the advanced monitoring review is closed, results from transaction testing are finalized. Some reviews cannot be closed during the calendar year in which they were originally selected because recipients have appellate rights whenever the agency questions costs, which may require time to resolve. For example, the review of a recipient selected for Calendar Year 2012 may not be finally closed until Calendar Year 2014 due to compliance issues requiring resolution, including unresolved questioned costs. Therefore, improper payment results are reported during the calendar year in which the reviews are closed. For Calendar Year 2014, the agency closed 99 recipient reviews. Of these closed reviews, 26 recipients were randomly selected in Calendar Year 2014; 50 recipients were selected in Calendar Year 2013; 5 were selected in Calendar Year 2012; and 18 were selected in Calendar Year 2011 and prior years. Collectively, these 99 reviews inform the improper payment results presented in Figure B, "EPA's Review of Grantees."

Figure B: EPA's Review of Grantees (1)

Improper Payment Results	CY 2010 Review	CY 2011 Review	CY 2012 Review	CY 2013 Review	CY 2014 Review (2)
Total grant outlays (non-SRFs)	n/a	$2,283,853,375	$2,495,597,052	$1,926,031,850	$1,766,026,922
Total dollars tested	$21,242,755	$118,531,428	$17,035,826	$69,707,428	$19,327,767
Improper payments (unallowable costs)	$7,110	$610,131	$64,136	$68,328	$106,150
Recovered costs	$7,110	$465,462	$64,136	$68,328	$106,150
Error rate	0.033%	0.515%	0.376%	0.098%	0.549%
Estimated improper payments	n/a	$11,761,845	$9,395,354	$1,887,918	$9,695,488

(1) In this table, "CY" refers to "Calendar Year."

(2) Values reported in this column reflect the results of transaction testing on active grant recipient reviews closed in Calendar Year 2014.

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 conducted during the review of randomly selected recipients. In addition to the 99 recipient reviews reported above in Figure B, there were 54 Single Audits and six OIG Audits closed in Calendar Year 2014. Beyond transaction testing, EPA 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 closeout 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 the commercial payments. The commercial payment streams had very low error rates and were determined to be at low risk of 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.

For FY 2015 reporting, in addition to performing the quantitative assessments of expenditures that are completed annually, the commercial payment streams also completed qualitative risk assessments to gauge the level of risk associated with the twelve risk factors tailored from the OMB guidance. Within each payment stream, both the quantitative and qualitative risk assessment supported the low risk determination.

The agency produces monthly improper payment reports for the commercial payment streams and uses them 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 from occurring, include 1) the RTP Finance Center's review for adequate funding and proper invoice acceptance; 2) comprehensive system edits to guard against duplicate payments, exceeding ceiling cost and fees, billing in wrong 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-submittal 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.

Figures C and D summarize the agency's improper payment results for the commercial payments.

Figure C: EPA Review of Contract Payments

Fiscal Year	$ Outlays	Number of Erroneous Payments	$ Improper Payments	Improper Payment Rate
2015	$1,222,897,753	120 (of 27,173)	$275,984	0.02%
2014	$1,169,273,101	77 (of 27,266)	$424,550	0.04%
2013	$1,298,210,581	43 (of 29,645)	$406,835	0.03%
2012	$1,496,607,743	29 (of 33,473)	$953,672	0.06%
2011	$1,600,132,236	21 (of 38,965)	$162,909	0.01%

Figure D: EPA Review of Commodity Payments				
Fiscal Year	**$ Outlays**	**Number of Erroneous Payments**	**$ Improper Payments**	**Improper Payment Rate**
2015	$226,509,511	161 (of 28,991)	$784,365	0.35%
2014	$227,625,587	65 (of 29,576)	$490,347	0.22%
2013	$259,846,331	197 (of 33,467)	$156,773	0.06%
2012	$289,557,789	50 (of 34,908)	$363,567	0.13%
2011	$326,151,314	44 (of 40,083)	$2,178,573	0.67%

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 discounted payment, such as an expired or short period upon receipt of the invoice or when the approval process exceeds the discount period; 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).

OMB guidance acknowledges these situations by clarifying the term "applicable discounts" as it relates to the definition of an improper payment. The guidance specifies that "applicable discounts" are "only those discounts where it is both advantageous and within the agency's control to claim them." As a result, effective with FY 2015 reporting, the agency incorporated this definition into its improper payments reporting process. All improper payments stemming from lost discounts and meeting the OMB definition are reported in Figures C and D.

C) Payroll

Following the enactment of IPERIA, which requires agencies to evaluate payments to federal employees as a source of improper payments, EPA began assessing the risk of improper payments in its payroll payment stream in the FY 2014 reporting cycle. The agency utilizes the prior fiscal year as the basis for improper payments reporting in payroll. In FY 2014, the agency disbursed over $2.35 billion in payroll payments. To determine the level of risk associated with payroll, EPA performed both a quantitative risk assessment using statistical sampling, in which no improper payments were identified, as well as a qualitative risk assessment, examining the 12 previously identified risk factors. Both methods confirmed that EPA payroll is at low risk of significant improper payments. The following paragraphs summarize key internal controls related to the prevention, identification and recovery of improper payments in the payroll payment stream.

Payroll is largely an automated process driven by the submission of employee T&A records and personnel actions. As of June 2014, under the Human Resources Line of Business, EPA transitioned from the Defense Finance and Accounting System to the Interior Business Center (IBC). IBC has extensive experience as a payroll provider, as it provides personnel and payroll support to numerous federal agencies. This initiative allowed the agency to comply with the OMB mandate and the Office of Personnel Management e-government initiative in automating HR services and integrating payroll operations. The transition to the IBC went smoothly with EPA and IBC working together to ensure minimum issues occurred. Any payroll-related errors were identified through the normal edit processes which include the establishment of accounts receivable if needed.

Once 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 debts, EPA establishes the debt and tracks recovery status.

On a bi-weekly basis, employees, timekeepers and managers are required to attest, review or approve employee time in the agency's T&A 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 Financial Services 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, placing stop and start dates in PeoplePlus where the pay cap lift cannot exceed 90 days) that will reduce the number of overpayments in payroll.

D) Travel

The agency's travel program updated its qualitative risk assessment for FY 2015 reporting and continues to use the preceding fiscal year as the scope period for reporting improper payments. In FY 2014, there were $37.1 million of outlays in the travel program, which is administered by the OCFO's Cincinnati Finance Center. The agency's qualitative risk assessment for travel evaluates a variety of improper payment risk factors, which include the 12 that were tailored from the OMB guidance, as well as the following eight risk factors, which were tailored from the Government Charge Card Abuse Prevention Act of 2012:

- Whether there is a record of each travel card holder in the agency, annotated with the limitations on amounts that are applicable to the use of each card by the card holder.
- Whether rebates and refunds based on prompt payment, sales volume, or other actions by the agency on travel charge card accounts are reviewed for accuracy or properly recorded as a receipt to EPA.
- Whether periodic reviews are performed to determine whether each travel charge card holder has a need for the travel charge card.
- Whether appropriate training is provided to each travel charge card holder or each official with responsibility for overseeing the use of travel charge cards.
- Whether the agency has specific policies regarding travel charge cards issued by various component organizations and categories of component organizations, the credit limits authorized for various categories of card holders, and categories of employees eligible to be issued travel charge cards.
- Whether the agency has specific policies to ensure that its contractual arrangement with each travel-charge-card-issuing contractor contains a requirement that a person's credit-worthiness be evaluated before that person is issued a travel charge card, and that no one be issued a travel charge card who is found not credit-worthy as a result of the evaluation.
- Whether the agency ensures that the travel charge card of each employee who ceases to be employed by the agency is invalidated immediately upon termination of employment.
- Whether the agency ensures that travel card payments are issued directly to the travel card-issuing bank for credit to the employee's individual travel charge card account (where appropriate).

Based on the evaluation of all twenty risk factors, it was determined that the agency's travel program is at low risk of significant improper payments.

E) Purchase Cards

The agency's purchase card program updated its qualitative risk assessment for FY 2015 reporting and continues to use the preceding fiscal year as the scope period for reporting improper payments. In FY 2014, there were $23.7 million of outlays made by the purchase card program, which is administered by OARM's Office of Acquisition Management and is supported by OCFO's Cincinnati Finance Center. The agency's qualitative risk assessment for purchase cards evaluates a variety of risk factors, which include the 12 that were tailored from the OMB guidance, as well as the following 11 risk factors tailored from the Government Charge Card Abuse Prevention Act of 2012:

- Whether there is a record of each purchase card holder in the agency, annotated with the limitations on single transactions and total transactions that are applicable to the use of each such card or check by that purchase card holder.
- Whether purchase card holders and individuals issued a convenience check are assigned an approving official other than the card holder with the authority to approve or disapprove transactions.
- Whether purchase card holders and authorizing officials reconcile charges with receipts and other supporting documentation or forward summary reports to the certifying official in a timely manner to enable the certifying official to ensure that only valid charges are paid.
- Whether disputed purchase card charges and discrepancies between receipts and other supporting documentation are resolved in accordance with the GSA government-wide contract.
- Whether payments on purchase card accounts are made promptly within prescribed deadlines to avoid interest penalties.
- Whether records of each purchase card transaction (including records on associated contracts, reports, accounts, and invoices) are retained in accordance with standard government policies on the disposition of records.
- Whether periodic reviews performed to determine whether each purchase card holder has a need for the purchase card.
- Whether appropriate training is provided to each purchase card holder and each official with responsibility for overseeing the use of purchase cards.
- Whether the agency has specific policies regarding the number of purchase cards issued by various component organizations and categories of component organizations, the credit limits authorized for various categories of card holders, and categories of employees eligible to be issued purchase cards.
- Whether the agency immediately invalidates the purchase card of any employee who ceases to be employed by the agency or transfers to another office, unless the new office is covered by the same purchase card authority.
- Whether the agency takes steps to recover the cost of illegal, improper, or erroneous purchases made with a purchase card or convenience check by an employee, including through salary offsets if necessary.

Based on the evaluation of all 23 risk factors, it was determined that the purchase card program is at low risk of significant improper payments.

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 2015 reporting, statistical sampling was conducted on each SRF's universe of FY 2014 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, "Improper Payment Recaptures with and without 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 DWSRF payments represents 9 percent of all DWSRF dollars paid. Similarly, the dollar value of sampled CWSRF payments represents 21 percent of all CWSRF dollars paid. The following figures provide an overview of the sampling undertaken in each SRF for FY 2015 reporting. Sampling results are presented in the "Improper Payment Reporting" section.

Figure E: Stratification of Clean Water State Revolving Fund Payments (1)

Stratum	Payment Range	Total Number of Payments	Total Dollars	Number of Payments Sampled	Dollars Sampled
1	<$100,000	1,116	$28,618,097	21	$647,740
	$100,000–$999,999	824	$313,714,780	14	$5,838,870
	$1,000,000–$1,499,999	88	$105,712,646	0	$0
2	$1,500,000–$3,499,999	162	$370,633,791	59	$134,287,067
	$3,500,000–$9,999,999	65	$360,682,623	22	$126,549,606
	$10,000,000–$39,999,999	16	$228,107,930	4	$57,761,527
	>$40,000,000	2	$142,456,700	0	$0
Total		2,273	$1,549,926,568	120	$325,084,810

(1) Amounts may not sum to total due to rounding.

Figure F: Stratification of Drinking Water State Revolving Fund Payments (1)					
Stratum	**Payment Range**	**Total Number of Payments**	**Total Dollars**	**Number of Payments Sampled**	**Dollars Sampled**
1	<$100,000	2,884	$73,004,143	24	$507,228
	$100,000–$499,999	1,169	$270,777,260	12	$2,745,653
2	$500,000–$2,099,999	435	$400,617,131	79	$70,699,750
	$2,100,000–$8,399,999	59	$220,943,881	8	$30,202,248
	$8,400,000–$33,599,999	9	$161,327,291	0	$0
	>$33,599,999	1	$36,233,041	0	$0
Total		4,557	$1,162,902,746	123	$104,154,880

(1) Amounts may not sum to total due to rounding.

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. EPA was appropriated over $600 million of funds under the Act for Hurricane Sandy recovery and other disaster-related activities. The funding includes $500 million for CWSRF, $100 million for DWSRF, and $7 million for non-SRF grants. Sequestration reduced these amounts by 5 percent for a 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. For FY 2015 reporting, 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 actual 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. SRF funds have been obligated and will be sampled in the fiscal year after expenditures have occurred.

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.

Figure G, "Stratification of Hurricane Sandy Payments," summarizes the population of Hurricane Sandy expenditures sampled from FY 2014 expenditures.

Figure G: Stratification of Hurricane Sandy Payments (1)				
Payment Type	Total Number of Payments	Total Dollars	Payments Sampled	Dollars Sampled
Payroll	151	$245,684	57	$80,828
Contracts	25	$658,863	9	$174,915
Commodities	8	$86,270	8	$86,270
Grants	2	$303,853	2	$303,853
Total	186	$1,294,671	76	$645,865

(1) Amounts may not sum to total due to rounding.

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	FY14 Outlays	FY14 IP%	FY14 IP $	FY15 Outlays	FY15 IP%	FY15 IP $	FY15 Over-pmt	FY15 Under-pmt	FY16 Est. Outlays	FY16 Est. IP%	FY16 Est. IP $	FY17 Est. Outlays	FY17 Est. IP%	FY17 Est. IP $	FY18 Est. Outlays	FY18 Est. IP%	FY18 Est. IP $
Clean Water SRF (2)	$2,101.90	0.22%	$4.73	$1,549.93	0.10%	$1.51 (3)	$0.90 (4)	$0.61 (4)	$1,378.30 (est.)	1.45% target	$19.99 (est.)	$1,269.19 (est.)	1.43% target	$18.15 (est.)	$1,156.11 (est.)	1.40% target	$16.19 (est.)
Drinking Water SRF (2)	$1,031.56	1.29%	$13.36	$1,162.90	0.19%	$2.23 (3)	$1.92 (4)	$0.31 (4)	$873.74 (est.)	1.99% target	$17.39 (est.)	$940.20 (est.)	1.98% target	$18.62 (est.)	$1,009.30 (est.)	1.97% target	$19.88 (est.)
Hurricane Sandy (5)	$0.40	0.00%	$0.00	$1.29	0.03%	$.0004	$.0004	$0.00	$11.55 (est.)	1.50% target	$0.173 (est.)	$138.62 (est.)	1.50% target	$2.08 (est.)	$121.30 (est.)	1.50% target	$1.82 (est.)
Total	$3,133.86	0.58%	$18.09	$2,714.12	0.14%	$3.74	$2.82	$0.92	$2,263.59	1.66%	$37.55	$2,348.01	1.65%	$38.85	$2,286.71	1.66%	$37.89

(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 "FY14 Outlays" column represent FY 2013 actuals, and the outlays displayed in the "FY15 Outlays" column represent FY 2014 actuals. The out-year estimates are not similarly adjusted; for example, the "FY16 Est. Outlays" column represents current projections for outlays in FY 2016, which would be eligible for statistical sampling and reporting in the FY 2017 *AFR*.

(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 2015, the actual improper payment rates in both SRFs declined dramatically. During this period, the CWSRF error rate declined by 86%, and the DWSRF error rate declined by 95%. Thus, both programs have set appropriate out-year reduction targets that are designed to sustainably maintain improper payment reductions over the long term.

(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 errors in the sample, then multiplying each ratio by the estimate of total improper payments calculated for each SRF.

(5) The out-year reduction targets for Hurricane Sandy are maintained at 1.5% as a projection because these funds have not been fully measured due to the timing of the awarding of grant funds. However, once an actual improper payment rate has been established for FY 2016 reporting, the out-year reduction targets will be re-evaluated.

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					$0.0004	
	State or Local Agency	$0.90	$0.61	$1.92	$0.31		
	Other Party						
Medical Necessity							
Insufficient Documentation to Determine							
Other Reason							
Total		$0.90	$0.61	$1.92	$0.31	$0.0004	$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

This section is not required, as none of the agency's payment streams exceed the statutory threshold for significant improper payments. While it is not required, Figure H, "Status of Corrective Actions for Risk-Susceptible Programs," provides an update of corrective actions that were successfully implemented over a multi-year period, demonstrating how EPA has consistently strengthened its oversight over risk-susceptible programs.

Figure H: Status of Corrective Actions for Risk-Susceptible Programs (1)				
Description	**Program**	**Target Completion**	**Status**	**Anticipated Results**
Utilize documentation of state internal control procedures.	DWSRF	FY 2015	Completed in FY 2015.	Strengthen state procedures.
Provided feedback to regional offices on improving compliance with PERs and transaction testing worksheets.	Both SRFs	FY 2015	Completed in FY 2015.	Provide ongoing feedback throughout the year while also holding a joint training for the Regions to address common questions and concerns.
Publish DWSRF Eligibility Handbook.	DWSRF	FY 2015	In progress	Reduce improper payments due to ineligible expenses.
Tested a selection of cash draws with a negative dollar value.	Both SRFs	FY 2014	Completed in FY 2014.	Determined whether large negative draws are refunds of previous erroneous cash draws made by the state. Will be performed annually.
Conducted webinars, including materials on improper payments and internal controls, audits, and proportionality.	DWSRF	FY 2014	Completed in FY 2014.	Strengthen internal controls and oversight of both programs.
Conducted training for regions/states.	Both SRFs	FY 2014	Completed in FY 2014.	Improve transaction testing to ensure accuracy in reporting.
Participated in state annual reviews to ensure proper understanding of SRF proportionality and transaction testing.	CWSRF	FY 2014	Completed in FY 2014.	Ensure a better understanding of SRF proportionality to reduce improper payments.
Developed clarifying materials on adequate documentation.	DWSRF	FY 2014	Completed in FY 2014.	Reduce improper payments due to inadequate documentation. Presented at the DWSRF webinar "Improper Payments & Internal Controls."
Developed a spreadsheet to track the recovery of prior year improper payments.	Both SRFs	FY 2014	Completed in FY 2014.	Ensure prompt resolution of improper payments and more accurate reporting of recovered and outstanding amounts.
Published revised standard operating procedures on transaction testing.	Both SRFs	FY 2013	Completed in FY 2013 and FY 2014.	Ensure consistency in improper payments reporting across the regions and incorporate OIG recommendations from prior year IPIA audits.
Developed a robust sampling methodology for identifying improper payments.	Both SRFs Hurricane Sandy	FY 2013 FY 2014	Completed and updated annually.	The methodologies are statistically valid, providing the level of precision required by OMB and allowing EPA to identify the root causes of error while ensuring accurate results.
Designated senior agency official for ensuring SRF compliance with IPIA.	Both SRFs	FY 2013	Completed in FY 2013.	Appointed the Office of Water's Deputy Assistant Administrator as the senior agency official responsible for SRF compliance with IPIA.
Conducted training for regions to ensure a proper understanding of SRF proportionality errors.	Both SRFs	FY 2013	Completed in FY 2013.	Applied lessons learned and clarified when certain payments should be identified as improper to ensure greater accuracy in reporting.
Compared the Program Evaluation Reports and transaction testing worksheets to ensure data integrity.	Both SRFs	FY 2013	Completed in FY 2013.	Improved internal business processes to capture improper payments from multiple sources. Will be performed annually.
Determined baseline measurements for current year reporting and set appropriate out-year reduction targets.	Both SRFs Hurricane Sandy	FY 2013 FY 2014	Completed in FY 2013. Completed in FY 2014.	Provided an accurate reflection of each program's improper payment rate and established reasonable reduction targets over time. Reduction targets are reviewed annually for appropriateness.

(1) While these actions were initially completed in the year provided in the "Status" column, most of them continue to be updated or performed annually thereafter.

VI. Internal Control over Payments

This section is not required, as none of the agency's payment streams exceed the statutory threshold for significant improper payments. Therefore, Table 3, "Status of Internal Controls," is not presented here. Nevertheless, the agency maintains internal control over payments in each of its payment streams in order to prevent, detect, and recover improper payments.

VII. Accountability

This section is not required, as none of the agency's payment streams exceed the statutory threshold for significant improper payments. However, the agency continues to strengthen internal controls in key payment processes and has taken steps to hold agency managers accountable for reducing and recovering improper payments. In FY 2013, the Office of Water's Deputy Assistant Administrator was designated as the senior agency official for ensuring compliance of the CWSRF and DWSRF programs with IPERA. The agency's improper payments program is overseen by OCFO to ensure compliance with all IPERA reporting requirements, and action is taken by appropriate program officials to identify and recover improper payments. As previously noted, the agency revised qualitative risk assessments in FY 2015 and took other corrective actions to address OIG audit recommendations.

VIII. Agency Information Systems and Other Infrastructure

This section is not required, as none of the agency's payment streams exceed the statutory threshold for significant improper payments. However, the agency's internal controls, human capital, information systems, and other infrastructure are sufficient to monitor the reduction of improper payments to targeted levels.

IX. Barriers

This section is not required, as none of the agency's payment streams exceed the statutory threshold for significant improper payments. However, there are no statutory or regulatory barriers limiting the agency's corrective actions in reducing improper payments.

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 described more specifically within each program's *AFR* narrative, and 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. For travel, improper payments may include ineligible expenses, and for purchase cards, improper payments may 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 from LVFC with data posted in the Grantee Compliance and Recipient Activity 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 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 GC&RA Database. And 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; re-certifications 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. Furthermore, 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 addition, OGD is currently developing a standard operating procedure for Grant Specialists to use when conducting administrative advanced reviews in order to ensure consistent review and analysis of recipient documentation.

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 consist of CWSRF, DWSRF, and Hurricane Sandy, 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. In FY 2015, EPA conducted eleven training sessions for the state SRF programs. During each of the training sessions, identification and reduction of improper payments was discussed. Identifying and reducing improper payments was also discussed at a recent EPA/state SRF workgroup meeting where attendance included 150 state SRF staff. 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. [7] 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. Figure H, "Status of Corrective Actions for Risk-Susceptible Programs," provided an overview of the multi-year efforts undertaken by the agency to both prevent and reduce improper payments within EPA's largest programs.

Despite the agency's best efforts to collect all overpayments, some overpayments are unrecoverable. For example, for current year reporting, one grant overpayment totaling $575K was determined to be unrecoverable due the bankruptcy of the recipient. In addition, prior year amounts totaling $307K were determined to be unrecoverable due to a recipient having been dissolved. Both cases were referred to DOJ for resolution. For contracts and commodities, there were unrecoverable overpayments totaling $119K for contracts and $16K for commodities due to lost discounts. Lost discounts 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.

[7] Since most of the Hurricane Sandy funding is SRF related, Hurricane Sandy will follow the same process and procedures as the SRFs.

Table 4: Improper Payment Recaptures with and without 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						$0.27	$0.27	100%	90.5%	90.6%						$0.27	$0.27	$0.77	$0.77
DWSRF						$0.16	$0.15	93.5%	90.5%	90.6%						$0.16	$0.15	$5.36	$5.36
Grants						$0.11	$0.11	100%	88.0%	89.0%						$0.11	$0.11	$2.79	$2.05
Contracts (4)	$0.15	$0.14	92.8%	92.5%	93.0%											$0.15	$0.14	$.005	$.005
Commodities (4)	$0.59	$0.57	96.2%	93.0%	93.5%											$0.59	$0.57	$0.00	$0.00
Hurricane Sandy						$.0004	.0004	100%	90.5%	90.6%						$.0004	$.0004	$0.00	$0.00
Payroll																$0.00	$0.00	$1.68	$1.73
Travel																$0.00	$0.00	$0.00	$0.00
Purchase Cards																$0.00	$0.00	$0.08	$0.08
Other (5)																$0.00	$0.00	$4.17	$3.52
Total	$0.75	$0.71	95.5%	n/a	n/a	$0.54	$0.53	98.1%	n/a	n/a	$0.00	$0.00	n/a	n/a	n/a	$1.29	$1.25	$14.86	$13.52

(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) "Other" includes sensitive pay areas.

Table 5: Disposition of Funds Recaptured Through Payment Recapture Audits *($ in millions)*								
Program or Activity	**Amount Recovered**	**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	$0.27 (1)	Grants	$0.06 (2)	$0.00	$0.00	$0.21	$0.00	$0.00
DWSRF	$0.15 (1)	Grants	$0.06 (2)	$0.00	$0.00	$0.09	$0.00	$0.00
Grants	$0.11	Grants	$0.56 (3)	$0.00	$0.00	$0.00	$0.00	$0.00
Contracts	$0.14	Contracts	$0.04 (4)	$0.00	$0.00	$0.10	$0.00	$0.00
Commodities	$0.57	Contracts	$0.04 (4)	$0.00	$0.00	$0.53	$0.00	$0.00
Hurricane Sandy	$0.0004	Other	$0.00	$0.00	$0.00	$0.0004	$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	$0.08	$0.00	$0.00
Other	$0.00	Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.89
Total	$1.25	n/a	$0.76	$0.00	$0.00	$13.11	$0.00	$0.89

(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 2014 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	$0.01	$0.00	$0.00
Grants	Grants	$0.00	$0.00	$0.00	$0.00
Contracts	Contracts	$0.01	$0.00	$0.00	$0.00
Commodities	Contracts	$0.02	$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	$0.03	$0.01	$0.00	$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 2015, EPA used the following DNP databases on a post-payment basis: the Death Master File (DMF) and the System for Award Management (SAM) Exclusion List.[8] 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 2015, approximately $1.8 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 62,500 EPA payments totaling $4.46 billion were made via the Automated Standard Application for Payments (ASAP).[9] 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.

[8] Formerly known as the General Service Administration's Excluded Parties List System.

[9] EPA grant recipients are highly encouraged to obtain an ASAP account.

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 not stopped	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	175,385	$1,929.27	0	$0.00	11 (2)	$0.38
Reviews with databases not listed in IPERIA (3)	62,500	$4,460.00	0	$0.00	0	$0.00

(1) This table presents data for FY 2015.
(2) All 11 payments were made to the same vendor and were determined to be proper payments upon further analysis.
(3) 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 2016:

- 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

Summary: The Federal Civil Penalty Inflation Adjustment Act of 1990, as amended by the Debt Collection Act of 1996 (DCIA), requires each federal agency to review the civil monetary penalties under the statutes it administers at least once every four years and to adjust such penalties as necessary for inflation according to a formula prescribed by the DCIA.[10] Pursuant to the DCIA, in 1996, 2004, 2008 and, most recently, in 2013, EPA reviewed each of the penalty amounts under its statutes and adjusted penalty amounts for inflation when required under the DCIA.[11] As part of EPA's review of each statutory penalty amount, EPA applies the DCIA's prescribed formula for calculating the cost-of-living adjustment and the DCIA's mandated rounding rules to determine if the penalty amount must be adjusted for inflation.

Background on the Implementation of the DCIA: Each time a federal agency reviews its penalty amounts for purposes of determining whether they need to be adjusted, a particular penalty amount may or may not be adjusted based on the level of inflation since that penalty amount was last adjusted and the application of the DCIA's rounding rule. Specifically, penalty amounts are not adjusted for inflation when the raw inflation increases are not high enough to round up to the required multiple, as prescribed by the DCIA. From 2008 (the year in which the previous amendments to EPA's Penalty Inflation Rule were promulgated) to 2012 (the year before EPA published its last Penalty Inflation Rule amendments[12]), the rate of inflation was so low that only 20 of EPA's 88 statutory civil penalty provisions were increased for inflation under the 2013 Rule.

The remaining 68 penalty amounts were not adjusted upwards under the 2013 Rule because the raw inflation amount was not sufficient to warrant a penalty increase under the DCIA's rounding rules. For example, under section 3008(a)(3) of the Resource Conservation and Recovery Act, 42 U.S.C. 6928(a)(3), the Administrator may assess a civil penalty of up to $37,500 per day of noncompliance for each violation. This penalty was last adjusted for inflation under the 2008 Rule. Multiplying the applicable 4.87 percent cost-of-living adjustment (COLA) by the statutory civil penalty amount of $37,500, the raw inflation increase equals only $1,827.40. The DCIA rounding rule requires a raw inflation increase to be rounded to the nearest multiple of $5,000 for penalties greater than $10,000 but less than or equal to $100,000. Because this raw inflation increase was not sufficient to be rounded up to a multiple of $5,000, in accordance with the DCIA's rounding rule, the $37,500 penalty amount was not increased in 2013.

When EPA issues its next amendments to the Penalty Inflation Rule, expected in 2017, EPA will calculate the COLA based on the percentage by which the CPI-U has increased as of June of the year in which a particular penalty amount was last adjusted and June of 2016. Under the 2017 Rule, for penalties last adjusted in 2008 to the amount of $37,500, the newly adjusted penalty amount will be $42,500, assuming that the raw inflation increase since 2008 is high enough to round up to the nearest multiple of $5,000.

The following table, excerpted from Table 1 at 40 CFR § 19.4, identifies all civil monetary penalty authorities under EPA-administered statutes at column 2; delineates the current operative penalty amount at column 5; reflects at column 4 the date when the current penalty amount was promulgated; and reflects at column 3 the date when that penalty amount was adjusted prior to the current amount. For a complete

[10] *See* section 4 of the Federal Civil Penalties Inflation Adjustment Act of 1990, 28 U.S.C. § 2461 note, as amended by the DCIA, 31 U.S.C. § 3701 note.
[11] *See* 61 *Fed. Reg.* 69,360 (December 31, 1996); 69 *Fed. Reg.* 7,121 (February 13, 2004); 73 *Fed. Reg.* 75,340 (December 11, 2008), as corrected at 74 *Fed. Reg.* 626 (January 7, 2009); and 78 *Fed. Reg.* 66,643 (November 6, 2013).
[12] The DCIA provides that the cost-of-living adjustment must be determined by calculating the percentage increase, if any, by which the Consumer Price Index for all-urban consumers (CPI-U) for June of the calendar year a specific penalty amount was last adjusted exceeds the CPI-U for June of the year preceding the current penalty adjustment. *See* section 5(b) of the DCIA.

table reflecting the operative penalty amounts since 1996 under each penalty provision, *see* Table 1 at 40 CFR § 19.4.

TABLE REFLECTING EPA'S CURRENT CIVIL PENALTY AMOUNTS, AS ADJUSTED FOR INFLATION

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment (*i.e.*, Inflation Increase)	Date of Current (*i.e.*, Latest) Adjustment	Current Penalty Level ($ Amount)
Civil	FEDERAL INSECTICIDE, FUNGICIDE, AND RODENTICIDE ACT (FIFRA), 7 U.S.C. 136*l*.(a)(1)	February 2004	December 2008	$7,500
Civil	FIFRA, 7 U.S.C. 136*l*.(a)(2)	February 2004	December 2008	$750
Civil	FIFRA, 7 U.S.C. 136*l*.(a)(2)	February 2004	February 2004	$1,100
Civil	TOXIC SUBSTANCES CONTROL ACT (TSCA), 15 U.S.C. 2615(a)(1)	February 2004	December 2008	$37,500
Civil	TSCA, 15 U.S.C. 2647(a)	February 2004	December 2008	$7,500
Civil	TSCA, 15 U.S.C. 2647(g)	February 2004	December 2008	$7,500
Civil	PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA), 31 U.S.C. 3802(a)(1)	February 2004	December 2008	$7,500
Civil	PFCRA, 31 U.S.C. 3802(a)(2)	February 2004	December 2008	$7,500
Civil	CLEAN WATER ACT (CWA), 33 U.S.C. 1319(d)	February 2004	December 2008	$37,500
Civil	CWA, 33 U.S.C. 1319(g)(2)(A)	December 1996	December 2008	$16,000
Civil	CWA, 33 U.S.C. 1319(g)(2)(A)	February 2004	December 2008	$37,500
Civil	CWA, 33 U.S.C. 1319(g)(2)(B)	December 1996	December 2008	$16,000
Civil	CWA, 33 U.S.C. 1319(g)(2)(B)	December 2008	November 2013	$187,500
Civil	CWA, 33 U.S.C. 1321(b)(6)(B)(i)	December 1996	December 2008	$16,000
Civil	CWA, 33 U.S.C. 1321(b)(6)(B)(i)	February 2004	December 2008	$37,500
Civil	CWA, 33 U.S.C. 1321(b)(6)(B)(ii)	December 1996	December 2008	$16,000
Civil	CWA, 33 U.S.C. 1321(b)(6)(B)(ii)	December 2008	November 2013	$187,500
Civil	CWA, 33 U.S.C. 1321(b)(7)(A)	December 1996	November 2013	$2,100
Civil	CWA, 33 U.S.C. 1321(b)(7)(A)	February 2004	December 2008	$37,500
Civil	CWA, 33 U.S.C. 1321(b)(7)(B)	February 2004	December 2008	$37,500
Civil	CWA, 33 U.S.C. 1321(b)(7)(C)	February 2004	December 2008	$37,500
Civil	CWA, 33 U.S.C. 1321(b)(7)(D)	February 2004	November 2013	$5,300

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment (*i.e.*, Inflation Increase)	Date of Current (*i.e.*, Latest) Adjustment	Current Penalty Level ($ Amount)
Civil	CWA, 33 U.S.C. 1321(b)(7)(D)	December 2008	November 2013	$150,000
Civil	MARINE PROTECTION, RESEARCH, AND SANCTUARIES ACT (MPRSA), 33 U.S.C. 1414b(d)(1)	February 2004	December 2008	$860
Civil	MPRSA, 33 U.S.C. 1415(a)	December 2008	November 2013	$75,000
Civil	MPRSA, 33 U.S.C. 1415(a)	December 2008	November 2013	$187,500
Civil	CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO), 33 U.S.C. 1901 note (*see* 1409(a)(2)(A))	February 2004	December 2008	$11,000
Civil	CACSO, 33 U.S.C. 1901 note (*see* 1409(a)(2)(A))	February 2004	December 2008	$27,500
Civil	CACSO, 33 U.S.C. 1901 note (*see* 1409(a)(2)(B))	February 2004	December 2008	$11,000
Civil	CACSO, 33 U.S.C. 1901 note (*see* 1409(a)(2)(B))	December 2008	November 2013	$147,500
Civil	CACSO, 33 U.S.C. 1901 note (*see* 1409(b)(1))	February 2004	December 2008	$27,500
Civil	SAFE DRINKING WATER ACT (SDWA), 42 U.S.C. 300g-3(b)	February 2004	December 2008	$37,500
Civil	SDWA, 42 U.S.C. 300g-3(g)(3)(A)	February 2004	December 2008	$37,500
Civil	SDWA, 42 U.S.C. 300g-3(g)(3)(B)	February 2004	December 2008	$7,000
Civil	SDWA, 42 U.S.C. 300g-3(g)(3)(B)	February 2004	December 2008	$32,500
Civil	SDWA, 42 U.S.C. 300g-3(g)(3)(C)	February 2004	December 2008	$32,500
Civil	SDWA, 42 U.S.C. 300h-2(b)(1)	February 2004	December 2008	$37,500
Civil	SDWA, 42 U.S.C. 300h-2(c)(1)	December 1996	December 2008	$16,000
Civil	SDWA, 42 U.S.C. 300h-2(c)(1)	December 2008	November 2013	$187,500
Civil	SDWA, 42 U.S.C. 300h-2(c)(2)	February 2004	December 2008	$7,500
Civil	SDWA, 42 U.S.C. 300h-2(c)(2)	December 2008	November 2013	$187,500
Civil	SDWA, 42 U.S.C. 300h-3(c)	February 2004	December 2008	$7,500
Civil	SDWA, 42 U.S.C. 300h-3(c)	December 1996	December 2008	$16,000
Civil	SDWA, 42 U.S.C. 300i(b)	February 2004	November 2013	$21,500

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment (*i.e.*, Inflation Increase)	Date of Current (*i.e.*, Latest) Adjustment	Current Penalty Level ($ Amount)
Civil	SDWA, 42 U.S.C. 300i-1(c)	December 2008	November 2013	$120,000
Civil	SDWA, 42 U.S.C. 300i-1(c)	December 2008	November 2013	$1,150,000
Civil	SDWA, 42 U.S.C. 300j(e)(2)	February 2004	December 2008	$3,750
Civil	SDWA, 42 U.S.C. 300j-4(c)	February 2004	December 2008	$37,500
Civil	SDWA, 42 U.S.C. 300j-6(b)(2)	February 2004	December 2008	$32,500
Civil	SDWA, 42 U.S.C. 300j-23(d)	February 2004	December 2008	$7,500
Civil	SDWA, 42 U.S.C. 300j-23(d)	December 2008	November 2013	$75,000
Civil	RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992, 42 U.S.C. 4852d(b)(5)	December 1996	December 2008	$16,000
Civil	NOISE CONTROL ACT OF 1972, 42 U.S.C. 4910(a)(2)	December 1996	December 2008	$16,000
Civil	RESOURCE CONSERVATION AND RECOVERY ACT (RCRA), 42 U.S.C. 6928(a)(3)	February 2004	December 2008	$37,500
Civil	RCRA, 42 U.S.C. 6928(c)	February 2004	December 2008	$37,500
Civil	RCRA, 42 U.S.C. 6928(g)	February 2004	December 2008	$37,500
Civil	RCRA, 42 U.S.C. 6928(h)(2)	February 2004	December 2008	$37,500
Civil	RCRA, 42 U.S.C. 6934(e)	February 2004	December 2008	$7,500
Civil	RCRA, 42 U.S.C. 6973(b)	February 2004	December 2008	$7,500
Civil	RCRA, 42 U.S.C. 6991e(a)(3)	February 2004	December 2008	$37,500
Civil	RCRA, 42 U.S.C. 6991e(d)(1)	December 1996	December 2008	$16,000
Civil	RCRA, 42 U.S.C. 6991e(d)(2)	December 1996	December 2008	$16,000
Civil	CLEAN AIR ACT (CAA), 42 U.S.C. 7413(b)	February 2004	December 2008	$37,500
Civil	CAA, 42 U.S.C. 7413(d)(1)	February 2004	December 2008	$37,500
Civil	CAA, 42 U.S.C. 7413(d)(1)	December 2008	November 2013	$320,000
Civil	CAA, 42 U.S.C. 7413(d)(3)	February 2004	December 2008	$7,500
Civil	CAA, 42 U.S.C. 7524(a)	February 2004	December 2008	$3,750
Civil	CAA, 42 U.S.C. 7524(a)	February 2004	December 2008	$37,500
Civil	CAA, 42 U.S.C. 7524(c)(1)	December 2008	November 2013	$320,000

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment (*i.e.*, Inflation Increase)	Date of Current (*i.e.*, Latest) Adjustment	Current Penalty Level ($ Amount)
Civil	CAA, 42 U.S.C. 7545(d)(1)	February 2004	December 2008	$37,500
Civil	COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA), 42 U.S.C. 9604(e)(5)(B)	February 2004	December 2008	$37,500
Civil	CERCLA, 42 U.S.C. 9606(b)(1)	February 2004	December 2008	$37,500
Civil	CERCLA, 42 U.S.C. 9609(a)(1)	February 2004	December 2008	$37,500
Civil	CERCLA, 42 U.S.C. 9609(b)	February 2004	December 2008	$37,500
Civil	CERCLA, 42 U.S.C. 9609(b)	December 2008	November 2013	$117,500
Civil	CERCLA, 42 U.S.C. 9609(c)	February 2004	December 2008	$37,500
Civil	CERCLA, 42 U.S.C. 9609(c)	December 2008	November 2013	$117,500
Civil	EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA), 42 U.S.C. 11045(a)	February 2004	December 2008	$37,500
Civil	EPCRA, 42 U.S.C. 11045(b)(1)(A)	February 2004	December 2008	$37,500
Civil	EPCRA, 42 U.S.C. 11045(b)(2)	February 2004	December 2008	$37,500
Civil	EPCRA, 42 U.S.C. 11045(b)(2)	December 2008	November 2013	$117,500
Civil	EPCRA, 42 U.S.C. 11045(b)(3)	February 2004	December 2008	$37,500
Civil	EPCRA, 42 U.S.C. 11045(b)(3)	December 2008	November 2013	$117,500
Civil	EPCRA, 42 U.S.C. 11045(c)(1)	February 2004	December 2008	$37,500
Civil	EPCRA, 42 U.S.C. 11045(c)(2)	December 1996	December 2008	$16,000
Civil	EPCRA, 42 U.S.C. 11045(d)(1)	February 2004	December 2008	$37,500
Civil	MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT), 42 U.S.C. 14304(a)(1)	February 2004	December 2008	$16,000
Civil	BATTERY ACT, 42 U.S.C. 14304(g)	February 2004	December 2008	$16,000

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/epahome/whereyoulive.htm
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APPENDIX B

ACRONYMS AND ABBREVIATIONS

AFR	*Agency Financial Report*
AICPA	American Institute of Certified Public Accountants
AP	Administration Priority
APG	Agency Priority Goal
APR	*Annual Performance Report*
ASAP	Automated Standard Application for Payments
B&F	building and facilities
BFS	Bureau of Fiscal Services
CAA	Clean Air Act
CAP	Cross-Agency Priority
CBI	confidential business information
CERCLA	Comprehensive Environmental Response Compensation and Liability Act
CFC	Cincinnati Finance Center
CFO	Chief Financial Officer
CO	contracting officer
COLA	cost of living adjustment
CPIC	Capital Planning and Investment Control
CPP	Clean Power Plan
CSRS	Civil Service Retirement System
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
DCAA	Defense Contract Audit Agency
DCIA	Debt Collection Act of 1996
DCM	dichloromethane
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
DSS	Directory Service System
DSW	definition of solid waste
DWSRF	Drinking Water State Revolving Fund
ECHO	Enforcement and Compliance History Online
EDSP	Endocrine Disruptor Screening Program
EPA	U.S. Environmental Protection Agency
EPM	Environmental Programs and Management
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

FTF	Freeze the Footprint
FY	fiscal year
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GHG	greenhouse gas
GPRMA	Government Performance and Results Modernization Act of 2010
GSA	U.S. General Services Administration
GTAS	Governmentwide Treasury Account Symbol
HA	Health Advisories
IBC	Interior Business Center
IC	institutional control
IMO	International Maritime Organization
IP	improper payment
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
IWG	Interagency Working Group
LUST	leaking underground storage tank
LVFC	Las Vegas Finance Center
MATS	Management Audit Tracking System
MSW	municipal solid waste
NCEA	National Center for Environmental Assessment
NEPPS	National Environment Performance Partnership System
NESHAP	National Emission Standards for Hazardous Air Pollutants
NMP	n-methylpyrrolidone
NPDES	National Pollutant Discharge Elimination System
NPL	National Priorities List
NPM	National Program Manager
NRC	National Research Council
OAM	Office of Acquisition Management
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OEI	Office of Environmental Information
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
PAH	polyaromatic hydrocarbon
PAR	Performance and Accountability Report
PCB	polychlorinated biphenyl

PMN	Pre-Manufacturing Notice
POTW	publicly owned treatment work
PP&E	Plant, Property and Equipment
PRIA	Pesticides Registration Funds Act
PRFA	Pollution Removal Funding Agreements
PRP	Potential Responsible Party
R&D	research and development
RA	remedial action
RAU	ready for anticipated use
RBT	role-based training
RCRA	Resource Conservation and Recovery Act
ROE	report on the environment
RP	Responsible Party
RTP	Research Triangle Park
SAM	System for Award Management
SARA	Superfund Amendments & Reauthorization Act
SDWA	Safe Drinking Water Act
SFFAS	Statement of Federal Financial Accounting Standards
SMM	sustainable materials management
SNUR	Significant New Use Rule
SOS	Schedule of Spending
SRF	State Revolving Fund
SSC	Superfund State Contracts
S&T	Science & Technology
STAG	State and Tribal Assistance Grants
T&A	time and attendance
TCE	trichloroethylene
TPP	TransPacific Partnership
TRI	Toxic Release Inventory
TSCA	Toxic Substances Control Act
USSGL	U.S. Standard General Ledger
UST	underground storage tank
VOC	volatile organic compound
WCF	Working Capital Fund
WPS	Worker Protection Standard

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Fiscal Year 2015 Agency Financial Report
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