Fiscal Year 2017 Agency Financial Report

EPA
United States
Environmental Protection
Agency

ABOUT THIS REPORT

The U.S. Environmental Protection Agency (EPA) is pleased to present our Fiscal Year 2017 Agency Financial Report (AFR). This report provides high-level financial and performance results for the fiscal year (FY) spanning October 1 through September 30.

The information, data, and analyses presented in this AFR provides assistance to the President, Congress, and the public in evaluating the agency's yearly activities and accomplishments towards creating a healthy environment where Americans live, work, and play.

The AFR is one of two annual documents outlining EPA's efforts in promoting transparency of the Agency's activities and expenditures. The financial information within the AFR is supplemented by EPA's Annual Performance Report (APR). EPA's FY 2017 APR presents the Agency's FY 2017 performance results measured against the targets established in its FY 2017 Performance Plan and Budget and discusses progress toward achieving the goals established in its FY 2014–2018 Strategic Plan. EPA's FY 2017 APR will also be included with the Agency's FY 2019 Congressional Budget Justification submission, and will be posted on the Agency's website.

The FY 2017 AFR contains EPA's FY 2017 Financial Statements Audit Report and its FY 2017 Management Integrity Act Report, including the Administrator's statement assuring the soundness of the Agency's internal controls. In compliance with the Inspector General Act of 1978 as amended, the AFR also presents EPA's report on FY 2017 progress in addressing Office of Inspector General (OIG) audit recommendations.

The AFR is prepared in accordance with the Chief Financial Officers (CFO) Act and Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and fulfills the requirements set forth in OMB Circular A-11, Preparation, Submission and Execution of the Budget, and the Government Performance and Results Act Modernization Act of 2010 (GPRAMA).

Together, APR and AFR present a complete picture of the Agency's activities, accomplishments, progress, and finances for each fiscal year. EPA's prior fiscal year APR and AFR are available on EPA's internet at: http://www2.epa.gov/planandbudget/results.

How the Report Is Organized

EPA's FY 2017 AFR is organized into three sections to provide all stakeholders with clear insight into the Agency's fiscal activity over the past year.

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 the Agency's independently audited financial statements, which are in compliance with the CFO Act, and the related Independent Auditors' Report and other information on the agency's financial management.

Section III—Other Accompanying Information

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

"Management Challenges and Integrity Weaknesses" details 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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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.

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

"EPA Scientists and researchers work every day to foster innovation that leads to discoveries to better protect human health and the environment." https://www.epa.gov/innovation/research-innovation

Since its commencement, EPA has made great strides in protecting the nation's air, water, and land. Concentrated cleanup efforts have helped remedy the mistakes of the past, while EPA's work to monitor and regulate pollutants, evaluate new chemicals, and inspire 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 assiduous, efficient 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 recognize and engage in environmental protection and develop lasting solutions in their own backyards and around the world.

Mission

What EPA Does

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

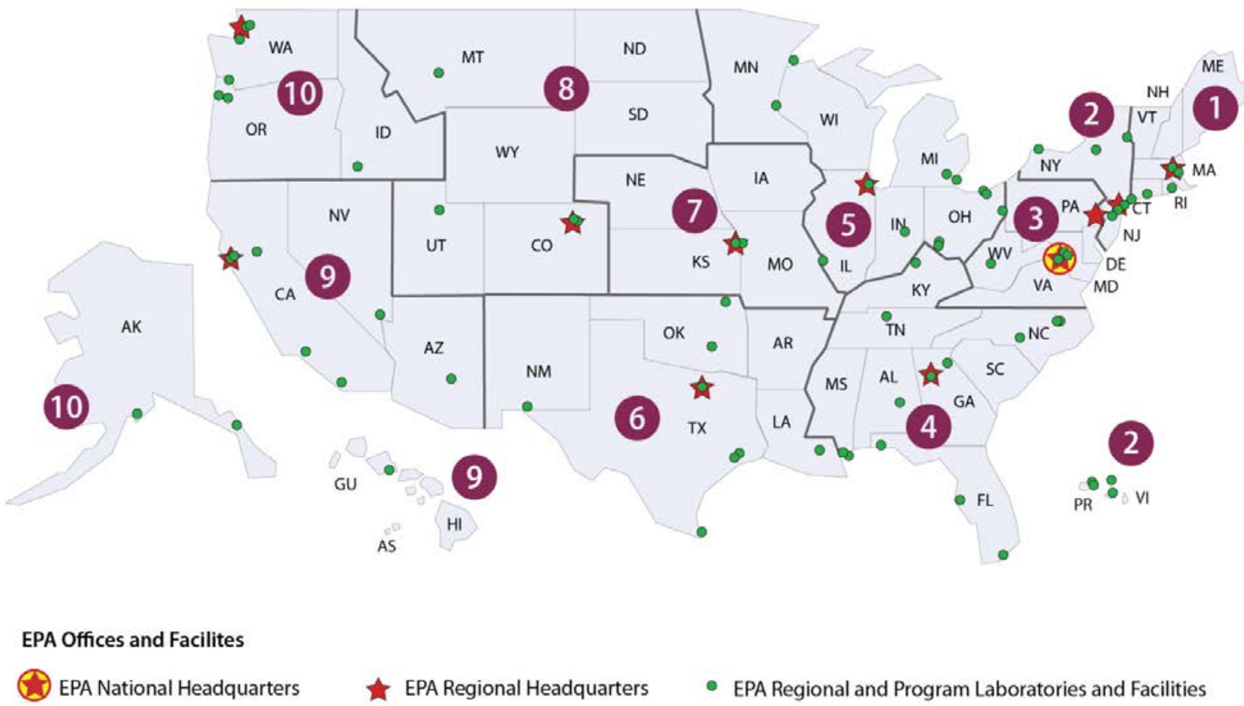
EPA's mission is to protect human health and the environment.

In carrying out 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. Rigorous, peer-reviewed science is the foundation for EPA's decision-making and the basis for understanding and addressing future environmental concerns. By ensuring scientifically sound environmental information is easily accessible to all stakeholders, EPA advances its mission and furthers fostering public trust and understanding of its work.

Organization

EPA's headquarters are located 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.

Regional Map



Collaborating with Partners and Stakeholders

EPA's partnerships with states, tribes, local governments, and the global community are paramount to the success of the national environmental protection enterprise. EPA places high value on cultivating these partnerships and has implemented a cross-agency strategy during the *FY 2014-2018* Strategic Plan period, "Launching a New Era of State, Tribal, Local and International Partnerships," to focus its work. EPA collaborated with its partners to improve coordination, advocate innovation, and leverage resources. Along with its co-regulators, EPA worked with the regulated community, private industry, nonprofit organizations, and the public to use new tools and methodologies 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.

FY 2017 PROGRAM PERFORMANCE

Detailed FY 2017 performance results will be presented in EPA's *FY 2017 APR.* EPA has chosen to produce an AFR and an APR, and will include its FY 2017 APR with its *FY 2019 Annual Performance Plan and Budget.* These reports, along with FY 2016 performance results are posted to the EPA internet at http://www.epa.gov/planandbudget concurrent with the publication of the FY 2019 President's Budget.

A Framework for Performance Management

In compliance with GPRMA, EPA develops a *Strategic Plan*, which establishes long-term strategic goals, objectives, and measures to carry out the Agency's mission of protecting human health and the environment. To further its strategic goals and objectives, the agency has developed a performance management framework, which supports the analysis of annual performance results and progress toward longer-term strategic objectives as an integral part of formulating and justifying agency resource requests.

EPA's Performance Management Framework

The Agency also develops Data Quality Records (DQRs) to present validation or verification information for selected performance measures and information systems, consistent with guidelines from OMB. The DQR documents the management controls, responsibilities, quality procedures, and other metadata associated with the data lifecycle for individual performance measures, and is intended to enhance the transparency, objectivity, and usefulness of the performance results.

FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

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

The financial management overview below highlights some of the EPA's most significant financial achievements carried out during the Agency's efforts to execute its mission to protect human health and the environment during FY 2017:

- **DATA Act.** In FY 2017, the EPA submitted its first Data Accountability and Transparency Act (DATA) reporting to the U.S. Treasury's Data Broker. The DATA Act provides an easier way to understand how the Federal government spends taxpayer dollars by setting data standards to improve the quality of Federal spending data, and through the creation of a standard data exchange codifying this information into readable formats. This report contained information compiled and reconciled through the Agency's internal DATA Act Evaluation and Approval Repository. Use of this repository ensures the integrity of the Agency's data associated with the 57 DATA Act reporting standards provided to Congress through USASpending.gov on a quarterly basis.
- **Payroll Cost Allocation.** This fiscal year the Agency implemented a new Payroll Cost Allocation (PCA) process linked to the PeoplePlus 9.2 Enhancement initiative. This effort improves the efficiency of the Agency's time and attendance system and cost allocation process. On October 1, 2017, PCA moved from PeoplePlus to Compass Financials allowing the Agency to utilize the cost functionality in the software, improving financial system integration.
- **IPERA Reporting.** The EPA continues to maintain sustained low improper payment rates across its principal payment streams. In FY 2017, statistical sampling in the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF) revealed very low improper payment rates of 0.18% and 0.06%, respectively, which is well below the statutory threshold of 1.5%. As a result, the agency plans to request removal of these programs from OMB's high-risk list. In addition, the OIG's Improper Payments Elimination and Recovery Act (IPERA) compliance audit of the agency's FY 2016 reporting determined EPA was in full compliance with IPERA. This marked the fourth consecutive year of compliance for EPA, and the agency anticipates achieving a fifth year of compliance in FY 2017.
- **Financial Leans.** The EPA has sustained operational excellence and maintained a culture of continuous improvement by completing four financial Lean events in FY 2017. These events have helped to reduce and remove waste, created a more transparent business process for customers, and streamlined each process in preparation for financial system enhancement. The Agency plans to continue streamlining financial processes to meet its goals of payment process modernization and to reduce the financial burden on taxpayers.
- **Enterprise Risk Management.** To continue strengthening the Agency's approach on enterprise risk, which is defined as significant risk to accomplishing the Agency's mission, the EPA held two "Risk Based" trainings focused on implementing Enterprise Risk Management and identifying roles and responsibilities of the agency's strategic planners and management integrity advisors. The Agency also established a risk liaison community designed to strengthen risk-based decision making, and developed a risk assessment tool to support senior leaders in completing key phases of the risk assessment process.
- **Agency Financial Statements.** For the 18th consecutive year, the EPA's OIG issued a "clean" audit opinion, unmodified, in the Agency's financial statements. This achievement

underscores EPA's commitment to presenting reliable and accurate financial data that is represented fairly in all material aspects.

- **Data Governance.** An intra-agency governing body was established for the financial data existing within EPA's IT systems. The primary function of the body is to provide leadership and oversight over the review and approval of data governance strategies and objectives. EPA's data governance group ensured policies, processes and procedures aligned to deliver data that is accurate, consistent, complete, and available to key stakeholders within the appropriate user community. This group also manages and communicates the Agency's data governance process, and continuously works toward improving the Agency's financial systems process.
- **Travel.** This fiscal year, the OIG performed a risk assessment on the EPA's travel card payments and purchases. By successfully implementing internal controls, set forth in guidance from OMB and the Agency's travel policy, the OIG stated a "low risk" declaration for erroneous or illegal travel card purchases and payment.

Financial Condition and Results

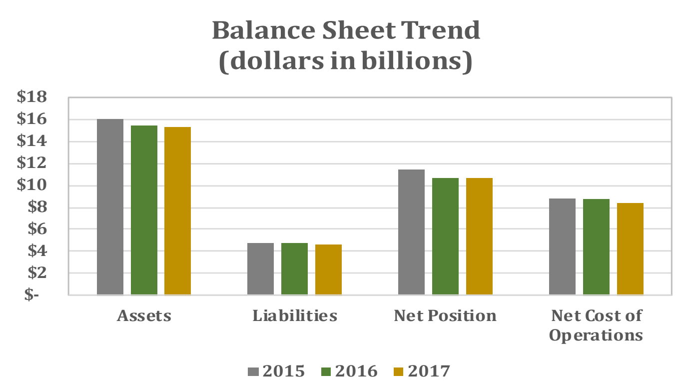
Financial statements are formal financial records that document EPA's activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources;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

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

Key Terms

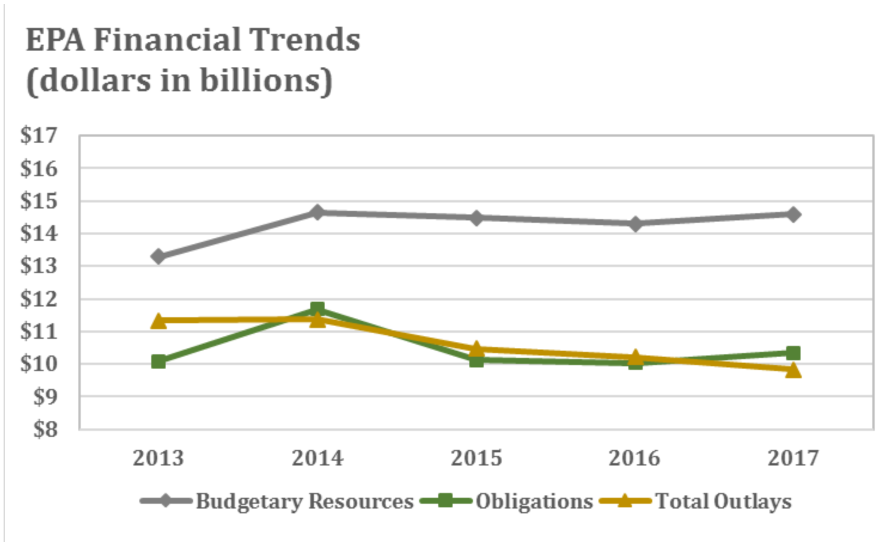
Assets: What EPA owns and manages.
Liabilities: Amounts EPA owes because of past transactions or events.
Net position: The difference between EPA's assets and liabilities.
Net cost of operations: The difference between the costs incurred by EPA's programs and EPA's revenues.

The balance sheet displays assets, liabilities, and net position as of September 30, 2017, and September 30, 2016. 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 2015.



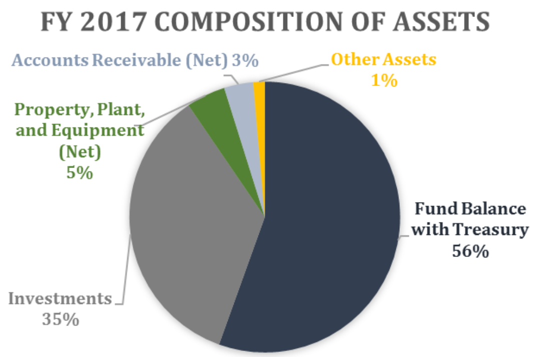
EPA Resources and Spending

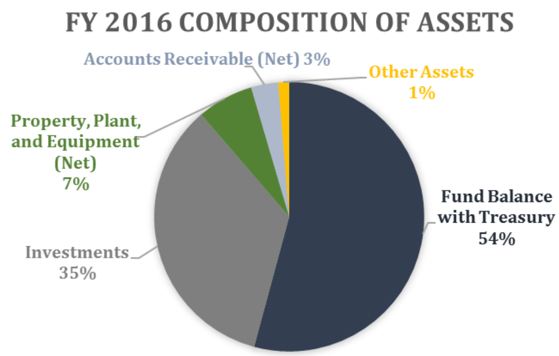
The figure below depicts EPA's aggregate budgetary resources (congressional appropriations and some agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last five fiscal years. The Statement of Budgetary Resources in Section II provides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



Assets—What EPA Owns and Manages

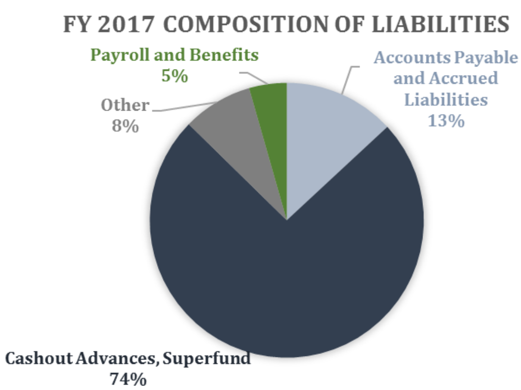
EPA's assets totaled $15.24 billion at the end of FY 2017, a decrease of $154 million from the FY 2016 level. In FY 2017, approximately 91 percent of EPA's assets fall into two categories: fund balance with Treasury and investments. All of EPA's investments are backed by U.S. government securities. The graph below compares the Agency's FY 2017 and FY 2016 assets by major categories.

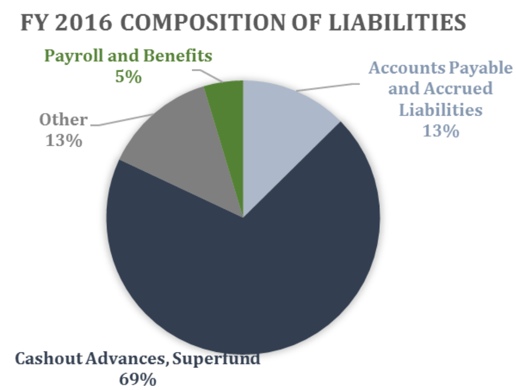




Liabilities—What EPA Owes

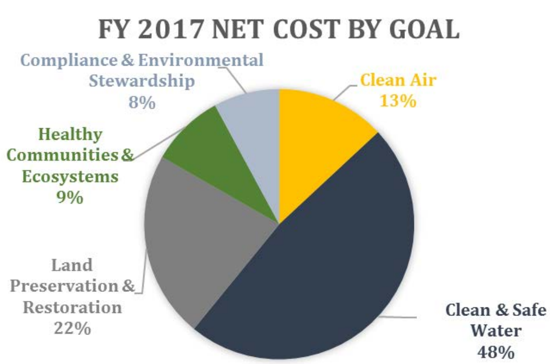
EPA's liabilities were $4.73 billion at the end of FY 2017, an increase of $26 million from the FY 2016 level. In FY 2017, EPA's largest liability (74 percent) was Superfund cashout advances that the Agency uses to pay for cleanup of contaminated sites under the Superfund program. Additional categories 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 2017 and FY 2016 liabilities by major categories.

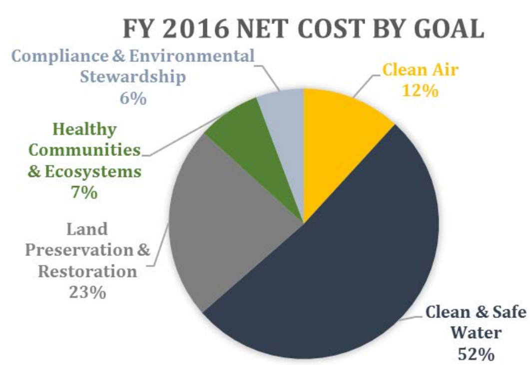




Net Cost of Operations—How EPA Used Its Funds

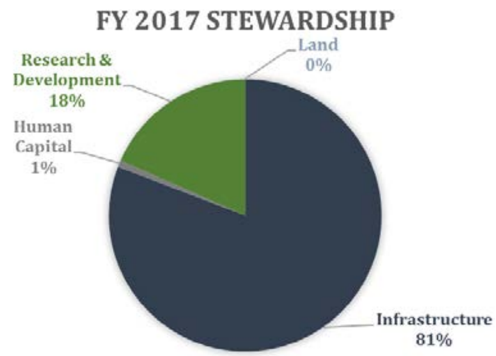
The graph that follows show how EPA's funds are expended among its five program goal areas in FY 2017 and FY 2016.

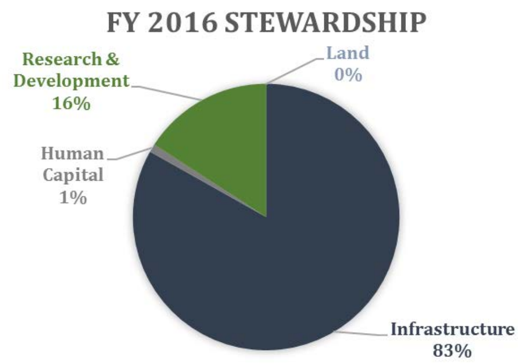




Stewardship Funds

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 2017, EPA devoted a total of $3.5 billion to its stewardship activities.





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

- The largest infrastructure programs are the CWSRF and DWSRF programs that provide grant funds to states for the construction of wastewater and drinking water treatment facilities. States lend the majority of these funds to localities or utilities to fund the construction and or upgrade of facilities (some may also be used for loan forgiveness or given as grants). Loan repayments then revolve at the State level to fund future water infrastructure projects. EPA's budget included nearly $2.3 billion in FY 2017 appropriated funds for states' use. In addition, states lent billions of dollars from funds they received as repayments from previous State Revolving Fund (SRF) loans. These funds provide assistance to public drinking water and wastewater systems for the enhancement of water infrastructure, allowing for cleaner waterbodies and crucial access to 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.
- 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 the EPA's financial resources continues to be critical to the Agency's ability to protect the environment and human health locally, nationally, and internationally. Reliable, accurate, and timely financial information is essential to ensure cost-effective decisions for addressing land, water, air and ecosystem issues. To strengthen the EPA's financial stewardship capabilities, the Agency focuses on the fundamental elements of financial management: people and systems.

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

Systems: In FY 2017, the EPA continued using a component-based approach to managing its financial systems. The system, called Compass, is based on a commercial-off-the-shelf software solution that addresses the Agency's most critical business needs. Compass has improved the EPA's financial stewardship by strengthening accountability, data integrity, and internal controls, on the following business areas:

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

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

The 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:

- Budget formulation
- Digital Accountability and Transparency Act of 2014 implementation
- Time and attendance system modernization/activating Compass' payroll cost allocation component
- Superfund imaging and cost accounting
- Payment systems, such as for travel, purchase card, and grant payments

The Agency continues to use an agile approach to develop, test, and refine Budget Formulation System modules, including performance and document preparation. The EPA is building partnerships with other agencies to expand use of the Budget Formulation System. The Agency is continuing to work on strengthening its financial data/reporting, particularly in its efforts to implement DATA Act requirements.

Limitations of the Principal Financial Statements

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

IMPROVING MANAGEMENT AND RESULTS

Office of Inspector General Audits, Evaluations, and Investigations

OIG contributes to the 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. The OIG detects and prevents fraud, waste and abuse to help the Agency protect human health and the environment more efficiently and cost effectively. The OIG performs its mission through independent oversight of the programs and operations of the EPA. OIG also contributes to the oversight integrity of and public confidence in the Agency's programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies.

In FY 2017, OIG identified key management challenges and internal control weaknesses. OIG audits, evaluations, and investigations resulted in:

- 335 recommendations accounting for over $847 million in potential savings and recoveries;
- 208 actions taken by the Agency for improvement from OIG recommendations; and
- 298 criminal, civil, or administrative enforcement actions.

Grants Management

EPA has two major grants management metrics, one for grant competition, the other for grants closeout. For FY 2017, the Agency exceeded the grant competition metric by 6%, and was just 1% shy of the 99% grant closeout target.

Grants Management Performance Measures for EPA			
Performance Measure	**Target**	**Progress in FY 2017**	**Progress in FY 2016**
Percentage of eligible grants closed out	90%*	88.2% of grants that expired in 2016	90.6% of grants that expired in 2015
	99%**	98% of grants that expired in 2015 and earlier	99.3% of grants that expired in 2014 and earlier
Percentage of new grants subject to the competition policy that are competed***	90%	96%	96%

*Percentage of open grants that expired in 2016 that were closed in performance year.
**Percentage of open grants that expired in 2015 and earlier that were closed in performance year.
***The Environmental Protection Agency Policy for Competition of Assistance Agreements establishes requirements for the competition of assistance agreements (grants, cooperative agreements, and fellowships) to the maximum extent practicable.

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, the EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's annual statement of assurance on the adequacy of the EPA's internal controls over programmatic operations and financial systems.

In FY 2017, the EPA identified no material weaknesses related to effective and efficient operations. The Agency continues to address material weaknesses identified in previous years and expects to complete corrective actions for all of the material weaknesses within FY 2018. Section III of this report provides details about the Agency's corrective actions underway to address these previously identified material weaknesses. The EPA continues to emphasize the importance of maintaining effective internal controls.

Internal Controls over Financial Reporting

To evaluate its internal controls over financial reporting (as required by *OMB Circular A-123,* Appendix A), the Agency evaluated 435 key controls that span across eight financial processes (including general IT controls). Based on this evaluation, no material weaknesses were identified. Subsequent to the Agency's review, the EPA's OIG identified no new material weaknesses during the FY 2017 financial statement audit.

Internal Controls over Financial Management Systems

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

Based on the results of the Agency's and OIG's FY 2017 evaluations, the Administrator can provide reasonable assurance on the adequacy and effectiveness of EPA's internal controls and financial systems.

Fiscal Year 2017 Annual Assurance Statement

The U.S. Environmental Protection Agency's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act.

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

The EPA did not identify any new material weaknesses during FY 2017. The Agency continues to address previously identified material weaknesses and expects to complete corrective actions for all of the material weaknesses within FY 2018.

Based on the results of the EPA's assessments, I can provide reasonable assurance that the Agency's internal control over programmatic operations was operating effectively and financial management systems conform to government-wide standards as of September 30, 2017. The Agency's internal control over financial reporting was operating effectively.

E. Scott Pruitt
Administrator

NOV 07 2017
Date

Management Assurances

The EPA did not identify any new material weaknesses for FY 2017. However, the Agency continues to address material weaknesses identified in and previous years. The agency expects to complete corrective actions for these weaknesses within FY 2018. Section III of this report provides details about the Agency's corrective actions underway to address a previously identified material weakness, and a number of other less severe deficiencies. The EPA will continue monitoring progress toward correcting these issues. The 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.

The EPA's FY 2017 assessment included the following:

- A-123 review found no significant deficiencies.

- The Agency continues to address a material weakness related to undercapitalized software, identified by the Agency and addressed in the OIG's FY 2014 financial statement audit. The Agency expects to complete all corrective actions for this material weakness within FY 2018.

- The Agency's annual Federal Information Security Modernization Act Report did not disclose any material weaknesses.

- The Agency conducted other systems-related activities, including:

    - Third-party control assessments
    - Network scanning for vulnerabilities
    - Annual certification for access to the Agency's accounting system

Based on the assessment described above, the agency is in compliance with the FFMIA for FY 2017.

SECTION II – FINANCIAL SECTION

EPA'S FISCAL 2017 AND 2016 CONSOLIDATED FINANCIAL STATEMENT

EPA's Fiscal 2017 and 2016
Consolidated Financial Statements

Financial Section

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Principal Financial Statements

United States Environmental Protection Agency
CONSOLIDATED BALANCE SHEET
As of September 30, 2017, and 2016
(Dollars in Thousands)

	FY 2017	FY 2016
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 8,464,107	$ 8,341,156
Investments (Note 4)	5,326,013	5,308,734
Accounts Receivable, Net (Note 5)	17,804	7,210
Other (Note 6)	200,822	206,693
Total Intragovernmental	14,008,746	13,863,793
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	508,171	486,814
Property, Plant & Equipment, Net (Note 9)	719,488	1,041,200
Other (Note 6)	8,241	7,074
Total Assets	**$ 15,244,656**	**$ 15,398,891**
Stewardship PP& E (Note 11)		
Liabilities:		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	$ 97,035	$ 73,891
Debt Due to Treasury (Note 10)	-	-
Custodial Liability (Note 12)	22,548	42,579
Other (Notes 13)	134,983	82,412
Total Intragovernmental	254,566	198,882
Accounts Payable & Accrued Liabilities (Note 8)	523,713	521,056
Pensions & Other Actuarial Liabilities (Note 15)	45,245	45,037
Environmental Cleanup Costs (Note 21)	39,544	36,103
Cash-out Advances, Superfund (Note 16)	3,514,426	3,264,224
Commitments & Contingencies (Note 17)	-	-
Payroll & Benefits Payable (Note 32)	205,632	210,797
Other (Note 13)	145,328	425,621
Total Liabilities	$ 4,728,454	$ 4,701,720
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	3,697	4,080
Unexpended Appropriations - Other Funds	7,302,077	7,263,400
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	2,638,364	2,577,360
Cumulative Results of Operations - Other Funds	572,065	852,331
Total Net Position	10,516,203	10,697,171
Total Liabilities and Net Position	**$ 15,244,656**	**$ 15,398,891**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2017 and 2016
(Dollars in Thousands)

	FY 2017	FY 2016
Costs:		
Gross Costs (Note 19)	$ 9,024,232	$ 9,176,572
Less:		
Earned Revenue (Note 19)	532,663	448,388
Net cost of operations (notes 25 and 35)	**$ 8,491,569**	**$ 8,728,184**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF NET COST BY MAJOR PROGRAM
For the Fiscal Years Ended September 30, 2017
(Dollars in Thousands)

		Environ. Programs & Mgmt.	Leaking Underground Storage Tanks	Science & Technology	Superfund	State and Tribal Assistance Agreements	Other	Consolidated Totals
Costs:								
Intragovernmental	$	924,012	4,437	200,358	275,695	54,159	112,492	1,571,153
WCF Eliminations		-	-	-	-	-	(211,512)	(211,512)
With the Public		2,093,973	85,996	612,169	1,219,020	3,395,913	257,520	7,664,591
Total Costs	$	3,017,985	90,433	812,527	1,494,715	3,450,072	158,500	9,024,232
Less:								
Earned Revenue, Federal	$	40,400	-	7,356	26,733	-	231,229	305,718
WCF Eliminations		-	-	-	-	-	(211,290)	(211,290)
Earned Revenue, non-Federal		10,275	-	1,274	389,103	-	37,583	438,235
Total Earned Revenue (Note19)		50,675	-	8,630	415,836	-	57,522	532,663
Net Cost of Operations	$	**2,967,310**	**90,433**	**803,897**	**1,078,879**	**3,450,072**	**100,978**	**8,491,569**

The accompanying notes are an integral part of these statements.

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

		Environ. Programs & Mgmt.	Leaking Underground Storage Tanks	Science & Technology	Superfund	State and Tribal Assistance Agreements	Other	Consolidated Totals
Costs:								
Intragovernmental	$	942,545	4,820	195,740	65,405	57,263	65,317	1,331,090
With the Public		1,764,864	95,761	596,663	1,147,693	3,927,269	313,132	7,845,482
Total Costs	$	2,707,409	100,581	792,403	1,213,098	3,984,632	378,449	9,176,572
Less:								
Earned Revenue, Federal	$	29,960	-	7,217	43,894	-	22,933	104,004
Earned Revenue, non-Federal		1,575	-	1,084	302,087	-	39,638	344,384
Total Earned Revenue (Note19)		31,535	-	8,301	345,981	-	62,571	448,388
Net Cost of Operations	$	**2,675,874**	**100,581**	**784,102**	**867,117**	**3,984,632**	**315,878**	**8,728,184**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2017
(Dollars in Thousands)

	FY 2017 Funds from Dedicated Collections	FY 2017 All Other Funds	FY 2017 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 2,577,361	$ 852,331	$ 3,429,692
Beginning Balances, as Adjusted	2,577,361	852,331	3,429,692
Budgetary Financing Sources:			
Appropriations Used	2,991	7,945,939	7,948,930
Non-exchange Revenue - Securities Invest. (Note 34)	47,445	-	47,445
Non-exchange Revenue - Other (Note 34)	246,289	-	246,289
Transfers In/Out (Note 30)	(13,211)	24,041	10,830
Trust Fund Appropriations	953,850	(1,038,131)	(84,281)
Total Budgetary Financing Sources	1,237,364	6,931,849	8,169,213
Other Financing Sources (Non-Exchange):			
Imputed Financing Sources (Note 31)	13,425	89,669	103,094
Total Other Financing Sources	13,425	89,668	103,094
Net Cost of Operations	(1,189,785)	(7,301,784)	(8,491,569)
Net Change	61,004	(280,266)	(219,262)
Cumulative Results of Operations	**$ 2,638,364**	**$ 572,065**	**$ 3,210,429**

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

The accompanying notes are an integral part of these statements.

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

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

	FY 2016 Funds from Dedicated Collections	FY 2016 All Other Funds	FY 2016 Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ 16,579	$ 7,783,251	$ 7,799,830
Beginning Balances, as Adjusted	16,579	7,783,251	7,799,830
Budgetary Financing Sources:			
Appropriations Received	3,674	7,783,578	7,787,252
Appropriations Transferred In/Out (Note 30)	(13,294)	12,716	(577)
Other Adjustments (Note 33)	(1,072)	(52,429)	(53,501)
Appropriations Used	(1,807)	(8,263,716)	(8,265,522)
Total Budgetary Financing Sources	(12,499)	(519,851)	(532,350)
Total Unexpended Appropriations	4,080	7,263,400	7,267,482
Total Net Position	**$ 2,581,442**	**$ 8,115,732**	**$ 10,697,174**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Year Ended September 30, 2017 and 2016
(Dollars in Thousands)

		FY 2017		FY 2016
BUDGETARY RESOURCES				
Unobligated balance, brought forward, October 1:	$	4,242,051	$	4,350,630
Adjustment to Un-Obligation Balance (Allocation Transfer Agencies)		21,150		961
Unobligated Balance Brought Forward, October 1, as adjusted		4,263,201		4,351,591
Recoveries of prior year unpaid obligations (Note 26)		330,486		234,361
Other changes in unobligated balance		(42,261)		(13,622)
Unobligated balance from prior year budget authority, net		4,551,426		4,572,330
Appropriations (discretionary and mandatory)		9,370,266		9,096,422
Spending Authority from offsetting collection (discretionary and mandatory)		680,152		610,181
Total Budgetary Resources	**$**	14,601,844	**$**	14,278,933
STATUS OF BUDGETARY RESOURCES				
New obligations and upward adjustments (total)	$	10,354,618	$	10,036,882
Unobligated Balance, end of year:				
Apportioned		4,152,585		4,086,727
Unapportioned		1,992		36,008
Total Unobligated balance, end of period (Note 27)		4,154,577		4,122,735
Expired unobligated balance, end of year		92,649		119,316
Total Status of Budgetary Resources	**$**	14,601,844	**$**	14,278,933
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid obligations, brought forward, October 1 (gross)	$	8,694,969	$	9,104,831
Obligations incurred, net		10,354,618		10,036,882
Outlays (gross)		(9,916,836)		(10,212,494)
Recoveries of prior year unpaid obligations		(330,486)		(234,361)
Unpaid obligations, end of year (gross)	$	8,802,265	$	8,694,858
Uncollected Payments				
Uncollected customer payments from Federal Sources, brought forward, October 1)		(248,640)		(235,529)
Change in uncollected customer payments from federal sources		(56,729)		(13,111)
Uncollected customer payments from Federal Sources, end of year		(305,369)		(248,640)
Memorandum entries:				
Obligated balance, start of year	$	8,446,218	$	8,869,302
Obligated balance, end of year (net)	$	8,496,895	$	8,446,218
BUDGET AUTHORITY AND OUTLAYS, NET:				
Budget authority, gross (discretionary and mandatory)	$	10,050,418	$	9,706,603
Actual offsetting collections (discretionary and mandatory)		(644,573)		(597,070)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)		(56,729)		(13,111)
Budget Authority, net (discretionary and mandatory)	$	9,349,116	$	9,096,422
Outlays, gross (discretionary and mandatory)	$	9,916,836	$	10,212,494
Actual offsetting collections (discretionary and mandatory)		(644,573)		(597,070)
Outlays, net (discretionary and mandatory)		9,272,263		9,615,424
Distributed offsetting receipts (Note 29)		(1,109,453)		(886,453)
Agency outlays, net (discretionary and mandatory)	**$**	**8,162,810**	**$**	**8,728,971**

The accompanying notes are an integral part of these statements.

United States Environmental Protection Agency
STATEMENT OF CUSTODIAL ACTIVITY
For the Fiscal Year Ended September 30, 2017 and 2016
(Dollars in Thousands)

	FY 2017	FY 2016
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 1,571,258	$ 95,473
Other	29,301	(4,333)
Total Cash Collections	1,600,559	91,140
Accrual Adjustment	(19,545)	7,786
Total Custodial Revenue (Note 24)	1,581,014	98,926
Disposition of Collections:		
Transferred to Others (General Fund)	1,600,593	91,140
Increases/Decreases in Amounts Yet to be Transferred	(19,579)	7,786
Total Disposition of Collections	1,581,014	98,926
Net Custodial Revenue Activity	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

The FY 2017 financial statements are presented on a consolidated basis for the Balance Sheet, Statement of Net Cost, Statement of Net Costs by Major Program, Statement of Changes in Net Position, Statement of Custodial Activity and a combined basis 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 (the EPA or Agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and the EPA accounting policies, which are summarized in this note.

C. Budgets and Budgetary Accounting

I. General Funds

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

The EPA provided support for hurricane and wildfire relief via reimbursable agreements with other federal agencies. As of September 30, 2017, reimbursable agreements for Hurricane’s Harvey, Irma, Maria, and Nate totaled $75.4 million. Reimbursable agreements for wildfire response totaled $51.0 million. These transactions are recorded in the Environmental Programs and Management appropriation.

The EPA has one 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 Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) established a Federal credit program administered by the EPA for eligible water and wastewater infrastructure projects. The program is financed from appropriations to cover the estimated long-term cost of the loan. The long-term cost of the loans are defined as the net present value of the estimated cash flows associated with the loans. A permanent indefinite appropriation is available to finance the costs of re-estimated loans that occur in subsequent years after the loans were disbursed. The Agency received a two-year appropriation in fiscal year 2017 to finance the administration and subsidy portions of the program. As of September 30, 2017, no loan amounts have been obligated or disbursed.

Funds transferred from other federal agencies are processed as non-expenditure transfers. Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

II. Revolving Funds

Funding of the Reregistration and Expedited Processing Fund (FIFRA) 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, continuity of operations, and postage.

The Natural Resource Damages Trust Fund (NRDA) was established for funds received for critical damage assessments and restoration of natural resources injured as a result of the Deepwater Horizon oil spill.

III. Special Funds

The Environmental Services Receipts Account Fund obtains fees associated with environmental programs.

IV. Deposit Funds

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

V. Trust Funds

Congress enacts an annual appropriation for the Superfund, Leaking Underground Storage Tank (LUST) and the Inland Oil Spill Programs accounts to remain available until expended. Transfer accounts for the Superfund and LUST Trust Funds have been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund and LUST Trust Funds held at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress enacts the Inland Oil Spill Programs appropriation amount to the EPA’s Inland Oil Spill Programs account.

In 2015, the EPA established a receipt account for Superfund special account collections. Special accounts are comprised of reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3). 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 a budgetary basis. 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 OMB directives and the U.S. 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 the EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with SFFAS No. 7, "Accounting for Revenues and Other Financing Sources."

I. Superfund

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from PRPs under Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3) which are placed into Special Accounts. Special Accounts and corresponding interest are classified as mandatory appropriations due to the 'retain and use' authority under CERCLA 122(b) (3). Cost recovery settlements that are not placed in special accounts are deposited in the Superfund Trust Fund.

II. Other Funds

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

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

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

F. Funds with the Treasury

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

G. Investments in U.S. Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

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

J. Accounts Receivable and Interest Receivable

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

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

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

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

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. Appropriated Amounts Held by Treasury

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

M. Property, Plant, and Equipment

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

A purchase of EPA-held or contractor-held personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least two years. For contractor-held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years two through five. 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 includes 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 $150 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cash flows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value.

Superfund contract property used as part of the remedy for site-specific response 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 the EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations. An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in 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. In FY 2017, the EPA increased the capitalization threshold for real property, other than land, to $150 thousand from $85 thousand for buildings and improvements and $25 thousand for plumbing, heating, and sanitation projects. The new threshold will be applied prospectively. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 50 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

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

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

N. Liabilities

Liabilities represent the amount of monies or other resources that are more likely than not to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections authorized for retention. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

O. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the WIFIA direct loans. Periodic principal payments are made to Treasury based on the collections of loans receivable. As of September 30, 2017, no loans have been disbursed.

P. Accrued Unfunded Annual Leave

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

Q. Retirement Plan

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

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

R. Prior Period Adjustments

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

S. Deepwater Horizon Oil Spill

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 the EPA and United States Department of Agriculture as additional trustees for the Natural Resource Damage and Assessment Council for restoration solely conjunction with injury to, destruction of, loss of, or loss of the use of natural resources, including their supporting ecosystems, resulting from the Deepwater Horizon Oil Spill. In FY 2016, the EPA received an advance of $184 thousand from BP and $2 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill. In FY2017, the EPA returned the reminder of the fund amount of $440 thousand.

T. Hurricane Sandy

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

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

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

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

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

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

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

U. Puerto Rico Insolvency

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

In June 2016, the EPA and the Puerto Rico SRFs agreed to a 1 year forbearance on principal and interest payments. In June 2017, the 1 year forbearance which was to end on June 30, 2017, was extended for an additional 6 months, ending December 30, 2017.

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

V. Use of Estimates

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

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2017 and September 30, 2016, consists of the following:

	FY 2017			FY 2016		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Fund Balances						
Trust Funds:						
Superfund	$ 155,259	-	155,259	$ 113,897	-	113,897
LUST	68,266	-	68,266	52,354	-	52,354
Oil Spill & Misc.	11,129	-	11,129	9,835	-	9,835
Revolving Funds:						
FIFRA/Tolerance	43,614	-	43,614	31,654	-	31,654
Working Capital	101,524	-	101,524	116,853	-	116,853
E-Manifest	5,385	-	5,385	5,230	-	5,230
NRDA	2,729	-	2,729	3,027	-	3,027
Appropriated	7,604,790	-	7,604,790	7,558,470	-	7,558,470
Other Fund Types	467,626	3,785	471,411	444,471	5,335	449,826
Total	**$ 8,460,322**	**3,785**	**8,464,107**	**$ 8,335,801**	**5,335**	**8,341,156**

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

Status of Fund Balances with Treasury:	**FY 2017**	**FY 2016**
Unobligated Amounts in Fund Balance:		
Available for Obligation	$ 4,154,001	$ 4,086,786
Unavailable for Obligation	94,641	155,324
Net Receivables from Invested Balances	(4,797,519)	(4,826,953)
Balances in Treasury Trust Fund (Note 36)	15,112	14,268
Obligated Balance not yet Disbursed	8,496,895	8,446,266
Non-Budgetary FBWT	500,977	465,465
Totals	**$ 8,464,107**	**$ 8,341,156**

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 2017 and FY 2016 no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2017, and September 30, 2016, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2017, and September 30, 2016, 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 2017	$	5,329,067	6,455	3,401	5,326,013	5,326,013
Non-Marketable FY 2016	$	5,298,243	(7,209)	3,282	5,308,734	5,308,734

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

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

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

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2017 and September 30, 2016 consist of the following:

		FY 2017		FY 2016
Intragovernmental:				
Accounts & Interest Receivable	$	19,227	$	8,618
Less: Allowance for Un-collectibles		(1,423)		(1,408)
Total	**$**	**17,804**	**$**	**7,210**
Non-Federal:				
Unbilled Accounts Receivable	$	206,044	$	150,538
Accounts & Interest Receivable		2,413,358		2,395,903
Less: Allowance for Un-collectibles		(2,111,231)		(2,059,627)
Total	**$**	**508,171**	**$**	**486,814**

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, 2017 and September 30, 2016 consist of the following:

		FY 2017		FY 2016
Intragovernmental:				
Advances to Federal Agencies	$	200,703	$	206,597
Advances for Postage		119		96
Total	**$**	**200,822**	**$**	**206,693**
Non-Federal:				
Travel Advances	$	79	$	187
Securities from Debt Settlement		1,863		-
Other Advances		6,196		6,598
Inventory for Sale		103		289
Total	**$**	**8,241**	**$**	**7,074**

Note 7. Loans Receivable, Net

Loans Receivable generally consists of program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. As of September 30, 2017, the EPA has not disbursed any loans for the WIFIA program, but has incurred $1.79 million in administrative expenses.

Schedule for Reconciling Subsidy Cost Allowance Balances

(Post-1991 Direct Loans)

	FY2017	FY2016
Beginning balance of the subsidy cost allowance	$ -	$ 337
Add: subsidy expense for direct loans disbursed during the reporting years by component:	-	-
Interest rate differential costs	-	-
Default costs (net of recoveries)	-	-
Fees and other collections	-	-
Other subsidy costs	-	-
Total of the above subsidy expense components	-	337
Adjustments:		
Loan Modification	-	-
Fees received	-	-
Foreclosed property acquired	-	-
Loans written off	-	-
Subsidy allowance amortization	-	-
Other	-	(337)
End balance of the subsidy cost allowance before reestimates	-	-
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	-	-
(b) Technical/default reestimate	-	-
Total of the above reestimate components	-	-
Ending Balance of the subsidy cost allowance	$ -	$ -

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, 2017 and September 30, 2016:

		FY 2017		FY 2016
Intragovernmental:				
Accounts Payable	$	4,199	$	2,157
Allocation Liability		-		578
Accrued Liabilities		92,836		71,156
Total	**$**	**97,035**	**$**	**73,891**

		FY 2017		FY 2016
Non-Federal:				
Accounts Payable	$	58,212	$	63,833
Advances Payable		17		19
Interest Payable		5		5
Grant Liabilities		296,157		309,716
Other Accrued Liabilities		169,322		147,483
Total	**$**	**523,713**	**$**	**521,056**

Other Accrued Liabilities are mostly comprised of contractor accruals.

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

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

As of September 30, 2017, and September 30, 2016, General PP&E consisted of the following:

		FY 2017				FY 2016	
		Acquisition Value	Accumulated Depreciation	Net Book Value		Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$	304,068	(198,897)	105,171	$	296,381	(196,484)	99,897
Software (production)		437,334	(364,300)	73,034		733,326	(545,672)	187,654
Software (development)		47,377	-	47,377		267,355	-	267,358
Contractor-Held Equip.		39,759	(24,117)	15,642		37,261	(25,579)	11,682
Land and Buildings		742,932	(269,779)	473,153		721,809	(253,182)	468,627
Capital Leases		24,485	(19,374)	5,111		24,485	(18,500)	5,985
Total	**$**	1,595,955	(876,467)	719,488	**$**	**2,080,617**	**(1,039,417)**	**1,041,200**

In FY 2015, the Agency initiated an intensive remediation effort to address the material weakness in how the Agency accounts for software. The Agency disclosed a material weakness through its internal control review of software capitalization processes in FY 2014. The material weakness was cited in the, "Audit of the EPA's Fiscal Year's 2014 and 2013 (Restated) Consolidated Financial Statements" report, dated November 17, 2014. The significant decrease in software acquisition value from FY 2016 to FY 2017 is attributable to the Agency's ongoing software material weakness remediation efforts. A key part of this remediation effort has been improving procedures for validating expenditures that require capitalization and improving communications between Agency program offices and the accounting office. In FY 2017, there was an increase in software acquisition values totaling $46.8 million. There were also decreases totaling $562.8 million due to software disposals, reclassification of capitalized software costs to expense, and adjustments to asset values, including depreciation. The increase in the Agency's capitalization threshold was effective on October 1, 2016 and did not have a material effect in the change in software asset values.

Note 10. Debt Due to Treasury

As of September 30, 2017, the EPA does not have any debt due to Treasury. In FY 2017, the EPA did not borrow funds to finance the WIFIA Loan Program. The debt to Treasury as of September 30, 2017 and September 30, 2016 is as follows:

All Other Funds	FY 2017 Beginning Balance	FY 2017 Net Borrowing	FY 2017 Ending Balance	FY 2016 Beginning Balance	FY 2016 Net Borrowing	FY 2016 Ending Balance
Intragovernmental:						
Debt to Treasury	$ -	-	-	$ 34	(34)	-

Note 11. Stewardship Property Plant & Equipment

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

As of September 30, 2017, and 2016, the Agency possessed the following land and land rights:

	FY 2017	FY2016
Superfund Sites with Easements:		
Beginning Balance	$ 38	$ 36
Additions	1	2
Withdrawals	-	-
Ending Balance	$ 39	$ 38
Superfund Sites with Land Acquired:		
Beginning Balance	$ 34	$ 35
Additions	1	-
Withdrawals	1	1
Ending Balance	$ 34	$ 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, 2017, and September 30, 2016, custodial liability is approximately $22.5 million and $42.6 million, respectively.

Note 13. Other Liabilities

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

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

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

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

In FY 2017, the EPA reclassified liabilities from “Other” to “Superfund Cashout Advances” for presentation purposes, leading to a variance of $280.2 million between fiscal years 2016 and 2017.

Note 14. Leases

A. Capital Leases:

The value of assets held under Capital Leases as of September 30, 2017 and 2016 are as follows:

		FY 2017		FY 2016
Summary of Assets Under Capital Lease:				
Real Property	$	24,485	$	24,485
Personal Property		-		-
Total	**$**	**24,485**	**$**	**24,485**
Accumulated Amortization	$	19,374	$	18,500

The EPA has one capital lease for land and buildings housing scientific laboratories. This lease includes a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. The EPA's lease will terminate in FY 2025.

Future Payments Due:		
Fiscal Year		Capital Leases
2018	$	4,215
2019		4,215
2020		4,215
2021		4,215
2022		4,215
After 5 Years		9,835
Total Future Minimum Lease Payments		30,910
Less: Imputed Interest		(13,362)
Net Lease Liability		17,548
Liability not Covered by Budgetary Resources	$	17,548

B. Operating Leases:

The GSA provides leased real property (land and buildings) as office space for the EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties. The EPA has three direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. 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
2018	$	84
2019		53
2020		9
Total Future Minimum Lease Payments	**$**	**146**

Note 15. FECA Actuarial Liabilities

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

The FECA Actuarial Liability as of September 30, 2017 and 2016 was $45.2 million and $45.0 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2017 present value of these estimated outflows is calculated using a discount rate of 2.683 percent in the first year, and 2.683 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by the EPA, a state, or another responsible party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cash-out funds received by the EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of the EPA without further appropriation by Congress. As of September 30, 2017, and September 30, 2016, cash-out advances are $3.5 billion and $3.3 billion respectively.

Note 17. Commitments and Contingencies

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

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

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

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

d) Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2017, and 2016 there were no accrued liabilities for commitments and potential loss contingencies.

A. Gold King Mine

On August 5, 2015, the 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 2017 and subsequent fiscal years, the Agency has received and anticipates receiving administrative tort legal claims for compensation from individuals and entities who may have suffered personal injury or property damage from the spill. Subject to the materiality threshold, the Agency will begin to report on such matters when claims are filed and contingent legal liabilities are known. See Section B in regards to cases that have been filed under CERCLA relating to Gold King Mine.

B. Superfund

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

As of September 30, 2017, there is one case pending against the EPA that is reported under Environmental Liabilities below: Bob's Home Service Landfill ($900 thousand) is reported as a reasonably possible liability.

There are six matters concerning Land O' Lakes (Hudson Oil Refinery Superfund Site), CERCLA 106(b) Petition No. 15-01, CERCLA, New Mexico v. EPA et al., Navajo Nation v. EPA et al., McDaniel et al., and Jan Burgess et al. The amounts are estimated at $18 million, $20 million, $154 million, $160 million, $70 million and $722 million respectively but they are only reasonably possible and the final outcomes are not probable.

C. Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, “Accounting for Treasury Judgment Fund Transactions.” The EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim. As of September 30, 2017, there is no other case pending in the court.

Note 18. Fund from Dedicated Collections (Unaudited)

		Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2017						
Assets						
Fund Balance with Treasury	$	444,637	68,265	155,260	85,847	754,009
Investments		-	529,482	4,796,531	-	5,326,013
Accounts Receivable, Net		-	37,647	416,861	26	454,534
Other Assets		-	699	20,558	599	21,856
Total Assets	$	444,637	636,093	5,389,210	86,472	6,556,412
Other Liabilities		-	44,841	3,789,256	80,254	3,914,351
Total Liabilities	$	-	44,841	3,789,256	80,254	3,914,351
Unexpended Appropriation		-	-	(2)	3,699	3,697
Cumulative Results of Operations		444,637	591,252	1,599,956	2,519	2,638,364
Total Liabilities and Net Position	$	444,637	636,093	5,389,210	86,472	6,556,412
Statement of Net Cost for the Period Ended September 30, 2017						
Gross Program Costs	$	-	90,432	1,495,192	67,414	1,653,038
Less: Earned Revenues		-	-	416,036	47,217	463,253
Net Cost of Operations	$	-	90,432	1,079,156	20,197	1,189,785
Statement of Changes in Net Position for the Period ended September 30, 2017						
Net Position, Beginning of Period	$	421,406	546,543	1,608,142	5,350	2,581,441
Non-exchange Revenue- Securities Investments		-	3,048	44,166	230	47,444
Non-exchange Revenue		23,231	225,193	(701)	(1,434)	246,289
Other Budgetary Finance Sources		-	(93,100)	1,014,090	22,257	943,247
Other Financing Sources		-	-	13,413	12	13,245
Net Cost of Operations		-	(90,432)	(1,079,156)	(19,721)	(1,189,785)
Change in Net Position		23,231	44,709	(8,188)	868	60,620
Net Position	**$**	444,637	591,252	1,599,954	6,218	2,642,061

A. Funds from Dedicated Collections are as follows

i. Environmental Services Receipt Account:

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

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

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

iii. Superfund Trust Fund:

In 1980, the Superfund Trust Fund, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to the Department of Justice carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other Federal agencies. The Superfund Trust Fund includes Treasury’s collections, special account receipts from settlement agreements, and investment activity.

B. Other Funds from Dedicated Collections

i. Inland Oil Spill Programs Account:

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

ii. Pesticide Registration Fund:

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

iii. Reregistration and Expedited Processing Fund:

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

iv. Tolerance Revolving Fund:

The Tolerance Revolving Fund, was authorized in 1963 for the deposit of tolerance fees. Fees 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).

Note 19. Intragovernmental Costs and Exchange Revenue

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

	FY2017			FY2016		
	Intragovern-mental	**With the Public**	**Total**	**Intragovern-mental**	**With the Public**	**Total**
Env. Programs & Management:						
Program Costs	$ $924,012	2,093,973	3,017,985	$ 942,545	1,764,864	2,707,409
Earned Revenue	40,400	10,275	50,675	29,960	1,575	31,535
NET COSTS	883,612	2,083,698	2,967,310	912,585	1,763,289	2,675,874
Leaking Underground Storage Tanks:						
Program Costs	4,437	85,996	90,433	4,820	95,761	100,581
Earned Revenue	-	-	-	-	-	-
NET COSTS	4,437	85,996	90,433	4,820	95,761	100,581
Science & Technology:						
Program Costs	200,358	612,169	812,527	195,740	596,663	792,403
Earned Revenue	7,356	1,274	8,630	7,217	1,084	8,301
NET COSTS	193,002	610,895	803,897	188,523	595,579	784,102
Superfund:						
Program Costs	275,695	1,219,020	1,494,715	65,405	1,147,693	1,213,098
Earned Revenue	26,733	389,103	415,836	43,894	302,087	345,981
NET COSTS	248,962	829,917	1,078,879	21,511	845,606	867,117
State and Tribal Assistance Agreements:						
Program Costs	54,159	3,395,913	3,450,072	57,263	3,927,369	3,984,632
Earned Revenue	-	-	-	-	-	-
NET COSTS	54,159	3,395,913	3,450,072	57,263	3,927,369	3,984,632
Other:						
Program Costs	112,492	257,520	343,721	65,317	313,132	378,449
WCF Eliminations	(211,512)	-	(211,512)	-	-	-
Earned Revenue	231,229	37,583	295,103	22,933	39,638	62,571
WCF Eliminations	(211,290)	-	(211,290)	-	-	-
NET COSTS	(118,959)	219,937	100,978	42,384	273,494	315,878
Total						
Program Costs	1,359,641	7,664,591	9,024,232	1,331,090	7,845,482	9,176,572
Earned Revenue	94,428	438,235	532,663	104,004	344,384	448,388
NET COSTS	**$ 1,265,213**	**7,226,356**	**8,491,569**	**$ 1,227,086**	**7,501,098**	**8,728,184**

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

Note 20. Cost of Stewardship Land

The EPA had one acquisition of Superfund site with Easements, and one acquisition of Superfund site with Land acquired as of September 30, 2017. The acquisition of Superfund site with Easements contains four 20 year easements at the site, with no acquisition cost. The acquisition of Superfund site with land acquired was valued at $36 thousand with an option for an additional 12 months ($18 thousand). The EPA also had a property transfer of ownership via a Quit Claim Deed.

Note 21. Environmental Cleanup Costs

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

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

The EPA has 19 sites responsible for clean-up cost incurred under federal, state, and/or local regulations to remove from, contain, or dispose of hazardous material fund located at these facilities.

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

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

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

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

As of September 30, 2017, the EPA has 1 site that requires clean-up stemming from its activities. The claimants' chances of success are characterized as reasonably possible with costs amounting to $900 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by the EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although the 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 the EPA; (2) any demand against the EPA will be resolved only after the Superfund clean-up work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2017 and FY 2016.

A. Accrued Clean-up Cost

The EPA has 19 sites and is required to fund the environmental clean-up of those sites. As of September 30, 2017, the estimated costs for site clean-up were $39.5 million unfunded, and $500 thousand funded, respectively. In 2016 the estimated costs for site clean-up were $36.1 million unfunded, $1.1 million funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2017, the estimate for unfunded clean-up cost increased by $3.4 million from the FY 2016 estimate. This increase is primarily due to the closure of several EPA buildings in various regions.

Note 22. State Credits

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

Once the EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by the EPA. As of September 30, 2017, and September 30, 2016, the total remaining state credits have been estimated at $22.2 million, and $22.2 million, respectively.

Note 23. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a) (2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2017, the EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $1.4 million. As of September 30, 2016, the EPA had 4 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 the EPA for payment. Further, the EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by the EPA.

Note 24. Custodial Revenues and Accounts Receivable

	FY 2017	FY 2016
Fines, Penalties and Other Miscellaneous Receipts	**$ 1,581,014**	**$ 98,926**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	149,522	195,188
Less: Allowance for Uncollectible Accounts	(124,493)	(150,599)
Total	**$ 25,029**	**$ 44,589**

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

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

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

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2017 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2017 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2017 has not yet been published. We expect it will be published by early 2018, and it will be available on the Office of Management and Budget website at Office of Management and Budget website at https://www.whitehouse.gov/

The actual amounts published for the year ended September 30, 2016 are listed immediately below (dollars in millions):

FY 2016		Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$	14,154	10,031	886	9,615
Reported in Budget of the U. S. Government	$	14,154	10,031	886	9,615

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, 2017 and September 30, 2016:

		FY 2017		FY 2016
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$	330,486	$	234,361
Temporarily Not Available - Rescinded Authority		(10,555)		(2,855)
Permanently Not Available:				
Payments to Treasury		-		(34)
Rescinded authority		(90,348)		(40,000)
Canceled authority		(46,483)		(13,589)
Total Permanently Not Available	$	(136,831)	$	(53,623)

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, 2017 and September 30, 2016:

		FY 2017		FY 2016
Unexpired Unobligated Balance	$	4,154,577	$	4,122,735
Expired Unobligated Balance		92,649		119,316
Total	**$**	**4,247,226**	**$**	**4,242,051**

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2017 and September 30, 2016 were $8.32 billion and $8.26 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, 2017 and September 30, 2016, the following receipts were generated from these activities:

	FY 2017	FY 2016
Trust Fund Recoveries	$ (49,379)	$ 30,833
Special Fund Environmental Service	23,222	23,577
Trust Fund Appropriation	1,135,527	811,684
Miscellaneous Receipt and Clearing Accounts	83	20,359
Total	$ 1,109,453	$ 886,453

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

A. Appropriation Transfers, In/Out:

For September 30, 2017 and September 30, 2016, 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, 2017 and September 30, 2016:

Fund/Type of Account	FY 2017	FY 2016
Net Transfers from Invested Funds	$ 1,195,715	$ 1,183,737
Transfer from LUST to DOT Highway Trust Fund	93,100	100,000
Transfers to Another Agency	870	981
Allocations Rescinded	6,900	-
Total of Net Transfers on Statement of Budgetary Resources	$ 1,296,585	$ 1,284,718

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2017 and September 30, 2016, 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, 2017 and September 30, 2016:

	FY 2017		FY 2016	
Type of Transfer/Funds	**Fund from Dedicated Collections**	**Other Funds**	**Fund from Dedicated Collections**	**Other Funds**
Transfers-in (out) non-expenditure, Earmark to S&T and OIG funds Capital Transfer	$ (24,274)	24,041	$ (28,789)	28,789
Transfers-in non-expenditure, Oil Spill	(18,209)	-	(18,209)	-
Transfers-in (out) non-expenditure, Superfund	54,464	-	(43,402)	-
Transfers-in non-expenditure, NRDA	(870)	-	-	-
Transfer-out LUST	100	-	100,000	-
Total Transfer in (out) without Reimbursement, Budgetary	$ 13,211	24,041	$ 9,600	28,789

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 2017 were $77.3 million. For FY 2016, the estimates were $116.4 million.

SFFAS No. 4, “Managerial Cost Accounting Standards and Concepts” and SFFAS No. 30, “Inter-Entity Cost Implementation,” requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. The EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. The EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other Federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2017 total imputed costs were $22.2 million.

In addition to the pension and retirement benefits described above, the EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, “Accounting for Treasury Judgment Fund Transactions.” For FY 2017 entries for Judgment Fund payments totaled $3.6 million. For FY 2016, entries for Judgment Fund payments totaled $5.9 million.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years ending September 30, 2017 and September 30, 2016 consist of the following:

		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2017 Payroll & Benefits Payable				
Accrued Funded Payroll & Benefits	$	31,095	-	31,095
Withholdings Payable		32,311	-	32,311
Employer Contributions Payable-TSP		638	-	638
Accrued Unfunded Annual Leave		-	141,588	141,588
Total – Current	**$**	**64,044**	**141,588**	**205,632**
FY 2016 Payroll & Benefits Payable				
Accrued Funded Payroll and Benefits	$	40,899	-	40,899
Withholdings Payable		19,230	-	19,231
Employer Contributions Payable-TSP		597	-	597
Accrued Unfunded Annual Leave		-	150,071	150,071
Total – Current	**$**	**60,726**	**150,071**	**210,797**

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 2017		Other Funds FY 2016
Canceled General Authority		123,824		53,501
Total Other Adjustments	**$**	**123,824**	**$**	**53,501**

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, 2017 and September 30, 2016 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2017		Funds from Dedicated Collections FY 2016
Interest on Trust Fund	$	47,445	$	38,303
Tax Revenue, Net of Refunds		225,194		202,681
Fines and Penalties Revenue		(701)		8,490
Special Receipt Fund Revenue		21,796		20,134
Total Non-Exchange Revenue	**$**	**293,734**	**$**	**269,608**

Note 35. Reconciliation of Net Cost of Operations to Budget

		FY 2017		FY 2016
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	$	10,354,618	$	10,036,882
Less: Spending Authority from Offsetting Collections and Recoveries		(1,031,789)		(844,542)
Obligations, Net of Offsetting Collections		9,322,829		9,192,340
Less: Offsetting Receipts		(1,109,453)		(886,453)
Net Obligations		8,213,376		8,305,887
Other Resources:				
Imputed Financing Sources		103,093		143,616
Total Resources Used to Finance Activities	$	8,316,469	$	8,449,503
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated	$	(66,195)	$	307,188
Resources that Fund Prior Periods Expenses		-		-
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:				
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances		31		497
Offsetting Receipts Not Affecting Net Cost		72,980		53,730
Resources that Finance Asset Acquisition		(121,053)		(85,805)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost		(8,819)		-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		(123,056)		275,610
Total Resources Used to Finance the Net Cost of Operations	$	8,193,413	$	8,725,113
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	$	(8,483)	$	5,990
Increase in Environmental and Disposal Liability		3,441		(62)
Increase in Unfunded Contingencies		-		(901)
Upward/Downward Re-estimates of Credit Subsidy Expense		-		2,151
Increase in Public Exchange Revenue Receivables		(159,362)		(108,262)
Increase in Workers Compensation Costs		(123)		(1,347)
Other		105		(88)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods		(164,422)		(102,519)
Components Not Requiring/Generating Resources:				
Depreciation and Amortization		108,927		91,604
Expenses Not Requiring Budgetary Resources		353,651		13,986
Total Components of Net Cost that Will Not Require or Generate Resources		462,578		105,590
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		298,156		3,071
Net Cost of Operations	**$**	**8,491,569**	**$**	**8,728,184**

Note 36. Amounts Held by Treasury (Unaudited)

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

A. Superfund

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2017 and September 30, 2016. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

		EPA	Treasury	Combined
SUPERFUND FY 2017				
Undistributed Balances				
Un-invested Fund Balance	$	-	1,422	1,422
Total Undisbursed Balance		-	1,422	1,422
Interest Receivable		-	3,387	3,387
Investments, Net		4,704,616	88,528	4,793,144
Total Assets	$	4,704,616	93,337	4,797,953
Liabilities & Equity				
Equity	$	4,704,616	93,337	4,797,753
Total Liabilities and Equity	$	4,704,616	93,337	4,797,753
Receipts				
Cost Recoveries	$	-	49,379	49,379
Fines & Penalties		-	2,592	2,592
Total Revenue		-	51,971	51,971
Appropriations Received		-	1,038,131	1,038,131
Interest Income		-	44,166	44,166
Total Receipts	$	-	1,134,268	1,134,268
Outlays				
Transfers to/from EPA, Net	$	1,119,857	(1,119,857)	-
Total Outlays		1,119,857	(1,119,857)	-
Net Income	**$**	**1,119,857**	**14,411**	**1,134,268**

In FY 2017, the EPA received an appropriation of $1.1 billion for Superfund. Treasury's Bureau of Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to the EPA for the amount of the appropriation. BFS does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2017, and September 30, 2016, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of $4.8 for both fiscal years.

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

B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2017 and 2016, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

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

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

Note 37. Miscellaneous Receipts Violation, Anti-Deficiency Act Violations and Potential Anti-Deficiency Act Violations

A. Miscellaneous Receipt Act Violation

In 2007 and 2014 The Office of Pesticide Programs established the per-product maintenance fee to purposefully collect fees above the FIFRA § 4 statutory target with the understanding that the EPA could "make up" for shortfalls in prior years' collections. The FIFRA § 4 does not authorize the EPA to purposefully over-collect fees where the statutory target was not met in prior years to reach the target “on average" over a given number of years. As of 2016, the Agency had collected $1,072 in fees in excess of its statutory authority. In compliance with the Miscellaneous Receipts Act, in May 2016, the EPA deposited the excess fees collected into the General Fund of the Treasury.

B. Anti-Deficiency Act Violations

On February 10, 2017, the EPA reported violations of the Anti-deficiency Act (ADA), as required by 31 U.S.C. § 1351, which occurred in the Hazardous Substance Superfund account in Fiscal Years 1986, 1989, and 1995 in connection with the use of funds from state partners in the Superfund Remedial and Superfund Emergency Response and Removal programs in the total amount of $463 as required, by OMB circular A-11, Section 145, in writing 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.

C. Potential Anti-Deficiency Act Violations

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

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

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

In FY 2017, the Agency reviewed whether other voluntary and intern programs might also have had similar issues and included language in its budgetary and supervisory guidance reminding Agency managers to pay close attention to all Federal requirements when accepting voluntary services on behalf of the Agency.

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

Note 38. Other Information

The EPA received a disclaimer of opinion on audits of the FIFRA and PRIA financial statements for fiscal years 2014 through 2016 issued by the Office of Inspector General (report numbers 16-F-0322, 17-F-0364 and 16-F-0322, 17-F-0365 respectively). A disclaimer of opinion means that OIG was unable to obtain sufficient evidence to determine if the statements were fairly presented and free of material misstatement. The EPA had previously received unmodified, or clean, opinion on these financial statements for FY 2013.

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

Therefore, significant payroll amounts paid from appropriations were not charged directly to the FIFRA and PRIA Funds or other pesticide programs. This resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA and PRIA Funds and other pesticide programs. The OIG noted the same material weaknesses in FY 2015 and FY 2016 for FIFRA and PRIA fund costs.

Environmental Protection Agency
As of September 30, 2017, and September 30, 2016
(Dollars in Thousands)

Deferred Maintenance

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

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

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

The deferred maintenance as of Fiscal Year 2017:

	FY2017	FY2016
Asset Category		
Buildings	$ 143,583	$ 132,449
EPA Held Equipment	620	370
Vehicles	9	9
Total Deferred Maintenance	$ 144,212	$ 132,828

In Fiscal Year 2017, in accordance with SFFAS No. 42, Deferred Maintenance and Repairs: *Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, agencies are required to:

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

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

c) Identify factors considered in determining acceptable condition standards.

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

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

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

g) Explain significant changes from the prior year.

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

Buildings:

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

EPA held Equipment

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

Vehicles

Policy	Explanation
Maintenance and repairs policies and how they are applied.	Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer.
How we rank and prioritize maintenance and repair activities among other activities.	The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor*. System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built.
Factors considered in determining acceptable condition standards.	The vehicle is inspected to 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.	No significant changes.

Stewardship Land

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

Supplemental Combined Statement of Budgetary Resources

Environmental Protection Agency
For the Period Ending September 30, 2017
(Dollars in Thousands)

	Env. Prog. & Mgmt.	Leaking Underground Storage Tank	Science & Tech	Superfund	State & Tribal Ass. Grants	Other	Total
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1:	$ 307,949	3,619	118,502	3,406,772	187,775	217,434	4,242,051
Adjustment to Unobligated Balance	947	2	85	18,933	975	208	21,150
Unobligated balance brought forward, October 1, as adjusted	308,896	3,621	118,587	3,425,705	188,750	217,642	4,263,201
Recoveries of Prior Year Unpaid Obligations	80,569	475	35,967	112,978	62,851	37,646	330,486
Other changes in unobligated balance	(5,722)	-	(3,211)	(233)	-	(33,095)	(42,261)
Unobligated balance from prior year budget authority, net	383,743	4,096	151,343	3,538,450	251,601	222,193	4,551,426
Appropriations (discretionary and mandatory)	2,600,999	185,041	706,473	1,126,420	3,565,963	1,185,370	9,370,266
Spending authority from offsetting collections	78,873	-	20,991	306,306	-	273,982	680,152
Total Budgetary Resources	$ 3,063,615	189,137	878,807	4,971,176	3,817,564	1,681,545	14,601,844
STATUS OF BUDGETARY RESOURCES							
Obligations incurred	2,761,123	185,494	781,819	1,581,191	3,589,195	1,455,796	10,354,618
Unobligated balance, end of year:							
Apportioned	234,514	3,642	77,358	3,389,986	228,369	218,716	4,152,585
Un-apportioned	-	-	-	-	-	1,992	1,992
Total unobligated balance, end of period	234,514	3,642	77,358	3,389,986	228,369	220,708	4,154,577
Expired unobligated balance, end of year	67,977	-	19,361	-	-	5,041	92,649
Total Status of Budgetary Resources	$ 3,063,614	189,136	878,808	4,971,177	3,817,564	1,681,545	14,601,844
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations							
Unpaid Obligations, Brought Forward, October 1 (gross)	$ 1,232,532	87,242	346,646	1,446,122	5,355,895	226,532	8,694,969
Obligations incurred	2,761,123	185,494	781,819	1,581,191	3,589,195	1,455,796	10,354,618
Outlays (gross)	(2,671,914	(183,681)	(781,295)	(1,430,019)	(3,453,280)	(1,396,647)	(9,916,836)
Recoveries of prior year unpaid obligations	(80,569)	(475)	(35,967)	(112,978)	(62,851)	(37,646)	(330,486)
Unpaid obligations, end of year (gross)	$ 1,241,172	88,580	311,203	1,484,316	5,428,959	248,035	8,802,265
Uncollected Payments							
Uncollected customer payments from Federal Sources, brought forward, Oct. 1	$ (73,077)	-	(16,550)	(10,057)	-	(148,956)	(248,640)
Change in uncollected customer payments from Federal sources	(37,746)	-	4,456	1,004	-	(24,443)	(56,729)
Uncollected customer payments from Federal sources, end of year	$ (110,823)	-	(12,094)	(9,053)	-	(173,399)	(305,369)
BUDGET AUTHORITY AND OUTLAYS, NET:							
Budget authority, gross (discretionary and mandatory)	$ 2,679,872	185,041	727,464	1,432,726	3,565,963	1,459,352	10,050,418
Actual offsetting collections (discretionary and mandatory)	(42,074)	(2)	(25,532)	(326,243)	(975)	(249,747)	(644,573)
Change in uncollected customer payments from Federal sources	(37,746)	-	4,456	1,004	-	(24,443)	(56,729)
Budget authority, net (discretionary and mandatory)	$ 2,600,052	185,039	706,388	1,107,487	3,564,988	1,185,162	9,349,116
Outlays, gross (discretionary and mandatory)	$ 2,671,914	183,681	781,295	1,430,019	3,453,280	1,396,647	9,916,836
Actual offsetting collections (discretionary and mandatory)	(42,074)	(2)	(25,532)	(326,243)	(975)	(249,747)	(644,573)
Outlays, net (discretionary and mandatory)	2,629,840	183,679	755,763	1,103,776	3,452,305	1,146,900	9,272,263
Distributed offsetting receipts	-	-	-	(1,086,148)	-	(23,305)	(1,109,453)
Agency outlays, net (discretionary and mandatory)	$ 2,629,840	183,679	755,763	17,628	3,452,305	1,123,595	8,162,810

Environmental Protection Agency
Required Supplemental Stewardship Information (Unaudited)
For the Year Ended September 30, 2017
(Dollars in Thousands)

Investment in The Nation's Research and Development:

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

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

For FY 2017, the full cost of the Agency's Research and Development activities totaled over $635 million. Below is a breakout of the expenses (dollars in thousands): [1]

	FY2013	FY2014	FY2015	FY2016	FY2017
Programmatic Expenses	$ 531,901	$ 510,911	$ 535,352	$ 541,190	$ 532,153
Allocated Expenses	$ 78,189	$ 73,622	$ 78,028	$ 82,646	$ 103,451

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

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

Investment in The Nation's Infrastructure:

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

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

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

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program provided more than $60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide. Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, the EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

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

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

	FY2013	FY2014	FY2015	FY2016	FY2017
Construction Grants	$ 6,944	$ 1,447	$ 17,462	$ 11,344	$ 8,686
Clean Water SRF	$ 1,976,537	$ 1,534,453	$ 1,715,630	$ 1,459,820	$ 1,247,919
Drinking Water SRF	$ 1,027,613	$ 1,187,212	$ 1,268,360	$ 1,213,201	$ 994,297
Other Infrastructure Grants	$ 166,050	$ 118,706	$ 96,439	$ 62,011	$ 44,916
Allocated Expenses	$ 524,326	$ 516,102	$ 590,595	$ 529,815	$ 480,415
WIFIA	$ 0	$ 0	$ 0	$ 0	$ 30,000

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

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):

	FY2013	FY2014	FY2015	FY2016	FY2017
Training and Awareness Grants	$ 20,769	$ 23,255	$ 27,047	$ 29,116	$ 22,090
Fellowships	11,157	8,082	6,579	4,630	2,077
Allocated Expenses	4,118	4,226	5,146	5,336	4,073
Total	$ 36,044	$ 35,563	$ 38,772	$ 39,082	$ 28,240

AUDIT OF EPA'S FISCAL YEARS 2017 AND 2016 CONSOLIDATED FINANCIAL STATEMENTS

U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA's Fiscal Years 2017 and 2016 Consolidated Financial Statements

Report No. 18-F-0039 **November 15, 2017**

Abbreviations

EPA	U.S. Environmental Protection Agency
FAC-P/PM	Federal Acquisition Certification for Program and Project Managers
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IT	Information Technology
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
U.S.C.	United States Code

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U.S. Environmental Protection Agency
Office of Inspector General

18-F-0039
November 15, 2017

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's (EPA's) Office of Inspector General to audit the financial statements prepared by the agency each year. Our primary objectives were to determine whether:

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

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

This report addresses the following:

- *Operating efficiently and effectively.*

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

Listing of OIG reports.

EPA's Fiscal Years 2017 and 2016 Consolidated Financial Statements

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2017 and 2016, meaning they were fairly presented and free of material misstatement.

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

Internal Control Material Weaknesses and Significant Deficiencies Noted

We noted the following material weaknesses:

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

We noted the following significant deficiencies:

- Additional efforts are needed to resolve the EPA's cash difference with the U.S. Treasury.
- The EPA needs to appoint a Project Manager to oversee the management of Compass Financials, which is the agency's accounting system, and to improve acquisition planning.

Compliance With Laws and Regulations

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

Recommendations and Planned Agency Corrective Actions

The EPA agreed with our findings and recommendation and expects to complete the corrective action in fiscal year 2018.

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

OFFICE OF
INSPECTOR GENERAL

November 15, 2017

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2017 and 2016 Consolidated Financial Statements
Report No. 18-F-0039

FROM: Paul C. Curtis, Director
Financial Statement Audits

TO: David Bloom, Acting Chief Financial Officer

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2017 and 2016 consolidated financial statements. The project number for this audit was OA-FY17-0206. We are reporting two internal control material weaknesses and two significant deficiencies. Attachment 1 contains details on the material weaknesses and significant deficiencies. We did not note any instances of noncompliance.

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

Action Required

The agency agreed with the recommendation in this report and, therefore, no further response is required. If you nonetheless choose to provide a response, your response will be posted on the Office of Inspector General's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

Attachments

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Inspector General's Report on EPA's Fiscal Years 2017 and 2016 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, 2017, and September 30, 2016, and the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements.* These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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

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

The financial statements include expenses of grantees, contractors and other federal agencies. Our audit work pertaining to these expenses included testing only within the EPA. The U.S. 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, presents fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by major program, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter—Software Capitalization

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

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

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

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

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

Report on Internal Control Over Financial Reporting

Opinion on Internal Control. In planning and performing our audit, we considered the EPA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal control included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Material Weaknesses and Significant Deficiencies. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected in a timely manner. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet is important enough to merit attention by those charged with governance.

Because of inherent limitations in internal control, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, two of which we consider to be material weaknesses. These issues are summarized below and detailed in Attachment 1.

Material Weaknesses

PROPERTY

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

We previously reported the EPA's accounting for software as a material weakness in our FYs 2014 through 2016 audits. While we note that the agency has taken steps to address its software material weakness, the EPA continues to experience problems in adequately documenting capitalized software transactions. In FY 2017, we found that the EPA had misposted entries leading to misstated depreciation and amortization expense and loss on disposal of asset costs. Federal standards require that transactions be appropriately documented and that internal control be maintained. Failure to properly record capital software transactions in the agency's property management system and Compass Financials—the agency's accounting system—compromises the accuracy of the EPA's property accounts and depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report accounting for software as a material weakness.

SPECIAL ACCOUNTS

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

The EPA did not modify the accounting model in the accounting system to properly record all Superfund special accounts activity or perform a comprehensive reconciliation of Superfund special accounts general ledger balances to the special accounts database detail during FY 2017. In OIG Report No. 17-F-0046, *Audit of EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016, we reported as a material weakness that the EPA did not properly record or reconcile unearned revenue for Superfund special accounts in FY 2016. During FY 2017, we found that the EPA did not implement the corrective actions to complete the new posting model change, nor did the agency perform a comprehensive reconciliation of special accounts. As a result, the EPA cannot ensure the accuracy of the unearned revenue and financial statements.

Significant Deficiencies

CASH

Additional Efforts Needed to Resolve EPA's Cash Differences With Treasury

As of September 30, 2017, there was $2.2 million in cash differences between the EPA and U.S. Treasury cash balances. We previously reported the EPA's long-standing cash differences with Treasury as a significant deficiency in our FYs 2015 and 2016 audit reports on the financial statements. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. However, the EPA's Office of the Chief Financial Officer (OCFO) did not have effective internal control to adequately monitor the internal cash differences and ensure that the

EPA resolved the differences with Treasury. Unresolved differences may result in misstatements of the EPA's Fund Balance with Treasury and financial statements, as well as increase the risk of fraud.

INFORMATION TECHNOLOGY

EPA Needs to Appoint a Project Manager to Oversee Management of Compass Financials and Improve Acquisition Planning

EPA's Compass Financials application—a major information technology (IT) investment—lacks an oversight structure to ensure that personnel implement agency policies and procedures and guide the project through the acquisition process. OMB Circular A-130, *Managing Information as a Strategic Resource*, Appendix I-13-j(2), requires agencies to provide oversight of information systems that are used by contractors or that collect or maintain federal information. This oversight includes the responsibility to implement policies and procedures for security controls and accountability for information systems. Paragraph 7.1.1.2 of the EPA's Acquisition Guide requires acquisition planning for all acquisitions. The guide defines "acquisition planning" as the process by which all personnel responsible for an acquisition coordinate to fulfill agency needs in a timely manner and at a reasonable cost.

Attachment 2 contains the status of issues reported in prior years' reports. The issues included in the attachment should be considered among the EPA's significant deficiencies for FY 2017. We reported less significant internal control matters to the agency during the course of the audit. We will not issue a separate management letter.

Comparison of EPA's FMFIA Report With Our Evaluation of Internal Control

OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

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

The agency reported Capitalized Software and Accounting for Unearned Revenue as material weaknesses in FY 2017. Capitalized software continues to be reported as a material weakness in the design or operation of internal control. The agency is in the process of developing a corrective action plan for Accounting for Unearned Revenue.

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

EPA management is responsible for complying with laws, regulations, contracts and grant agreements applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements. We also performed certain other limited procedures as described in *Codifications of Statements on Auditing Standards*, AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin 17-03, *Audit Requirements for Federal Financial Statements*, requires that we evaluate compliance with federal financial statement system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

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

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

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

Federal Financial Management Improvement Act Noncompliance

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

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

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

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

Our audit work was also performed to meet the requirements in 42 U.S.C. § 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 undercapitalized software costs, leading to restated FY 2013 financial statements and a continued material weakness.
- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA's property management system does not reconcile to its accounting system.
- The EPA did not properly record or reconcile unearned revenue for Superfund special accounts.
- Originating offices did not forward accounts receivable source documents in a timely manner to the finance center.
- The EPA should improve controls over expense accrual reversals.
- The EPA should improve its efforts to resolve its long-standing cash differences with the U.S. Treasury.
- Financial management system user account management needs improvement.
- The OCFO lacks internal controls when assuming responsibility for account management procedures of financial systems.
- Financial and mixed-financial applications did not comply with required account management controls.
- The EPA needs controls to monitor direct access to its accounting system.

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

Agency Comments and OIG Evaluation

In a memorandum dated November 13, 2017, the Chief Financial Officer responded to our draft report. The EPA agreed with our findings and recommendation and expects to complete the corrective action in FY 2018.

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 it is not intended to be and should not be used by anyone other than these specified parties.

Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 14, 2017

Attachment 1

Internal Control Material Weaknesses and Significant Deficiencies

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

We previously reported the EPA's accounting for software as a material weakness in our FYs 2014 through 2016 audits. While we note that the agency has taken steps to address its software material weakness, the EPA continues to experience problems in adequately documenting capitalized software transactions. In FY 2017, we found that the EPA had misposted entries, leading to misstated depreciation and amortization expense and loss on disposal of asset costs. Federal standards require that transactions be appropriately documented and that internal control be maintained. Failure to properly record capital software transactions in the agency's property management system and Compass Financials—the agency's accounting system—compromises the accuracy of the EPA's property accounts and depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report accounting for software as a material weakness.

SFFAS No. 10, *Accounting for Internal Use Software*, requires entities to capitalize the costs of software that meet the criteria for general property, plant and equipment. Software life cycle includes three phases: planning, development and operations. Capitalized software costs should include the full costs (direct and indirect) incurred during the software development stage. The Software-In-Development general ledger account represents costs incurred in the software development.[1] Upon completion, costs incurred are capitalized and transferred to the Internal-Use Software general ledger account.[2] The SSFAS also requires that entities amortize in a systematic and rational manner over the estimated useful life of the software; amortization should begin when that module or component has been successfully tested. The agency's practice is to capitalize software costs exceeding its annual capitalization threshold of $250,000 over 7 years. In FY 2017, the agency increased its capitalization threshold for new software projects to $5 million.

Beginning in FY 2015, the EPA took steps to improve its internal accounting and controls over software costs. In FY 2017, the EPA stated that it reviewed software projects and met with program offices to validate software costs in development and asset values in production. During its efforts to validate software costs, the EPA wrote off approximately $300 million in software development costs, $295 million in capitalized software, and $181 million in associated amortization by reversing entries and creating large abnormal balances in depreciation and amortization expense and other accounts. The agency subsequently corrected the abnormal balance in depreciation and amortization expense, an account that is listed in Note 35, Reconciliation of Net Cost of Operations to Budget. Other accounts that were not corrected are included as components of gross costs in the statement of net costs and have no material impact.

The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* defines the five standards for the minimum level of quality acceptable for internal control in government. Management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal control. Management is to clearly document internal

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[1] Treasury Financial Manual, United States Standard General Ledger Bulletin No. 2017-06, Part 1, Section II: Accounts and Definitions.

[2] *Ibid*.

control, all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Because the audit trail of supporting documentation was insufficient in determining the validity of the actions taken on the software projects analyzed, our ability to conclude that the entries made were accurately recorded was affected.

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

Agency Comments and OIG Evaluation

The agency plans to complete corrective actions on this material weakness in FY 2018.

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

The EPA did not modify the accounting model in the accounting system to properly record all Superfund special accounts activity or perform a comprehensive reconciliation of Superfund special accounts general ledger balances to the special accounts database detail during FY 2017. In OIG Report No. 17-F-0046, *Audit of EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016, we reported, as a material weakness, that the EPA did not properly record or reconcile unearned revenue for Superfund special accounts in FY 2016. During FY 2017, we found that the EPA did not implement the corrective actions to complete the new posting model change, nor did the agency perform a comprehensive reconciliation of special accounts. As a result, the EPA cannot ensure the accuracy of the unearned revenue and financial statements.

Federal guidance directs agencies to record cash advances received for long-term projects as unearned revenue:

- The SFFAS applies to general purpose financial reports of the 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 be recognized as costs are incurred to provide the goods and services.

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

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

Attachment 2 includes our FY 2016 recommendations to the OCFO and the status of the EPA's corrective actions. The agency does not expect to complete corrective actions on this material weakness until 2018; thus, we continue to report this material weakness but have no additional recommendations.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations and plans to complete corrective actions in FY 2018.

3 – Additional Efforts Needed to Resolve EPA's Cash Differences With Treasury

As of September 30, 2017, there was $2.2 million in cash differences between the EPA and U.S. Treasury cash balances. We previously reported the EPA's long-standing cash differences with Treasury as a significant deficiency in our FYs 2015 and 2016 audit reports of the financial statements. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. However, the EPA's OCFO did not have effective internal controls to adequately monitor the internal cash differences and ensure that the EPA resolved the differences with Treasury. Unresolved differences may result in misstatements of the EPA's Fund Balance with Treasury and financial statements, as well as increase the risk of fraud.

The *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. Therefore, for our review, we considered cash differences to be long-standing if they were unresolved for more than 1 month after the initial reporting month.

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

The OCFO prepares a monthly cash difference report by accounting point and treasury symbol to identify and resolve differences between the Treasury and EPA records. We found that the EPA's Washington Finance Center continues to have long-standing unresolved cash differences. As of September 30, 2017, the General Ledger Analysis and Reporting Branch reported $73.5 million in cash differences, including long-standing differences of $2.2 million, at the Washington Finance Center. These long-standing differences remained unresolved for at least 4 months.

The OCFO did not adequately monitor the internal cash differences at the transaction level to ensure that the EPA resolved the differences with Treasury. The General Ledger Analysis and Reporting Branch relied on the accounting points to resolve individual cash differences. However, the Washington Finance Center did not resolve its long-standing differences. Therefore, the General Ledger Analysis and Reporting Branch 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. During our FY 2015 financial statements audit, we found that the EPA had not resolved $2.6 million in long-standing cash differences between the EPA and Treasury balances. Based on our findings, we recommended in our FY 2015 report—OIG Report No. 16-F-0040, *Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements*, issued November 16, 2015—that the OCFO do the following:

- Require the General Ledger Analysis and Reporting Branch to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all of the differences with Treasury.

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

During our FY 2016 audit, we found that the EPA had made efforts to identify and resolve its long-standing cash differences. Furthermore, the EPA was still working on completing its corrective action to require the Payroll accounting point and the Washington Finance Center to research and resolve cash differences. We therefore did not make any additional recommendations regarding this issue in our FY 2016 financial audit report, OIG Report No. 17-F-0046, *EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements*, issued November 15, 2016.

During our current audit, we noted major improvements, but long-standing unresolved cash differences of $2.2 million remain at the Washington Finance Center. However, since the EPA is still working on resolving cash differences and completing its corrective action, we do not make any new recommendations in our FY 2017 financial audit report.

Agency Comments and OIG Evaluation

The agency responded that it will continue to research efforts to resolve the remaining differences.

4 – EPA Needs to Appoint a Project Manager to Oversee Management of Compass Financials and Improve Acquisition Planning

The EPA's Compass Financials application—a major IT investment—lacks an oversight structure to ensure that personnel implement agency policies and procedures and guide the project through the acquisition process. OMB Circular A-130, *Managing Information as a Strategic Resource*, at Appendix I-13-j(2), requires agencies to provide oversight of information systems that are used by contractors or that collect or maintain federal information. This oversight includes the responsibility to implement policies and procedures for security controls and accountability for information systems. Paragraph 7.1.1.2 of the EPA's Acquisition Guide requires acquisition planning for all acquisitions. The guide defines "acquisition planning" as the process by which all personnel responsible for an acquisition coordinate to fulfill agency needs in a timely manner and at a reasonable cost.

Hiring a Project Manager for Compass Financials

As of April 9, 2017, the EPA did not have a Project Manager assigned to oversee the management of Compass Financials. During the audit and after inquires by the OIG, the EPA issued a public and internal vacancy announcement on June 28, 2017, to recruit and fill the IT Project Manager position within the OCFO. OCFO representatives attributed the delay in hiring a Project Manager for Compass Financials to EPA restrictions and a hold placed on hiring. However, despite these restrictions and hold, the EPA could have appointed an internal employee to serve as the acting Project Manager until the office was capable of filling the position permanently.

The OMB specifies that major acquisitions be overseen by personnel possessing the Federal Acquisition Certification for Program and Project Managers (FAC-P/PM). Attachment 1, Section 5, of OMB's December 16, 2013, memorandum regarding the FAC-P/PM outlines the certification requirements that managers must meet to oversee major acquisitions:

> Program managers assigned to programs considered major acquisitions by their agency, and as defined by Office of Management and Budget (OMB) Circular A-11 (IT and non-IT), must be senior-level certified unless an extension is granted by the appropriate agency official. ... Project managers assigned to lead projects within these major acquisitions must be, at a minimum, mid-level certified.

In addition, Attachment 4 (Sections 4 and 5) of OMB's 2013 memorandum emphasizes that Program and Project Managers "managing major IT investments shall hold senior level FAC-P/PM-IT specialization." This memorandum also indicates that Project Managers who do not already have their FAC-P/PM-IT must obtain it within 1 year of being assigned to a relevant project.

The absence of a Project Manager leaves the EPA without a knowledgeable expert to fulfill critical oversight responsibilities, including coordinating with agency representatives, making technical and programmatic decisions, and reviewing legislation and authoritative issuances for Compass Financials and other systems.

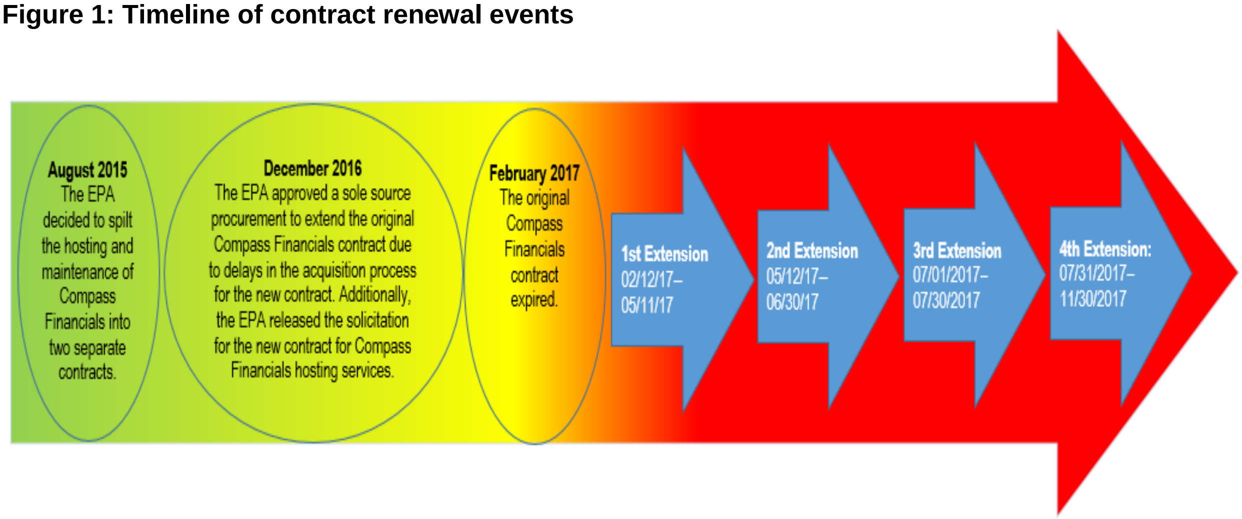
Issuing a Follow-On Contract for Hosting Compass Financials

The lack of an assigned Project Manager contributed, in part, to the OCFO not having a permanent contract to manage costs for operating Compass Financials. The original contract for Compass Financials, which was awarded in February 2007, provided for licensing, hosting and maintenance services under a sole source procurement. As a result of the EPA's Federal Information Technology Acquisition Reform Act[3] process in August 2015, the agency's Chief Information Officer decided to split the hosting from the licensing and maintenance of Compass Financials into separate contracts. The Office of Environmental Information estimated that the EPA could achieve $3 million in cost savings over 7 years by procuring the most competitive hosting solution for Compass Financials.

The Federal Information Technology Acquisition Reform Act puts federal agency Chief Information Officers in control of IT investments and seeks to enable effective planning and budgeting for IT resources.

Although the original contract expired in February 12, 2017, a solicitation for the hosting of Compass Financials was not released until December 2016. To maintain the services of the incumbent vendor until a new contract was awarded, the Office of Acquisition Management—within the EPA's Office of Administration and Resources Management—had to procure sole source extensions of the original contract. Figure 1 shows the timeline of contract renewal events.

Figure 1: Timeline of contract renewal events



Source: OIG-generated diagram.

As of September 30, 2017, the original contract was on its fourth extension. These extensions cost the EPA over $7.4 million (Table 1). The cost of the fourth extension increased $11,703 over the average cost per day of the first three extensions, from $21,003 to $32,706; therefore, the total cost of the fourth extension was $1,416,118 more than the average cost of the first three extensions. The fourth extension covered the software license and operations and maintenance, in addition to "change requests and enhancements arising from new, previously unidentified, missed, or incomplete Compass Financials requirements."

[3] The Federal Information Technology Acquisition Reform Act became law as part of the National Defense Authorization Act for FY 2015 (Title VIII, Subtitle D, H.R. 3979).

Table 1: Summary of extensions

Extension	Period	Cost	Number of days extended	Cost per day
1st extension	02/12/17–05/11/17	$1,857,628	88	$21,109.41
2nd extension	05/12/17–06/30/17	1,059,353	49	21,619.45
3rd extension	07/01/17–07/31/17	608,438	30	20,281.27
4th extension	08/01/17–11/30/17	3,957,527	121	$32,706.83
	Total Cost	**$7,482,946**		

Source: OIG-generated table based on contract task orders.

In addition, based on the Office of Environmental Information's $3 million cost-savings estimate for competitively procuring hosting services for Compass Financials, the EPA may have overspent $250,000 by having to extend the sole source contract.

The Contracting Officer for the Compass Financials contract indicated that the Office of Acquisition Management had to accommodate requests from lawyers, perform several market research efforts, and revise the new solicitation several times. These initiatives all delayed the solicitation and award of the new hosting contract.

Information obtained from the Office of Environmental Information indicates that 17 of the EPA's systems are currently hosted by contractors. The EPA should therefore be familiar with the acquisition process for hosting services and should have been able to implement a timely acquisition plan to contract the hosting of Compass Financials. We attribute this deficiency to the EPA not developing an agencywide acquisition planning strategy for all the agency's systems.

We did not make a recommendation regarding this issue in this report. On June 24, 2016, the OIG initiated an audit of EPA's acquisition planning. The findings and recommendations resulting from that audit are detailed in OIG Report No. 18-P0038, *Improved Acquisition Planning Will Help EPA Reduce Hundreds of Millions of Dollars in High-Risk Contracts*, issued November 15, 2017.

Action Taken as a Result of Our Audit

As a result of this audit finding, the OCFO outlined corrective actions and provided a completion date for its corrective action. The EPA indicated that a Project Manager for Compass Financials was appointed on October 1, 2017. However, it is incumbent upon the OCFO to monitor the Project Manager's progress in obtaining the FAC-P/PM-IT within the 1-year deadline and to take corrective actions if the Project Manager is unable to complete the certification requirements.

Recommendation

We recommend that the Chief Financial Officer:

1. Require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the Information Technology specialization within the 1-year deadline, as required by the Office of Management and Budget, and take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline.

Agency Comments and OIG Evaluation

The OCFO agreed with our finding and recommendation. The office stated it would complete the corrective action by October 1, 2018. We consider this recommendation resolved with corrective action pending.

Status of Prior Audit Report Recommendations

The EPA is working to strengthen its audit management procedures to address audit findings in a timely manner and to complete corrective actions expeditiously and effectively. Strengthened procedures will also help improve environmental results. In FY 2017, the EPA's acting Chief Financial Officer, as the Agency Follow-Up Official, issued a memorandum to senior agency leadership, reminding senior managers of their stewardship responsibilities for developing and promptly implementing effective corrective actions. The agency also accomplished these other notable actions to strengthen its audit management procedures:

- Completed the revised EPA Manual 2750, *Audit Management Procedures*, effective March 28, 2017. EPA Manual 2750 is a comprehensive audit management guide that addresses OIG, GAO and Defense Contract Audit Agency audits. The document was posted on the EPA intranet on May 5, 2017.

- Issued progress reports by the OCFO 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.

In addition, the EPA maintained its commitment to engage early with the OIG on audit findings and to develop effective corrective actions that address OIG recommendations. Table 2 outlines the status of past significant deficiency findings that have not been resolved to date.

Table 2: Significant deficiency issues not fully resolved

• **EPA's Accounting for Software Continues to Be a Material Weakness** In our FYs 2014, 2015 and 2016 audits, we identified the agency's accounting for software as a material weakness. In FY 2014, the agency found it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate that the agency has a material weakness in internal control over identifying and capitalizing software; internal control failed to detect and correct the errors, resulting in a misstatement of the FY 2013 financial statements. During FY 2017, the agency continued to take corrective actions to improve its accounting for software. While the agency has made progress and taken steps to correct weaknesses, not all corrective actions have been completed. Corrective actions for the remaining recommendations are not due to be completed until 2018.
• **EPA Did Not Capitalize Lab Renovation Costs** In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovations as a capital improvement. The agency capitalized and booked the Research Triangle Park lab renovation costs and related depreciation. One corrective action was partially completed: The EPA Office of General Counsel believed that the 1999 legal opinion was still a viable legal opinion but did not provide examples to guide the agency's determinations of when renovation work should be funded from agency program appropriations or Building and Facilities funds. Corrective actions for other recommendations related to this finding were not due until September 2017; however, the agency revised the expected completion date to February 28, 2018.

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

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

- **EPA Did Not Properly Record or Reconcile Unearned Revenue for Superfund Special Accounts**
  During FY 2015, the EPA misstated earned and unearned revenue for Superfund special accounts. The EPA changed its accounting practice in FY 2015 to record settlement proceeds in Superfund special accounts as unearned revenue. However, in our FY 2016 audit, we found that the EPA did not properly record $168 million of unearned revenue for Superfund special accounts or perform a comprehensive reconciliation of Superfund special accounts unearned revenue general ledger balances to the special accounts database detail. The EPA made these errors because it did not modify the accounting model for special accounts in Compass Financials. During our FY 2017 audit, we found that the EPA would not be able to complete its corrective actions to modify the accounting model or reconcile Superfund special accounts unearned revenue general ledger balances to the special accounts database detail until FY 2018.

- **Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center**
  In FY 2014, we found that the EPA and the Department of Justice did not forward accounts receivable source documents to the finance center in a timely manner. During FY 2015, the EPA's Office of Enforcement and Compliance Assurance issued a memorandum reminding the regions to provide accounts receivable enforcement documentation to the finance center in a timely manner. In addition, the OCFO updated the EPA's Superfund guidance to direct originating offices to send accounts receivable control forms to the finance center in a timely manner. While we have noted some improvements in the Cincinnati Finance Center's timely receipt of legal documents, we still identified instances of untimely receipt during FYs 2015, 2016 and 2017. Therefore, the agency's corrective actions are not completely effective, and we will continue to evaluate how timely the receipt of accounts receivable source documents is in FY 2018.

- **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 in a timely manner, the EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. The EPA's Policy Announcement No. 95-11, *Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals*, requires the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our audit report issued November 16, 2012, we recommended that the EPA update Policy Announcement No. 95-11 to require reconciliations of accruals and accrual reversals. EPA officials concurred with our finding and recommendation 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. During the FY 2013 audit, the EPA extended the target completion date for updating Policy Announcement No. 95-11 to June 2014. During our FY 2014 audit, the EPA extended the target completion date again to December 31, 2015, due to workload and resource constraints. In FY 2015, the EPA again revised the date to December 31, 2016, to explore new methods to streamline the accrual processes and take advantage of efficiencies available in the Compass upgrade scheduled for February 2016. During our FY 2016 audit, the EPA anticipated being able to meet its targeted completion date (December 31, 2016). In FY 2017, the EPA developed Resource Management Directive System 2540-04-P3, *Accounts Payable Policies and Procedures for Recognizing Year-End Accrued Liabilities for Grants*, which superseded Policy Announcement No. 95-11. Resource Management Directive System 2540-04-P3 addresses the EPA's requirements for recording accrued liabilities for grants in the EPA's financial system. In addition, the EPA stated that it updated the policy for the accounts payable grants and it started drafting the policy for other types of accruals in April 2017. The policy drafting process entails identification of accrual process holders with primary points of contact, documentation gathering, development of the policy for each type of accrual by working with primary points of contact, and final review of the policy document. The EPA projected a June 2018 completion date for updating the policy for all accruals.
- **EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury**
  During our FY 2015 audit, we found that the EPA had not resolved $2.6 million in long-standing cash differences between the EPA and Treasury balances. Based on our findings, we recommended that the Chief Financial Officer require the General Ledger Analysis and Reporting Branch to monitor and work with the finance centers to resolve all internal cash differences to enable the EPA to resolve all differences with Treasury. We also recommended that the Chief Financial Officer require the Payroll accounting point and Washington Finance Center to research and resolve cash differences. The agency agreed with our finding and recommendations. According to the agency's corrective action status report, as of November 2, 2016, the agency completed its corrective action for the first recommendation. During our FY 2016 audit, we found that the EPA made efforts to identify and resolve its long-standing cash differences and that the agency was working on completing its corrective action to require the Payroll accounting point and the Washington Finance Center to research and resolve cash differences. We did not make any additional recommendations regarding this issue in our FY 2016 financial audit report but included it as an unresolved significant deficiency. During our FY 2017 audit, we noted major improvements, but long-standing unresolved cash differences of $2.2 million remain at the Washington Finance Center. Since the EPA is still working on resolving cash differences and completing its corrective action, we did not make any new recommendations in our FY 2017 financial audit report.
- **Financial Management System User Account Management Needs Improvement**
  During our FY 2009 audit, we found that the EPA had not established policies that clearly define incompatible functions and associated processes to ensure that proper separation of duties are enforced within the financial system application. Based on our findings, we recommended in our FY 2009 report that the OCFO ensure that all new and updated financial management systems include an automated control to enforce separation of duties. The agency agreed with our finding and recommendation. The EPA had considered this recommendation closed; however, the OCFO agreed in FY 2016 to develop alternative corrective actions for this recommendation, with a planned completion date of December 31, 2017. In FY 2017, the OCFO extended the completion date to December 31, 2018.

• **OCFO Lacks Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems** During our FY 2015 audit, we found that the OCFO's Application Management staff assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring that the system had documentation covering key account management procedures. Based on our findings, we recommended in our FY 2015 report that the Chief Financial Officer implement an internal control process for transferring the management of an application's user access to the Application Management staff. We also recommended that the Chief Financial Officer conduct an inventory of OCFO systems managed by the Application Management staff and create or update supporting access management documentation for each application. Further, we recommended that the Chief Financial Officer work with the Contracting Officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management staff. The agency agreed with our finding and recommendations. In FY 2017, the OCFO extended the completion date for the first and second recommendations to December 31, 2018, In addition, the OCFO modified the corrective action for the third recommendation but is adhering to the original expected completion date of March 31, 2018.
• **Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls** During our FY 2015 audit, we found that the EPA lacked management oversight to ensure that responsible individuals fully develop and implement required account management controls for the EPA's financial and mixed-financial systems. Based on our finding, we recommended in our FY 2015 report that the Chief Financial Officer review and update account management documentation and establish procedures for financial systems. We also recommended that the Chief Financial Officer issue a memorandum emphasizing the need to follow access control procedures, conduct an inventory of financial systems to ensure the systems are entered into Xacta to monitor compliance with required information systems security controls, and implement a process to notify the OCFO of the status of corrective actions entered into Xacta. The agency agreed with our finding and recommendations. According to the agency's corrective action status report, as of June 27, 2016, the agency completed corrective actions for all but the first recommendation. The EPA is currently working on reviewing and updating account management documentation and establishing procedures for financial systems, but in FY 2017, the OCFO extended the completion date for this corrective action to December 31, 2018.
• **EPA Needs Controls to Monitor Direct Access to the Compass Financials Database** During our FY 2016 audit, we found that the EPA did not establish controls to monitor direct access to data within the Compass Financials database. Based on our findings, we recommended in our FY 2016 report that the Chief Financial Officer work with the Compass Financials service provider to establish controls for creating and locking administrative accounts. We also recommended that the Chief Financial Officer work with the Compass Financials service provider to develop and implement a methodology to monitor accounts with administrative capabilities. Further, we recommended that the Chief Financial Officer enter the Continuous Monitoring Assessment recommendations into the agency's system used for monitoring the remediation of information security corrective actions. The agency concurred with our recommendations. According to the agency's corrective action status report, as of August 1, 2017, the agency is adhering to the planned completion date of September 30, 2021, for the first and second recommendations. Corrective actions for the third recommendation have been completed.

Source: OIG analysis.

Attachment 3

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Potential Monetary Benefits (in $000s)
1	17	Require the Compass Financials Project Manager to obtain the Federal Acquisition Certification for Program and Project Managers with the Information Technology specialization within the 1-year deadline, as required by the Office of Management and Budget, and take corrective actions if the Project Manager is not able to complete the certification requirements by the deadline.	R	Chief Financial Officer	10/1/18	

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

Appendix I

EPA's FYs 2017 and 2016 Consolidated Financial Statements

Appendix II

Agency Response to Draft Report

Distribution

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

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 2017 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 2017, no new material weaknesses were identified by OIG or the Agency. (See following subsection for a discussion of EPA's current material weakness.)

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

2017 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 2017, the OIG identified three 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 2015	FY 2016	FY 2017	EPA strategic goal
Oversight of States, Territories, and Tribes Authorized to Accomplish Environmental Goals: The EPA must establish consistent baselines and monitoring programs.	•	•	•	Cross-Goal
Enhancing Information Technology Security to Combat Cyber Threats (*formerly Limited Capability to Respond to Cyber Security Attacks*)**:** The EPA has a limited capacity to effectively respond to external network threats. Although the Agency has deployed new tools to improve its architecture, these tools raise new security challenges. The EPA has reported that over 5,000 servers and user workstations may have been compromised from recent cyber security attacks.	•	•	•	Cross- Goal
Workforce Planning / Workload Analysis: The EPA's 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

U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

FY 2017

EPA Management Challenges

17-N-0219

May 18, 2017

Abbreviations

DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	U.S. Government Accountability Office
MATS	Management Audit Tracking System
OIG	Office of Inspector General
SDWA	Safe Drinking Water Act

U.S. Environmental Protection Agency
Office of Inspector General

17-N-0219
May 18, 2017

At a Glance

What Are Management Challenges?

According to the Government Performance and Results Act Modernization Act of 2010, major management challenges are programs or management functions, within or across agencies, that have greater vulnerability to waste, fraud, abuse and mismanagement, where a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

As required by the Reports Consolidation Act of 2000, we are providing issues we consider as the U.S. Environmental Protection Agency's (EPA's) major management challenges for fiscal year 2017.

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.

Listing of OIG reports.

EPA's Fiscal Year 2017 Management Challenges

What We Found

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

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

- The EPA has made important progress, but our work continues to identify challenges throughout agency programs and locations, and many of our recommendations are still not fully implemented.

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

- The EPA needs to identify its workload needs so that it can more effectively prioritize and allocate limited resources to accomplish its work.

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

- Though the EPA continues to initiate actions to further strengthen or improve its information security program, the agency lacks a holistic approach to managing accountability over its contractors, and lacks follow-up on corrective actions taken.

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

THE INSPECTOR GENERAL

May 18, 2017

MEMORANDUM

SUBJECT: EPA's Fiscal Year 2017 Management Challenges Report No. 17-N-0219

FROM: Arthur A. Elkins Jr.

TO: Scott Pruitt, Administrator

We are providing you with a list of areas that the Office of Inspector General (OIG) considers as major management challenges confronting the U.S. Environmental Protection Agency (EPA). The project number for this report was OPE-FY17-0003. 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 Inspector General Act of 1978, as amended, directs Inspectors General to provide leadership to the agency through audits, evaluations and investigations, as well as additional analysis of agency operations. The enclosed management challenges reflect findings and themes resulting from many such efforts. Drawing high-level agency attention to these key issues is an essential component of the OIG's mission.

The Reports Consolidation Act of 2000 requires our office to annually report what we consider the most serious management and performance challenges facing the agency. Additional challenges may exist in areas that we have not yet reviewed, and other significant findings could result from additional work. The attachment summarizes what we consider to be the most serious management and performance challenges facing the agency, and assesses the agency's progress in addressing those challenges.

Challenges	Page
The EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals	1
The EPA Needs to Improve Its Workload Analysis to Accomplish Its Mission Efficiently and Effectively	7
The EPA Needs to Enhance Information Technology Security to Combat Cyber Threats	11

Like 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 required to justify removal of management challenges from the prior year's list:

1. Demonstrated top leadership commitment.
2. Agency 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 efforts – established performance measures and data collection/analysis.
5. Demonstrated progress – evidence of implemented corrective actions and appropriate adjustments to action plans based on data.

The U.S. Government Accountability Office's 2017 High-Risk Series report describes these five criteria as a road map for efforts to improve and ultimately address high-risk issues. Addressing some of the criteria leads to progress, while satisfying all of the criteria is central to removal from the list.

This year, we retained three management challenges from last year's list due to persistent issues, and dropped one issue (management oversight to combat waste, fraud and abuse). The management challenge was removed due to agency efforts in addressing issues we identified.

We will post this report to our website at www.epa.gov/oig. We welcome the opportunity to discuss our list of challenges and any comments you or your staff might have.

Attachment

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

CHALLENGE FOR THE AGENCY

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

BACKGROUND

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

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

- Forty-nine states, five territories (American Samoa, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands) and one tribe administer the Public Water Supply Supervision program under the Safe Drinking Water Act.
- Forty-eight states, one territory (Guam), and the District of Columbia are authorized to administer the Resource Conservation and Recovery Act hazardous waste program.
- Forty-six states fully and one territory (U.S. Virgin Islands) partially administer point source programs (National Pollutant Discharge Elimination System) under the Clean Water Act.
- Every state and territory, as well as one tribe, administer Title V of the Clean Air Act, designed to regulate the largest sources of air pollution.

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

THE AGENCY'S PROGRESS

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

Since 2008, the EPA has made state oversight an agency priority. The EPA included oversight in the EPA's FYs 2012–2015 Action Plans for Strengthening State, Tribal, and International Partnerships. The EPA formed a senior-level workgroup that noted additional recommendations on state oversight, including improving consistency for identifying regional and state roles during EPA program review, and developing an initial set of common principles. In 2013, the EPA developed the new key performance indicator, referred to as *Oversight of State Delegations Key Performance Indicator*. The EPA also adopted a cross-agency strategy on "Launching a New Era of State, Tribal, Local, and International Partnerships" in its FYs 2014–2018 Strategic Plan, and revised its planning and commitment-setting process beginning in FY 2017 to provide "earlier and more meaningful engagement with states and tribes."

In 2016, the EPA released "Promoting Environmental Program Health and Integrity: Principles and Best Practices for Oversight of State Permitting Programs," for the agency and states to use to enhance the efficiency and effectiveness of the oversight system. The agency developed this document to "deliver on a commitment in the EPA's cross-agency strategy to launch a new era of state, tribal, local and international partnerships and to help respond to recommendations for strengthening oversight from the EPA's Office of Inspector General." According to the agency, it continues to improve its state oversight practices to ensure consistency by, for example, establishing the State Program Health and Integrity Workgroup. This interagency workgroup is composed of the EPA's national program offices for air, enforcement and water, as well as states and media associations; it gathers and analyzes information on oversight of state practices, identifies gaps, and develops solutions. In August 2016, as a result of the efforts from the workgroup, the agency released a set of principles and best practices for EPA and state collaboration in promoting environmental program health and integrity.

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

- In 2016, the EPA completed all corrective actions to address recommendations from a September 2014 report where we found that the EPA was not adequately overseeing significant portions of most states' Clean Water Act pretreatment and permit programs. We recommended that the EPA improve sharing of Toxic Release Inventory data, develop a list of chemicals beyond the priority pollutants for inclusion among the chemicals subject to discharge permits, confirm compliance with hazardous waste notification requirements, and track required submittals of toxicity tests and violations. Because of the completed corrective actions, there is greater assurance that states are using permits to minimize potentially harmful contamination of water resources.
- In response to a February 2015 report, the EPA completed all corrective actions to address findings that EPA Region 8 was not conducting inspections at establishments in North Dakota that produce pesticides or inspections of pesticides imported into the state. In response to our recommendations, the EPA initiated inspections, developed a multi-year plan for future inspections, compiled a list of the inspections conducted annually for Region 8's North Dakota end-of-year report, and reviewed the end-of year report to confirm that inspections have been initiated. It is expected that these corrective actions will help address the risk that pesticides are not in compliance with federal law, toxics are going undetected, and adverse human health and environmental impacts are occurring.

- The EPA completed all corrective actions to address recommendations from a July 2014 report. That report found that while the EPA and the states we reviewed took many actions to reduce Drinking Water State Revolving Fund (DWSRF) unliquidated balances, those actions had not reduced DWSRF unliquidated balances to below 13 percent of the cumulative federal capitalization grants awarded, which the Office of Water stated was the focus of its efforts. As a result, $231 million of capitalization grant funds remained idle, loans were not issued, and communities did not implement needed drinking water improvements. We also noted that states' fundable lists did not reflect projects that would be funded in the current year, and overestimated the number of projects that will receive funding. The completed corrective actions—such as requiring states with unliquidated obligations that exceed the Office of Water's 13-percent-cutoff goal to project future cash flows to ensure funds are expended as efficiently as possible—should help address the issues reported.
- In our September 2015 early warning report, we recommended that EPA Region 9 exercise fiduciary responsibility and withhold FY 2015 funds of $8,787,000 for the Hawaii DWSRF capitalization grant until the region is satisfied with corrective action plan implementation progress. After being briefed on our report, EPA Region 9 initiated an enforcement action against the Hawaii Department of Health for not meeting its loan commitment and disbursement targets. EPA Region 9 advised Hawaii that the FY 2015 DWSRF capitalization grant would be withheld and the region may withhold further awards.
- 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.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) an action plan, (2) monitoring efforts, and (3) demonstrated progress. EPA leadership needs to demonstrate an organizational commitment to correcting problems with the agency's oversight of key state programs designed to protect human health and the environment. To demonstrate this commitment, the agency should show it has the capacity and has developed a framework for addressing oversight issues. The agency also needs to develop a system for monitoring state, tribal and territory oversight effectiveness so that it can work toward demonstrating its progress in correcting this management challenge. As such, we are maintaining this issue as a management challenge for FY 2017, and we continue to conduct reviews of the EPA's oversight of authorized programs:

- In an October 2016 report, we found that EPA Region 5 had the authority and sufficient information to issue a Safe Drinking Water Act (SDWA) Section 1431 emergency order to protect residents in Flint, Michigan, from lead-contaminated water as early as June 2015. EPA Region 5 had information that systems designed to protect Flint drinking water from lead contamination were not in place, Flint residents had reported multiple abnormalities in the water, and test results from some homes showed lead levels above the federal action level. However, EPA Region 5 did not issue an emergency order until January 21, 2016, because the region concluded the state's actions were a jurisdictional bar preventing the EPA from issuing a SDWA Section 1431 emergency order. This occurred despite the EPA's 1991 guidance on SDWA Section 1431 orders clarifying that if state actions are deemed insufficient the EPA can and should proceed with a SDWA Section 1431 order. EPA Region 5 did not intervene under SDWA Section 1431, the conditions in Flint persisted, and the state continued to delay taking action to require corrosion control or provide alternative drinking water supplies. Corrective actions are pending.

- In a June 2016 report on the EPA's financial oversight of Superfund state contracts, we found that the EPA incurred total obligations and expenditures in excess of the authorized cost ceiling for 51 of the 504 active and closed contracts; did not perform timely, complete and accurate financial closings for 20 such contracts to ensure that both the EPA and the state had satisfied their cost share requirement; and did not have all the up-to-date information needed for an accurate Superfund state contract accrual calculation. The agency agreed with the recommendations, and corrective actions are pending.
- In a May 2016 report, we found that EPA Region 9 needed improved internal controls for oversight of Guam's consolidated cooperative agreements. We noted that EPA Region 9 project files were not readily available to third parties, and EPA Region 9 did not ensure reliability of Guam Environmental Protection Agency Safe Drinking Water Information System data. Without adequate internal controls and oversight, more than $67 million in consolidated cooperative agreement funds may not be administered efficiently and effectively, thus reducing the impact those funds could have on protecting human health and the environment. The agency agreed with our recommendations, and corrective actions are pending.
- In March 2016, we reported that EPA efforts to bring small drinking water systems into compliance through enforcement and compliance assistance resulted in some improvement over time. However, across EPA Regions 2, 6 and 7, we found inconsistencies in adherence to the EPA's Enforcement Response Policy. Within our sample, 10 of the systems never received a formal enforcement order, only three of 20 enforcement orders met the timeliness standard in the Enforcement Response Policy, and few cases were escalated by the EPA or state when noncompliance persisted. The agency agreed with our recommendations and proposed adequate corrective actions, which are pending.
- In a July 2015 report, we found that the EPA needs to improve oversight of permit issuance for hydraulic fracturing using diesel fuels, and address any related compliance issues. Evidence shows that companies have used diesel fuels during hydraulic fracturing without EPA or primacy state underground injection control Class II permits. The EPA has also not determined whether primacy states and tribes are following the agency's interpretive memorandum for issuing permits for hydraulic fracturing using diesel fuels. Enhanced EPA oversight can increase assurance that risks associated with diesel fuel hydraulic fracturing are being adequately addressed. The agency agreed with our recommendations or proposed actions that met the intent of our recommendations. The corrective actions are pending.
- In an April 2015 report, we found that the U.S. Virgin Islands did not meet program requirements for numerous activities related to implementing Clean Air Act, Clean Water Act, SDWA and Underground Storage Tank/Leaking Underground Storage Tank programs. EPA Region 2 oversight had not identified program deficiencies uncovered by our review, or implemented procedures to ensure that deficiencies identified by EPA Region 2 were corrected. Moreover, we found that deficiencies continued in the U.S. Virgin Islands despite EPA Region 2 oversight uncovering them in prior years. Since the EPA retains responsibility for programs implemented on its behalf—such as those in the U.S. Virgin Islands—we concluded that the agency needs to act to ensure that the public and environment are protected. We made 19 recommendations, ranging from withdrawing the U.S. Virgin Islands' authority to implement EPA programs, to providing additional EPA oversight. The EPA agreed, and has committed to taking appropriate corrective actions. Two recommendations with agreed-to corrective actions remain pending.
- In October 2014, we reported weaknesses in EPA oversight of state and local Title V programs' fee revenue practices. Title V permitting requirements are designed to reduce violations and improve enforcement of air pollution laws for the largest sources of air pollution, such as petroleum refineries and chemical production plants. We found that Title V program expenses often exceeded revenue, even though the Clean Air Act requires these programs to be solely funded by permit fees. We recommended that the EPA assess, update and re-issue its 1993 Title V fee guidance as appropriate; establish a fee oversight strategy to ensure consistent and timely actions to identify and address

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

GAO has also conducted reviews of the EPA's oversight of states, territories and tribes, and made recommendations to address identified deficiencies. For example, in 2016, GAO reported that the EPA had not collected necessary information or conducted oversight activities to determine whether state and EPA-managed Underground Injection Control class II programs are protecting underground sources of drinking water. Some of the recommendations from GAO were that the EPA require programs to report well-specific inspections data, clarify guidance on enforcement data reporting, and analyze the resources needed to oversee programs. In 2015, GAO found that financial indicators collected by the EPA as part of its oversight responsibilities do not show states' abilities to sustain their Clean Water and Drinking Water State Revolving Funds. GAO recommended that the EPA update its financial indicator guidance to include measures for identifying the growth of the states' funds. GAO also recommended that, during the reviews, the EPA develop projections of state programs by predicting the future lending capacity.

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

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

CHALLENGE FOR THE AGENCY

The EPA has not fully implemented controls and a methodology to determine workforce levels based upon analysis of the agency's workload. The EPA's program and regional offices have not conducted a systematic workload analysis or identified workforce needs for budget justification purposes. The EPA's ability to assess its workload—and subsequently estimate workforce levels necessary to carry out that workload— is critically important to mission accomplishment. Due to the broad implications for accomplishing the EPA's mission, we have included this as an agency management challenge since 2012.

BACKGROUND

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

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

Over the past decade, the EPA's workforce levels have declined, with significant reductions in FYs 2012 through 2015, when levels declined by over 2,100 positions (including losses due to earlyouts and buyouts in 2014). Without a clear understanding of its workload, it is unclear whether this decline jeopardizes the EPA's ability to meet its statutory requirements and overall mission to protect human health and the environment, or if the decline represents a natural and justifiable progression, because the EPA has completed major regulations implementing environmental statutes and states have assumed primacy over most media programs.

THE AGENCY'S PROGRESS

The agency has not yet adopted an overall plan to address workforce analysis, but has initiated some limited pilots and surveys to address the issue.

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

- Initiated pilot projects in Regions 1 and 6 to analyze the workload for air State Implementation Plans and permits, as well as water grants and permits.

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

The EPA did not report a workable agencywide workforce analysis plan from these limited 2013 actions.

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

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

The EPA did not report a workable agencywide workforce analysis plan from these 2014 actions.

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

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

The EPA has yet to implement and report the results of the funds management manual.

In the latest response to this management challenge, the EPA stated that rather than trying to create detailed FTE models, the agency focused its workload analysis on current operations. The agency found that detailed FTE models created a sense of false precision; quickly became out of date due to changing regulations, requirements and systems; and were overly sensitive to relatively small changes in the inputs.

In the FY 2016 Agency Financial Report, the agency responded:

As acknowledged by the OIG, the inherent difficulties in applying workload analysis to the highly variable, multi-year, and non-linear activities that comprise the majority of the EPA's work, limit the utility of detailed FTE-based workload analyses for broader agency program estimates. The agency has found greater value in using trend and macro-level workload reviews to estimate program needs. For example, as part of the FY 2016 budget process, the agency examined broad workload trends as a basis to move resources to address major challenges identified. As a result, the agency provided 65 additional FTEs for air program work and 40 FTEs for the Office of General Counsel legal support. In each of these areas, the agency's senior management considered longerterm trends and overall staffing rather than individual tasks and portions of FTEs. For legal work, the agency considered statistics showing increased litigation and legal review requirements. It is important to note that the "current flexibility to move resources" granted by Congress remains extremely limited and the increased resources requested in the President's Budget were not appropriated. Nonetheless, the agency maximized the available flexibilities and provided the full FTE increments to those programs in FY 2016.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) agency capacity, (2) an action plan, and (3) monitoring efforts. The EPA has not developed and implemented a definitive workload analysis system. The EPA needs to more broadly quantify what its full workload entails so that it can more effectively prioritize and allocate available resources to accomplish agency work. The EPA's ability to assess its workload and estimate workforce levels necessary to carry out that workload is critical to mission accomplishment. As such, we are maintaining workload analysis as a management challenge for FY 2017. In February 2016, we announced the start of preliminary research on the EPA's Superfund workload allocation. The evaluation objective is to determine whether the EPA's distribution of Superfund resources among EPA regions supports the current regional workload.

The agency also needs to complete its workforce planning tool. The agency is piloting a workforce planning tool during the first quarter of FY 2017. The tool compares needed skills with the current supply of skills so that competency gaps can be identified and addressed through strategic hiring and training/development. The EPA states that the use of the tool will (1) allow the agency to assess the workforce regularly at all organization levels, ensuring agency employees possess the skills and abilities necessary to meet current and future mission goals and objectives; and (2) align workforce planning with agency and organizational strategic plans, corresponding action plans and budget. According to the agency, the pilot will allow insight and emphasis on workforce flexibility and development to facilitate faster adjustment to change and improved workplace performance, supporting maximum responsiveness as job functions, roles and technology evolve. It is expected that the workforce planning tool will be available agencywide by the end of FY 2017. We will continue to monitor agency progress through this and other ongoing work.

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

CHALLENGE FOR THE AGENCY

Information security and implementing a robust cybersecurity mechanism capable of combating the ever-increasing threat to the agency's data and network remains a management challenge at the EPA. Despite progress made by the agency to strengthen cybersecurity, recent audit work continues to highlight that fully implementing information security throughout the EPA requires continued senior level emphasis to address long-standing weaknesses within the information security program. Most notably, the EPA has yet to implement practices for its information security program to be considered effective for the five Cybersecurity Framework Security Functions defined by the National Institute of Standards and Technology. Likewise, our audits note the need for management to take further action to resolve audit findings designed to improve the effectiveness and efficiency of the agency's computer network operations, and address emerging challenges the agency faces in managing contractors that provide critical support for agency systems.

BACKGROUND

We first reported information security as a management challenge in FY 2001, and the growing reliance on interconnected networks and systems—as well as more sophisticated and financially supported adversaries—make this area equally important today. The EPA's Office of Environmental Information is primarily responsible for information technology management. Over the years, the agency made strides to strengthen its policy framework and processes, and made marked improvements in securing the EPA's network infrastructure and systems. However, during this same period, cyber threats have become increasingly sophisticated, which continues to underscore the need to proactively manage and bolster the agency's cybersecurity capabilities.

Cyber attacks could have a devastating impact on the EPA's computer systems and network, thereby potentially disrupting agency operations, as well as the lives and operations of employees and businesses who entrust the agency with their most sensitive personal or confidential business information. GAO has recognized information security as a governmentwide high-risk area since 1997. In September 2016, GAO reported that:

- Cyber incidents in FY 2016 grew 1,300 percent from the previous year.
- Federal agencies reported 77,183 incidents in FY 2015—over 10,000 more than the previous year.
- Federal agencies inconsistently implemented key laws and policies designed to establish a framework for overseeing federal information security.

GAO notes that federal systems are "inherently at risk," and that this poses challenges because the information technology environment is complex, diverse and often geographically dispersed. Like other agencies, the EPA has a similarly complex information technology environment that is widely dispersed throughout 24 headquarters and regional offices across the nation. As such, the increased presence of cyber threats to systems that support EPA operations calls on management vigilance and commitment to protect the agency's network. If the EPA is to realize a fully implemented information security program or have effective processes to identify, respond to and correct security vulnerabilities that place agency data and systems at risk, more effort is needed to increase the agency's capabilities to achieve effective practices for the five Cybersecurity Framework Security Functions.

THE AGENCY'S PROGRESS

In response to our FY 2016 management challenges, the EPA indicated that it "understands the threat and pervasiveness of cyber-attacks and is aware of the potential impact to the Agency's mission if information assets are compromised." The EPA cited that it has published 5-year Information Security and Continuous Monitoring and Risk Management strategic plans. The EPA explained that these plans identify where the agency will provide risk-based protection for the agency's network. The EPA also noted the following plans or actions taken to address our growing concerns:

- Establish a 30-day maximum number of days that an account can remain inactive before the system automatically disables the account's technology function in the agency.
- Develop a process to manage annual security assessments, which includes oversight by the Senior Agency Information Security Official.
- Coordinate with the U.S. Department of Homeland Security and U.S. General Services Administration to implement capabilities under the Continuous Diagnostics and Mitigation Program, which includes vulnerability management.

We acknowledge that the EPA continues to initiate actions to further strengthen or improve its information security program. However, our audit work from the past 6 years continues to highlight that the EPA faces challenges in addressing outstanding weaknesses within its information security program, and in managing contractors that provide key support in operating or managing systems on behalf of the agency.

Addressing Outstanding Weaknesses

Our FY 2016 report on the agency's progress in completing corrective actions associated with information technology security recommendations made in FYs 2010–2012 found that the agency did not ensure that agreed-to corrective actions were:

- Fully implemented or carried out timely.
- Recorded accurately or managed effectively in the Management Audit Tracking System (MATS).
- Verified to have actually fixed the identified weakness.

Despite steps taken to correct many of the recommendations highlighted in this report, our current audit work disclosed that further management emphasis is needed to address the overarching concern with how the EPA manages the weaknesses within the agency's information security program. For example, the program office responsible for overseeing the EPA's information security program lacks a permanent or full-time employee to serve as its Audit Follow-Up Coordinator—a critical position for monitoring the completion of audit recommendations that impact the agencywide information security program. Furthermore, as noted in the EPA's December 2016 Enterprise Information Security Metric Report, several offices made little to no progress in completing plans of actions and milestones that address weaknesses in the EPA's information security program. Our audit determined that emphasis is needed to ensure completion of agency agreed-to weaknesses in the program.

Analysis of the EPA's actions taken to address information security audit recommendations

OIG Report and Recommendation Reviewed	Agency Completed Agreed-to Corrective Action(s)?	Corrective Action(s) Timely Completed as Agreed-to?	Completion Date Accurately Recorded in MATS?	Documentation Maintained to Support Actions Taken Readily Available?	Agency Verified Action(s) Taken Actually Fixed the Deficiency?	Agency Continued to Implement the Action(s)?
Report 10-P-0058 Recommendation 2-1	No	No	No	No	No	No
Report 11-P-0159 Recommendation 2	No	No	No	No	No	No
Report 11-P-0277 Recommendation 2	No	No	No	No	No	No
Report 12-P-0836 Recommendation 12	No	No	No	No	No	No
Report 12-P-0899 Recommendation 8	No	No	No	No	No	No
Report 13-P-0257 Recommendation 5	Yes	Yes	No	No	Yes	Yes
Compliance Percentage by Element Reviewed	17%	17%	0%	0%	17%	17%

Source: OIG analysis.

Our FY 2016 annual audit of the EPA's information security program disclosed that more work is needed by the agency to achieve managed and measurable information security functions to manage cybersecurity risks. In this regard, the EPA's information security program was not graded as effective for any of the Cybersecurity Framework Security Functions defined by the National Institute of Standards and Technology. The table below summarizes the four areas where the EPA did not receive a positive rating and significant management emphasis is needed.

Results of testing assessed as "Not Met"

Cybersecurity Framework Security Function	***FISMA Metric Domain***	***Federal Information Security Modernization Act Metric***
Identify	**Risk Management**	EPA did not implement an insider threat detection and prevention program, including the development of comprehensive policies, procedures, guidance and governance structures, in accordance with Executive Order 13587 and the National Insider Threat Policy.
	Contractor System	EPA did not establish or implement a process to ensure that contracts/ statements of work/solicitations for systems and services include appropriate information security and privacy requirements and material disclosures; Federal Acquisition Regulation clauses; and clauses on protection, detection and reporting of information. EPA did not obtain sufficient assurance that the security controls of systems operated on the organization's behalf by contractors or other entities and services provided on the organization's behalf meet Federal Information Security Modernization Act requirements, Office of Management and Budget policy, and applicable National Institute of Standards and Technology guidelines.

Protect	**Identity and Access Management**	EPA did not ensure that all users are only granted access based on least privilege and separation-of-duties principles. EPA did not ensure that accounts are terminated or deactivated once access is no longer required or after a period of inactivity, according to organizational policy.
	Security and Privacy Training	EPA did not identify and track status of specialized security and privacy training for all personnel (including employees, contractors and other organization users) with significant information security and privacy responsibilities requiring specialized training.
Respond	**Incident Response**	EPA did not integrate incident response activities with organizational risk management, continuous monitoring, continuity of operations, and other mission/business areas, as appropriate. EPA did not capture qualitative and quantitative performance metrics on the performance of its incident response program. The organization did not ensure that the data supporting the metrics was obtained accurately and in a reproducible format, or that data is analyzed and correlated in ways that are effective for risk management. EPA did not implement its defined incident response technologies. Also, the tools are not interoperable to the extent practicable; do not cover all components of the organization's network; and have not been configured to collect and retain relevant and meaningful data consistent with the organization's incident response policy, procedures and plans. EPA incident response stakeholders did not implement, monitor and analyze qualitative and quantitative performance measures across the organization and did not collect, analyze and report data on the effectiveness of the organization's incident response program. EPA did not implement processes for consistently implementing, monitoring and analyzing qualitative and quantitative performance measures across the organization; and is not collecting, analyzing and reporting data on the effectiveness of its processes for performing incident response. EPA data supporting incident response measures and metrics are not obtained accurately, consistently and in a reproducible format.
Cybersecurity Framework Security Function	***FISMA Metric Domain***	***Federal Information Security Modernization Act Metric***
		EPA uses technologies for consistently implementing, monitoring and analyzing qualitative and quantitative performance across the organization; however, the data are not consistently collected, analyzed and reported on the effectiveness of its technologies for performing incident response activities. EPA has not defined or implemented incident response performance measures that include data on the implementation of its incident response program for all sections of the network.
Recover	**Contingency Planning**	EPA did not test its Business Continuity Plan and Disaster Recovery Plan for effectiveness and update plans as necessary. EPA did not determine alternate processing and storage sites based upon risk assessments that ensure that the potential disruption of the organization's ability to initiate and sustain operations is minimized, and are not subject to the same physical and/or cybersecurity risks as the primary sites.

Source: OIG analysis.

FISMA: Federal Information Security Modernization Act

In addition, our FY 2016 annual report of EPA financial statements disclosed that information technology processes need to be improved to protect the integrity of EPA data used for decision-making, and that the EPA lags behind in taking steps to remediate long-standing information system controls needed to protect financial data. In particular, our audit noted that the EPA lacks (1) documentation to identify the equipment needed to restore operations and network connectivity for the financial and mixed-financial applications housed at its data center, (2) controls to monitor the actions of contractors with direct access to data within the agency's core financial application, and (3) offsite data storage plans for key financial applications. Additionally, the EPA has yet to remediate a FY 2009 weakness to implement controls within its financial systems to ensure personnel with incompatible duties cannot process financial transactions. Also, the agency has yet to address multiple long-standing weaknesses with regard to how the EPA manages user accounts for its financial applications.

Managing Contractors

Increased management oversight is needed to ensure agency contractors comply with mandated information system security requirements.

- In our FY 2015 report on EPA contract systems, we noted that personnel with oversight responsibilities for contractor systems were not aware of the requirements outlined in EPA information security procedures. As a result, EPA contractors did not conduct the required annual security assessments, did not provide security assessment results to the agency for review, and did not establish the required incident response capability. Data breaches costing from $1.4 million to over $12 million could have occurred for the systems included in our review if compromised.
- Our FY 2015 audit of the EPA's administration of cloud services disclosed that the EPA is not fully aware of the extent of its use of cloud services, and thereby is missing an opportunity to help make the most efficient use of its limited resources regarding cloud-based acquisitions. We found that inadequate oversight of a cloud service provider resulted in the agency placing an EPA system within the vendor's network that (1) did not comply with federal security requirements, and (2) contained vendor terms of service that were not compliant with the Federal Risk and Authorization Management Program.
- Our FY 2015 annual audit of the EPA's information security program disclosed that agency management of contractor systems requires significant management attention to correct deficiencies noted in this area. We found that significant improvements are needed to (1) ensure contractors comply with required security controls, (2) maintain an accurate inventory of contractor systems, and (3) identify contractor systems that interface with EPA systems.

The EPA took steps to address some of the recommendations noted in the above reports.

Nonetheless, current audit work continues to note that the EPA lacks a holistic approach to managing accountability over its contractors and ensuring personnel responsible for overseeing contractors are aware of their responsibilities.

- Our FY 2016 annual audit of the EPA's information security program disclosed that the agency did not identify and track the status of specialized security training for contractors with significant information security responsibilities.

WHAT REMAINS TO BE DONE

The agency's activities under this management challenge do not meet the following criteria required to justify removal: (1) agency capacity, (2) an action plan, (3) monitoring efforts, and

(4) demonstrated progress. The EPA has taken steps to address many of our audit recommendations. However, the following actions remain to address cybersecurity challenges:

1. Verify that the Audit Follow-Up Coordinator function in the Office of Environmental Information has sufficient staffing to be effective, and ensure managers and staff understand the process for this function and report concerns with workload.
2. Develop and implement a process that:
    a) Strengthens internal controls for monitoring and completing corrective actions on all open audits.
    b) Maintains appropriate documentation to support completion of corrective actions; if delegated to sub-offices, the process should include regular inspections by the Office of Environmental Information's Audit Follow-Up Coordinator.
    c) Specifies when sub-offices must report corrective actions as completed.
    d) Requires verification that corrective actions fixed the issue(s) that led to the recommendation.
    e) Requires sub-offices to continue to use the improved processes.
    f) Requires Office of Environmental Information managers to update the office's Audit Follow-Up Coordinator on the status of upcoming corrective actions.
3. Take steps to remediate weaknesses identified during the FY 2016 annual audit of the EPA's information security program.
4. Develop a process to train EPA Contract Officer Representatives on their responsibilities for monitoring the contractors to ensure they meet specified EPA information security responsibilities. This includes (a) monitoring that contractors that operate information systems on behalf of the EPA perform the mandated information security assessments, and (b) ensuring that contractors with significant information security responsibilities complete required role-based training.
5. Implement plans to review all EPA contracts and task orders, and place the EPA-developed contract clause requiring contractors to complete role-based training into all EPA contracts and task orders.
6. Implement a process to create a listing of agency contractor personnel with significant information security responsibilities who require role-based training; validate that the identified contractor personnel complete the annual role-based training requirement, and report the information as required by the Federal Information Security Modernization Act.

Agency Response to Office of Inspector General–Identified Key Management Challenges

Challenge #1 - EPA Needs to Improve Oversight of States, Territories and Tribes Authorized to Accomplish Environmental Goals

Agency Response: The Agency continues to make state oversight an Agency priority and to improve oversight practices to ensure consistency. Some examples of the efforts the Agency has taken to address OIG's concerns include:

- Established the *State Program Health and Integrity Workgroup*. This inter-agency workgroup, which began in FY 2012, composed of the EPA's national program offices for air, enforcement and water, gathers and analyzes information on oversight of state practices, identifies gaps and develops solutions.
- Reviewed a minimum of two percent of 40 CFR Part 70 Title V permits issued by states and conducted at least one evaluation per region of a state, local, or tribal Title V permitting program.
- Completed draft guidance documents on program evaluation and fee oversight, strategy in response to an OIG audit. The guidance documents are scheduled to be finalized and issued in the Spring 2018. In developing the draft guidance document, the EPA considered the scope and frequency of fee assessments and their relationship to the National Program Guidance element that currently provides for each region to conduct at least one Title V program evaluation each year. The final guidance will be consistent with Agency "Principles and Best Practices for Oversight of State Permitting Programs," issued August 30, 2016.
- Working with the states to have revised Memorandums of Agreements (MOA) to reflect program changes from the 2005 Energy Policy Act by October 2018. The OIG evaluated the Underground Storage Tank (UST) prevention program and recommended that EPA work with the states to revise their current MOA to reflect program changes and address oversight of municipalities conducting inspections. The EPA agreed with the recommendation and at the time was in the process of revising the UST regulation, addressing among other things, state program approval (SPA) for the UST program. The EPA published the revised UST regulations in July 2015. In the final regulation, the EPA provided states who currently have SPA three years from the rule's effective date to submit their applications for a reinstatement of their SPA. The EPA agreed to time the revision and updates of the MOA with the re-SPA timeframe, which is October 2018.
- Established a state-EPA workgroup to take action on the financial indicators developed in response to recommendations concerning State Revolving Fund oversight. The workgroup developed three new indicators that directly address the GAO recommendations. The new indicators will be recalculated for each state on an annual basis. The EPA's Office of Water will draft a memorandum and send it to the regional offices and states introducing the new indicators and providing guidance on how they support the EPA's oversight efforts. The office expects to initiate the formal close out of the GAO report in calendar year 2017. The Agency believes that a range of financial indicators will provide stakeholders with a complete understanding of the financial sustainability of the Drinking Water State Revolving Funds and Clean Water State Revolving Funds.
- Improved collaboration and coordination with states in implementing Safe Drinking Water Act regulation for Public Water Systems and Underground Injection Control regulations regarding hydraulic fracturing activities. For example, the agency coordinates with states where use of diesel fuels in hydraulic fracturing has been reported and evaluates any information regarding injection of diesel fuels for hydraulic fracturing on a case by case basis.

Challenge #2 - EPA Needs to Improve Its Workload Analysis to Accomplish Mission Efficiently and Effectively

Agency Response: As acknowledged by OIG, there are inherent difficulties in applying workload analyses for the highly variable, multi-year, and non-linear activities that comprise most of the EPA's work. These difficulties limit the utility of detailed full time equivalent (FTE) based workload analyses for broader Agency program estimates. For example, during the FY 2016 budget process, the Agency examined broad workload trends as a basis to move resources to address major challenges. In each specific area, Agency senior management considered longer-term trends and overall staffing rather than individual tasks and portions of FTEs, such as increased programmatic requirements. As a result, in its FY 2016 President's Budget proposal, the Agency requested and received additional FTE for these programs. In FY 2016, Congress passed additional Toxic Substances Control Act (TSCA) fees legislation and for FY 2016, FY 2017 and moving forward, the Agency is examining fee-associated workload.

The Agency's strategy is to find the best value to be derived from detailed workload analysis. Rather than detailed FTE models, the EPA focused workload analyses on current operations. The Agency found that detailed FTE models created a sense of false precision, quickly became out-of-date due to changing regulations, requirements and systems, and were overly sensitive to relatively small changes in the input. Reflecting on this experience, the workload analysis guidance that the EPA added to the Funds Control Manual (per the IG's recommendation) provides information about several types of workload analyses rather than solely discussing FTE workload models. Instead, the guidance discusses several workload tools that EPA programs can use to help manage their program operations and resources.

Over the last few years, the EPA workload analyses examined task-driven functions, focusing on understanding how much time managers and staff invest in each function's major tasks. The analyses helped the EPA identify major challenges and opportunities, target streamlining and Lean efforts, clarify guidance, prioritize training, and structure other support efforts and initiatives. Analyses included:

- Grants and Interagency Agreement Officers - I-GET (Interagency Agreement and Grants Officer Estimator Tool)
- Project officers - POET (Project Officer Estimator Tool)
- IT security officers - (Information Security Task Force) analyses of Information Security Officer duties
- Funds Control Officers - FCO workload review
- Fee-related duties - Existing and new fees workload review

EPA will continue to use workload and trend analyses to better understand Agency programs and as a factor to inform budget decisions. In an era of limited financial resources, making difficult trade-offs between many different environmental programs remains one of the Agency's senior management's greatest responsibilities and challenge. The EPA will continue working with the OIG on completing the current Superfund allocation review.

Challenge #3 - EPA Needs to Enhance Information Technology Security to Combat Cyber Threats

Agency Response: The Agency is committed to protecting its information and technology assets. The EPA understands the prevalence and complexity of the ever-growing cyber security attacks and is aware of the potential impact to the Agency's mission if information assets are compromised. The Agency has established and implemented adequate processes for tracking audit recommendations and the status of corrective actions that will help address concerns associated with this management challenge.

The Agency is developing a process to train EPA Contract Officer Representatives on their responsibilities for monitoring the contractors to ensure they meet specified EPA information security responsibilities. This includes:

- Monitoring contractors that operate information systems on behalf of the EPA to ensure they perform the mandated information security assessments.
- Ensuring that contractors with significant information security responsibilities complete role-based training.

Additionally, the Agency has developed standard contract clauses to help ensure contractors implement and follow the EPA and federal information security directives, including requiring contractors to complete role-based training. The Agency plans to use a checklist to guide the inclusion of pertinent clauses in all applicable contracts. The Agency plans to oversee the inclusion of the clauses during the Federal Information Technology Acquisition Reform Act reviews and will develop and implement a method to review existing contracts to ensure the clauses are included, as appropriate. The Agency plans to implement the inclusion of standard contract clauses by the end of the first quarter of FY 2018.

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.

PROGRESS IN ADDRESSING FY 2017 WEAKNESSES

EPA continued to address previously identified material weaknesses. In FY 2017, the Agency did not identify any new material weaknesses. Corrective actions are currently underway and the Agency expects to complete corrective actions within FY 2018.

Material Weaknesses

EPA Failed to Capitalize Software Costs

In FY 2014, the Agency found it had undercapitalized software, which resulted in a material misstatement of financial statements and led to the restatement of the FY 2013 financial statements.

To address this weakness, the EPA developed a corrective action plan to resolve the issues identified in the FY 2014 audit. The plan includes using LEAN techniques to improve the accuracy of recording information technology (IT) transactions in the fixed asset system, and correcting data entries related to depreciation of IT software assets. Additionally, the Agency plans to validate the costs of IT software development projects prior to moving into production. To ensure that software project costs are appropriately capitalized, the Office of the Chief Financial Officer is working with the Office of Environmental Information and other EPA program offices to evaluate software projects costs before capitalizing. The projected closure date for this material weakness is FY 2018.

EPA Cannot Adequately Support FIFRA and PRIA Costs

During the FY 2014 financial statement audits for the Pesticides Reregistration and Expedited Processing Fund and the Pesticides Registration Fund, OIG indicated that EPA could not adequately support payroll costs in the amounts of $34 and $28 million, respectively.

To address these material weaknesses, the Agency has developed an approach to account for employee time on FIFRA and PRIA costs within the EPA pay administration system. The Agency developed and implemented new codes, trained necessary employees on the use of the codes, and established requirements for employees and supervisors to ensure proper coding as part of the Agency's official timekeeping process. This process improvement gives the Agency the ability to capture direct and indirect costs of both the FIFRA and PRIA programs. The Agency will continue to track and monitor the use of the time accounting codes to make sure that coding is consistent, concerns are addressed, and ensure continued compliance. The Agency expects the corrective actions for these weaknesses will be implemented fully in FY 2018.

EPA's Accounting for Unearned Revenue

During the FY 2016 financial statement audit, OIG identified material weakness related to the recording and reconciliation of unearned revenue for Superfund special accounts.

To address this material weakness, the Agency engaged in deliberations with OMB and the Department of Treasury to develop a new process for managing and accounting for Special Account collections and receivables. In January 2017, OMB provided final approval on the revised process, including updated posting models for recording special account transactions. The Agency is implementing the new account process for special accounts, which will involve updating accounting posting models and converting prior accounting data into the approved process. Once the changes in the accounting system and posting models have been made, the EPA will reconcile the general ledger to the special accounts collected from past costs. The projected closure date for this material weakness is FY 2018.

Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Software Cost	1	0	0	0	1
Unearned Revenue	1	0	0	0	1
Total Material Weaknesses	2	0	0	0	2

Summary of Management Assurance

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) (A 123 Appendix A)						
Statement of Assurance	Modified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
FIFRA Fund Costs	1	0	0	0	0	1
PRIA Fund Costs	1	0	0	0	0	1
Total Material Weaknesses	2	0	0	0	0	2

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

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

Compliance With Section 803(a) of FFMIA		
	Agency	**Auditor**
1. Federal Financial Management System Requirement	No lack of compliance noted.	No lack of compliance noted.
2. Applicable Federal Accounting Standards	No lack of compliance noted.	No lack of compliance noted.
3. USSGL at Transaction Level	No lack of compliance noted.	No lack of compliance noted.

REDUCE 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 "Reduce the Footprint" (RTF) policy implementing guidance, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2015 baseline.

Reduce the Footprint Baseline Comparison			
	FY 2015 Baseline	**FY 2016**	**Change**
Square Footage (SF)	5,364,495	5,190,492	(174,003)

EPA's baseline, derived from the Agency's FY 2015 Federal Real Property Profile (FRPP) submission and FY 2015 U.S. General Services Administration (GSA) Occupancy Agreement, is 5,364,495 square feet (SF). The Reduce the Footprint offset square footage is composed of office and warehouse assets reported as excess to GSA. EPA's RTF total in FY 2016 was 5,190,492 SF, a reduction of 174,003 SF from the baseline.

Reporting of Operation & Maintenance Costs-Owned and Direct Lease Buildings			
	FY 2015 Reported Cost	**FY 2016**	**Change**
Operations & Maintenance Costs	$1,106,924.21	$950,268.76	($156,655.45)

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.

PAYMENT INTEGRITY

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires executive branch agencies to review all programs and activities annually, identify those that may be susceptible to significant improper payments and report the results of their improper payment activities to the President and Congress through their annual Agency Financial Report or Performance and Accountability Report.

The EPA is dedicated to reducing fraud, waste, and abuse and presents the following improper payment information in accordance with IPIA, as amended; OMB implementing guidance in Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments;* and IPIA reporting requirements contained in OMB Circular A-136, *Financial Reporting Requirements.*

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

1) Review all programs and activities to identify those that are susceptible to significant improper payments, defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and $10 million of estimated improper payments or (2) $100 million of estimated improper payments (regardless of the rate).

2) Obtain a statistically valid estimate of the annual amount of improper payments in programs identified as susceptible to significant improper payments.

3) Implement a plan to reduce improper payments in these programs.

4) Report annually an estimate of the annual amount and rate of improper payments.

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[1], 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.

OMB Circular A-123, Appendix C, requires that agencies conduct risk assessments of their programs or activities at least once every three years to determine whether they are susceptible to significant improper payments. Based on this three-year risk assessment cycle, the EPA was not required to complete any new risk assessments in FY 2017.

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[1] As footnoted in OMB Circular A-123, Appendix C, "A*pplicable discounts* are only those discounts where it is both advantageous and within the agency's control to claim them."

However, the EPA has four programs that are currently identified as susceptible to significant improper payments, which include the Clean Water SRF, the Drinking Water SRF, non-SRF grants, and Hurricane Sandy funding. The SRFs were deemed susceptible to significant improper payments upon the enactment of IPIA, and Hurricane Sandy is automatically considered susceptible to significant improper payments by the *Disaster Relief Appropriations Act, 2013*. The grants payment stream was identified as susceptible to significant improper payments during the Agency's risk assessment process conducted in FY 2016 and is reporting baseline improper payment measurements in FY 2017. None of the Agency's programs were identified as high priority, defined as exceeding $750 million of annual estimated improper payments. Table 1 summarizes the risk level for each of the Agency's payment streams.

Table 1: Risk Level

Payment Stream	Low Risk	Susceptible to Significant IPs
Commodities	X	
Contracts	X	
CWSRF		X
DWSRF		X
Grants		X
Hurricane Sandy		X
Payroll	X	
Purchase Cards	X	
Travel	X	

I. Payment Reporting

The following tables provide information about the four EPA programs that are identified as susceptible to significant improper payments, all four of which have reported results below the statutory threshold. The website https://paymentaccuracy.gov/ contains more detailed information on improper payments and also includes all of the information reported in prior year AFRs that is not included in the FY 2017 AFR.

Table 2.1: Payment Integrity Outlook
($ in millions)

Program	Outlays	Est. Amount Properly Paid	Est. Amount Improperly Paid	Percent Properly Paid	Percent Improperly Paid	FY 2018 Target
CWSRF	$1,431.39	$1,428.77	$2.62	99.82%	0.18%	1.00% (1)
DWSRF	$1,183.94	$1,183.18	$0.76	99.94%	0.06%	1.00% (1)
Grants	$1,726.94	$1,714.57	$12.37	99.28%	0.72%	2.95% (2)
Hurricane Sandy	$14.32	$14.28	$0.04	99.72%	0.28%	1.50% (3)
Total	$4,356.59	$4,340.80	$15.79	99.64%	0.36%	n/a

(1) For the SRFs, given reported improper payments rates below the IPERA threshold for more than two consecutive years, EPA will request relief from annual reporting starting in FY 2018. If approved, statistical sampling will be discontinued. The SRFs would return to a three-year risk assessment cycle, and reduction targets would no longer be required.

(2) For grants, statistical sampling will become more robust in FY 2018, resulting in the review of five times as many recipients. The expanded sample size will provide more precise estimates but is expected to increase the amount of improper payments identified. In addition, responsibility for leading the grant improper payment reviews is being transferred to a different office, which is developing new procedures and review criteria. Added emphasis will be placed on the detection of recipient overdraws, likely resulting in more errors identified. Documentation errors, which accounted for all of the improper payments identified in the FY 2017 statistical sample, are expected to be identified in proportion to the larger sample size. For these reasons, it is anticipated that the improper payment rate for grants may increase substantially in FY 2018.

(3) Hurricane Sandy outlays are expected to increase substantially, which will likely result in the identification of additional improper payments.

Table 2.2 Payment Integrity Outlook (Continued) ($ in millions)						
Program	**Est. Amount Overpaid**	**Est. Amount Underpaid**	**Percent of Sample Overpaid**	**Percent of Sample Underpaid**	**Start Date for Sampled Data**	**End Date for Sampled Data**
CWSRF	$2.02	$0.60	77.2%	22.8%	10/01/15	9/30/16
DWSRF	$0.54	$0.22	70.6%	29.4%	10/01/15	9/30/16
Grants	$12.37	$0.00	100%	0%	4/01/15	3/30/16
Hurricane Sandy	$0.04	$0.00	100%	0%	10/01/15	9/30/16
Total	$14.97	$0.82	n/a	n/a	n/a	n/a

Table 3 provides information on the estimated amount of improper payments made directly by the federal government and the amount of improper payments made by recipients of federal money.

Table 3: Origin of Improper Payments ($ in millions)		
Program	**Est. Amount Improperly Paid by Federal Government**	**Est. Amount Improperly Paid by Recipients of Federal Money**
CWSRF	$0.00	$2.62
DWSRF	$0.00	$0.76
Grants	$0.00	$12.37
Hurricane Sandy	$0.00	$0.04
Total	$0.00	$15.79

Table 4 identifies the root causes of error in each program.

Table 4: Improper Payment Root Cause Category Matrix
($ in millions)

Reason for Improper Payment		CWSRF		DWSRF		Grants		Hurricane Sandy	
		Over-pay	Under-pay	Over-pay	Under-pay	Over-pay	Under-pay	Over-pay	Under-pay
Program Design or Structural Issue									
Inability to Authenticate Eligibility									
Failure to Verify:	Death Data								
	Financial Data								
	Excluded Party Data								
	Prisoner Data								
	Other Eligibility Data								
Administrative or Process Error Made by:	Federal Agency								
	State or Local Agency	$2.02	$0.60	$0.54	$0.22			$0.04	$0.00
	Other Party								
Medical Necessity									
Insufficient Documentation to Determine						$12.37	$0.00		
Other Reason									
Total		$2.02	$0.60	$0.54	$0.22	$12.37	$0.00	$0.04	$0.00

II. Recapture of Improper Payments Reporting

IPERA requires agencies to conduct payment recapture audit reviews in any program expending more than $1 million annually. Since the EPA's payment streams exceed this expenditure threshold, payment recapture activities are conducted, and the work is performed internally by Agency employees who continuously monitor each payment stream to identify and recapture overpayments. None of the Agency's payment streams have been excluded from review. Past experience has demonstrated that the low dollar value of improper payments recovered by an external payment recapture auditor resulted in an effort that was not cost-effective for the contractor. Therefore, EPA no longer uses a contractor to recapture overpayments but operates an internal program utilizing Agency resources. 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, assessing root causes of error, developing corrective action plans where appropriate, and tracking the recovery of overpayments. Additional information is provided below for each payment stream in order to describe the actions and methods used to recoup overpayments, a justification of any overpayments determined not to be collectible, and any conditions giving rise to improper payments and how those conditions are being resolved.

A) Commodities and Contracts

Commodities and contracts, also known as commercial payments, are low risk payment streams. Given their historically low percentage of improper payments, the Agency relies on its internal review process to detect and recover overpayments. The Agency produces monthly reports for each payment stream and uses these reports as its primary tool for tracking and resolving improper payments. These reports identify the number and dollar amount of improper payments, the source and reason for the improper payment, the number of preventive reviews conducted, and the value of recoveries.

The commercial payments are subject to financial review, invoice approval, and payment certification. Since all commercial payments are subject to rigorous internal controls, the Agency relies upon its system of internal controls to minimize errors. The following is a brief summary of the internal controls in place over the Agency's commercial invoice payment process.

The payment processing cycle requires that all invoices be subjected to rigorous review and approval by separate entities. Steps taken to ensure payment accuracy and validity, which serve to prevent improper payments, include 1) the RTP Finance Center's review for adequate funding and proper invoice acceptance; 2) comprehensive system edits to guard against duplicate payments, exceeding ceiling cost and fees, billing against incorrect period of performance dates, and payment to wrong vendor; 3) electronic submission of the invoice to Project Officers and Approving Officials for validation of proper receipt of goods and services, period of performance dates, labor rates, and appropriateness of payment, citing disallowances or disapprovals of costs if appropriate; and 4) review by the RTP Finance Center of suspensions and disallowances, if taken, prior to the final payment certification for Treasury processing. Additional preventive reviews are performed by the RTP Finance Center on all credit and re-submitted invoices. Additionally, EPA Contracting Officers perform annual reviews of invoices on each contract they administer, and Defense Contract Audit Agency (DCAA) audits are performed on cost-reimbursable contracts at the request of the Agency.

Vendors doing business with federal agencies occasionally offer discounts when invoices are paid in full and within the specified discount period (e.g., within 10 days of billing). The EPA makes its best effort to take all discounts, as they represent a form of savings to the Agency. However, there are valid reasons for which it is not feasible to take every discount that is offered, including: 1) an insufficient discount period to process a discount offer, such as a discount offer in which the required processing time for payment exceeds the number of days of the offer; and 2) a situation in which it is not economically advantageous to take the discount. Specifically, if the discount rate exceeds the Treasury's current value of funds rate, taking the discount saves the government money, so the discount is accepted by paying the invoice early. However, if the discount rate is less than the current value of funds rate, taking the discount is not cost-effective for the government, so the discount is rejected, and the invoice is paid as close to the payment due date as possible. Improper payments stemming from lost discounts totaled $56K in FY 2017 for commodities and contracts combined and are tracked in the monthly improper payment reports.

Improper payments can result from typographical errors, payments to incorrect vendors, duplicate payments, or lost discounts. Numerous training sessions have been conducted, and standard operating procedures have been reviewed and updated to ensure the most current processes are properly documented. Any significant changes in policy or procedures are communicated in a timely manner. Despite the Agency's best efforts to collect all overpayments, some overpayments are not recoverable. For example, lost discounts can result when the Agency is unable to pay an invoice within the time period specified by the vendor. While reported as improper payments, lost discounts are not recoverable and are excluded from the recovery percentage for both contracts and commodities.

B) Clean and Drinking Water State Revolving Funds

For the SRFs, the Agency both identifies and recovers improper payments during the state review process. The EPA Regions are required to conduct annual reviews of state SRF programs using checklists developed by Headquarters. Included in the checklist are questions about potential improper payments which the Regions discuss with the state SRF staff during the reviews. Errors in the SRFs most often arise from duplicate payments, funds drawn from the wrong account, incorrect proportionality used for drawing federal funds, ineligible expenses, transcription errors, or inadequate cost documentation. Many of the payment errors are immediately corrected by the state or are resolved by adjusting a subsequent cash draw. For issues requiring more detailed analysis, the state provides the Agency with a plan for resolving the improper payments and reaches an agreement on the planned course of action. The agreement is described in EPA's Program Evaluation Report, and the Agency follows up with the state to ensure compliance.

C) Grants

For the Agency's grants payment stream, errors principally consist of ineligible expenses or lack of supporting documentation. When overpayments arise, EPA seeks to recover them either by establishing a receivable and collecting money from the recipient or by offsetting future payment requests. The Agency follows established debt collection procedures to recapture overpayments.

The EPA identifies overpayments in grants both through statistical sampling and through non-statistical means. The statistical sampling process is described in Section III, "Sampling and Estimation." As part of its non-statistical activity, the Agency conducts transaction testing of active grant recipients through Advanced Administrative Monitoring reviews. Recipients are randomly selected via random attribute sampling and are stratified by recipient type, including state governments, local governments, tribes, universities and nonprofits. Using a standard protocol, an onsite or desk review is performed, and each recipient's administrative and financial management controls are examined. The reviews include an analysis of the recipient's administrative policies and procedures and the testing of a judgmental sample of three non-consecutive draws.

In addition, the Agency responds to single audits and OIG audits and uses them as a means of identifying and recovering improper payments. The Agency follows established processes for evaluating questioned costs, validating or disallowing costs where appropriate, and seeking the recovery of any sustained overpayments. The EPA also identifies improper payments originating from enforcement actions, grant adjustments, and recipient overdraws. Grant adjustments arise when a recipient must return any unexpended drawn amounts prior to closeout of the grant. Recipient overdraws occur when funds are erroneously drawn in advance of immediate cash needs, and the recipient is directed to repay the funds while also being reminded of the immediate cash needs rule. Depending on the type of error, improper payment information is tracked by the Office of the Controller and the Office of Grants and Debarment, and the records of each are reconciled to ensure complete and accurate reporting. For current year reporting, three overpayments totaling $206K were determined to be not recoverable and were written off due to the debtor's inability to pay. As shown in Table 5, "Overpayment Payment Recaptures with and without Recapture Audit Programs," most grant overpayments identified by the Agency have been recovered in full.

The EPA also seeks to prevent improper payments. Prior to the issuance of a grant award, Grants Management Offices (GMO) conduct pre-award certification of all recipients that receive awards in excess of $200K to ensure their written policies and procedures specify acceptable internal controls for safeguarding federal funds. Re-certifications are conducted every four years. In addition, GMOs are required to ensure that recipients are not listed in the Excluded Parties List System within the System for Award Management. EPA conducts annual baseline monitoring reviews of all recipients to ensure overall compliance with assistance agreement terms and conditions, as well as all applicable federal regulations. If deemed necessary, recipients can be placed on a reimbursement payment plan and are required to submit cost documentation (receipts, invoices, etc.) for review and approval prior to receiving reimbursement. These measures help prevent improper payments from occurring.

D) Hurricane Sandy

Hurricane Sandy funding is comprised of expenditures related to its various component streams, which included contracts, grants, and payroll for FY 2017 reporting. Statistical sampling was performed, and there were no improper payments identified in either the contracts or payroll samples. Some overpayments were identified in the grants samples, as these funds were drawn from the wrong account. The error was corrected, and the recipient has taken corrective action to prevent recurrence.

E) Payroll

Payroll is at low risk of significant improper payments. It is a largely automated process driven by the submission of employee time and attendance records and personnel actions. When a debt is identified, the employee is notified of the debt, given the right to dispute the debt, provided payment options, and an accounts receivable is recorded. For out-of-service debt, the EPA establishes the debt and tracks recovery status. Out-of-service debt can arise when an employee leaves the Agency and owes funds back to the EPA following separation. A small portion of the EPA's out-of-service debt was uncollectible as a result of the separating employee retiring on disability. In-service debt is monitored by the Interior Business Center (IBC), which the EPA utilizes as a shared service provider. IBC provides personnel and payroll support to multiple federal agencies. In-service debt can arise for a variety of reasons during the period of employment. For both in-service and out-of-service debt, recoveries are actively pursued by establishing receivables and following existing debt collection procedures.

The following internal controls are related to the prevention, identification and recovery of improper payments in payroll. On a bi-weekly basis, employees, timekeepers and managers are required to attest, review or approve employee time in the Agency's time and attendance system, PeoplePlus, prior to the time entry and approval deadlines. Automated reminder notifications are sent as needed. When corrections are made to an employee's timesheet, PeoplePlus overwrites the original timesheet with the corrected version to prevent duplicate payments. The original timecards, as well as all corrected entries, are maintained in the EPA Audit Summary Page and the Payable Time Detail. OCFO's Office of Technology Solutions 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 the hours reported on automatically approved timecards are accurate.

F) Purchase Cards and Travel

Purchase cards and travel are at low risk of significant improper payments. For purchase cards, improper payments can include ineligible purchases. For travel, improper payments can include ineligible expenses and insufficient or missing supporting documentation. When an overpayment is identified for travel, the Agency establishes a receivable, and existing procedures are followed to ensure prompt recovery. Two small travel overpayments were identified in FY 2017 and were recovered in full. For purchase cards, no overpayments were identified.

The following tables quantify the Agency's efforts to identify and recapture improper payments across all payment streams.

Table 5: Overpayment Payment Recaptures with and without Recapture Audit Programs (1) ($ in millions)						
	Overpayments Recaptured through Payment Recapture Audits				**Overpayments Recaptured Outside of Payment Recapture Audits**	
Program	**Amount Identified in FY 2017**	**Amount Recovered in FY 2017**	**Recapture Rate in FY 2017**	**FY 2018 Recapture Rate Target**	**Amount Identified in FY 2017**	**Amount Recovered in FY 2017**
Commodities (2)	$0.4090	$0.3562	87.1%	90.0%	$0.00	$0.00
Contracts (2)	$0.545	$0.490	89.9%	90.0%	$0.00	$0.00
CWSRF	$0.13	$0.13	100%	90.6%	$3.78	$1.56
DWSRF	$0.09	$0.09	100%	90.6%	$1.20	$1.20
Grants	$0.02	$0.00	0%	89.0%	$9.48	$9.35
Hurricane Sandy	$0.02	$0.02	100%	90.6%	$0.03	$0.03
Payroll	n/a	n/a	n/a	n/a	$0.84	$0.68
Purchase Cards	n/a	n/a	n/a	n/a	$0.00	$0.00
Travel	n/a	n/a	n/a	n/a	$0.00	$0.01
Other (3)	n/a	n/a	n/a	n/a	$1.66	$1.07
Total	$1.214	$1.086	89.5%	n/a	$16.99	$13.90

(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 of the table were recovered through additional means available to the Agency.

(2) Amounts for contracts and commodities do not include lost discounts, which are uncollectible.

(3) Includes sensitive pay areas that cut across multiple payment streams.

Table 6: Disposition of Funds Recaptured Through Payment Recapture Audit Programs *($ in millions)*							
Program or Activity	**Amount Recaptured** (1)	**Agency Expenses to Administer the Program**	**Payment Recapture Auditor Fees**	**Financial Management Improvement Activities**	**Original Purpose**	**Office of Inspector General**	**Returned to Treasury**
Commodities	$0.3562	$0.08	$0.00	$0.00	$0.28	$0.00	$0.00
Contracts	$0.490	$0.08	$0.00	$0.00	$0.41	$0.00	$0.00
CWSRF	$0.13	$0.06	$0.00	$0.00	$0.07	$0.00	$0.00
DWSRF	$0.09	$0.06	$0.00	$0.00	$0.03	$0.00	$0.00
Grants	$0.00	$0.77	$0.00	$0.00	$0.00	$0.00	$0.00
Hurricane Sandy	$0.02	$0.01	$0.00	$0.00	$0.01	$0.00	$0.00
Total	$1.086	$1.06	$0.00	$0.00	$0.80	$0.00	$0.00

(1) None of the recaptured amounts displayed in this column originated from expired discretionary fund accounts appropriated after the enactment of IPERA (i.e., July 22, 2010), of which the OIG would receive up to 5%.

Table 7: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (1, 2) *($ in millions)*				
Program or Activity	**Amount Outstanding (0 to 6 Months)**	**Amount Outstanding (6 Months to 1 Year)**	**Amount Outstanding (Over 1 Year)**	**Amount determined to not be collectable**
Commodities	$0.05	$0.00	$0.00	$0.00
Contracts	$0.10	$0.00	$0.00	$0.00
CWSRF	$0.00	$0.00	$0.00	$0.00
DWSRF	$0.00	$0.00	$0.00	$0.00
Grants	$0.02	$0.00	$0.00	$0.00
Hurricane Sandy	$0.00	$0.00	$0.00	$0.00
Total	$0.17	$0.00	$0.00	$0.00

(1) This table shows the age of outstanding overpayments identified by statistical sampling, consistent with Table 5.
(2) The aging of an overpayment begins at the time the overpayment is detected.

III. Sampling and Estimation

A) Clean and Drinking Water 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 the 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, the 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.

Although the SRFs did not exceed the IPERA threshold, they are deemed by OMB to be susceptible to significant improper payments. 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.

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 2017 reporting, statistical sampling was conducted on the universe of payments made by each SRF in FY 2016. The samples were randomly selected and stratified by dollar amount, then tested for improper payments during the annual state reviews conducted by regional 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.

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 95 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.

B) Grants

Based on the quantitative risk assessment performed in FY 2016, the grants payment stream was determined to have exceeded the statutory threshold for significant improper payments. As a result, a valid statistical sampling methodology was developed to ensure accurate improper payment measurements. The EPA submitted the sampling methodology to OMB in September 2016 and began applying it during the FY 2017 reporting cycle, enabling the calculation of a baseline measurement for the grants payment stream. The sampling methodology 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 95 percent confidence level. The sample size consists of fifteen recipients with active grant awards in which drawdowns occurred during the twelve-month sampling timeframe from April 1, 2015 to March 31, 2016. The EPA used a two-stage random sampling approach to draw the sample. Stage 1 stratified recipients by type and resulted in the selection of fifteen recipients using probability proportionate to size. Stage 2 used simple random sampling to select four draws per recipient for a total of 60 draws.

C) Hurricane Sandy

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, which provided a total of $50.5 billion in aid for Hurricane Sandy disaster victims and their communities. The EPA was appropriated over $600 million of funds under the Act for Hurricane Sandy recovery and other disaster-related activities. The funding included $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, the 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 stream, conducting statistical sampling within each stratum, and reporting improper payments on the basis of expenditures made during the preceding fiscal year.

The Agency applies a disproportionate stratified random sampling methodology to select payments for review. The impact of this stratified approach is to maximize the total number of dollars being selected for review while also ensuring the efficient use of resources. The sampling methodology 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 95 percent confidence level. The sampling of Hurricane Sandy funding conservatively assumes an estimated proportion of erroneous payments of 3.0 percent. For FY 2017 reporting, the Hurricane Sandy payment population was divided into three strata by payment type, including grants, contracts, and payroll. Within each stratum, a simple random sample of payments was selected for review. It is important to note that the stratum for grants-related expenditures includes both SRF and non-SRF grant draws. Given the time required to plan, design and build complex construction projects, EPA forecasts that states will expend the SRF portion of Hurricane Sandy funding over many years. For this reason, the Agency requested and obtained from OMB a waiver from the Act’s two-year expenditure requirement. Improper payment sampling will continue annually until all funds have been expended.

FRAUD REDUCTION REPORT

Fraud Reduction and Data Analytics Act of 2015

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to improve financial and administrative controls to assess and mitigate fraud risk. This year, federal agencies are required to discuss efforts undertaken in FY 2017 and the final quarter of FY 2016. The EPA is in the process of aligning strategic and internal control reviews with the development of the FY 2018 – 2022 EPA Strategic Plan revision. The framework for this consolidation will be implemented in FY 2018 and will position the agency to make risk-based decisions about our strategic direction.

In FY 2017, the Agency performed an assessment of fraud risk and responded to the Statement on Auditing Standards Number 122, Consideration of Fraud in a Financial Statement Audit, AU-C Section 240. In its response, the EPA discussed the controls related to the financial statement process, reporting, controls in the finance centers, improper payments reporting, and unliquidated obligation reviews.

Enterprise Risk Management and Internal Control Reviews

The EPA continues to advance our Enterprise Risk Management (ERM) program, through the use of the Committee of Sponsoring Organizations framework, to promote reasonable assurance of achieving compliance with applicable laws and regulations, effective and efficient operations, and reliable financial reporting. Through robust strategic planning and internal control review process the Agency has implemented a forward-looking assessment of risks and of the actions needed to address those risks.

For FY 2017, the Agency developed and issued robust guidance to senior managers on their responsibilities for assessing internal controls. The guidance required all organizations to conduct planned reviews on key programs areas that support the 2014-2018 Strategic Plan and determine whether internal controls for those programs were designed, implemented, and operating effectively in accordance with GAO's five internal control standards and associated principles.

The Agency utilized cross-organizational workgroups to perform the reviews. The EPA's FY 2017 A-123 Planning and Scoping document summarizes the areas of review for internal controls over financial reporting to include the five GAO components and associated principles. Documentation is maintained in accordance with EPA records management schedules. There were no deficiencies identified that rise to the level of a material or agency-level weakness. During FY 2017, the Agency reviewed seven significant financial processes that involved testing of 11 key controls.

The results of the internal control reviews conducted provided the basis for the Agency's FY 2017 statement of assurance on the effectiveness of internal controls. The process areas reviewed were Accounts Receivable, Payroll, Obligations, Superfund Cost Recovery, Collections, Property, Payments (includes Refund Payments and Transit Subsidy Payments). In addition, all program and regional offices completed certifications for Unimplemented OIG and GAO Recommendations, and Sensitive Payment follow-up. Additionally, Region 2 provided a Hurricane Sandy certification and USA Spending certification.

Although not specifically aimed at detecting fraud, EPA's management certifies annually their system of internal controls. As no indications of fraud have been reported in these annual certifications, we have issued a statement that the agency can provide reasonable assurance of compliance with the Federal Managers Financial Integrity Act and OMB Circular A-123.

Improper Payment

In FY 2016 the Agency reported very low improper payment rates. This was achieved by collaborating early with the payment stream community to ensure adherence to internal guidelines and controls. In addition, the OIG's audit of EPA's FY 2016 improper payments reporting determined the Agency to be in full compliance with existing improper payment litigation.

The Agency continues to monitors its payment streams to ensure compliance with improper payment legislation in accordance with OMB's threshold for significant improper payments (i.e., $10 million and 1.5% of program payments; or $100 million, regardless of the rate). The Agency emphasizes the prevention of improper payments through a program of internal control over disbursements and has proven effective at recovering overpayments. The Agency also coordinates with the OIG's Office of Investigations to report any criminal restitution amounts as improper payments.

For FY 2017, EPA is conducting statistical sampling in the grants payment stream, which was newly identified as risk-susceptible in FY 2016, and will establish baseline improper payment measurements. In response to the improper payment rate for grants excluding State Revolving Funds, the Agency will now need to meet OMBs improper payment requirements, which includes enhanced statistical sampling, a corrective action plan, annual improper payment reduction targets, and quarterly high-dollar overpayment reporting

The Agency continues to conduct statistical sampling in the Clean Water SRF, Drinking Water SRF, and for Hurricane Sandy funding. Furthermore, in accordance with Improper Payments Elimination and Recovery Improvement Act, the EPA continues to use Treasury's Do Not Pay (DNP) program, which is a web-based tool that incorporates existing federal databases, such as the Death Master File and the Excluded Parties List. Agency payments are compared against these databases to verify recipient eligibility. The EPA has been using the DNP program since March 2013, and promptly follows up on any payments made to potentially ineligible recipients. In FY 2017 to date, 100 percent of all EPA payments reviewed by the DNP portal were determined to be valid payments, indicating low risk of waste, fraud and abuse.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Report on Inflationary Adjustments to Civil Monetary Penalties: Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvement Act of 2015 ("2015 Act"), EPA and other federal agencies are required, starting in January 2017, to annually adjust their statutory civil penalties amounts by January 15 each year to account for inflation. In accordance with this requirement, EPA promulgated the 2017 Civil Monetary Penalty Inflation Adjustment Rule (2017 Rule) on January 12, 2017, which became effective on January 15, 2017. For details on the 2017 Rule, see 82 Fed. Reg. 3633-3637 (January 12, 2017), codified in Table 2 of 40 CFR § 19.4. EPA will amend 40 CFR § 19.4 in January 2018 to adjust penalty levels to reflect changes in inflation since the last adjustment.

TABLE REFLECTING EPA'S CURRENT CIVIL PENALTY AMOUNTS, AS ADJUSTED FOR INFLATION

U.S. Code Citation	Environmental Statute	Year Statutory Penalty Authority was Enacted	Latest Year of Adjustment (via statute or regulation)	Statutory Civil Penalties for Violations Occurring after November 2, 2015 and Assessed on or after January 15, 2017
7 U.S.C. 136*l*.(a)(1)	FEDERAL INSECTICIDE, FUNGICIDE, AND RODENTICIDE ACT (FIFRA)	1972	2017	$19,057
7 U.S.C. 136*l*.(a)(2)	FIFRA	1972	2017	$2,795
7 U.S.C. 136*l*.(a)(2)	FIFRA	1978	2017	$2,795/$1,801
15 U.S.C. 2615(a)(1)	TOXIC SUBSTANCES CONTROL ACT (TSCA)	2016	2017	$38,114
15 U.S.C. 2647(a)	TSCA	1986	2017	$10,957
15 U.S.C. 2647(g)	TSCA	1990	2017	$9,054
31 U.S.C. 3802(a)(1)	PROGRAM FRAUD CIVIL REMEDIES ACT (PFCRA)	1986	2017	$10,957
31 U.S.C. 3802(a)(2)	PFCRA	1986	2017	$10,957
33 U.S.C. 1319(d)	CLEAN WATER ACT (CWA)	1987	2017	$52,414
33 U.S.C. 1319(g)(2)(A)	CWA	1987	2017	$20,965/$52,414
33 U.S.C. 1319(g)(2)(B)	CWA	1987	2017	$20,965/$262,066
33 U.S.C. 1321(b)(6)(B)(i)	CWA	1990	2017	$18,107/$45,268
33 U.S.C. 1321(b)(6)(B)(ii)	CWA	1990	2017	$18,107/$226,338
33 U.S.C. 1321(b)(7)(A)	CWA	1990	2017	$45,268/$1,811

U.S. Code Citation	Environmental Statute	Year Statutory Penalty Authority was Enacted	Latest Year of Adjustment (via statute or regulation)	Statutory Civil Penalties for Violations Occurring after November 2, 2015 and Assessed on or after January 15, 2017
33 U.S.C. 1321(b)(7)(B)	CWA	1990	2017	$45,268
33 U.S.C. 1321(b)(7)(C)	CWA	1990	2017	$45,268
33 U.S.C. 1321(b)(7)(D)	CWA	1990	2017	$181,071/$5,432
33 U.S.C. 1414b(d)(1)	MARINE PROTECTION, RESEARCH, AND SANCTUARIES ACT (MPRSA)	1988	2017	$1,206
33 U.S.C. 1415(a)	MPRSA	1972	2017	$190,568/$251,382
33 U.S.C. 1901 note (*see* 1409(a)(2)(A))	CERTAIN ALASKAN CRUISE SHIP OPERATIONS (CACSO)	2000	2017	$13,893/$34,731
33 U.S.C. 1901 note (*see* 1409(a)(2)(B))	CACSO	2000	2017	$13,893/$173,656
33 U.S.C. 1901 note (*see* 1409(b)(1))	CACSO	2000	2017	$34,731
33 U.S.C. 1908(b)(1)	ACT TO PREVENT POLLUTION FROM SHIPS (APPS)	1980	2017	$71,264
33 U.S.C. 1908(b)(2)	APPS	1980	2017	$14,252
42 U.S.C. 300g-3(b)	SAFE DRINKING WATER ACT (SDWA)	1986	2017	$54,789
42 U.S.C. 300g-3(g)(3)(A)	SDWA	1986	2017	$54,789
42 U.S.C. 300g-3(g)(3)(B)	SDWA	1986/1996	2017	$10,957/$38,175
42 U.S.C. 300g-3(g)(3)(C)	SDWA	1996	2017	$38,175
42 U.S.C. 300h-2(b)(1)	SDWA	1986	2017	$54,789
42 U.S.C. 300h-2(c)(1)	SDWA	1986	2017	$21,916/$273,945
42 U.S.C. 300h-2(c)(2)	SDWA	1986	2017	$10,957/$273,945
42 U.S.C. 300h-3(c)	SDWA	1974	2017	$19,057/$40,654
42 U.S.C. 300i(b)	SDWA	1996	2017	$22,906
42 U.S.C. 300i-1(c)	SDWA	2002	2017	$133,331/$1,333,312
42 U.S.C. 300j(e)(2)	SDWA	1974	2017	$9,528
42 U.S.C. 300j-4(c)	SDWA	1986	2017	$54,789

U.S. Code Citation	Environmental Statute	Year Statutory Penalty Authority was Enacted	Latest Year of Adjustment (via statute or regulation)	Statutory Civil Penalties for Violations Occurring after November 2, 2015 and Assessed on or after January 15, 2017
42 U.S.C. 300j-6(b)(2)	SDWA	1996	2017	$38,175
42 U.S.C. 300j-23(d)	SDWA	1988	2017	$10,055/$100,554
42 U.S.C. 4852d(b)(5)	RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT OF 1992	1992	2017	$17,047
42 U.S.C. 4910(a)(2)	NOISE CONTROL ACT OF 1972	1978	2017	$36,025
42 U.S.C. 6928(a)(3)	RESOURCE CONSERVATION AND RECOVERY ACT (RCRA)	1976	2017	$95,284
42 U.S.C. 6928(c)	RCRA	1984	2017	$57,391
42 U.S.C. 6928(g)	RCRA	1980	2017	$71,264
42 U.S.C. 6928(h)(2)	RCRA	1984	2017	$57,391
42 U.S.C. 6934(e)	RCRA	1980	2017	$14,252
42 U.S.C. 6973(b)	RCRA	1980	2017	$14,252
42 U.S.C. 6991e(a)(3)	RCRA	1984	2017	$57,391
42 U.S.C. 6991e(d)(1)	RCRA	1984	2017	$22,957
42 U.S.C. 6991e(d)(2)	RCRA	1984	2017	$22,957
42 U.S.C. 7413(b)	CLEAN AIR ACT (CAA)	1977	2017	$95,284
42 U.S.C. 7413(d)(1)	CAA	1990	2017	$45,268/$362,141
42 U.S.C. 7413(d)(3)	CAA	1990	2017	$9,054
42 U.S.C. 7524(a)	CAA	1990	2017	$45,268/$4,527
42 U.S.C. 7524(c)(1)	CAA	1990	2017	$362,141
42 U.S.C. 7545(d)(1)	CAA	1990	2017	$45,268
42 U.S.C. 9604(e)(5)(B)	COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION, AND LIABILITY ACT (CERCLA)	1986	2017	$54,789
42 U.S.C. 9606(b)(1)	CERCLA	1986	2017	$54,789
42 U.S.C. 9609(a)(1)	CERCLA	1986	2017	$54,789

U.S. Code Citation	Environmental Statute	Year Statutory Penalty Authority was Enacted	Latest Year of Adjustment (via statute or regulation)	Statutory Civil Penalties for Violations Occurring after November 2, 2015 and Assessed on or after January 15, 2017
42 U.S.C. 9609(b)	CERCLA	1986	2017	$54,789/$164,367
42 U.S.C. 9609(c)	CERCLA	1986	2017	$54,789/$164,367
42 U.S.C. 11045(a)	EMERGENCY PLANNING AND COMMUNITY RIGHT-TO-KNOW ACT (EPCRA)	1986	2017	$54,789
42 U.S.C. 11045(b)(1)(A)	EPCRA	1986	2017	$54,789
42 U.S.C. 11045(b)(2)	EPCRA	1986	2017	$54,789/$164,367
42 U.S.C. 11045(b)(3)	EPCRA	1986	2017	$54,789/$164,367
42 U.S.C. 11045(c)(1)	EPCRA	1986	2017	$54,789
42 U.S.C. 11045(c)(2)	EPCRA	1986	2017	$21,916
42 U.S.C. 11045(d)(1)	EPCRA	1986	2017	$54,789
42 U.S.C. 14304(a)(1)	MERCURY-CONTAINING AND RECHARGEABLE BATTERY MANAGEMENT ACT (BATTERY ACT)	1996	2017	$15,271
42 U.S.C. 14304(g)	BATTERY ACT	1996	2017	$15,271

GRANTS OVERSIGHT & NEW EFFICIENCY (GONE) ACT REQUIREMENTS

The EPA has tracked assistance agreement closeout performance since its first five-year Grants Management Plan was issued in 2002. The EPA reports to the Office of Management and Budget in its Annual Financial Report on two grants closeout performance measures: 90% of recently expired grants and 99% of grants that expired in earlier years. The Agency has consistently exceeded or met these targets or, in limited instances, missed them by 1% or less. Below is a summary table showing the total number of federal grant and cooperative agreement awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by more than two years.

CATEGORY	2 3 Years	>3 5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	FY14-15 29	FY12-14 11	Before FY12 3
Number of Grants/Cooperative Agreements with Undisbursed Balances	12	3	0
Total Amount of Undisbursed Balances	$7,762,717	$1,640,660	0

The timely closeout of grants can be delayed for a variety of reasons, but generally these include open audits with unresolved findings and where recipient appeal rights have not yet been exhausted; or lack of required documentation from the recipient. EPA monitors unliquidated obligations (ULOs) on expired assistance agreements as well, requiring an annual review of ULOs to determine if funds are no longer needed and can be deobligated and the assistance agreement closed out.

BIENNIAL REVIEW OF USER FEES

In accordance with OMB Circular A-25, User Charges, and the CFO's Act of 1990, the Agency assesses EPA activities that convey special benefits to recipients beyond those accruing to the general public. The purpose of this review is to

a. Ensure that each service, sale, or use of Government goods or resources provided by the EPA to specific recipients be self-sustaining;

b. Promote efficient allocation of the Nation's resources by establishing charges for special benefits provided to the recipient that are at least as great as costs to the Government of providing the special benefits; and

c. Allow the private sector to compete with the Government without disadvantage in supplying comparable services, resources, or goods where appropriate.

The review may also make recommendations to adjust existing fees to reflect unanticipated changes in cost or market price.

There were no assessments scheduled for FY 2017. The next biennial user fee review will take place in FY 2018 and will include: (1) assurance that existing charges are adjusted to reflect unanticipated changes in costs or market values; and (2) a review of all other agency programs to determine whether fees should be assessed for Government services or the user of Government goods or services.

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: https://www3.epa.gov/myem/envmap/find.html
Community Information: https://www.epa.gov/communityhealth
EPA regional offices: www.epa.gov/epahome/regions.htm

Information sources: https://www.epa.gov/quality/epa-information-quality-guidelines
Hotlines and clearinghouses: https://www.epa.gov/home/epa-hotlines
Publications: https://nepis.epa.gov/EPA/html/pubindex.html

Education resources: www.epa.gov/students/
Office of Environmental Education: www.epa.gov/education

About EPA: www.epa.gov/aboutepa
EPA organizational structure: www.epa.gov/aboutepa/epa-organizational-structure

EPA programs with a geographic focus: www.epa.gov/epahome/places.htm

Partnerships: https://archive.epa.gov/partners/web/html/index-5.html
Central Data Exchange: www.epa.gov/cdx
Business Guide to Climate Change Partnerships: https://archive.epa.gov/partners/web/html/

EPA for business and nonprofits: www.epa.gov/home/epa-businesses-and-non-profits
Small Business Gateway: www.epa.gov/osbp/
Grants, fellowships, and environmental financing: www.epa.gov/epahome/grants.htm

Budget and performance: www.epa.gov/planandbudget

Careers: www.epa.gov/careers/

EPA en Español: espanol.epa.gov
EPA tiếng Việt: https://www.epa.gov/lep/vietnamese
EPA 한국어: www.epa.gov/korean

APPENDIX B

ACRONYMS AND ABBREVIATIONS

AFR	*Agency Financial Report*
AICPA	American Institute of Certified Public Accountants
APPS	Act to Prevent Pollution from Ships
APR	*Annual Performance Report*
B&F	building and facilities
BFS	Bureau of Fiscal Services
CAA	Clean Air Act
CACSO	Certain Alaskan Cruise Ship Operations
CERCLA	Comprehensive Environmental Response Compensation and Liability Act
CFO	Chief Financial Officer
CO	contracting officer
CSRS	Civil Service Retirement System
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
DATA	Data Accountability and Transparency Act
DCAA	Defense Contract Audit Agency
DM&R	Deferred Maintenance and Repairs
DNP	Do Not Pay
DQR	Data Quality Records
DWSRF	Drinking Water State Revolving Fund
ECHO	Enforcement and Compliance History Online
EPA	U.S. Environmental Protection Agency
EPCRA	Emergency Planning and Community Right-to-know Act
EPM	Environmental Programs and Management
ERM	Enterprise Risk Management
FAS	Fixed Assets Subsystem
FASAB	Federal Accounting Standards Advisory Board
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
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRPP	Federal Real Property Profile
FTE	Full-time Equivalent
FY	fiscal year
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GMO	Grants Management Officer
GPRAMA	Government Performance and Results Act Modernization Act of 2010
GSA	U.S. General Services Administration
GTAS	Government-Wide Treasury Account Symbol
HVAC	heating, ventilation, and air conditioning
IBC	Interior Business Center
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IT	information technology
LUST	leaking underground storage tank
MATS	Management Audit Tracking System
MOA	Memorandum of Agreement
MPRSA	Marine, Protection, Research, and Sanctuaries Act
NASA	National Aeronautics and Space Administration
NPL	National Priorities List
NRDA	Natural Resource Damages Assessment
OCFO	Office of the Chief Financial Officer
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
PCA	Payroll Cost Allocation
PFCRA	Program Fraud Civil Liberties Act
PP&E	Plant, Property and Equipment
PRASA	Puerto Rico Aqueduct and Sewer Authority
PRFA	Pollution Removal Funding Agreements
PRIA	Pesticides Registration Improvement Act
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act
PRP	Potential Responsible Party
RCRA	Resource Conservation and Recovery Act
R&I	repair and improvement
RTF	Reduce the Footprint
RTP	Research Triangle Park
SARA	Superfund Amendments & Reauthorization Act
SDWA	Safe Drinking Water Act
SFFAS	Statement of Federal Financial Accounting Standards
SPA	state program approval
SRAF	Service Receipts Account Fund
SRF	State Revolving Fund
SSC	Superfund State Contracts
S&T	Science & Technology
STAG	State and Tribal Assistance Grants
TSCA	Toxic Substances Control Act
ULO	unliquidated obligations
USDA	U.S. Department of Agriculture
USSGL	U.S. Standard General Ledger
UST	Underground Storage Tank
WCF	Working Capital Fund
WIFIA	Water Infrastructure Finance and Innovation Act

WE WELCOME YOUR COMMENTS!

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