U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

Audit of EPA's Fiscal Years 2014 and 2013 (Restated) Consolidated Financial Statements

Report No. 15-1-0021 **November 17, 2014**

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Abbreviations

AWBERC	Andrew W. Breidenbach Environmental Research Center
B&F	Building and Facilities
CCTV	Closed Circuit Television
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CFC	Cincinnati Finance Center
DOJ	Department of Justice
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
IRMD	Information Resources Management Division
IT	Information Technology
LVFC	Las Vegas Finance Center
NIST	National Institute of Standards and Technology
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PP&E	Property, Plant and Equipment
RAS	Reporting and Analysis Staff
RSSI	Required Supplementary Stewardship Information
RTP	Research Triangle Park
S&T	Science and Technology
SFFAS	Statement of Federal Financial Accounting Standards
SP	Special Publication
WFC	Washington Finance Center

EPA Office of Inspector General
1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
(202) 566-2391
www.epa.gov/oig

U.S. Environmental Protection Agency
Office of Inspector General

15-1-0021
November 17, 2014

At a Glance

Why We Did This Review

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

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

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

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

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

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

The full report is at:
www.epa.gov/oig/reports/2014/20141117-15-1-0021.pdf

Audit of EPA's Fiscal Years 2014 and 2013 (Restated) Consolidated Financial Statements

Financial Statements Receive an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal 2014 and 2013 (restated), meaning that they were fairly presented and free of material misstatement.

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

Internal Control Material Weakness and Significant Deficiencies Noted

We noted the following material weakness:

- Software costs were not capitalized, leading to the fiscal 2013 financial statements needing to be restated.

We noted the following significant deficiencies:

- Lab renovation costs were not capitalized.
- Controls over accountable personnel inventory process need improving.
- The property management and accounting systems do not reconcile.
- The Cincinnati Finance Center should clear suspense transactions timely.
- A fiscal 2013 collection was recorded to an incorrect fund.
- Originating offices did not timely forward accounts receivable documents.
- Accounts receivable were not properly reconciled.
- Unliquidated funds were not deobligated timely.
- Restricted entry access to server rooms was not consistently enforced.
- Information technology assets need to be better monitored and secured.
- Information technology assets need to be better protected from threats.
- Server room cameras need to be reconfigured to fully monitor assets.
- Documentation is needed for approval of posting module changes.

Noncompliances With Laws and Regulations Noted

We noted the following instances of noncompliance with laws and regulations:

- Standards for recording interest were not sufficiently followed.
- EPA's 2014 Federal Managers' Financial Integrity Act Annual Assurance Statement is inaccurate.

Recommendations and Planned Agency Corrective Actions

The agency generally agreed with our findings and recommendations. The agency disagreed that the timely forwarding of receivables was an internal control significant deficiency, and with certain details of its Federal Managers' Financial Integrity Act Annual Assurance Statement material weakness.

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

OFFICE OF
INSPECTOR GENERAL

November 17, 2014

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal Years 2014 and 2013 (Restated) Consolidated Financial Statements
Report No. 15-1-0021

FROM: Paul C. Curtis, Director
Financial Statement Audits

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

Nanci Gelb, Assistant Administrator
Office of Administration and Resources Management

Cynthia Giles, Assistant Administrator
Office of Enforcement and Compliance Assurance

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2014 and 2013 (restated) consolidated financial statements. We are reporting an internal control material weakness, as well as 13 significant deficiencies. Attachment 1 contains details on the material weakness and significant deficiencies. We also noted two instances of noncompliance, which are discussed in Attachment 2.

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

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 60 calendar days of the final report date. The response should address all issues and recommendations contained in Attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether to close this report in our audit tracking system. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of

1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

Attachments

cc: See Appendix III, Distribution

Table of Contents

-continued-

Appendices

Inspector General's Report on EPA's Fiscal 2014 and 2013 (Restated) Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency (EPA), which comprise the consolidated balance sheet, as of September 30, 2014, and September 30, 2013 (restated), and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements.* These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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

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

The financial statements include expenses of grantees, contractors and other federal agencies. Our audit work pertaining to these expenses included testing only within the EPA. The U.S. Treasury collects and accounts for excise taxes that are deposited into the Leaking Underground Storage Tank Trust Fund. The U.S. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since the U.S. Treasury, and not the EPA, is responsible for these activities, our audit work did not cover these activities.

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

Opinion

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by goal, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2014 and 2013 (restated), in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Restated Financial Statements. As discussed in Note 38 in the consolidated financial statements, the agency has restated the financial statements for fiscal 2013 due to material errors found in expensing software costs that otherwise should have been capitalized. The agency's internal control review found it had previously expensed approximately $193 million in software costs that should have been capitalized. Due to the material errors found in expensing software costs that should have been capitalized, our report on the EPA's Consolidated Financial Statements, dated December 16, 2013, is not to be relied upon. That report is replaced by this report on the restated fiscal 2013 EPA consolidated financial statements. We report the internal control deficiency that resulted in the material errors as a material weakness in the Internal Control section of this report.

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 (RSSI), 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 the RSSI, Required Supplementary

Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements.

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

Evaluation of Internal Controls

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

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

- **Compliance with applicable laws, regulations and governmentwide policies**—Transactions are executed in accordance with laws governing the use of budget authority, governmentwide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

Opinion on Internal Controls. In planning and performing our audit, we considered the EPA's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements.* We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

Material Weakness

EPA Failed to Capitalize Software Costs, Leading to Restated Fiscal 2013 Financial Statements

The agency's accounting for software is a material weakness. In fiscal 2014, the agency found it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors, resulting in a misstatement of the fiscal 2013 financial statements. The material misstatement of the fiscal 2013 financial statements contributed to our determination that the agency's accounting for software is a material weakness.

Significant Deficiencies

PROPERTY

EPA Did Not Capitalize Lab Renovation Costs

The EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. The Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, states "the cost of acquiring property, plant and equipment (PP&E) may include: …fixed equipment and related installation costs required for activities in a building or facility...." The agency did not believe it should capitalize the lab renovation because it was a bulk purchase of equipment where each unit price was less than $25,000. As a result, the EPA did not properly classify the lab renovation as a capital improvement.

EPA's Internal Controls Over Accountable Personal Inventory Process Need Improvement

The EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for fiscal 2014. The EPA also identified 573 property items not recorded in Maximo. The EPA requires property management personnel to annually inventory accountable personal property and add it to Maximo when acquired. The EPA did not record the property items in Maximo due to various reasons. The primary cause was property management personnel did not update Maximo timely and accurately. Recording untimely and inaccurate accountable personal property information could compromise the EPA's property management system, prevent the proper capitalization of property, misstate the agency's financial statements, and result in asset loss and misappropriation.

EPA's Property Management System Does Not Reconcile to Its Accounting System (Compass)

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). Resource Management Directive, Technical Interpretation, 2540-11-T2, *Reconciliation Requirements for Capital Property*, requires reconciliations between the property module and general ledger be performed monthly by the responsible security organization. Various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as: (1) incomplete capitalized property records, which resulted in inappropriately expensed capital equipment; and (2) an integration error between Maximo and Compass. The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting. We previously reported on this issue in our 2012 financial statement audit report.

SUSPENSE ACCOUNT

Cincinnati Finance Center Should Clear Suspense Transactions Timely

The Cincinnati Finance Center (CFC) is not clearing collection and disbursement transactions from the federal budget clearing (suspense) account within 60 days after posting. As of February 28, 2014, we identified 179 federal disbursement and collection transactions totaling $18,369,054 remaining in suspense beyond 60 days. EPA guidance requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing accounts to appropriate general ledger accounts within 60 days. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

RECEIVABLES AND COLLECTIONS

EPA Recorded a Fiscal 2013 Collection to an Incorrect Fund

In fiscal 2013, the EPA recorded an $11.3 million Clean Air Act engine nonconformance penalty collection to an incorrect fund. The EPA recorded the collection to the Environmental Services Special Fund (for vehicle emission test fees) instead of the fines and penalties fund. Agency guidance directs servicing finance offices to analyze each collection to determine the reason for the remittance. According to the U.S. Treasury Financial Manual, engine nonconformance penalties belong in the fines and penalties fund 1099. Neither CFC nor the Washington Finance Center followed procedures for analyzing the collection. CFC, which should have recorded the collection, incorrectly sent the collection to the Washington Finance Center, which then recorded the collection as a vehicle emission test fee in the Environmental Services Special Fund. By recording the nonconformance penalty as a motor vehicle test fee, the EPA overstated the Environmental Services Special Fund and understated its custodial liability to the Treasury.

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

The EPA and the Department of Justice did not timely forward 40 accounts receivable source documents totaling $61.7 million to finance centers for recording in the agency's financial system. The EPA's policies state that the originating offices and action officials must forward action documents that establish a receivable to the finance center within 5 business days of receipt. We identified various reasons for the delays in forwarding source documents to the finance centers. Delaying the recording of accounts receivable could result in a material misstatement of the financial statements.

EPA Did Not Properly Reconcile Accounts Receivable

The EPA did not properly reconcile the March 31, 2014, accounts receivable subsidiary ledger to the general ledger. The EPA improperly treated a general ledger error as an addition to the detail receivables. The EPA combined federal and non-federal receivables in the reconciliation, although federal accounting guidance requires separate reporting. EPA guidance directs the agency to perform quarterly accounts receivable reconciliations, investigate discrepancies and correct any differences. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger and correct differences, the agency cannot ensure financial statements are properly stated.

UNLIQUIDATED OBLIGATIONS

Unneeded Funds Not Deobligated Timely

The EPA did not deobligate unneeded funds totaling $4.4 million identified during the fiscal 2014 annual review of unliquidated obligations. Federal and agency guidance require unliquidated obligations to be reviewed annually, and EPA requires responsible offices to review inactive unliquidated obligations and take appropriate action to deobligate unneeded funds. However, the EPA did not take timely actions to notify the appropriate offices to deobligate the unneeded funds. As a result, the EPA has no assurance that unliquidated obligations are accurate and represent valid and viable obligations, and that obligated funds are being used efficiently.

INFORMATION TECHNOLOGY

EPA Needs to Consistently Enforce Restricted Entry Access to Server Rooms

The EPA did not consistently enforce restricted access at the Las Vegas Finance Center and the Andrew W. Breidenbach Environmental Research Center server rooms. We found that personnel were granted access to server rooms without proper approval and that unauthorized personnel had access to a server room door. Specifically, a contractor was granted access to the Las Vegas server room without the office director's approval. Additionally, we noticed that the approved access list for the Breidenbach Center's rear server room door did not match the computer access list in the Facility Commander software, which allowed unauthorized staff to use the server room door.

EPA Needs to Ensure That Its Information Technology Assets Are Properly Monitored and Secured

The EPA did not ensure that information technology (IT) assets at the Las Vegas Finance Center server room, Andrew W. Breidenbach Environmental Research Center server room, and Research Triangle Park National Computer Center computer room were properly monitored and secured. We found that a card reader located at the Las Vegas server room did not consistently log or document alerts of attempts by unauthorized users to gain access, while server racks within the Breidenbach Center telecommunication room and the National Computer Center computer room were unlocked.

EPA Needs to Establish Procedures for Protecting Information Technology Assets From Environmental Threats

The EPA lacks processes to enable personnel to monitor environmental factors that are used to protect IT assets. Specifically, finance center server rooms lack processes to protect IT assets from temperature and humidity damage. Additionally, one finance center had incorrectly installed water sensors, making the servers vulnerable to flooding before personnel could be alerted to the problem.

EPA Needs to Configure Server Room Cameras to Fully Monitor Information Technology Assets

Closed circuit television system cameras at the EPA finance centers do not provide enough visibility to monitor production servers and valuable IT assets for unauthorized changes. We found that cameras within one server room did not monitor the racks containing EPA production servers and other IT assets. Additionally, the storage time for those cameras' feed did not provide the required 30-day playback time. We also observed an EPA server room for which visibility was controlled by a non-automated light switch that was not coordinated with the closed circuit television system. Lastly, one server room lacked consistent lighting to ensure server room activity could be recorded.

EPA Needs to Document Management's Approval for Authorizing Changes to the Accounting Posting Module

The EPA lacks management's written approval for authorizing changes to the Compass accounting posting model to prevent unauthorized changes. The Office of the Chief Financial Officer does not officially document management's approval when making updates to the recording of general ledger account activity within the Compass accounting posting module. The Government Accountability Office's *Standards for Internal Control in the Federal Government* (November 1999) states that all transactions and significant events need to be clearly documented. Revisions to OMB Circular A-123, *Management's Responsibility for Internal Control* (December 2004), state that management's control activities such as proper authorization and appropriate documentation are internal controls that help safeguard against unauthorized use of assets.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in Attachment 3 should be considered among the EPA's significant deficiencies for fiscal 2014. We reported to the agency on less significant internal control matters during the course of the audit. We will not issue a separate management letter.

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

OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report. For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

The agency reported that no material weaknesses had been found in the design or operation of internal controls over financial reporting as of June 30, 2014. During our audit, the agency informed us that it intends to report the under capitalization of software and personal property as agency-level weaknesses. We consider the under capitalization of software to be a material weakness. As explained in Note 38, the under capitalization caused a material understatement of capitalized software over a number of years. The agency's internal control system did not detect or prevent this material understatement. Details concerning our findings on the material weakness and significant deficiencies can be found in Attachment 1. Subsequently, the agency agreed to declare weaknesses over its accounting for software as a material weakness.

Tests of Compliance With Laws and Regulations

EPA management is responsible for complying with laws and regulations 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 and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. The OMB guidance requires that we evaluate compliance with federal financial management 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 and Regulations

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

Federal Financial Management Improvement Act Noncompliance

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

We identified an instance of substantial noncompliance with FFMIA requirements. The agency was not in substantial compliance with SFFAS No. 10, *Accounting for Internal Use Software,* for under capitalizing software costs. See Attachment 1 for the detailed description of this issue. Our results of our tests did not disclose any other instances of substantial noncompliance with FFMIA requirements.

We identified two significant matters involving compliance with laws and regulations that came to our attention during the course of the audit. We found that the EPA did not comply with federal standards for recording interest, and the EPA's 2014 FMFIA Annual Assurance Statement did not report software as a material weakness. Attachment 2 provides additional details, as well as our recommendations on actions that should be taken on these matters. We will not issue a separate management letter.

EPA Did Not Comply With Federal Accounting Standards for Recording Interest

The EPA did not record all applicable interest for some Superfund, installment and grant accounts receivable in the accounting system as required by applicable laws, federal accounting standards and EPA policy. The EPA did not record the proper interest due to Compass accounting system problems and nonconformance to the terms in the receivable legal source documents. By not recording all applicable interest, the EPA did not collect all the funds to which it was entitled and did not comply with applicable laws, federal accounting standards and EPA policy.

EPA's 2014 FMFIA Annual Assurance Statement Is Inaccurate

In May 2014, the EPA identified a $193 million error in its capitalized software accounts, which resulted in the restatement of its fiscal 2013 financial statements. In spite of this material error, the EPA did not report capitalized software as a material weakness in its draft fiscal 2014 FMFIA Annual Assurance Statement. OMB Circular A-123 defines material weaknesses in internal control as a "Reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected." OMB Circular A-123 also states that "management is precluded from concluding that the agency's internal control is effective (unqualified statement of assurance) if there are one or more material weaknesses." While EPA management is restating the fiscal 2013 financial statements, the agency does not consider this software capitalization error to be a material weakness. Because the EPA did not report capitalized software as a material weakness in its initial fiscal 2014 draft FMFIA Annual Assurance Statement, the agency is not in compliance with FMFIA reporting requirements. Subsequently, the agency has agreed to declare weaknesses over its accounting for software as a material weakness.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

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

Prior Audit Coverage

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

- Posting models materially misstated general ledger activities and balances.
- Compass reporting limitations impair accounting operations and internal controls.
- EPA should improve compliance with internal controls for accounts receivable.
- Property internal controls need improvement.
- Compass and Maximo cannot be reconciled.
- EPA should improve controls over expense accrual reversals.
- Financial management system user account management needs improvement.

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

Agency Comments and OIG Evaluation

In a memorandum dated November 13, 2014, the acting Chief Financial Officer responded to our draft report.

The rationale for our conclusions and a summary of the agency comments are included in the appropriate sections of this report, and the agency's complete response is included as Appendix II to this report.

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

Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 17, 2014

Internal Control Material Weakness and Significant Deficiencies

Table of Contents

1 – EPA Failed to Capitalize Software Costs, Leading to Restated Fiscal 2013 Financial Statements

The agency's accounting for software is a material weakness. In fiscal 2014, the agency found it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors, resulting in a misstatement of the fiscal 2013 financial statements. The material misstatement of the fiscal 2013 financial statements contributed to our determination that the agency's accounting for software is a material weakness.

The agency identified approximately $255 million in software costs that should have been capitalized, based on its OMB Circular A-123 review of all software projects in development and put into production over the last 7 years. The agency's policy is to capitalize software costs exceeding its annual capitalization threshold of $250,000. SFFAS No. 10, *Accounting for Internal Use Software*, requires entities to capitalize the cost of software which meets the criteria for general property, plant, and equipment. The agency did not capitalize all appropriate software costs because it did not enter transactions under $25,000 into the general ledger as capital property, incorrectly combined credit transactions with debit transactions, and entered incorrect accounting data due to data entry errors. Understating the capitalized software and related equity accounts materially misstated the fiscal 2013 financial statements. The agency corrected the capitalized software values for fiscal 2014 and restated the fiscal 2013 financial statements.

In fiscal 2014, the agency conducted an OMB Circular A-123 review of its capital software process and identified internal control deficiencies related to capitalizing software. The agency therefore reviewed all software projects in development and put into production over the last 7 years to determine the correct value and accounting information for software projects. The agency identified approximately $255 million in software costs that should have been capitalized. EPA could not determine the uncapitalized software for each individual year, but the cumulative effect of uncapitalized software over 7 years was material to the financial statements.

The agency's policy is to capitalize software costs exceeding its annual capitalization threshold of $250,000 and depreciate the costs over 7 years. However, the agency did not capitalize all appropriate software costs because:

- It did not enter transactions under $25,000 into the general ledger as capital property.
- When the agency found credit transactions, it combined them with other debit transactions to make the transaction amount correct.
- Data entry errors for some transactions caused incorrect accounting strings.

The agency corrected the capitalized software values for fiscal 2014 and restated the fiscal 2013 financial statements. The agency's approach to correcting software projects was to compare expenditures identified by an IT project code to costs recorded in the fixed asset subsystem. Any differences identified were considered a capital expense for the software project. The agency processed a correcting entry in Compass for expenditures that it had not previously capitalized.

The agency did not examine the supporting documentation for the payments to verify they should be capitalized. Without reviewing individual invoices to support the software costs capitalized, the agency has no assurance that such costs represent actual costs that should be capitalized or other operating expenses. Our review of the agency's capitalized costs indicated it capitalized some costs that should not have been capitalized, such as annual licensing fees and data conversion fees. The capitalization of such costs was due to the process the agency used to capitalize costs. Had the agency examined the invoices instead of relying on the system, errors could have been caught and corrected.

Understating the capitalized software materially misstated the fiscal 2013 financial statements and the beginning balance in equity for fiscal 2014, which indicated a material internal control weakness. The undercapitalized software resulted in a material misstatement of the financial statements that was not prevented or detected and led to the restatement of the fiscal 2013 financial statements.

Recommendations

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

1. Require project officers to track and accumulate software costs by project from inception through date placed in service.

We recommend that the Chief Financial Officer:

2. Require the Reporting and Analysis Staff to coordinate with Office of Administration and Resources Management project officers to receive software project cost support once placed into service.

3. Document and support project costs for all software costs placed into service over the past 7 years.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

2 – EPA Did Not Capitalize Lab Renovation Costs

The EPA did not capitalize approximately $8 million of Research Triangle Park (RTP) lab renovations. SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, states "the cost of acquiring property, plant and equipment (PP&E) may include: …fixed equipment and related installation costs required for activities in a building or facility...." The agency did not believe it should capitalize the lab renovation because it was a bulk purchase of equipment where each unit price was less than $25,000. As a result, the EPA did not properly classify the lab renovation as a capital improvement.

To fund the cost of the renovations, the EPA used Science and Technology (S&T) funds that allows for the procurement of laboratory equipment and supplies. The agency funded the renovation costs based on an internal legal decision that gave a general definition of construction costs. The 1999 legal opinion states:

> "Guided by the dictionary references to "construction" that contemplate a permanent, usable and functioning facility, you must consider the purpose the equipment will serve in the Facility, i.e., whether the equipment is necessary for the basic operation or structural integrity of the Facility. If the equipment is necessary for the basic operation or structural integrity of the Facility …, then such equipment must be considered to be part of the Facility construction. Further, you should establish how the equipment has historically been funded. If the equipment has historically been funded as a construction cost in other agency building projects, then it must be considered a construction cost with regard to the Facility. If the equipment's purpose is for programmatic functions and is not necessary for the basic operation or structural integrity of the Facility, and if similar equipment has historically been funded as a program item, then it must be funded from the relevant program appropriation account…."

The EPA November 2011 memorandum, *Justification for Utilizing Program Appropriations for Laboratory Refurbishing*, further explains the agency's use of S&T funds for the RTP lab renovation. The memorandum stated, "renovations are expected to cost approximately $8 million. Nearly half of this amount will be associated with the cost of the equipment itself, with most of the balance going to installation cost." The agency believed the primary purpose of the contract was the acquisition and installation of equipment. Attachment A, Statement of Work for Indefinite-Delivery/Indefinite-Quantity Contract for the U.S. EPA RTP/RTF Laboratory Renovation Project at Research Triangle Park, North Carolina Statement of Work, states: "The renovation work will range from light laboratory modifications to the complete retrofit of office space into laboratory space."

The Building and Facilities (B&F) appropriation states the appropriation is: "For construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities of or for use by the Environmental Protection Agency."

SFFAS No. 6 states that "Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring PP&E may include:

…fixed equipment and related installation costs required for the activities in a building or facility....”

The EPA used S&T funds to renovate labs at the RTP main campus, which included fume hoods and laboratory casework (removal/reconfiguration of existing laboratory bench tops and cabinets) to accommodate research activities. While some cost of the renovation may be associated with moving fume hood equipment, the EPA could not provide a breakdown in a timely manner to determine cost associated with the equipment installation and the renovation. The agency used the wrong funding object class code, which caused the renovation costs to be expensed and not capitalized. The agency said the lab renovation was a bulk purchase of equipment, where each unit price was less than $25,000. Therefore, the agency did not believe it should capitalize the lab renovation. However, the agency also acknowledged that its policy on bulk purchases applies to all PP&E and not just personal property.

The agency renovated an entire space to create laboratories, which should not be broken down into individual units to determine capitalization. In accordance with SFFAS No. 6 and our analysis of the costs incurred and nature of the expenditures, the entire cost of the RTP lab renovation should be capitalized. The agency agreed and said it would book and capitalize the RTP renovation costs.

During our analysis of the RTP lab renovation, we noted several concerns about the legal opinion that the agency relied upon:

- The opinion is possibly dated—it was written in 1999, and the legal definition of “construction” may well have changed since that time.
- The opinion relies entirely on dictionary definitions of construction—it is likely that there are legal sources that should be considered when defining “construction.”
- The opinion does not specifically address the funding of EPA lab renovations, which could include equipment costs and construction projects.
- The opinion in its entirety is a little over two pages—it did not provide a developed legal analysis and developed examples.

Given the potential problems identified above, the OIG anticipates that the agency’s Office of General Counsel will review the opinion to determine whether it is legally acceptable and, if “yes,” so state in a written position for use by the agency. If the opinion is deemed not to be legally acceptable, the Office of General Counsel should execute a new opinion based on established legal positions.

When the EPA determined to expense the renovation cost in the general ledger and use S&T funding for renovation, it potentially compromised the accuracy of the EPA’s capital property accounts, depreciation and operating expenses, as well as the accuracy of the agency’s financial statements.

Recommendations

We recommend that the Chief Financial Officer:

4. Capitalize and book the RTP lab renovation costs and calculate depreciation.

5. Improve and maintain support for how EPA lab renovation projects are funded.

6. Review funding sources of all current and future lab renovations to ensure correct funding is utilized.

7. Develop policies and procedures for capital improvements/betterments to real property, specifically, to address EPA lab renovations which could include bulk purchases of equipment and funding from agency program appropriations other than the B&F appropriation.

8. Request the Office of General Counsel to determine whether the legal opinion referenced herein represents a legally acceptable position regarding the definition of "construction," and provides adequate examples to guide determinations of when renovation work should be funded out of agency program appropriations (e.g., S&T) or B&F funds.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

3 – EPA's Internal Controls Over Accountable Personnel Inventory Process Need Improvement

The EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for fiscal 2014. The EPA also identified 573 property items not recorded in Maximo. The EPA requires property management personnel to annually inventory accountable personal property and add it to Maximo when acquired. The EPA did not record the property items in Maximo due to various reasons. The primary cause was property management personnel did not update Maximo timely and accurately. Recording untimely and inaccurate accountable personal property information could compromise the EPA's property management system, prevent the proper capitalization of property, misstate the agency's financial statements, and result in asset loss and misappropriation.

The EPA's Facilities Management and Services Division administers the EPA personal property management program. The EPA's *Personal Property and Procedures Manual*, Section 3.2.1, defines accountable personal property as "Personal property with an acquisition cost of $5,000 or more, all leased personal property, and sensitive items." Section 3.1.1 states that each accountable area's personal property records must be maintained in Compass, which includes a fixed asset subsystem updated by Maximo. Thus, Compass will provide all needed data for effective personal property management (i.e., location, procurement, utilization and disposal). Section 3.7.3 states that control and accountability of personal property shall be established in Compass upon receipt of such property and must be maintained until disposal of the property. All actions affecting the control and accountability of accountable property must be supported by appropriate authorized transaction documents.

The EPA's Property Bulletin No. 14-004 states, "It is imperative that the agency be a good steward of a property under its control. When accountable property comes into a Property Management Officer's custodial area, the property record must appear in the property tracking system within 5 days of installation or on-site receipt."

The EPA's Personal Property Management Policy states that a Board of Survey shall serve as a fact-finding body to determine negligence surrounding the loss, damage or destruction of property. It is the Board of Survey's responsibility to conduct an investigation, submit a signed report of survey to the proper approval authority, and authorize the removal of items from property records.

The EPA reported a $2.6 million difference between the amount of accountable personal property recorded in Maximo and the amount of physical inventory for year 2014. The difference included $696,977 of capitalized property in the system but not in inventory. The EPA also identified 573 property items not recorded in Maximo. We identified other examples of improper management of accountable personal property:

- The EPA inaccurately recorded in Maximo the location of 22 pieces of equipment valued at $227,000. One piece of capitalized property was physically located in RTP, North Carolina, as of December 2013, but the inventoried record documented the equipment location as Seattle, Washington, in May 2014. The agency could not determine how the inventory record was improperly updated.

- In August 2014, we found a $29,616 capitalized piece of equipment delivered directly to a program office and not decaled or entered into the property management system when placed into service September 30, 2013. The EPA did not include the property in inventory for over a year.

The primary reason that the EPA did not record the property items in Maximo was that property management personnel were not updating Maximo timely and accurately. Other reasons included:

- A program office did not notify the property management officer when it received a piece of capitalized equipment.
- Property management personnel did not always decal property entered into the property management system.
- A lack of Board of Survey investigations hindered the removal of items from property records.

Proper management of the EPA's accountable personal property depends on property management personnel maintaining an accurate inventory in the property management system. The EPA's problems in maintaining accurate property records indicates a need for improved internal controls. Recording untimely and inaccurate accountable personal property information could compromise the EPA's property management system, prevent the proper capitalization of property, misstate the agency's financial statements, and result in asset loss and misappropriation.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, to:

9. Update inventory records according to EPA's Property Bulletin No. 14-004.

10. Identify the personal property records missing from the agency's property management system and record them in the system.

11. Conduct Board of Survey investigations more frequently to adequately address missing and uninventoried property. Document the results of Board of Survey investigations and update the property management records accordingly.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

4 – EPA's Property Management System Does Not Reconcile to Its Accounting System (Compass)

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). Resource Management Directive, Technical Interpretation, 2540-11-T2, *Reconciliation Requirements for Capital Property*, requires reconciliations between the property module and general ledger be performed monthly by the responsible security organization. Various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as: (1) incomplete capitalized property records, which resulted in inappropriately expensed capital equipment; and (2) an integration error between Maximo and Compass. The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting. We previously reported on this issue in our 2012 financial statement audit report.

Resource Management Directive, 2540-11-T2, states, "Reconciliations between the property module and general ledger within Compass shall be performed monthly by the responsible security organization. The results of the reconciliation shall be verified quarterly by the cognizant regional finance management officer, Research Triangle Park Finance Center, Cincinnati Finance Center and Las Vegas Finance Center." Property Bulletin 14-004, *Property Timelines and Deadlines* states "a property manager has [5 days] to update the property management system after a piece of property arrives at, is moved to, or leaves one location for another."

Maximo interfaces with Compass when capitalized equipment is added to the property system. However, if a property record is not created in Maximo, the equipment will not be recorded as a capital asset within the agency's financial system.

We found capitalized equipment that was not entered into Maximo timely, an integration error between Maximo and Compass, and examples of capital equipment shipped directly to a program office without notifying the property management officer. All of these examples contributed to the reconciliation issues. Specific examples include:

- A $29,600 piece of capitalized equipment with an in-service date of September 2013 was received by a program office and not decaled until found by RTP's property accountant while working on the Maximo/Compass reconciliation. The RTP property management officer decaled the equipment and entered the capital property record into Maximo in August 2014, or 11 months after the equipment was received.
- An $80,500 piece of capital equipment was received and immediately placed into service in March 2012. A property accountable officer found the equipment in May 2014. The property accountable officer decaled and entered the capital equipment into Maximo 2 years and 2 months after the equipment was placed into service. Until the decal was entered into Maximo, the piece of equipment was not recognized as capital equipment and depreciated.
- As part of our sampling, we identified a capital asset that was recorded in Maximo with an in-service date of December 13, 2013, but not processed as a capitalized asset in Compass. An integration error between Maximo and Compass prevented a $797,385

capital asset to push over to Compass. A software contractor fixed the integration error and it was correctly processed as a capital asset in September 2014.

Inaccurate personal property records compromise the EPA's property control system and can lead to the loss or misappropriation of agency assets. The failure to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting, including possible misstatements within the financial statements.

Recommendations

We recommend that the Chief Financial Officer:

12. Research and resolve differences between Compass and the property management system timely.

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

13. Require the Office of Administration, Facilities Management and Services Division, to verify the correctness and update all capitalized property records in the official property system as required.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

5 – Cincinnati Finance Center Should Clear Suspense Transactions Timely

The Cincinnati Finance Center (CFC) is not clearing collection and disbursement transactions from the federal budget clearing (suspense) account within 60 days after posting. As of February 28, 2014, we identified 179 federal disbursement and collection transactions totaling $18,369,054 remaining in suspense beyond 60 days. EPA guidance requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing accounts to appropriate general ledger accounts within 60 days. CFC did not clear suspense accounts timely primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense accounts. Untimely clearing of suspense transactions was also due to:

- Waiting for final documentation/breakdown details.
- Disputing with another agency a receivable charge.
- Researching transactions and following up with regions.

Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

CFC records federal disbursements and collections in suspense account 68F3885. The accounting system notifies the project officers by email of a transaction waiting for their approval. The system sends follow-up emails at 20 days, 30 days, and then weekly if the project officer does not act on the approval request. Disbursement transactions remain in suspense until an EPA project officer approves or disapproves them. When the EPA approves a disbursement, the system removes the transaction from the suspense account and charges it to the appropriate receipt or expenditure accounts. Collection transactions remain in suspense until the CFC applies them to the corresponding receivable.

The EPA's *Statement of Transactions SF 224 Desktop Reporting Procedures* requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing accounts to appropriate general ledger accounts within 60 days.

Treasury Financial Manual, Volume 1, Bulletin No. 2011-06, dated June 30, 2012, directs federal agencies to certify annually that suspense account F3885 for the preceding yearend does not include any items or transactions more than 60 days old. If there are transactions more than 60 days old, the federal agency must clearly explain the reason.

CFC is not clearing federal collection and disbursement transactions from suspense within 60 days after posting. We identified five collection transactions totaling $167,989 and 174 disbursement transactions totaling $18,201,064 in suspense accounts longer than 60 days.

CFC did not clear suspense accounts timely primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense accounts. CFC staff stated that they were not required to follow up with the project officers to obtain their approval. CFC relied on the system-generated reminder emails to the project officers and did not make many follow-up attempts to get the project officers' approval. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

Recommendations

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

14. Require project officers to approve federal disbursements timely.

We recommend that the Chief Financial Officer:

15. Require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

6 – EPA Recorded a Fiscal 2013 Collection to an Incorrect Fund

In fiscal 2013, the EPA recorded an $11.3 million Clean Air Act engine nonconformance penalty collection to an incorrect fund. The EPA recorded the collection to the Environmental Services Special Fund (for vehicle emission test fees) instead of the fines and penalties fund. Agency guidance directs servicing finance offices to analyze each collection to determine the reason for the remittance. According to the U.S. Treasury Financial Manual, engine nonconformance penalties belong in the fines and penalties fund 1099. Neither CFC nor the Washington Finance Center (WFC) followed procedures for analyzing the collection. CFC, which should have recorded the collection, incorrectly sent the collection to WFC, which then recorded the collection as a vehicle emission test fee in the Environmental Services Special Fund. By recording the nonconformance penalty as a motor vehicle test fee, the EPA overstated the Environmental Services Special Fund and understated its custodial liability to the Treasury.

The Clean Air Act (42 U.S. Code Section 7525) authorized the EPA to establish a mechanism for manufacturers of heavy-duty highway engines to pay a penalty instead of meeting current emission standards. Nonconformance penalties are monetary penalties assessed on a per-engine basis that allow an engine manufacturer to sell engines that do not meet the emission standards.

The EPA's Resources Management Directives System 2540-03, *Cash Management Collections and Deposits*, provides the agency's policies and procedures for collecting receipts and depositing funds. The policy directs servicing finance offices to analyze each collection it receives to determine the reason for the remittance and collection type, which helps the EPA to classify the collection to the proper fund.

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources,* provides standards for classifying, recognizing and measuring revenue resources inflows. Nonexchange revenue arises primarily from the federal government's power to demand payment from the public and includes fines and penalties. Nonexchange revenue should be measured by the collecting entities but recognized by the entities legally entitled to the revenue. The EPA nonconformance penalty represents nonexchange revenue collected by the EPA for the Treasury general fund.

The U.S. Department of the Treasury's *Treasury Financial Manual* contains the receipt, appropriation, and other fund account symbols and titles assigned by the Treasury consistent with the Comptroller General of the United States. According to the Treasury, fund 1099 represents Fines, Penalties, and Forfeitures, Not Otherwise Classified.

In fiscal 2013, the EPA recorded an $11.3 million Clean Air Act engine nonconformance penalty collection received in November 2012 to the Environmental Services Special Fund instead of the fines and penalties fund. The EPA uses the Environmental Services Special Fund for vehicle emission test fees. Any fees collected to this special fund remain available for appropriation to carry out the agency's vehicle emission tests. Engine nonconformance penalties are violations of emission standards and should be recorded in the fines and penalties fund.

For the $11.3 million penalty collection, neither CFC nor WFC recognized the proper collection type, or followed their control procedures for recording fines and penalties and vehicle emission test fee collections, respectively. While CFC received the collection on November 1, 2012, the collection staff did not recognize the collection as a nonconformance penalty or notify accounts receivable staff about the collection to determine whether an account receivable was established. Instead, CFC sent the collection to WFC in error. WFC did not recognize the nonconformance penalty collection and improperly recorded the collection as a motor vehicle emission test fee in the Environmental Services Special Fund.

When we brought the error to the CFC's attention in August 2014, CFC recorded the $11.3 million nonconformance penalty receivable and requested that WFC return the collection to CFC. As of September 4, 2014, the collection remained in the Environmental Services Special Fund and not applied to the receivable. Until the EPA reclassifies the collection to the fines and penalties fund, the EPA's custodial liability will be understated and the Environmental Services Special Fund will be overstated by $11.3 million.

Recommendation

We recommend that the Chief Financial Officer:

16. Reclassify the $11.3 million collection from the Environmental Services Special Fund to the fines and penalties fund using appropriate entries to ensure that current year general ledger accounts and financial statements are properly stated.

Agency Comments and OIG Evaluation

The agency agreed with our finding and recommendation.

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

The EPA and the Department of Justice (DOJ) did not timely forward 40 accounts receivable source documents totaling $61.7 million to finance centers for recording in the agency's financial system. The EPA's policies state that the originating offices and action officials must forward action documents that establish a receivable to the finance center within 5 business days of receipt. We identified various reasons for the delays in forwarding source documents to the finance centers. Delaying the recording of accounts receivable could result in a material misstatement of the financial statements.

The EPA's Resources Management Directive Systems 2540-9-P1, *Billing and Collecting,* require the originating offices and action officials to forward all action documents that establish an account receivable to the finance center within 5 business days.

Resources Management Directive Systems 2550D-14-T1, *Superfund Accounts Receivable and Billings,* states the Regional Legal Enforcement Office is responsible for forwarding copies to the finance center of signed administrative settlement agreements and other administrative source documentation establishing amounts due to the EPA within 5 workdays of receipt of document. In addition, the Office of Regional Counsel Legal Enforcement Office shall work with the appropriate finance center on an ongoing basis to keep the finance center abreast of anticipated executed settlement agreements, including those executed jointly by the EPA and the DOJ, to prevent the untimely recording of accounts receivable by the finance center.

Resources Management Directive Systems 2540-9-P3, *Administrative and Judicial Civil Penalties,* states the DOJ's Environmental and Natural Resource Division emails CFC supporting documentation for all penalty payments owed pursuant to a judicial order. The DOJ notifies the EPA of a final order/judgment and provides a copy to the CFC at the time the DOJ requests its Financial Litigation Unit to issue payment instructions to the defendant.

According to the Government Accountability Office's *Standards for Internal Control in the Federal Government,* transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

The responsible offices did not provide source documents timely to the finance centers. We found that:

- The EPA's originating offices did not timely provide administrative legal documents to the appropriate finance center for 25 receivables totaling $28.3 million.
- The DOJ's Environmental and Natural Resource Division did not timely forward judicial documents to CFC for 15 receivables totaling $33.4 million.

The following information provides additional detail and perspective for the 40 receivables not provided timely. We found eight documents received late totaling $56,880,970 out of 45 statistical samples totaling $100,003,739 that we reviewed. We found another 32 documents received late totaling $4,830,162 out of 197 documents reviewed totaling $62,473,742. The details of the 32 documents and the areas we reviewed are:

- From our review of the agency's reconciliation of the DOJ Environmental and Natural Resource Division debts assessed report, we found 28 documents received late totaling $4,239,256 out of 112 receivables reviewed totaling $50,253,837.
- From our review of the agency's Integrated Compliance Information System database reconciliation, we found three documents received late totaling $502,006 out of 84 receivables reviewed totaling $12,131,005.
- From our analysis of the agency's collection effort, we found one document received late for one receivable totaling $88,900.

Although we could not determine the cause for all the delays in recording the receivables or providing source documents to the finance centers, we identified the following causes:

- For some accounts receivable, the regional office personnel did not timely provide CFC with the Superfund Accounts Receivable Standard Control Form, which has information that CFC uses to record the receivable.
- For one grant disallowed costs accounts receivable, the originating office did not deem necessary to forward source documents to the finance center within 5 business days because the grantee expressed a need to negotiate a payment plan.
- Regional and state-prepared stipulated penalty letters did not include CFC on the mailing list.

Some regional enforcement office personnel did not timely forward bankruptcy legal documents or administrative settlement agreements to the finance center; however, we did not identify the cause.

When the responsible offices do not timely provide source documents to the finance centers, the EPA cannot record accounts receivable in a timely manner. Delaying the recording of accounts receivable could result in a material misstatement of the financial statements.

Recommendations

We recommend that the Assistant Administrator for Enforcement and Compliance Assurance:

17. Require enforcement officers to include CFC on the stipulated penalty letters mailing list.

18. Remind personnel to timely forward legal documents or administrative settlement agreements to the finance center.

19. Work with the DOJ to forward DOJ legal documents timely to CFC.

We recommend that the Chief Financial Officer:

20. Work with the Office of Enforcement and Compliance Assurance to update EPA Superfund guidance to require originating offices to timely forward the Superfund Accounts Receivable Control Forms to the finance center.

We recommend the Assistant Administrator for Administration and Resources Management:

21. Require the Office of Grants and Debarment to instruct personnel to forward source documents for grant disallowed costs timely to the finance center even if the bill is under dispute or in negotiation for a payment plan.

22. Require the Office of Grants and Debarment to follow up to ensure that the EPA forwards the documents timely.

Agency Comments and OIG Evaluation

The agency agreed with the recommendations, but disagreed that the finding was a significant deficiency under FMFIA. The OIG identified the issue as an internal control significant deficiency because of the high frequency of delays in processing receivables and the dollar value of those receivables.

8 – EPA Did Not Properly Reconcile Accounts Receivable

The EPA did not properly reconcile the March 31, 2014, accounts receivable subsidiary ledger to the general ledger. The EPA improperly treated a general ledger error as an addition to the detail receivables. The EPA combined federal and non-federal receivables in the reconciliation, although federal accounting guidance requires separate reporting. EPA guidance directs the agency to perform quarterly accounts receivable reconciliations, investigate discrepancies and correct any differences. Several factors caused the improper reconciliation:

- The EPA considers journal vouchers as accounts receivable bill detail in the reconciliation.
- Compass consolidates receivable data at the agency level but not at the finance center level.
- The reconciliation did not distinguish between federal and non-federal receivables.
- Accounts receivable detail reports used for the reconciliation were not accurate.

When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger and correct differences, the agency cannot ensure financial statements are properly stated.

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

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

The Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five standards for the minimum level of quality acceptable for internal control in government. The standard for control activities requires accurate and timely recording of transactions and events.

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

The EPA's March 31, 2014 accounts receivable reconciliation did not properly reconcile the accounts receivable subsidiary ledger to the general ledger. The accounts receivable subsidiary ledger maintains the activity and current balances for each account receivable. The general ledger is a control account with the total of all accounts receivable. The agency reconciliation:

- Included journal vouchers as accounts receivable subsidiary ledger bill detail. RAS included a $51.4 million journal voucher that the agency incorrectly prepared using a billed account receivable general ledger account instead of the proper unbilled general ledger account, as accounts receivable bill detail. As a result, RAS included unbilled receivables as billed receivables in the reconciliation.

- Commingled bill charge lines of interest, handling, penalty and memo receivable amounts with the accounts receivable bill principal amounts. The agency maintains separate general ledger control accounts for receivable principal, interest, handling, penalties charges and memo accounts receivable.
- Contained variances from prior years which should have been previously resolved.
- Combined federal and non-federal general ledger accounts and billings. SFFAS No. 1 requires federal agencies to report federal receivables separately from non-federal receivables.

The agency's current accounts receivable reconciliation process does not identify and resolve differences between the accounts receivable general ledger control accounts and their corresponding accounts receivable detail accounts to ensure that both the control and detail accounts are properly stated. The following factors contributed to the deficiency:

- The EPA considers journal vouchers as accounts receivable bill detail in the reconciliation. RAS reported that it includes journal vouchers as receivable bill detail because it records journal vouchers in the general ledger, but not at the accounts receivable bill level. Because the EPA did not consider journal vouchers as variances to be corrected, the agency did not thoroughly analyze the journal voucher transactions and identify the error or its effect**.**
- The EPA did not configure Compass to consolidate data at the finance center level. Finance center level activity occurring during the year closes to the agency level. When the agency closes the yearly finance center activity to general ledger accounts at the overall agency level the finance centers have no beginning balances the next year. This consolidated closing impedes the agency's ability to identify and reconcile differences at the finance center level.
- The agency's accounts receivable reconciliation does not distinguish between federal and non-federal receivables because its approach is to reconcile all open receivables as a whole. The agency's approach reduces the assurance that federal and non-federal receivables are properly classified.
- Two Compass Business Object reports developed specifically for the accounts receivable reconciliation are not accurate. The accounts receivable principal detail report includes non-principal bill charges of interest, handling, penalty and memo receivables. The bill charges report does not include all interest, handling and penalty charges. Therefore, the report totals do not readily compare to the general ledger control account balances.

The purpose of a reconciliation is to identify and resolve differences between the accounts receivable subsidiary ledger bill detail and the accounts receivable general ledger control accounts to ensure accuracy and completeness in the financial statements. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger control accounts, the agency cannot ensure:

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

Recommendations

We recommend that the Chief Financial Officer:

23. Investigate variances between the general ledger control accounts and the accounts receivable subsidiary ledger bill detail and correct errors by recording entries to the control accounts and/or the accounts receivable bill detail, as needed.

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

25. Develop accurate reports for accounts receivable principal charges and non-principal charges.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

9 – Unneeded Funds Not Deobligated Timely

The EPA did not deobligate unneeded funds totaling $4.4 million identified during the fiscal 2014 annual review of unliquidated obligations. Federal and agency guidance require unliquidated obligations to be reviewed annually, and EPA requires responsible offices to review inactive unliquidated obligations and take appropriate action to deobligate unneeded funds. However, the EPA did not take timely actions to notify the appropriate offices to deobligate the unneeded funds. As a result, the EPA has no assurance that unliquidated obligations are accurate and represent valid and viable obligations, and that obligated funds are being used efficiently.

The Government Accountability Office's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title 7, Chapter 3, requires each agency to review its unliquidated obligations at least once a year to reasonably assure itself that all transactions meeting the criteria of legally valid obligations have been included. In addition, EPA's Resource Management Directive 2520-03-P1 requires all responsible parties to conduct complete periodically—but at least annually—a review of all current and prior year unliquidated obligations to ensure that all recorded obligations are still valid and properly documented. According to the directive:

- An inactive obligation is one in which there has been no activity for 6 months or more (180 days).
- A valid obligation is one for which appropriated funds are still available for the purpose and time period specified, and for which an actual need still exists within the life of the appropriation.

EPA's Resource Management Directive 2520-03-P1 requires that all unneeded funds must be identified and deobligated no later than September 30 (annually). The directive also states that all responsible officials must certify that their office/region completed their inactive obligations review and took the necessary actions to deobligate the funds. Two certifications are required: (a) the FMFIA Assurance Letter, which was due August 15, 2014, according to the agency's fiscal 2014 assurance letter guidance; and (b) the Review of Unliquidated Obligations Year-end Certification, which was due October 10, 2014, based on the agency's fiscal 2014 Year-End Closing Instructions. According to the assurance letter guidance, the Assurance Letter must include certification that the review of assigned unliquidated obligations has been completed and the necessary action has been taken to deobligate unneeded funds. The form also states that the year-end certification certifies that each office has deobligated unneeded funds.

We found that during the fiscal 2014 annual unliquidated obligations review, the agency identified unneeded funds totaling $4.4 million which remained open as of September 30, 2014, and also as of October 8, 2014—the completion date of our analysis. Specifically:

- During our analysis of the agency's unliquidated obligations certifications, we found that several regions and headquarters' program offices identified inactive unliquidated obligations for deobligation totaling $4.4 million. However, timely action was not taken to deobligate the funds before or on September 30, 2014, and before the October 10, 2014, certification due date.

Table 1: Funds for deobligation

Program offices/regions	Amount
Office of the Administrator	$72,916.54
Office of Air and Radiation	98,902.82
Office of Administration and Resources Management	172,759.01
Office of Enforcement and Compliance Assurance	$6,159.11
Office of Environmental Information	3,638,706.39
Office of Chemical Safety and Pollution Prevention	3,829.94
Office of General Counsel	4,405.77
Office of International and Tribal Affairs	4,117.00
Office of Research and Development	24,374.70
Office of Solid Waste and Emergency Response	211,523.58
Office of Water	22,435.27
Region 4	4,080.04
Region 5	239.94
Region 6	12,148.09
Region 7	78,615.35
Region 10	8,689.83
Total	**$4,363,903.38**

Source: OIG analysis.

- The Enterprise Desktop Solutions Division in the Office of Technology Operations and Planning of the Office of Environmental Information identified $2.3 million in unneeded working capital unliquidated obligation funds for deobligation. The division had not completed processing the unliquidated obligations within the required deadline date. Similarly, the National Computer Center in in the Office of Technology Operations and Planning identified $1.3 million in unneeded unliquidated obligations funds for deobligation. The National Computer Center had not processed deobligations for the unliquidated obligations by the National Computer Center's deadline date.

- Region 7 identified $78,615 in simplified acquisitions, contracts and/or training unliquidated obligations, but did not deobligate them by their due date. The region noted on its unliquidated obligations certification that the funds were not deobligated due to the loss of resources under Voluntary Early Retirement Authority/Voluntary Separation Incentive Payment.

- Other program offices and regions noted in their certification letters that processing of their identified unliquidated obligations were incomplete as of their certification dates.

By not taking timely and appropriate action to deobligate unneeded funds, EPA has no assurance that the unliquidated obligations are accurate and represent valid and viable obligations affecting the financial statements. Furthermore, inadequate unliquidated obligation reviews could affect the financial statements by not identifying unneeded funds that should be deobligated. The deobligation of these funds would allow for more effective utilization of resources for other environmental purposes.

Recommendation

We recommend that the Chief Financial Officer

26. Require headquarters program offices and regional offices to deobligate unneeded funds identified during the annual unliquidated obligation reviews.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

10 – EPA Needs to Consistently Enforce Restricted Entry Access to Server Rooms

The EPA did not consistently enforce restricted access at the Las Vegas Finance Center (LVFC) and the Andrew W. Breidenbach Environmental Research Center (AWBERC) server rooms. We found that personnel were granted access to server rooms without proper approval and that unauthorized personnel had access to a server room door. Specifically, a contractor was granted access to the LVFC server room without the office director's approval. Additionally, we noticed that the approved access list for AWBERC's rear server room door did not match the computer access list in the Facility Commander software, which allowed unauthorized staff to use the server room door.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, April 2013, *Security and Privacy Controls for Federal Information Systems and Organizations*, PE-2, *Physical Access Authorizations*, states that the organization develops, approves and maintains a list of individuals with authorized access to the facility where the information system resides; reviews the access list detailing authorized facility access by individuals; and removes individuals from the facility access list when access is no longer required. EPA Chief Information Officer Transmittal No. 12-003, *Information Security – Interim Physical and Environmental Protection Procedures*, V1.9, August 6, 2012, states that, "Physical access authorizations for all physical access points (including designated entry/exit points) to the facility where the information system resided must be enforced." In addition, the EPA's *Operating Procedures for Management and Monitoring of the La Plaza Door Access Systems* requires that, access to the LVFC server room must be authorized by the office director of LVFC or her designee. Finally, the Office of Administration and Resources Management (OARM)/Information Resources Management Division (IRMD), *Server Room Access Procedure*, dated January 30, 2013, states, "Server room access shall be limited to a list of personnel approved by the Authorizing Officials."

EPA management did not ensure personnel followed access control procedures outlined in standard operating procedures for the LVFC and AWBERC server rooms for granting, monitoring and removing access to its facilities. In Las Vegas, a contractor for the National Center for Radiation Field Operations was granted access to the LVFC server room without the LVFC director's signature on the authorization form. The authorization form was signed by the director of the National Center for Radiation Field Operations as required, but because the server room is under the control of the finance center, a signature from the office director of the finance center was required. As such, inappropriate access was granted to the server room without the required prior approval from the LVFC office director and access remained despite monthly door access reviews conducted by LVFC personnel.

In Cincinnati, the OARM/IRMD list of authorized personnel allowed to access AWBERC rear server room door did not match the computer access list in the Facility Commander system software, which is under the control of the OARM/Safety and Security Office. The OARM/IRMD access list contained three names, while the computer access list contained 10 names. This occurred because OARM/Safety and Security Office did not make the required changes once OARM/IRMD updated its access list. In both instances, according to the agency, corrective actions were made to resolve the access control issues during our audit, but will not be verified by the audit team until the next audit cycle.

The Office of the Chief Financial Officer (OCFO) indicated it took corrective actions at LVFC and AWBERC to obtain approvals for personnel authorized to enter the server room and update personnel listing in the facility access system. EPA personnel at AWBERC corrected the noted weakness during our site visit. Due to the time constrains of our audit, we were unable to re-visit LVFC to validate the actions taken. However, a breakdown in OFCO's processes to ensure compliance with established policies and procedures ultimately contributed to the weaknesses we found. As such, it is incumbent upon management to routinely test its established control environment identify where it could be strengthened.

If agency personnel do not follow access control procedures, there is uncertainty as to whether all access privileges are authorized. This leaves agency IT assets vulnerable to unauthorized access and damage.

Recommendation

We recommend that the Chief Financial Officer:

27. Require the Information Security Officer to conduct an access control review with all offices that warehouse IT assets. This would include ensuring:

    a. Appropriate approving officials approve access for all personnel entering the respective server rooms.
    b. The offices update access rosters and post them according to local procedures.
    c. The offices create plans of action and milestones within the EPA information security weakness tracking systems to track when the office would complete the access control review if the respective office is unable or lacks the capability to complete the review within the next 30 days.

Agency Comments and OIG Evaluation

The EPA concurred with our recommendation and indicated that LVFC completed a 100-percent certification of its door access in July 2014. However, management did not specify when it would remediate the weaknesses noted at the AWBERC server room. Management also did not indicate when the OCFO Information Security Officer would conduct or coordinate an access control review at all locations that operate IT assets on behalf of the OCFO. We consider Recommendation 27 to be unresolved pending the agency's response to the final report.

11 – EPA Needs to Ensure that Its Information Technology Assets Are Properly Monitored and Secured

The EPA did not ensure that IT assets at the LVFC server room, AWBERC server room, and RTP National Computer Center computer room were properly monitored and secured. We found that a card reader located at the LVFC server room did not consistently log or document alerts of attempts by unauthorized users to gain access, while server racks within the CFC's AWBERC telecommunication room and the National Computer Center computer room were unlocked.

NIST SP 800-53, Revision 4, April 2013, *Security and Privacy Controls for Federal Information Systems and Organizations*, PE-3, *Physical Access Control*, states that the organization employs guards and/or alarms to monitor every physical access point to the facility where information systems reside, and uses lockable physical casings to protect information system components from unauthorized physical access. EPA Chief Information Officer Transmittal No. 12-003, *Information Security – Interim Physical and Environmental Protection Procedures*, V1.9, May 4, 2012, states that: (1) physical access devices must be functioning properly; and (2) all equipment that stores, processes, or transmits EPA information must be located in an appropriate locked rack, room or enclosure.

EPA management did not periodically test the card reader to the LVFC server room to ensure it was consistently logging access to the server room. This meant that attempts by unauthorized personnel were not always logged and documented in the physical access control tracking software. In Cincinnati, the server room racks in the AWBERC telecommunication room were unlocked, as well as the server racks in the National Computer Center computer room. Unlocked server racks leave information technology assets vulnerable to tampering and damage. Officials at the RTP and Cincinnati locations stated that they believed the information technology assets were secure because they were in a controlled area and only authorized personnel have access to the areas where the server racks are located. Although, personnel have authorized access to the server room and computer room, not all personnel have authorized access to the same information technology assets. As a result, information technology assets are exposed to unauthorized personnel.

Subsequent to our site visits, OCFO indicated that it took corrective action to replace and test the faulty card reader within the LVFC. However, due to the time constraints of our audit, we were unable to re-visit the LVFC to verify that the actions taken remediated the problem. Ultimately, the lack of a regular process to test the LVFC card reader system is what lead to management not discovering the faulty card reader before our visit. It is incumbent upon management to regularly review its control environment to determine where it could be strengthened. If agency personnel do not follow security control procedures in monitoring and securing information technology assets, this leaves agency information technology assets vulnerable to unauthorized access and damage.

Recommendations

We recommend that the Chief Financial Officer:

28. Require LVFC to implement a process to regularly test the card reader system within the finance center.

29. Require the Information Security Officer to conduct an access control review with all offices that warehouse IT assets. This would include ensuring all offices:

    a. Lock all server racks to prevent unauthorized access.
    b. Create plans of action and milestones within the EPA information security weakness tracking systems to track the security of server racks if the respective office is unable to immediately or lacks the capability to lock the server racks within the next 30 days.

Agency Comments and OIG Evaluation

EPA concurred with our recommendations. Management indicated that LVFC would implement a quarterly process to test card readers within the finance center. We consider Recommendation 28 to be resolved. Management also indicated that AWBERC took steps to remediate the identified weakness. However, management did not indicate when the National Computer Center would remediate the identified weakness or when the OCFO Information Security Officer would conduct or coordinate a review of card readers and security of server racks at all locations that operate IT assets on behalf of the OCFO. We consider Recommendation 29 to be unresolved pending the agency's response to the final report.

12 – EPA Needs to Establish Procedures for Protecting Information Technology Assets From Environmental Threats

The EPA lacks processes to enable personnel to monitor environmental factors that are used to protect IT assets. Specifically, finance center server rooms lack processes to protect IT assets from temperature and humidity damage. Additionally, one finance center had incorrectly installed water sensors, making the servers vulnerable to flooding before personnel could be alerted to the problem.

NIST SP 800-53A, Revision 1, *Guide for Assessing the Security Controls in Federal Information Systems and Organizations*, June 2010, PE-14, *Temperature and Humidity Controls*, specifies ensuring that temperature and humidity levels within the facility where information systems reside be defined, maintained and monitored by the organization. Additionally, NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, April 2013, PE-18, *Location of Information System Components*, specifies that information system components be positioned to minimize potential damage from environmental hazards such as flooding.

EPA finance center IT personnel rely on preventative maintenance measures performed on environmental monitoring equipment located in the server rooms to ensure thresholds and alert triggers are established and implemented. However, these humidity and temperature thresholds—the lowest and highest levels the server room temperature can reach before alerting relevant personnel—were undocumented and, in one case, humidity monitoring was not implemented at all. While periodic servicing of environmental monitoring equipment and checks by IT personnel are performed, these checks did not always provide assurance that the equipment was operating as management intended because management had not approved the specific measures the equipment checker and equipment were to meet. Additionally, we found personnel placed water sensors above the lowest shelf on one server rack. The placement of this sensor prevented personnel from being notified of possible water issues before damage could have happened to the IT equipment located on the lower shelf of the server rack.

Lack of environmental monitoring and established thresholds for temperature and humidity increase the likelihood that damage to EPA servers from environmental factors goes undetected before serious harm is caused. Additionally, the inability to detect and alert IT personnel about server room flooding increases the likelihood of damage to the server room and IT equipment, and could result in a disruption of business operations. In both cases, the potential damage posed to the EPA production servers housed in the finance center server rooms puts the availability of the EPA's financial data at risk.

Recommendations

We recommend that the Chief Financial Officer:

30. Require the Information Security Officer to coordinate with the responsible offices that warehouse or manage information technology assets for CFC to:

    a. Implement a process for monitoring humidity levels in the Norwood server room.
    b. Reposition the water sensors in the Norwood server room at the appropriate height to prevent water damage to servers.

31. Require the Information Security Officer to coordinate with the responsible offices that warehouse or manage information technology assets for the LVFC, CFC and RTP Finance Center to:

    a. Establish and document threshold levels for temperature and humidity monitoring in the server rooms.
    b. Create plans of action and milestones within the EPA information security weakness tracking systems to track the remediation of the noted environmental control weaknesses if the respective office is unable to immediately correct, or lacks the capability to correct, the weakness within the next 30 days.

32. Require the Information Security Officer to develop a process to monitor the completion of all plans of action and milestones that were entered into the EPA information security weakness tracking system.

Agency Comments and OIG Evaluation

The EPA concurred with our recommendations. The EPA indicated it implemented humidity monitoring and adjusted the flood sensors at the Norwood server room. We consider Recommendation 30 to be resolved. Management also indicated it resolved noted weaknesses at the AWBERC server rooms. Management also indicated that the LVFC and RTP Information Security Officers would coordinate with responsible individuals to resolve weaknesses at their respective locations. However, management did not provide a date when the Information Security Officers would complete this action and management did not provide a date when the office Information Security Officers would ensure all open security weaknesses are entered into the agency security weakness tracking system. As such, we consider Recommendations 31 and 32 to be unresolved pending the agency's response to the final report.

13 – EPA Needs to Configure Server Room Cameras to Fully Monitor Information Technology Assets

Closed circuit television (CCTV) system cameras at the EPA finance centers do not provide enough visibility to monitor production servers and valuable IT assets for unauthorized changes. We found that CCTV cameras within one server room did not monitor the racks containing EPA production servers and other IT assets. Additionally, the storage time for those CCTV cameras' feeds did not provide the required 30-day playback time. We also observed an EPA server room whose visibility was controlled by a non-automated light switch that was not coordinated with the CCTV system. Lastly, one server room lacked consistent lighting to ensure server room activity could be recorded.

NIST SP 800-53, Revision 4, *Guide for Assessing the Security and Privacy Controls for Federal Information Systems and Organizations,* April 2013, PE-6, *Monitoring Physical Access*, specifies that physical access to information systems be monitored in order to detect and respond to security incidents. Additionally, the Statement of Work pertaining to the EPA Cincinnati Security Management Program Contract for CCTV monitoring states that video for server rooms be stored for up to 30 days. Finance center personnel stated that the server room video is required to be searchable for up to 30 days to investigate unauthorized changes made to IT assets not initially detected.

EPA management did not ensure that full visibility of IT assets were captured by server room CCTV camera feeds. Management relied upon established access control procedures (e.g., card readers, visitor logs and access rosters) to prevent unauthorized individuals from entering the server room. However, these controls would not help detect when someone had unauthorized access to equipment in the server room or made unauthorized changes to equipment because we found that the posted access roster did not match the individuals who had access to the server room and the server room cabinets were not always locked. Furthermore, the digital video recording storage space is not large enough to record 30 days' worth of video due to the amount and quality of camera feeds shared on a single server room camera server. The EPA server room with impaired video recording quality had its lighting controlled by a non-automated light switch that was not coordinated with the CCTV system. Therefore, someone could enter the room and not be seen on camera or turn off the lift to mask their actions.

While the EPA monitors the entrances of server rooms, visibility of the entire room, including the server racks, is needed. Without this visibility, security personnel will not have the evidence to discover the source of incidents affecting IT assets housed in the server room. Sufficient storage of server room CCTV video is also needed for review and to respond to security incidents not detected at the time of occurrence. Without ample storage and playback time, facilities management will not have enough video to evaluate evolving security incidents. These vulnerabilities could expose EPA assets to unauthorized changes, thus jeopardizing the confidentiality, integrity and availability of the EPA's financial data.

Recommendation

We recommend that the Chief Financial Officer:

33. Require the Information Security Officer to coordinate with the responsible offices within the Office of Administration and Resources Management to develop and implement a strategy to improve CCTV coverage for the OCFO's IT assets. The improved CCTV coverage and strategy should include:

    a. Improving camera-monitoring systems at the AWBERC server room to increase visibility of the server racks and within the telecomm room and to coordinate monitoring of the Norwood server room with automated lighting.
    b. Increasing CCTV monitoring storage time to meet EPA-approved storage requirements detailed in the EPA's Cincinnati Security Management Program Contract.
    c. Requiring offices to create plans of action and milestones within the EPA's information security weakness tracking system to track the completion of any CCTV improvement tasks that cannot be completed within the next 30 days.
    d. Developing a process to monitor the completion of all plans of action and milestones that were entered into the EPA information security weakness tracking system.

Agency Comments and OIG Evaluation

EPA concurred with our recommendation. EPA indicated that it increased the video retention period for the AWBERC server room and made several additional upgrades to the video cameras. We consider Recommendation 33 to be resolved.

14 – EPA Needs to Document Management's Approval for Authorizing Changes to the Accounting Posting Module

The EPA lacks management's written approval for authorizing changes to the Compass accounting posting model to prevent unauthorized changes. OCFO does not officially document management's approval when making updates to the recording of general ledger account activity within the Compass accounting posting module. The Government Accountability Office's *Standards for Internal Control in the Federal Government* (November 1999) states that all transactions and significant events need to be clearly documented. OMB Circular A-123, Revisions to OMB Circular A-123, Management's Responsibility for Internal Control (December 2004), states that management's control activities such as proper authorization and appropriate documentation are internal controls that help safeguard against unauthorized use of assets.

OCFO's RAS maintains a tracking document that identifies unusual postings to general ledger accounts based on RAS internal analytical reviews and inquiries submitted by agency personnel through the OCFO Help Desk. RAS management indicated that after RAS accountants conduct thorough research on each activity, RAS meets bi-weekly to discuss any potential updates to the accounting posting model. RAS management indicated that, during these meetings, management will verbally agree to any changes that need to be made to the accounting posting model. However, there was no documentation, such as meeting minutes or management's written approval or signage on the tracking sheet which demonstrates managerial approval has been granted to update the accounting posting module to properly record and post transactions to the appropriate general ledger accounts. Management has limited assurance that any changes made to the posting model were made based on their approvals. Written approvals will add a layer of accountability for such significant events since updating the accounting posting module affects the recording of general ledgers accounts and, ultimately, the fair presentation of the EPA's financial statements.

Recommendation

We recommend that the Chief Financial Officer:

34. Maintain written documentation that demonstrates management has approved changes to the Compass accounting posting module.

Agency Comments and OIG Evaluation

EPA concurred with our recommendation and indicated it implemented a procedure to document approved changes to the posting models. We consider Recommendation 34 to be resolved.

Compliance With Laws and Regulations

Table of Contents

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

The EPA did not record all applicable interest for some Superfund, installment and grant accounts receivable in the accounting system as required by applicable laws, federal accounting standards and EPA policy. The EPA did not record the proper interest due to Compass accounting system problems and nonconformance to the terms in the receivable legal source documents. By not recording all applicable interest, the EPA did not collect all the funds to which it was entitled and did not comply with applicable laws, federal accounting standards and EPA policy. The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 107 states that the amounts recoverable in an action under this section shall include interest on the amounts recoverable. Such interest shall accrue from the later of the date payment of a specified amount is demanded in writing or the date of the expenditure concerned.

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

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

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

The EPA Resources Management Directive Systems 2540-9-P2, *Non-Federal Delinquent Debt,* pages 6-7, directs the agency to assess and record overdue interest, handling and penalty charges in 30-day increments for late payments as appropriate. The finance centers calculate interest, handling and penalty charges manually, or rely on the agency financial management system to automatically calculate and post all charges. The EPA Resources Management Directive Systems 2540-9-P1, *Billing and Collecting,* pages 6-7, directs the EPA to assess interest, handling and penalty charges on audit disallowances not paid by the debtor within 30 days from the date of the letter.

The EPA did not record all applicable interest for seven Superfund receivables, six installment receivables and one grant receivable in the accounting system. Table 2 lists the receivables without all applicable interest recorded that we identified during our fiscal 2014 review through June 30, 2014.

Table 2: Receivables without all applicable interest recorded

Bill number	Bill type	Reason for unrecorded interest
Superfund Receivables		
SN 2791426T0035	Superfund oversight	Compass did not accrue interest
SN 2721326S0027	Superfund oversight	Did not follow legal document terms
SN 2721226S0021	Superfund oversight	Did not follow legal document terms
SN 2700733S041	Superfund oversight	Compass did not accrue interest
SN 042602T048X	Superfund oversight	Compass deleted interest
SN 042602T049X	Superfund oversight	Compass deleted interest
SF 2731429T0067	Superfund cost recovery	Waive interest flag not unchecked
Installment Receivables		
SN 2711429S0008	Superfund cost recovery	Compass functionality
SN 2721329S0039	Superfund cost recovery	Compass functionality
NN EPAE-5:09-CV-00272	Fine and penalty	Compass functionality
NN EPAK-6:13-CV-02188	Fine and penalty	Compass functionality
NN FIFRA-01-2012-0043	Fine and penalty	Compass functionality
NN CWA-08-2014-0018	Fine and penalty	Compass functionality
Grant Receivable		
LG 3314AR107	Grant ineligible costs	Did not follow legal document terms

Source: OIG analysis of EPA data.

Compass system problems and finance center nonconformance to the terms in the accounts receivable legal source documents contributed to the noncompliance. Specifically:

- Compass was unable to calculate and record interest on installment receivables. Finance center staff manually entered installment interest either from calculations in billing documents, or on a cash basis upon payment receipt.
- Compass has periodically either deleted or stopped recording Superfund interest. Compass deleted some Superfund interest for at least two receivables in June 2014. Compass stopped recording Superfund interest from December 2013 to January 2014. In the prior fiscal year, the EPA reported that a Compass defect removed the interest from CFC Superfund bills from December 2012 until February 2013, when the EPA fixed the defect.
- Due to Compass configurations for Superfund receivables where interest is compounded, CFC must manually mark Superfund receivables in order for interest to accrue when receivables reach the due date. CFC marks past due receivables by unchecking the waive interest flag in Compass. For some Superfund receivables, Compass did not record interest after CFC unchecked the flag when receivables became past due.
- Finance center staff did not always follow the language in the legal source documents that contained the terms and instructions for recording principal and interest receivable.
    - ✓ Finance center staff relied on instructions from the EPA attorneys for assessing interest. If the EPA attorneys did not notify staff of interest assessments, the staff did not record the interest.

- ✓ Finance center staff did not record the correct document date for grant receivable audit disallowance documents not received timely and used the Compass entry date as the account receivable document date.

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

Recommendations

We recommend that the Chief Financial Officer:

35. Instruct CFC to perform an analysis of delinquent receivables to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards and EPA policy, and record any unrecorded interest.

36. Instruct CFC to follow the terms in the legal source documents when recording interest receivables.

37. Instruct LVFC to follow EPA policy and the terms of the legal source document and record the document effective date in Compass as the account receivable document date for grant receivables.

38. Determine and correct the cause of Compass system problems related to Superfund and installment interest.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

16 – EPA's 2014 FMFIA Annual Assurance Statement Is Inaccurate

In May 2014, the EPA identified a $193 million error in its capitalized software accounts, which resulted in the restatement of its fiscal 2013 financial statements. In spite of this material error, the EPA did not report capitalized software as a material weakness in its draft fiscal 2014 FMFIA Annual Assurance Statement. OMB Circular A-123 defines material weaknesses in internal control as a "Reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected." OMB Circular A-123 also states that "management is precluded from concluding that the agency's internal control is effective (unqualified statement of assurance) if there are one or more material weaknesses." While EPA management is restating the fiscal 2013 financial statements, the agency does not consider this software capitalization error to be a material weakness. Because the EPA did not report capitalized software as a material weakness in its initial fiscal 2014 draft FMFIA Annual Assurance Statement, the agency is not in compliance with FMFIA reporting requirements. Subsequently, the agency agreed to declare weaknesses over software as a material weakness.

As part of the agency's OMB Circular A-123 review the EPA evaluated accounting for capital software. The A-123 review found several significant internal control deficiencies in accounting for capital software:

- "Transactions were not entered into the system [EPA's accounting system].
- "Incorrect accounting entries were entered in the system.
- "Transaction entries plugged in system."

The EPA's accounting for capital software resulted in significant adjusting entries, material misstatement of the financial statements, and a restatement of the fiscal 2013 financial statements. OMB Circular A-123 defines material weaknesses in internal control as a "reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected." The EPA's capitalized software error clearly meets the OMB Circular A-123 definition of a material weakness because this error necessitated a restatement of the fiscal 2013 financial statements.

The agency determined that accounting for personal property and software is an agency-level weakness in its revised draft FY 2014 Integrity Act report. We have advised the agency that the capitalized software error is a material weakness. OMB Circular A-123 also states that "management is precluded from concluding that the agency's internal control is effective (unqualified statement of assurance) if there are one or more material weaknesses." Since the capitalized software error is a material weakness, the EPA's FMFIA Assurance Statement cannot state that there is a reasonable assurance that the EPA's internal controls were operating effectively.

Recommendation

We recommend that the Chief Financial Officer:

39. Comply with the material weakness reporting requirements as prescribed by OMB Circular A-123, which are:

    a. Material weaknesses and a summary of corrective actions shall be reported to OMB and Congress through the Performance and Accountability Report.
    b. Progress against corrective action plans should be periodically assessed and reported to agency management.

Agency Comments and OIG Evaluation

The agency agreed with our recommendations. However, the agency disagreed with the facts of our finding, stating it believed that the draft Annual Financial Report language was misinterpreted by the OIG. The agency indicated the noncompliance was an agency-level weakness. The OIG still believes the issue is a material weakness. EPA Order 1000.24 CH2, *Management's Responsibility for Internal Control*, defines an agency weakness as a control deficiency that does not reach the level of materiality of a material weakness. Therefore, reporting the material weakness as an agency-level weakness is inaccurate and does not comply with the FMFIA reporting requirement. Subsequently, the agency agreed to declare weaknesses of its accounting for software a material weakness.

Status of Prior Audit Report Recommendations

The EPA is continuing to strengthen its audit management to address audit follow-up issues and complete corrective actions expeditiously and effectively to improve environmental results. The Chief Financial Officer is the agency follow-up official and is responsible for ensuring that corrective actions are implemented. EPA Manual 2750, *Audit Management Procedures*, is a comprehensive audit management guide that addresses OIG, Government Accountability Office, and Defense Contract Audit Agency audits. OCFO continued to issue a quarterly report that highlights the status of management decisions and corrective actions. This report is shared with program office and regional managers throughout the agency to keep them informed of the status of progress on their audits. Additionally, OCFO continued to conduct reviews of national and program offices, which it initiated in fiscal 2009. The reviews focus on offices' audit follow-up procedures and their use of the Management Audit Tracking System. The reviews are designed to promote sound audit management; increase agency awareness of, and accountability for, completing unimplemented corrective actions; and ensure that audit follow-up data are accurate and complete. OCFO completed four of these on-site reviews in fiscal 2014, including two regional offices and two national program offices. These reviews will be performed on an ongoing, rotating basis.

The agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits with findings and recommendations that could have a material effect on the financial statements, and have corrective actions that are not completed or have not been demonstrated to be fully effective, are listed in the following table.

Table 3: Significant deficiencies—Issues not fully resolved

• **Posting Models in Compass Materially Misstated General Ledger Activities and Balances** In fiscal 2012, the EPA materially misstated general ledger activity and balances due to incorrect posting models. The EPA corrected posting model errors that were identified during fiscal 2012. However, during fiscal 2014, we continued to find posting model errors. While the agency has corrected the errors identified in fiscal 2014, such errors will continue to occur until the EPA conducts a diligent review of the posting models. The EPA has implemented corrective actions to correct activity in accounts incorrectly impacted by improper posting models, develop internal control procedures to confirm the proper accounts are impacted for transactions, and perform analytical reviews of account activity on a quarterly basis to verify account activity is reasonable. The EPA's remaining corrective action is to complete a thorough review of all posting models.
• **Compass Reporting Limitations Impair Accounting Operations and Internal Controls** The EPA did not agree that the reporting limitations we identified in fiscal 2012 in several accounting areas significantly impair the effectiveness of the agency's accounting operations and internal controls. However, the EPA stated that it will continue to analyze the agency's reports, identify any concerns and develop new reports for users as needed. In fiscal 2014, the EPA had not developed reports at the security organization level needed to reconcile accounts receivable, update allowance for doubtful account estimates, and reconcile property financial data in Compass to the property management data in Maximo. The EPA needs to complete corrective action in these areas to develop reports to provide users with accurate data on a timely basis.

• **EPA Should Improve Compliance With Internal Controls for Accounts Receivable** During fiscal 2012, we found that CFC did not timely receive accounts receivable judicial legal documents from DOJ and the EPA. In fiscal 2013, the EPA revised agency accounts receivable guidance to remove the requirement for Regional Legal Enforcement Offices to forward copies of executed judicial orders to CFC within 5 workdays. In fiscal 2014, the EPA's Office of Enforcement and Compliance Assurance, in conjunction with OCFO, met with DOJ and conducted quarterly reviews of the timeliness in providing civil judicial documents to CFC. The Office of Enforcement and Compliance Assurance reported its corrective action as completed. However, in fiscal 2014, we again reported untimely receipt of accounts receivable legal documents as a significant deficiency; therefore, EPA's corrective actions were not yet effective.
• **Property Internal Controls Need Improvement** In our fiscal 2013 audit, we found that Compass did not sufficiently reject personal property information entries that were not accurate. As a result, the agency could possibly lose accountability and control over property. We identified personal property items for which the location was not properly identified, and items were physically located in accountable areas other than the locations identified in the property system. During fiscal 2014, we found that some capital property items valued at approximately $1.1 million in RTP were not in the exact location as recorded in the Fixed Assets System. The EPA transferred the pieces of equipment to a new location, but did not update the system.
• **Compass and Maximo Cannot Be Reconciled** During fiscal 2013, we found that the EPA could not reconcile capital equipment property management data within its property management subsystem—Maximo—to relevant financial data within Compass. The inability to reconcile the property subsystem with Compass could compromise the effectiveness and reliability of financial reporting. The EPA could not reconcile Maximo and Compass because historical property data did not migrate properly from the Integrated Financial Management System to Compass. We recommended that the EPA develop procedures to reconcile capitalized property in the agency's system with Maximo. According to agency officials, they identified the need to develop additional procedures to reconcile capital property. The EPA is currently reviewing the policy and the target completion date is December 31, 2014.
• **EPA Should Improve Controls Over Expense Accrual Reversals** In fiscal 2012, the EPA did not reverse approximately $108 million of fiscal 2011 year-end expense accruals. The agency did not reverse the accrual transactions because the Compass posting configuration for the applicable fund category was inaccurate. By not reversing the accruals timely, the EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. EPA's Policy Announcement No. 95-11, *Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals*, require the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our final audit report issued November 16, 2012, we recommended that the agency update the EPA's Policy Announcement 95-11 to require reconciliations of accruals and accrual reversals. Agency officials concurred with our finding and recommendations and took corrective action by implementing an independent review of the fiscal 2012 accruals and reversals. The EPA also performed accrual reviews prior to the issuance of the fiscal 2013 quarterly financial statements. In the fiscal 2013 audit, the EPA extended the target due date to update Policy Announcement No. 95-11 until June 2014. However, during the fiscal 2014 audit, the EPA further extended the target due date to not update the policy until December 31, 2015, due to the additional workload and resource constraints.
• **Financial Management System User Account Management Needs Improvement** EPA had previously considered these recommendations closed; however, OCFO agreed in fiscal 2014 to develop alternative corrective action for Recommendation 27. OCFO is in the process of developing our proposal. Regarding Recommendation 32, OCFO has been receiving automated human resources data/reports and is working with OARM on the implementation of the Human Resources Line of Business which will further respond to this recommendation.

Source: OIG analysis.

Status of Current Recommendations and Potential Monetary Benefits

		RECOMMENDATIONS				POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	14	Require project officers to track and accumulate software costs by project from inception through date placed in service.	O	Assistant Administrator for Administration and Resources Management	3/31/15		
2	14	Require the Reporting and Analysis Staff to coordinate with Office of Administration and Resources Management project officers to receive software project cost support once placed into service.	O	Chief Financial Officer	10/31/18		
3	14	Document and support project costs for all software costs placed into service over the past 7 years.	O	Chief Financial Officer	10//31/18		
4	17	Capitalize and book the RTP lab renovation costs and calculate depreciation.	O	Chief Financial Officer	11/30/14		
5	17	Improve and maintain support for how EPA lab renovation projects are funded.	O	Chief Financial Officer	3/31/16		
6	17	Review funding sources of all current and future lab renovations to ensure correct funding is utilized.	O	Chief Financial Officer	3/31/16		
7	17	Develop policies and procedures for capital improvements/betterments to real property, specifically, to address EPA lab renovations which could include bulk purchases of equipment and funding from agency program appropriations other than the B&F appropriation.	O	Chief Financial Officer	3/31/16		
8	17	Request the Office of General Counsel to determine whether the legal opinion referenced herein represents a legally acceptable position regarding the definition of "construction," and provides adequate examples to guide determinations of when renovation work should be funded out of agency program appropriations (e.g., S&T) or B&F funds.	O	Chief Financial Officer	3/31/15		
9	19	Require the Director, Facilities Management and Services Division, to update inventory records according to EPA's Property Bulletin No. 14-004.	O	Assistant Administrator for Administration and Resources Management	12/1/14		
10	19	Require the Director, Facilities Management and Services Division, to identify the personal property records missing from the agency's property management system and record them in the system.	O	Assistant Administrator for Administration and Resources Management	12/1/14		

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
11	19	Require the Director, Facilities Management and Services Division, to conduct Board of Survey investigations more frequently to adequately address missing and uninventoried property. Document the results of Board of Survey investigations and update the property management records accordingly.	O	Assistant Administrator for Administration and Resources Management	12/1/14		
12	21	Research and resolve differences between Compass and the property management system timely.	O	Chief Financial Officer	9/30/15		
13	21	Require the Office of Administration, Facilities Management and Services Division, to verify the correctness and update all capitalized property records in the official property system as required.	O	Assistant Administrator for Administration and Resources Management	5/30/15		
14	23	Require project officers to approve federal disbursements timely.	O	Assistant Administrator for Administration and Resources Management	3/31/15		
15	23	Require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account.	O	Chief Financial Officer	3/31/15		
16	25	Reclassify the $11.3 million collection from the Environmental Services Special Fund to the fines and penalties fund using appropriate entries to ensure that current year general ledger accounts and financial statements are properly stated.	C	Chief Financial Officer	9/10/14		
17	27	Require enforcement officers to include CFC on the stipulated penalty letters mailing list.	O	Assistant Administrator for Enforcement and Compliance Assurance	5/31/15		
18	27	Remind personnel to timely forward legal documents or administrative settlement agreements to the finance center.	O	Assistant Administrator for Enforcement and Compliance Assurance	5/31/15		
19	27	Work with the DOJ to forward DOJ legal documents timely to CFC.	C	Assistant Administrator for Enforcement and Compliance Assurance	3/28/14		
20	27	Work with the Office of Enforcement and Compliance Assurance to update EPA Superfund guidance to require originating offices to timely forward the Superfund Accounts Receivable Control Forms to the finance center.	O	Chief Financial Officer	9/30/15		
21	28	Require the Office of Grants and Debarment to instruct personnel to forward source documents for grant disallowed costs timely to the finance center even if the bill is under dispute or in negotiation for a payment plan.	C	Assistant Administrator for Administration and Resources Management	11/16/12		
22	28	Require the Office of Grants and Debarment to follow up to ensure that the EPA forwards the documents timely.	O	Assistant Administrator for Administration and Resources Management	1/31/15		

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
23	31	Investigate variances between the general ledger control accounts and the accounts receivable subsidiary ledger bill detail and correct errors by recording entries to the control accounts and/or the accounts receivable bill detail, as needed.	O	Chief Financial Officer	12/31/14		
24	31	Reconcile federal and non-federal accounts receivable separately.	O	Chief Financial Officer	7/31/15		
25	31	Develop accurate reports for accounts receivable principal charges and non-principal charges.	C	Chief Financial Officer	7/30/14		
26	34	Require headquarters program offices and regional offices to deobligate unneeded funds identified during the annual unliquidated obligation reviews.	O	Chief Financial Officer	9/30/15	$4,364	$4,364
27	36	Require the Information Security Officer to conduct an access control review with all offices that warehouse IT assets. This would include ensuring: a. Appropriate approving officials approve access for all personnel entering the respective server rooms. b. The offices update access rosters and post them according to local procedures. c. The offices create plans of action and milestones within the EPA information security weakness tracking systems to track when the office would complete the access control review if the respective office is unable or lacks the capability to complete the review within the next 30 days.	U	Chief Financial Officer			
28	38	Require LVFC to implement a process to regularly test the card reader system within the finance center.	O	Chief Financial Officer	12/31/14		
29	38	Require the Information Security Officer to conduct an access control review with all offices that warehouse IT assets. This would include ensuring all offices: a. Lock all server racks to prevent unauthorized access. b. Create plans of action and milestones within the EPA information security weakness tracking systems to track the security of server racks if the respective office is unable to immediately or lacks the capability to lock the server racks within the next 30 days.	U	Chief Financial Officer			

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
		RECOMMENDATIONS				**POTENTIAL MONETARY BENEFITS (in $000s)**	
30	40	Require the Information Security Officer to coordinate with the responsible offices that warehouse or manage information technology assets for CFC to: a. Implement a process for monitoring humidity levels in the Norwood server room. b. Reposition the water sensors in the Norwood server room at the appropriate height to prevent water damage to servers.	C	Chief Financial Officer	10/31/14		
31	40	Require the Information Security Officer to coordinate with the responsible offices that warehouse or manage information technology assets for the LVFC, CFC and RTP Finance Center to: a. Establish and document threshold levels for temperature and humidity monitoring in the server rooms. b. Create plans of action and milestones within the EPA information security weakness tracking systems to track the remediation of the noted environmental control weaknesses if the respective office is unable to immediately correct, or lacks the capability to correct, the weakness within the next 30 days.	U	Chief Financial Officer			
32	40	Require the Information Security Officer to develop a process to monitor the completion of all plans of action and milestones that were entered into the EPA information security weakness tracking system.	U	Chief Financial Officer			

Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
33	42	Require the Information Security Officer to coordinate with the responsible offices within the Office of Administration and Resources Management to develop and implement a strategy to improve CCTV coverage for the OCFO's IT assets. The improved CCTV coverage and strategy should include: a. Improving camera-monitoring systems at the AWBERC server room to increase visibility of the server racks and within the telecomm room and to coordinate monitoring of the Norwood server room with automated lighting. b. Increasing CCTV monitoring storage time to meet EPA-approved storage requirements detailed in the EPA's Cincinnati Security Management Program Contract. c. Requiring offices to create plans of action and milestones within the EPA's information security weakness tracking system to track the completion of any CCTV improvement tasks that cannot be completed within the next 30 days. d. Developing a process to monitor the completion of all plans of action and milestones that were entered into the EPA information security weakness tracking system.	C	Chief Financial Officer	9/30/14		
34	43	Maintain written documentation that demonstrates management has approved changes to the Compass accounting posting module.	C	Chief Financial Officer	11/1/14		
35	47	Instruct CFC to perform an analysis of delinquent receivables to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards and EPA policy, and record any unrecorded interest.	C	Chief Financial Officer	11/1/14		
36	47	Instruct CFC to follow the terms in the legal source documents when recording interest receivables.	O	Chief Financial Officer	7/31/15		
37	47	Instruct LVFC to follow EPA policy and the terms of the legal source document and record the document effective date in Compass as the account receivable document date for grant receivables.	O	Chief Financial Officer	1/31/15		
38	47	Determine and correct the cause of Compass system problems related to Superfund and installment interest.	O	Chief Financial Officer	11/30/14		

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	**Page No.**	**Subject**	**Status[1]**	**Action Official**	**Planned Completion Date**	**Claimed Amount**	**Agreed To Amount**
39	49	Comply with the material weakness reporting requirements as prescribed by OMB Circular A-123, which are: a. Material weaknesses and a summary of corrective actions shall be reported to OMB and Congress through the Performance and Accountability Report. b. Progress against corrective action plans should be periodically assessed and reported to agency management.	O	Chief Financial Officer	3/31/15		

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

EPA's Fiscal 2014 and 2013 (Restated) Consolidated Financial Statements

EPA's Fiscal 2014 and 2013 (with Restatements) Consolidated Financial Statements

FINANCIAL SECTION

Principal Financial Statements

Financial Statements

1. Consolidated Balance Sheet
2. Consolidated Statement of Net Cost
3. Consolidated Statement of Net Cost by Goal
4. Consolidating Statement of Changes in Net Position
5. Combined Statement of Budgetary Resources
6. Statement of Custodial Activity

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies
Note 2. Fund Balance with Treasury (FBWT)
Note 3. Cash and Other Monetary Assets
Note 4. Investments
Note 5. Accounts Receivable, Net
Note 6. Other Assets
Note 7. Loans Receivable, Net
Note 8. Accounts Payable and Accrued Liabilities
Note 9. General Property, Plant and Equipment, Net
Note 10. Debt Due to Treasury
Note 11. Stewardship Land
Note 12. Custodial Liability
Note 13. Other Liabilities
Note 14. Leases
Note 15. FECA Actuarial Liabilities
Note 16. Cashout Advances, Superfund
Note 17. Unexpended Appropriations – Other Funds
Note 18. Commitments and Contingencies
Note 19. Funds from Dedicated Collections
Note 20. Intragovernmental Costs and Exchange Revenue
Note 21. Cost of Stewardship Land
Note 22 Environmental Cleanup Costs
Note 23. State Credits
Note 24. Preauthorized Mixed Funding Agreements
Note 25. Custodial Revenues and Accounts Receivable
Note 26. Reconciliation of President's Budget to Statement of Budgetary Resources
Note 27. Recoveries and Resources Not Available, Statement of Budgetary Resources
Note 28. Unobligated Balances Available
Note 29. Undelivered Orders at the End of the Period
Note 30. Offsetting Receipts

Environmental Protection Agency
Consolidated Balance Sheet
For the Periods Ending September 30, 2014 and 2013 (Restated)
(Dollars in Thousands)

	FY 2014	Restated FY 2013
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 9,370,002	$ 9,944,179
Investments (Note 4)	3,900,385	4,577,071
Accounts Receivable, Net (Note 5)	10,573	14,327
Other (Note 6)	229,018	243,654
Total Intragovernmental	$ 13,509,978	$ 14,779,231
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	526,859	849,173
Loans Receivable, Net - Non-Federal (Note 7)	398	57
Property, Plant & Equipment, Net (Notes 9 and 38)	1,185,888	1,152,950
Other (Note 6)	3,288	5,756
Total Assets (Note 38)	**$ 15,226,421**	**$ 16,787,177**
Stewardship PP&E (Note 11)		
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	$ 68,609	$ 55,961
Debt Due to Treasury (Note 10)	62	28
Custodial Liability (Note 12)	96,495	94,441
Other (Note 13)	92,435	102,693
Total Intragovernmental	$ 257,601	$ 253,123
Accounts Payable & Accrued Liabilities (Note 8)	$ 535,250	$ 619,734
Pensions & Other Actuarial Liabilities (Note 15)	49,060	51,818
Environmental Cleanup Costs (Note 22)	21,610	21,549
Cashout Advances, Superfund (Note 16)	971,666	1,011,585
Commitments & Contingencies (Note 18)	901	25,200
Payroll & Benefits Payable (Note 33)	198,265	267,955
Other (Note 13)	114,183	125,908
Total Liabilities	$ 2,148,536	$ 2,376,872
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 17)	(2,497)	-
Unexpended Appropriations - Other Funds (Note 17)	8,508,269	8,980,012
Cumulative Results of Operations - Funds from Dedicated Collections (Note 19)	3,642,573	4,576,942
Cumulative Results of Operations - Other Funds (Note 38)	929,540	853,351
Total Net Position (Note 38)	13,077,885	14,410,305
Total Liabilities and Net Position (Note 38)	**$ 15,226,421**	**$ 16,787,177**

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

Environmental Protection Agency
Consolidated Statement of Net Cost
For the Periods Ending September 30, 2014 and 2013 (Restated)
(Dollars in Thousands)

	FY 2014	Restated FY 2013
COSTS		
Gross Costs (Notes 20 and 38)	$ 9,054,107	$ 9,904,065
Less:		
Earned Revenue (Notes 20 and 38)	548,690	600,897
NET COST OF OPERATIONS (Notes 20 and 38)	**$ 8,505,417**	**$ 9,303,168**

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

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

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 162,818	$ 412,244	$ 338,293	$ 149,398	$ 248,160
With the Public	836,368	4,160,915	1,774,828	518,293	452,790
Total Costs	999,186	4,573,159	2,113,121	667,691	700,950
Less:					
Earned Revenue, Federal	16,972	5,570	41,185	12,361	5,701
Earned Revenue, non Federal	865	24,837	350,118	44,643	46,438
Total Earned Revenue (Note 20)	17,837	30,407	391,303	57,004	52,139
NET COST OF OPERATIONS	**$ 981,349**	**$ 4,542,752**	**$ 1,721,818**	**$ 610,687**	**$ 648,811**

	Consolidated Totals
Costs:	
Intragovernmental	**$ 1,310,913**
With the Public	**$ 7,743,194**
Total Costs	**9,054,107**
Less:	
Earned Revenue, Federal	**$ 81,789**
Earned Revenue, non Federal	**$ 466,901**
Total Earned Revenue (Note 20)	**548,690**
NET COST OF OPERATIONS	**$ 8,505,417**

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

Environmental Protection Agency
Statement of Net Cost by Goal
For the Period Ending September 30, 2013 (Restated)
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Restated Compliance & Environmental Stewardship
Costs:					
Intragovernmental (Note 38)	$ 166,921	$ 405,439	$ 341,138	$ 163,742	$ 72,243
With the Public	903,413	4,723,286	1,902,661	538,325	686,897
Total Costs (Notes 20 and 38)	1,070,334	5,128,725	2,243,799	702,067	759,140
Less:					
Earned Revenue, Federal	21,275	7,733	67,803	12,732	3,489
Earned Revenue, non Federal	1,444	29,976	237,781	31,837	186,827
Total Earned Revenue (Note 20)	22,719	37,709	305,584	44,569	190,316
NET COST OF OPERATIONS (Notes 20 and 38)	**$ 1,047,615**	**$ 5,091,016**	**$ 1,938,215**	**$ 657,498**	**$ 568,824**

	Consolidated Totals
Costs:	
Intragovernmental	**$ 1,149,483**
With the Public	**$ 8,754,582**
Total Costs (Notes 20 and 38)	**9,904,065**
Less:	
Earned Revenue, Federal	**$ 113,032**
Earned Revenue, non Federal	**$ 487,865**
Total Earned Revenue (Note 20)	**600,897**
NET COST OF OPERATIONS (Notes 20 and 38)	**$ 9,303,168**

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

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Period Ending September 30, 2014
(Dollars in Thousands)

		FY 2014 Funds from Dedicated Collections		FY 2014 All Other Funds		FY 2014 Consolidated Total
Cumulative Results of Operations:						
Net Position - Beginning of Period		4,576,942		731,208		5,308,150
Beginning Balances, as Adjusted	$	4,576,942	$	731,208	$	5,308,150
Budgetary Financing Sources:						
Other Adjustments		(2,122)		-		(2,122)
Appropriations Used		1,984		8,385,104		8,387,088
Nonexchange Revenue - Securities Investment (Note 35)		29,919		-		29,919
Nonexchange Revenue - Other (Note 35)		192,559		2		192,561
Transfers In/Out (Note 31)		(1,012,576)		28,825		(983,751)
Trust Fund Appropriations		940,508		(938,387)		2,121
Total Budgetary Financing Sources	$	150,272	$	7,475,544	$	7,625,816
Other Financing Sources (Non-Exchange)						
Transfers In/Out (Note 31)		(53)		(298)		(350)
Imputed Financing Sources (Note 32)		23,124		120,790		143,914
Total Other Financing Sources	$	23,071	$	120,492	$	143,564
Net Cost of Operations		(1,107,713)		(7,397,704)		(8,505,417)
Net Change		(934,370)		198,332		(736,037)
Cumulative Results of Operations (Note 38)	$	**3,642,573**	$	**929,540**	$	**4,572,113**

		FY 2014 Funds from Dedicated Collections		FY 2014 All Other Funds		FY 2014 Consolidated Total
Unexpended Appropriations:						
Net Position - Beginning of Period		-		8,980,012		8,980,012
Beginning Balances, as Adjusted		-		8,980,012		8,980,012
Budgetary Financing Sources:						
Appropriations Received		3,674		7,933,169		7,936,843
Other Adjustments (Note 34)		(4,187)		(19,808)		(23,995)
Appropriations Used		(1,984)		(8,385,104)		(8,387,088)
Total Budgetary Financing Sources		(2,497)		(471,743)		(474,240)
Total Unexpended Appropriations		(2,497)		8,508,269		8,505,772
TOTAL NET POSITION (Note 38)	**$**	**3,640,076**	**$**	**9,437,809**	**$**	**13,077,885**

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

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Period Ending September 30, 2013 (Restated)
(Dollars in Thousands)

	FY 2013 Funds from Dedicated Collections	(Restated) FY 2013 All Other Funds	(Restated) FY 2013 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	4,504,199	677,051	5,181,250
Adjustment:			-
(a) Changes in Accounting Principles	-	-	-
(b) Correction of Errors (Note 38)	-	100,530	100,530
Beginning Balances, as Adjusted	$ 4,504,199	$ 777,581	$ 5,281,780
Budgetary Financing Sources:			
Appropriations Used	-	9,160,169	9,160,169
Nonexchange Revenue - Securities Investment (Note 35)	28,717	-	28,717
Nonexchange Revenue - Other (Note 35)	195,107	-	195,107
Transfers In/Out (Note 31)	(12,594)	29,885	17,291
Trust Fund Appropriations	1,087,088	(1,087,088)	-
Total Budgetary Financing Sources	1,298,318	8,102,966	9,401,284
Other Financing Sources (Non-Exchange)			
Transfers In/Out (Note 31)	-	-	-
Imputed Financing Sources (Note 32)	25,151	125,776	150,927
Total Other Financing Sources	$ 25,151	$ 125,776	$ 150,927
Net Cost of Operations (Note 38)	(1,250,726)	(8,052,442)	(9,303,168)
Net Change (Note 38)	72,743	176,300	249,043
Cumulative Results of Operations (Note 38)	$ **4,576,942**	$ **953,881**	$ **5,530,823**

	FY 2013 Funds from Dedicated Collections	(Restated) FY 2013 All Other Funds	(Restated) FY 2013 Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	-	9,811,870	9,811,870
Beginning Balances, as Adjusted		9,811,870	9,811,870
Budgetary Financing Sources:			
Appropriations Received	-	8,782,272	8,782,272
Appropriations Transferred In/Out (Note 31)	-	-	-
Other Adjustments (Note 34)	-	(453,961)	(453,961)
Appropriations Used	-	(9,160,169)	(9,160,169)
Total Budgetary Financing Sources	-	(831,858)	(831,858)
Total Unexpended Appropriations	-	8,980,012	8,980,012
TOTAL NET POSITION (Note 38)	**$ 4,576,942**	**$ 9,933,893**	**$ 14,510,835**

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

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Periods Ending September 30, 2014 and 2013
(Dollars in Thousands)

	FY 2014	FY 2013
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1:	$ 3,242,602	$ 2,786,404
Unobligated Balance Brought Forward, October 1, as adjusted	3,242,602	2,786,404
Recoveries of prior year unpaid obligations (Note 27)	397,697	286,170
Other changes in unobligated balance	(62,229)	(25,506)
Unobligated balance from prior year budget authority, net	3,578,070	3,047,068
Appropriations (discretionary and mandatory)	10,172,972	9,585,239
Spending Authority from offsetting collection (discretionary and mandatory)	887,854	664,260
Total Budgetary Resources	$ 14,638,896	$ 13,296,567
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	$ 11,676,560	$ 10,090,120
Unobligated Balance, end of year:		
Apportioned	894,141	3,008,632
Unapportioned	2,068,195	197,815
Total Unobligated balance, end of period (Note 28)	2,962,336	3,206,447
Total Status of Budgetary Resources	$ 14,638,896	$ 13,296,567
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	$ 9,784,031	$ 11,311,842
Obligations incurred, net	11,676,560	10,090,120
Outlays (gross)	(11,370,070)	(11,331,761)
Recoveries of prior year unpaid obligations	(397,697)	(286,170)
Unpaid obligations, end of year (gross)	$ 9,692,826	$ 9,784,031
Uncollected Payments		
Uncollected customer payments from Federal Sources, brought forward, October 1)	$ (296,176)	$ (305,514)
Change in uncollected customer payments from federal sources	36,534	9,338
Uncollected customer payments from Federal Sources, end of year	$ (259,642)	$ (296,176)
Memorandum entries:		
Obligated balance, start of year	9,487,855	11,006,328
Obligated balance, end of year (net)	9,433,183	9,487,856
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	$ 11,060,827	$ 10,249,499
Actual offsetting collections (discretionary and mandatory)	(924,388)	(673,598)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	$ 36,534	$ 9,338
Budget Authority, net (discretionary and mandatory)	10,172,973	9,585,239
Outlays, gross (discretionary and mandatory)	11,370,070	11,331,761
Actual offsetting collections (discretionary and mandatory)	(924,388)	(673,598)
Outlays, net (discretionary and mandatory)	10,445,682	10,658,163
Distributed offsetting receipts (Note 30)	(1,045,029)	(1,173,784)
Agency outlays, net (discretionary and mandatory	$ 9,400,653	$ 9,484,379

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

Environmental Protection Agency
Statement of Custodial Activity
For the Periods Ending September 30, 2014 and 2013
(Dollars in Thousands)

		FY 2014		FY 2013
Revenue Activity:				
Sources of Cash Collections:				
Fines and Penalties	$	119,295	$	150,444
Other		(2,040)		17,346
Total Cash Collections	$	117,255	$	167,790
Accrual Adjustment		2,218		(20,167)
Total Custodial Revenue (Note 25)	$	119,473	$	147,623
Disposition of Collections:				
Transferred to Others (General Fund)	$	117,255	$	167,790
Increases/Decreases in Amounts to be Transferred		2,218		(20,167)
Total Disposition of Collections	$	119,473	$	147,623
Net Custodial Revenue Activity	**$**	**-**	**$**	**-**

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

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2014 and September 30, 2013
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

The FY 2014 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (EPA or agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and the EPA accounting policies, which are summarized in this note. The Statement of Net Cost has been prepared with cost segregated by the agency's strategic goals.

C. Budgets and Budgetary Accounting

General Funds

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

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

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

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

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

1. Revolving Funds

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

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

2. Special Funds

The Environmental Services Receipt Account obtains fees associated with environmental programs.

Exxon Valdez uses funding collected from reimbursement from the Exxon Valdez settlement.

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

3. Deposit Funds

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

5. Trust Funds

Congress adopts an annual appropriation amount for the Superfund, Leaking Underground Storage Tank (LUST) and the Oil Spill Response Accounts to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the agency disburses obligated amounts from the transfer account, the agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the Inland Oil Spill Programs appropriation amount to the EPA's Oil Spill Response Account.

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government and the American Institute of Certified Public Accountants (AICPA). The financial statements are prepared in accordance with GAAP for Federal entities.

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

EPA uses a modified matching principle since Federal entities recognize unfunded (without budgetary resources) liabilities in accordance with FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 5 “Accounting for Liabilities of the Federal Government.”

E. Revenues and Other Financing Sources

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with SFFAS No. 7, “Accounting for Revenues and Other Financing Sources.”

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

Most of the other funds, including those under the Credit Reform Act of 1990, receive program guidance and funding needed to support loan programs through appropriations which may be used within statutory limits for operating and capital expenditures. The Asbestos Direct Loan Financing fund 4322 receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

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

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

F. Funds with the Treasury

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

G. Investments in US Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

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

J. Accounts Receivable and Interest Receivable

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

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by Superfund Amendments and Reauthorization Act of 1986 (SARA) . Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5).

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

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

K. Advances and Prepayments

Advances and prepayments represent funds paid to other entities both internal and external to the agency for which a budgetary expenditure has not yet occurred.

L. Loans Receivable

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

M. Appropriated Amounts Held by Treasury

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

N. Property, Plant, and Equipment

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

A purchase of EPA-held or contract personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least two years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years two through five. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the projected minimum lease payments must be $75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an $85 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cashflows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value.

Superfund contract property used as part of the remedy for site-specific response actions is capitalized in accordance with the agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, the EPA retains control of the property (i.e., pump and treat facility) for 10 years or less, and transfers its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with the EPA's 10 year retention period, depreciation for this property is based on a 10 year life. However, if any property is transferred to a state in a year or less, this property is charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

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

Real property consists of land, buildings, capital and leasehold improvements and capital leases. Real property, other than land, is capitalized when the value is $85 thousand or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

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

O. Liabilities

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

P. Borrowing Payable to the Treasury

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

Q. Interest Payable to Treasury

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

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 33 as a component of "Payroll and Benefits Payable."

S. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

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

T. Prior Period Adjustments and Restatements

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

For detailed information on the restatements made to the FY 2013 Consolidated Financial Statements, refer to Footnote 38, Restatements.

U. Recovery Act Funds

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

The EPA manages almost $7.22 billion in Recovery Act funded projects and programs that will help achieve these goals, offer resources to help other "green" agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2014, EPA has paid out $7.1 billion.

The EPA, in collaboration with states, tribes, local governments, territories and other partners, is administering the funds it received under the Recovery Act through four appropriations. The funds include:

- State and Tribal Assistance Grants (STAG) that in turn include:
    - $4 billion for assistance to help communities with water quality and wastewater infrastructure needs and $2 billion for drinking water infrastructure needs (Clean Water and Drinking Water State Revolving Fund programs and Water Quality Planning program);
    - $100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program);
    - $300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs);
- $600 million for the cleanup of hazardous sites (Superfund program);
- $200 million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank program); and
- $20 million for audits and investigations conducted by the Inspector General (IG).

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

EPA set up a Stimulus Steering Committee that meets to review and report on the status of the distribution of the Recovery Act Funds to ensure transparency and accuracy. EPA also developed a Stewardship Plan which is an Agency-level risk mitigation plan that sets out the Agency's Recovery Act risk assessment, internal controls and monitoring activities. The Stewardship Plan is divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Stewardship Plan was developed around Government Accountability Office (GAO) standards for internal control. Under each functional area, risks are assessed and related control, communication and monitoring activities are identified for each impacted program. The Plan is a dynamic document and will be updated as revised OMB guidance is issued or additional risks are uncovered.

EPA has the three-year EPM treasury account symbol 6809/110108 that was established to track the appropriate operation and maintenance of the funds. EPA's other Recovery Act programs are the following: Office of Inspector General (IG), treasury symbol 6809/120113; State and Tribal Assistance Grants, treasury symbol 6809/100102; Payment to the Superfund, treasury symbol 6809/100249; Superfund, treasury account symbol 6809/108195; and Leaking Underground Storage Tank, treasury account symbol 6809/108196.

V. Deepwater Horizon Oil Spill

On April 20, 2010, the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. In FY 2011, the EPA worked on the cleanup effort in conjunction with the US Coast Guard who was named the lead Federal On-Scene Coordinator and continues to assist the Department of Justice on the pending civil litigation.

On September 10, 2012, the President designated EPA and USDA as additional trustees for the National Resource Damage and Assessment Council for restoration solely in 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 2013, EPA received an advance of $1.053 million from BP, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

W. Hurricane Sandy

On January 29, 2013, President Obama signed into law the Disaster Relief Appropriations Act (Disaster Relief Act) which provides aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, agencies must ensure that the funds appropriated under the Act are used for their intended purposes. The Disaster Relief Act required Federal agencies supporting Sandy recovery and other disaster-related activities to implement internal controls to prevent waste, fraud and abuse of these funds. EPA implemented an internal control plan. The EPA Hurricane Sandy Internal Control Plan was submitted to OMB, GAO and the IG during March 2013.

EPA received a post sequestration appropriation of $577 million in Hurricane Sandy funds. As of the end of FY 2014, $433,005 in Hurricane Sandy funds have been expended. These funds are for the following programs (all amounts are post sequestration):

- The Clean Water State Revolving Fund received $475 million for work on clean water infrastructure projects in New York and New Jersey.
- The Drinking Water State Revolving Fund received $95 million for work on drinking water infrastructure projects in New York and New Jersey.
- The Leaking Underground Storage Tanks program received $4.75 million for work on projects impacted by Hurricane Sandy.
- The Superfund program received $1.9 million for work on Superfund sites impacted by Hurricane Sandy.
- EPA also received $689,000 to make repairs to EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

X. Use of Estimates

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

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2014 and September 30, 2013, consists of the following:

	FY 2014 Entity Assets	FY 2014 Non-Entity Assets	FY 2014 Total	FY 2013 Entity Assets	FY 2013 Non-Entity Assets	FY 2013 Total
Trust Funds:						
Superfund	$ 18,817	$ -	$ 18,817	$ 40,254	$ -	$ 40,254
LUST	32,390	-	32,390	38,368	-	38,368
Oil Spill	4,020	-	4,020	5,082	-	5,082
Revolving Funds:						
FIFRA/Tolerance	16,480	-	16,480	11,820	-	11,820
Working Capital	83,214	-	83,214	66,663	-	66,663
Cr. Reform Finan.	398	-	398	370	-	370
NRDA	549	-	549	1,037	-	1,037
Appropriated	8,821,029	-	8,821,029	9,402,247	-	9,402,247
Other Fund Types	389,306	3,799	393,105	377,460	878	378,338
Total	$ **9,366,203**	$ **3,799**	$ **9,370,002**	$ **9,943,301**	$ **878**	$ **9,944,179**

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

Status of Fund Balances:	FY 2014	FY 2013
Unobligated Amounts in Fund Balance:		
Available for Obligation	$ 894,141	$ 3,008,631
Unavailable for Obligation	2,068,195	199,569
Net Receivables from Invested Balances	(3,416,491)	(3,114,699)
Balances in Treasury Trust Fund (Note 37)	12,140	2,492
Obligated Balance not yet Disbursed	9,433,183	9,487,855
Non-Budgetary FBWT	378,834	360,331
Anticipated Resources	-	-
Sequestration	-	-
Totals	$ **9,370,002**	$ **9,944,179**

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 2014 and FY 2013 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2014 and September 30, 2013, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2014 and September 30, 2013 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 2014	$	3,886,652	$	(8,836)	$	4,897	$	3,900,385	$	3,900,385
Non-Marketable	FY 2013	$	4,510,044	$	(60,737)	$	6,290	$	4,577,071	$	4,577,071

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable. All investments in Treasury securities are funds from dedicated collections (see Note 19).

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

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

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2014 and September 30, 2013 consist of the following:

		FY 2014		FY 2013
Intragovernmental:				
Accounts & Interest Receivable	$	11,266	$	15,163
Less: Allowance for Uncollectibles		(693)		(836)
Total	$	**10,573**	$	**14,327**
Non-Federal:				
Unbilled Accounts Receivable	$	126,170	$	142,251
Accounts & Interest Receivable		2,303,339		2,484,674
Less: Allowance for Uncollectibles		(1,902,650)		(1,777,752)
Total	**$**	**526,859**	**$**	**849,173**

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, 2014 and September 30, 2013 consist of the following:

Intragovernmental:		FY 2014		FY 2013
Advances to Federal Agencies	$	228,982	$	243,586
Advances for Postage		36		68
Total	**$**	**229,018**	**$**	**243,654**
Non-Federal:				
Travel Advances	$	4	$	318
Other Advances		2,914		5,052
Operating Materials and Supplies		-		85
Inventory for Sale		370		301
Total	**$**	**3,288**	**$**	**5,756**

Note 7. Loans Receivable, Net

Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2014 and September 30, 2013 are as follows:

	FY 2014			FY 2013		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated After FY 1991	32	366	398	30	27	57
Total	**$ 32**	**$ 366**	**$ 398**	**$ 30**	**$ 27**	**$ 57**

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

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

	Interest Rate Re-estimate	Technical Re-estimate	Total
Upward Subsidy Reestimate – FY 2014	$ 302	$ 96	$ 398
Downward Subsidy Reestimate - FY 2014			-
FY 2014 Totals	**$ 302**	**$ 96**	**$ 398**
Upward Subsidy Reestimate – FY 2013	$	$	$ -
Downward Subsidy Reestimate - FY 2013	247	85	332
FY 2013 Totals	**$ 247**	**$ 85**	**$ 332**

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

	FY 2014	FY 2013
Beginning balance of the subsidy cost allowance	$ 27	$ (360)
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs		
Default costs (net of recoveries)		
Fees and other collections		
Other subsidy costs	$ 96	
Total of the above subsidy expense components	$ 123	$ (360)
Adjustments:		
Loan Modification		
Fees received		
Foreclosed property acquired		
Loans written off		
Subsidy allowance amortization	$ 304	$ (11)
Other		
End balance of the subsidy cost allowance before reestimates	$ 304	$ (11)
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(47)	302
(b) Technical/default reestimate	(14)	96
Total of the above reestimate components	$ (61)	398
Ending Balance of the subsidy cost allowance	$ 366	$ 27

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, 2014 and September 30, 2013:

		FY 2014		FY 2013
Intragovernmental:				
Accounts Payable	$	533	$	642
Accrued Liabilities		68,076		55,319
Total	$	**68,609**	$	**55,961**

		FY 2014		FY 2013
Non-Federal:				
Accounts Payable	$	75,387	$	78,614
Advances Payable		11		3
Interest Payable		7		7
Grant Liabilities		308,521		378,230
Other Accrued Liabilities		151,324		162,880
Total	$	**535,250**	$	**619,734**

Other Accrued Liabilities primarily relate to contractor accruals.

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

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

As of September 30, 2014 and September 30, 2013 (restated), General PP&E consist of the following:

	FY 2014 Acquisition Value	FY 2014 Accumulated Depreciation	FY 2014 Net Book Value	Restated FY 2013 Acquisition Value	Restated FY 2013 Accumulated Depreciation	Restated FY 2013 Net Book Value
EPA-Held Equipment	$ 291,021	$ (182,473)	$ 108,548	$ 273,725	$ (169,592)	$ 104,133
Software In Production (Note 38)	639,600	(420,968)	218,632	597,594	(405,003)	192,591
Software In Development (Note 38)	353,693		353,693	347,732		347,732
Contractor Held Equip.	36,085	(18,345)	17,740	48,158	(18,631)	29,527
Land and Buildings	702,658	(223,647)	479,011	680,344	(210,467)	469,877
Capital Leases	35,285	(27,021)	8,264	35,440	(26,350)	9,090
Total	**$ 2,058,342**	**$ (872,454)**	**$ 1,185,888**	**$ 1,982,993**	**$ (830,043)**	**$ 1,152,950**

Note 10. Debt Due to Treasury

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2014 and September 30, 2013 is as follows:

All Other Funds		**FY 2014**			**FY 2013**	
	Beginning Balance	**Net Borrowing**	**Ending Balance**	**Beginning Balance**	**Net Borrowing**	**Ending Balance**
Intragovernmental:						
Debt to Treasury	$ 28	$ 34	$ 62	$ 1,063	$ (1,035)	$ 28

Note 11. Stewardship Land

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

As of September 30, 2014 and 2013, the Agency possesses the following land and land rights:

	FY 2014	**FY 2013**
Superfund Sites with Easements		
Beginning Balance	36	36
Additions	0	0
Withdrawals	1	0
Ending Balance	35	36
Superfund Sites with Land Acquired		
Beginning Balance	33	34
Additions	1	0
Withdrawals	0	1
Ending Balance	34	33

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, 2014 and September 30, 2013, custodial liability is approximately $96 million and $94 million, respectively.

Note 13. Other Liabilities

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

Other Liabilities – Intragovernmental	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Current			
Employer Contributions & Payroll Taxes	$ 11,200	$ -	$ 11,200
WCF Advances	1,208	-	1,208
Other Advances	6,568	-	6,568
Advances, HRSTF Cashout	30,693	-	30,693
Deferred HRSTF Cashout	-	-	-
Liability for Deposit Funds	-	-	-
Non-Current			
Unfunded FECA Liability	-	20,566	20,566
Unfunded Unemployment Liability		200	200
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	**$ 49,669**	**$ 42,766**	**$ 92,435**
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 89,682	$ -	$ 89,682
Liability for Deposit Funds, Non-Federal	4,123	-	4,123
Non-Current			
Capital Lease Liability	-	20,378	20,378
Total Non-Federal	**$ 93,805**	**$ 20,378**	**$ 114,183**

Other Liabilities consist of the following as of September 30, 2013:

Other Liabilities – Intragovernmental		Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
Current						
Employer Contributions & Payroll Taxes	$	26,599	$	-	$	26,599
WCF Advances		1,526		-		1,526
Other Advances		8,814		-		8,814
Advances, HRSTF Cashout		32,736		-		32,736
Deferred HRSTF Cashout		274		-		274
Liability for Deposit Funds		5		-		5
Resources Payable to Treasury				-		-
Non-Current						
Unfunded FECA Liability		-		10,581		10,581
Unfunded Unemployment Liability				158		158
Payable to Treasury Judgment Fund				22,000		22,000
Total Intragovernmental	$	**69,954**	**$**	**32,739**	**$**	**102,693**
Other Liabilities - Non-Federal						
Current						
Unearned Advances	$	103,813	$	-	$	103,813
Liability for Deposit Funds		1,052		-		1,052
Non-Current						
Capital Lease Liability		-		21,043		21,043
Total Non-Federal	$	**104,865**	**$**	**21,043**	**$**	**125,908**

Note 14. Leases

Capital Leases:

The value of assets held under Capital Leases as of September 30, 2014 and 2013 are as follows:

Summary of Assets Under Capital Lease:		FY 2014		FY 2013
Real Property	$	35,285	$	35,440
Personal Property		-		-
Total	**$**	**35,285**	**$**	**35,440**
Accumulated Amortization	$	27,021	$	26,350

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

The total future minimum capital lease payments are listed below.

Future Payments Due:		
Fiscal Year		**Capital Leases**
2015		4,215
2016		4,215
2017		4,215
2018		4,215
After 5 years		26,695
Total Future Minimum Lease Payments		43,555
Less: Imputed Interest	$	(23,177)
Net Capital Lease Liability		20,378
Liabilities not Covered by Budgetary Resources	**$**	**20,378**

Operating Leases:

The GSA provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

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

The total minimum future operating lease costs are listed below:

Fiscal Year		**Operating Leases, Land and Buildings**
2015	$	89
2016		89
2017		89
2018		83
Beyond 2018		114
Total Future Minimum Lease Payments	**$**	**464**

Note 15. FECA Actuarial Liabilities

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

The FECA Actuarial Liability as of September 30, 2014 and 2013 was $49.06 million and $51.81 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2014 present value of these estimated outflows is calculated using a discount rate of 3.455 percent in the first year, and 3.455 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2014 and September 30, 2013, cashouts are approximately $972 million and $1.012 billion respectively.

Note 17. Unexpended Appropriations – Other Funds

As of September 30, 2014 and 2013, the Unexpended Appropriations consist of the following:

Unexpended Appropriations:	**FY 2014**	**FY 2013**
Unobligated		
Available	$ 527,068	$ 1,061,402
Unavailable	88,317	95,043
Undelivered Orders	7,890,387	7,823,567
Total	**$ 8,505,772**	**$ 8,980,012**

Note 18. Commitments and Contingencies

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

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2014 and 2013 total accrued liabilities for commitments and potential loss contingencies is $901 thousand and $25.2 million, respectively. The largest portion of last year's value was settled. The recorded amount is comprised of two cases and discussed below.

Superfund

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

As of September 30, 2014, there are two cases pending against EPA that are reported under Environmental Liabilities below: Bob's Home Service Landfill ($900 thousand) and the Seaboard Chemical/Riverdale Landfill Site matter ($1 thousand) are reported as a probable liability. The $901 thousand will be recorded as an accrual.

There is also one new matter concerning section 107 of CERCLA involving the Appvion Lower Fox River and Green Bay Site. The amount is estimated at $174 million but is only possible and the final outcome is not probable

Judgment Fund

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

As of September 30, 2014, there was one case pending Trinity Marine Products, Inc. v. United States, The case has been denied twice, but Trinity appealed to US Court of Appeals for the Fifth Circuit. The possibility of loss is only reasonably possible so no liability has been accrued. An estimate of possible damages is $1 million to $4.4 million.

Other Commitments

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

Note 19. Funds from Dedicated Collections (*Unaudited*)

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

Balance sheet as of September 30, 2013	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
Assets					
Fund Balance with Treasury	$ 358,632	$ 38,368	$ 40,254	$ 36,767	$ 474,021
Investments	-	1,360,530	3,216,541	-	4,577,071
Accounts Receivable, Net	-	-	739,813	3,193	743,006
Other Assets	-	361	108,930	3,086	112,377
Total Assets	358,632	1,399,259	4,105,538	43,046	5,906,475
Other Liabilities	$ -	$ 8,973	$ 1,277,641	$ 42,919	$ 1,329,533
Total Liabilities	$ -	$ 8,973	$ 1,277,641	$ 42,919	$ 1,329,533
Cumulative Results of Operations	$ 358,632	$ 1,390,286	$ 2,827,897	$ 127	$ 4,576,942
Total Liabilities and Net Position	$ 358,632	$ 1,399,259	$ 4,105,538	$ 43,046	$ 5,906,475
Statement of Changes in Net Cost for the Period Ended September 30, 2013					
Gross Program Costs	$ -	$ 114,051	$ 1,558,007	$ 74,237	$ 1,746,295
Less: Earned Revenues	(470)	-	441,908	54,131	495,569
Net Cost of Operations	$ 470	$ 114,051	$ 1,116,099	$ 20,106	$ 1,250,726
Statement of Changes in Net Position for the Period ended September 30, 2013					
Net Position, Beginning of Period	$ 325,719	$ 1,336,906	$ 2,834,688	$ 6,886	$ 4,504,199
Nonexchange Revenue- Securities Investments	-	4,904	23,810	3	28,717
Nonexchange Revenue	33,383	162,167	(430)	(12)	195,108
Other Budgetary Finance Sources	-	-	1,062,303	12,190	1,074,493
Other Financing Sources	-	360	23,625	1,166	25,151
Net Cost of Operations	(470)	(114,051)	(1,116,099)	(20,106)	(1,250,726)
Change in Net Position	$ 32,913	$ 53,380	$ (6,791)	$ (6,759)	$ 72,743
Net Position	$ 358,632	$ 1,390,286	$ 2,827,897	$ 127	$ 4,576,942

Funds from Dedicated Collections are as follows:

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

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

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

Other Funds from Dedicated Collections:

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

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

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

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

Exxon Valdez Settlement Fund: The Exxon Valdez Settlement Fund authorized by P.L. 102-389, "Making appropriations for the Department of Veterans Affairs and Housing and Urban

Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993," has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

Note 20. Intragovernmental Costs and Exchange Revenue (Restated)

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

	FY 2014			Restated FY 2013		
	Intragovernmental	**With the Public**	**Total**	**Intragovernmental**	**With the Public**	**Total**
Clean Air						
Program Costs	$ 162,818	$ 836,368	$ 999,186	$ 166,921	$ 903,413	$ 1,070,334
Earned Revenue	16,972	865	17,837	21,275	1,444	22,719
NET COST	$ 145,846	$ 835,503	$ 981,349	$ 145,646	$ 901,969	$ 1,047,615
Clean and Safe Water						
Program Costs	$ 412,244	$ 4,160,915	$ 4,573,159	$ 405,439	$ 4,723,286	$ 5,128,725
Earned Revenue	5,570	24,837	30,407	7,733	29,976	37,709
NET COSTS	$ 406,674	$ 4,136,078	$ 4,542,752	$ 397,706	$ 4,693,310	$ 5,091,016
Land Preservation & Restoration						
Program Costs	$ 338,293	$ 1,774,828	$ 2,113,121	$ 341,138	$ 1,902,661	$ 2,243,799
Earned Revenue	41,185	350,118	391,303	67,803	237,781	305,584
NET COSTS	$ 297,108	$ 1,424,710	$ 1,721,818	$ 273,335	$ 1,664,880	$ 1,938,215
Healthy Communities & Ecosystems						
Program Costs	$ 149,398	$ 518,293	$ 667,691	$ 163,742	$ 538,325	$ 702,067
Earned Revenue	12,361	44,643	57,004	12,732	31,837	44,569
NET COSTS	$ 137,037	$ 473,650	$ 610,687	$ 151,010	$ 506,488	$ 657,498
Compliance & Environmental Stewardship						
Program Costs (Note 38)	$ 248,160	$ 452,790	$ 700,950	$ 72,243	$ 686,897	$ 759,140
Earned Revenue	5,701	46,438	52,139	3,489	186,827	190,316
NET COSTS	$ 242,459	$ 406,352	$ 648,811	$ 68,754	$ 500,070	$ 568,824
Total						
Program Costs	$ 1,310,913	$ 7,743,194	$ 9,054,107	$ 1,149,483	$ 8,754,582	$ 9,904,065
Earned Revenue	81,789	466,901	548,690	113,032	487,865	600,897
NET COSTS	$ 1,229,124	$ 7,276,293	$ 8,505,417	$ 1,036,451	$ 8,266,717	$ 9,303,168

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

Note 21. Cost of Stewardship Land

EPA had one acquisition of stewardship land at a cost of $45,600 for the year ending September 30, 2014. There were no costs related to the acquisition of stewardship land for the year ending September 30, 2013. These costs are included in the Statement of Net Cost.

Note 22. Environmental Cleanup Costs

As of September 30, 2014, EPA has 2 sites that require clean up stemming from its activities. Two claimants' chances of success are characterized as probable with costs amounting to $180 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund cleanup work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2013 or in FY 2012.

Accrued Cleanup Cost:

EPA has 15 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2014 and 2013, the estimated costs for site cleanup were $21.6 million and $21.6 million, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

Note 23. State Credits

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2014 and September 30, 2013, the total remaining state credits have been estimated at $24.5 million and $25.1 million, respectively.

Note 24. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2014, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 million. As of September 30, 2013, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by EPA.

Note 25. Custodial Revenues and Accounts Receivable

	FY 2014	FY 2013
Fines, Penalties and Other Miscellaneous Receipts	**$ 119,474**	**$ 147,623**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	$ 229,581	$ 190,630
Less: Allowance for Uncollectible Accounts	(132,606)	(95,873)
Total	**$ 96,975**	**$ 94,757**

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

Note 26. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2014 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2015 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2014 has not yet been published. We expect it will be published by early 2015, and it will be available on the OMB website at http://www.whitehouse.gov/.

The actual amounts published for the year ended September 30, 2013 are listed immediately below:

FY 2013		Budgetary Resources		Obligations		Offsetting Receipts		Net Outlays
Statement of Budgetary Resources	$	13,296,567	$	10,090,120	$	1,173,784	$	9,484,379
Reported in Budget of the U. S. Government	$	13,296,567	$	10,090,120	$	1,173,784	$	9,484,379

Note 27. 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, 2014 and September 30, 2013:

		FY 2014		FY 2013
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$	397,697	$	286,170
Temporarily Not Available - Rescinded Authority		(2,002)		(84,183)
Permanently Not Available:				
Payments to Treasury		-		(1,035)
Rescinded authority		-		(437,313)
Canceled authority		(60,107)		(16,649)
Total Permanently Not Available	**$**	**(60,107)**	**$**	**(454,997)**

Note 28. 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, 2014 and September 30, 2013:

		FY 2014		FY 2013
Unexpired Unobligated Balance	$	2,852,876	$	3,022,122
Expired Unobligated Balance		109,460		184,325
Total	**$**	**2,962,336**	**$**	**3,206,447**

Note 29. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2014 and September 30, 2013 were $9.25 billion and $9.23 billion, respectively.

Note 30. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2014 and September 30, 2013, the following receipts were generated from these activities:

		FY 2014		FY 2013
Trust Fund Recoveries	$	79,755	$	34,987
Special Fund Environmental Service		11,421		32,917
Trust Fund Appropriation		938,387		1,087,088
Miscellaneous Receipt and Clearing Accounts		15,466		18,792
Total	**$**	**1,045,029**	**$**	**1,173,784**

Note 31. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For September 30, 2014 and September 30, 2013, 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, 2014 and September 30, 2013:

Fund/Type of Account		**FY 2014**		**FY 2013**
Army Corps of Engineers	$	-	$	-
Total Appropriation Transfers (Other Funds)	$	-	$	-
Net Transfers from Invested Funds	$	2,172,898	$	1,176,496
Transfers to Another Agency		-		(5,100)
Allocations Rescinded		-		81,518
Total of Net Transfers on Statement of Budgetary Resources	$	**2,172,898**	$	**1,252,914**

Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2014 and September 30, 2013, 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 nonexpenditure, follow for September 30, 2014 and September 30, 2013:

Type of Transfer/Funds	FY 2014		FY 2013	
	Fund from Dedicated Collections	Other Funds	Fund from Dedicated Collections	Other Funds
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	$ (28,987)	$ 28,987	$ (29,885)	$ 29,885
Capital Transfer Transfers-in nonexpenditure, Oil Spill	(18,209)		12,190	
Transfers-in (out) nonexpenditure, Superfund	30,947		5,100	
Transfer-out LUST	1,000,000			-
Total Transfer in (out) without Reimbursement, Budgetary	$ **983,751**	$ **28,987**	$ **(12,595)**	$ **29,885**

Note 32. 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 2014 were $143.9 million. For FY 2013, the estimates were $150.9 million.

SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" and SFFAS No. 30, "Inter-Entity Cost Implementation," requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other Federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2014 total imputed costs were $9.1 million.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2014 entries for Judgment Fund payments totaled $16.6 million. For FY 2013, entries for Judgment Fund payments totaled $1.4 million.

Note 33. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2014 and September 30, 2013 consist of the following:

FY 2014 Payroll & Benefits Payable	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accrued Funded Payroll & Benefits	$ 15,674	$ -	$ 15,674
Withholdings Payable	30,412	-	30,412
Employer Contributions Payable-TSP	1,403	-	1,403
Accrued Unfunded Annual Leave	-	150,776	150,776
Total - Current	$ **47,489**	$ **150,776**	$ **198,265**

FY 2013 Payroll & Benefits Payable			
Accrued Funded Payroll and Benefits	$ 71,807	$ -	$ 71,807
Withholdings Payable	31,475	-	31,475
Employer Contributions Payable-TSP	6,944	-	6,944
Accrued Unfunded Annual Leave	-	157,729	157,729
Total - Current	$ **110,226**	$ **157,729**	$ **267,955**

EPA experienced a large decrease in accrued payroll in FY 2014 due to a shortened accrual period and smaller agency payroll costs.

Note 34. 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 2014		Other Funds FY 2013
Rescissions to General Appropriations	$		$	437,280
Canceled General Authority		23,995		16,681
Total Other Adjustments	**$**	**23,995**	**$**	**453,961**

Note 35. 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, 2014 and September 30, 2013 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2014		Funds from Dedicated Collections FY 2013
Interest on Trust Fund	$	29,919	$	28,717
Tax Revenue, Net of Refunds		718		162,212
Fines and Penalties Revenue		182,355		(475)
Special Receipt Fund Revenue		9,488		33,371
Total Nonexchange Revenue	**$**	**222,480**	**$**	**223,825**

Note 36. Reconciliation of Net Cost of Operations to Budget (Restated)

		FY 2014		Restated FY 2013
RESOURCES USED TO FINANCE ACTIVITIES				
Budgetary Resources Obligated				
Obligations Incurred	$	11,676,561	$	10,090,120
Less: Spending Authority from Offsetting Collections and Recoveries		(1,285,551)		(950,430)
Obligations, Net of Offsetting Collections	$	10,391,010	$	9,139,690
Less: Offsetting Receipts		(2,029,100)		(1,155,006)
Net Obligations	$	8,361,910	$	7,984,684
Other Resources				
Donations of Property	$	-	$	-
Transfers In/Out without Reimbursement, Property		(351)		-
Imputed Financing Sources	$	143,914		150,927
Other Resources to Finance Activities				-
Net Other Resources Used to Finance Activities	$	143,563	$	150,927
Total Resources Used to Finance Activities	$	8,505,473	$	8,135,611
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated	$	185,191	$	1,276,867
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:		9		819
Offsetting Receipts Not Affecting Net Cost		90,713		67,917
Resources that Finance Asset Acquisition		(353,695)		(106,802)
Other Resources Not Affecting Net Cost				-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$	(77,782)	$	1,238,801
Total Resources Used to Finance the Net Cost of Operations	$	8,427,691	$	9,374,412

		FY 2014		Restated FY 2013
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	$	(7,048)	$	(525)
Increase in Environmental and Disposal Liability		60		(10)
Increase in Unfunded Contingencies		(24,299)		20
Upward/ Downward Reestimates of Credit Subsidy Expense		61		(730)
Increase in Public Exchange Revenue Receivables		(141,954)		(237,175)
Increase in Workers Compensation Costs		10,027		5,180
Other		(42,238)		(49)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	$	(205,391)	$	(233,289)
Components Not Requiring/ Generating Resources:				
Depreciation and Amortization	$	191,543	$	81,041
Expenses Not Requiring Budgetary Resources		91,574		105,622
Total Components of Net Cost that Will Not Require or Generate Resources	$	283,117	$	186,663
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	77,726	$	(46,626)
Net Cost of Operations	$	8,505,417	$	9,327,786

Note 37. Amounts Held by Treasury (Unaudited)

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

Superfund

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2014 and September 30, 2013. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

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

In FY 2014, the EPA received an appropriation of $940 million for Superfund. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD 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, 2014 and September 30, 2013, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of $3.41 billion and $3.01 billion, respectively.

SUPERFUND FY 2013		EPA		Treasury		Combined
Undistributed Balances						
Uninvested Fund Balance	$	-	$	(433)	$	(433)
Total Undisbursed Balance		-		(433)		(433)
Interest Receivable		-		3,851		3,851
Investments, Net		3,028,841		197,366		3,226,207
Total Assets	$	3,028,841	$	200,784	$	3,229,625
Liabilities & Equity						
Receipts and Outlays		-				-
Equity	$	3,028,841	$	200,784	$	3,229,625
Total Liabilities and Equity	$	3,028,841	$	200,784	$	3,229,625
Receipts						
Corporate Environmental		-		46		46
Cost Recoveries		-		34,986		34,986
Fines & Penalties		-		3,478		3,478
Total Revenue		-		38,510		38,510
Appropriations Received		-		1,087,088		1,087,088
Interest Income		-		23,810		23,810
Total Receipts	$	-	$	1,149,408	$	1,149,408
Outlays						
Transfers to/from EPA, Net	$	1,097,586	$	(1,097,586)	$	-
Total Outlays		1,097,586		(1,097,586)		-
Net Income	$	**1,097,586**	$	**51,822**	$	**1,149,408**

LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2014 and 2013, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

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

LUST FY 2013	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 2,925	$ 2,925
Total Undisbursed Balance	-	2,925	2,925
Interest Receivable	-	2,439	2,439
Investments, Net	85,858	1,272,232	1,358,090
Total Assets	$ 85,858	$ 1,277,596	$ 1,363,454
Liabilities & Equity			
Equity	$ 85,858	$ 1,277,596	$ 1,363,454
Receipts			
Highway TF Tax	$ -	$ 103,695	$ 103,695
Airport TF Tax	-	10,601	10,601
Inland TF Tax	-	62	62
Total Revenue	-	114,358	114,358
Interest Income	-	(4,904)	(4,904)
Total Receipts	$ -	$ 109,454	$ 109,454
Outlays			
Transfers to/from EPA, Net	$ 103,695	$ (103,695)	$ -
Total Outlays	103,695	(103,695)	-
Net Income	$ **103,695**	$ **5,759**	$ **109,454**

Note 38. Restatements

In accordance with OMB Circular A-123, the EPA performed a review of its capital software in FY 2014. The review identified the following issues:

1. Entries under $25,000 were not capitalized.
2. Some entries had incorrect accounting strings.
3. Credit/debit lines were combined to correct transaction amounts.

To address these findings, the EPA revised its capitalized software procedures, resulting in the agency correcting values and accounting for all software projects. The EPA performed corrections to fix the value of the software assets that were determined to be understated.

As a result of the agency corrections, the agency restated FY 2013 financial statements and are presented in the FY 2014 and FY 2013 comparative financial statements. The changes impacted the FY 2013 Balance Sheet, Statement of Net Cost and Statement of Changes to Net Position.

Restated Software Calculations

Software	FY 2013 Beginning Balance	FY 2013 Adjustment	Restated FY 2013 Beginning Balance	FY2013 Activity	Restated FY 2013 Ending Balance
In-Development	**235,168**	**102,247**	**337,415**	**10,317**	**347,732**
In-Production	379,921	165,802	545,723	51,871	597,594
Accumulated Depreciation	(231,598)	(132,831)	(364,429)	(40,574)	(405,003)
In-Production Net Book Value	**148,323**	**32,971**	**181,294**	**11,297**	**192,591**
Total:	**383,491**	**135,218**	**518,709**	**21,614**	**540,323**

	FY 2013, as Previously Reported	Adjustment	FY 2013, as Restated
Consolidated Balance Sheet			
Property, Plant & Equipment, Net (Note 38)	1,030,807	122,143	1,152,950
Total Assets	16,665,034	122,143	16,787,177
Cumulative Results of Operations - Other Funds (Note 38)	731,208	122,143	853,351
Total Net Position	14,288,162	122,143	14,410,305
Total Liabilities and Net Position	16,665,034	122,143	16,787,177
Consolidated Statement of Net Cost			
Gross Costs (Note 20)	10,026,208	(122,143)	9,904,065
Net Cost of Operations	9,425,311	(122,143)	9,303,168
Statement of Net Cost by Goal			
Compliance & Environmental Stewardship:			
Intragovernmental			
Costs	194,386	(122,143)	72,243
Total Costs	881,283	(122,143)	759,140
Net Cost of Operations	690,967	(122,143)	568,824
Consolidated Intragovernmental	1,271,626	(122,143)	1,149,483
Total Costs	10,026,208	(122,143)	9,904,065
Net Cost of Operations	9,425,311	(122,143)	9,303,168
Consolidating Statement of Changes in Net Position			
Net Position Beginning of Period	677,051	100,530	777,581
Net Cost of Operations - All Other Funds	(8,174,585)	122,143	(8,052,442)
Total - Net Cost of Operations	(9,425,311)	122,143	(9,303,168)
Net Change - All Other Funds	54,157	122,143	176,300
Net Change - Consolidated Total	126,900	122,143	249,043
Cumulative Results of Operations - All Other Funds	731,208	222,673	953,881
Total - Cumulative Results of Operations	5,308,150	222,673	5,530,823
Net Position - All Other Funds	9,711,220	222,673	9,933,893
Total Net Position	14,288,162	222,673	14,510,835

Environmental Protection Agency
As of September 30, 2014
(Dollars in Thousands)

1. Deferred Maintenance

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

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. The deferred maintenance as of September 2014 is:

		2014
Assets Category:		
Buildings	$	42,833
EPA Held Equipment		675
Total Defrerred Maintenance	$	43,508

2. 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.

Environmental Protection Agency
As of September 30, 2013
(Dollars in Thousands)

3. Supplemental Combined Statement of Budgetary Resources For the Period Ending September 30, 2013

	EPM	FIFRA	LUST	S&T	STAG	OTHER	TOTAL
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1:	$ 325,813	$ 13,280	$ 19,340	$ 164,222	$ 1,443,654	$ 2,488,300	$ 4,454,609
Unobligated balance brought forward, October 1, as adjusted	325,813	13,280	19,340	164,222	1,443,654	2,488,300	4,454,609
Recoveries of Prior Year Unpaid Obligations	48,784	-	2,380	16,312	151,490	178,730	397,696
Other changes in unobligated balance	(32,755)	-	(4,188)	(20,005)	-	(5,282)	(62,230)
Unobligated balance from prior year budget authority, net	341,842	13,280	17,532	160,529	1,595,144	2,661,748	4,790,075
Appropriations (discretionary and mandatory)	2,624,149	(2,001)	1,180,424	759,156	3,535,161	5,189,041	13,285,930
Spending authority from offsetting collections (discretionary and mandatory)	162,626	45,332	3	52,288	536	1,791,071	2,051,856
Total Budgetary Resources	$ 3,128,617	$ 56,611	$ 1,197,959	$ 971,973	$ 5,130,841	$ 9,641,860	$ 20,127,861
STATUS OF BUDGETARY RESOURCES							
Obligations incurred	$ 3,929,902	$ 26,881	$ 1,210,881	$ 1,178,210	$ 11,078,157	$ 4,311,488	$ 21,735,519
Unobligated balance, end of year:							
Apportioned	287,348	4,042	1,533	124,750	156,252	320,215	894,140
Unapportioned	53,439	7,496	1,271	22,305	60,377	1,922,738	2,067,626
Total unobligated balance, end of period	340,787	11,538	2,804	147,055	216,629	2,242,953	2,961,766
Total Status of Budgetary Resources	$ 4,270,689	$ 38,419	$ 1,213,685	$ 1,325,265	$ 11,294,786	$ 6,554,441	$ 24,697,285
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations							
Unpaid Obligations, Brought Forward, October 1 (gross)	$ 1,151,357	$ 2,940	$ 102,038	$ 366,469	$ 5,988,581	$ 1,478,928	$ 9,090,313
Obligations incurred	3,929,902	26,881	1,210,881	1,178,210	11,078,157	4,311,488	21,735,519
Outlays (gross)	(2,751,509)	(29,495)	(1,105,209)	(806,008)	(4,287,414)	(2,670,917)	(11,650,552)
Recoveries of prior year unpaid obligations	(48,784)	-	(2,380)	(16,312)	(151,490)	(178,730)	(397,696)
Unpaid obligations, end of year (gross)	$ 2,280,966	$ 326	$ 205,330	$ 722,359	$ 12,627,834	$ 2,940,769	$ 18,777,584
Uncollected Payments							
Uncollected customer payments from Federal Sources, brought forward, October 1	$ (61,884)	$ (2,940)	$ -	$ (19,911)	$ -	$ (177,847)	$ (262,582)
Change in uncollected customer payments from Federal sources	(61,884)	-	-	(19,911)	-	(177,847)	(259,642)
Uncollected customer payments from Federal sources, end of year	$ (123,768)	$ (2,940)	$ -	$ (39,822)	$ -	$ (355,694)	$ (522,224)
Memorandum Entries							
Obligated balance, start of year	$ 1,089,473	$ -	$ 102,038	$ 346,558	$ 5,988,581	$ 1,301,081	$ 8,827,731
Obligated balance, end of year (net)	$ 2,157,198	$ (2,614)	$ 205,330	$ 682,537	$ 12,627,834	$ 2,585,075	$ 18,255,360
BUDGET AUTHORITY AND OUTLAYS, NET:							
Budget authority, gross (discretionary and mandatory)	$ 2,786,775	$ 43,331	$ 1,180,427	$ 811,444	$ 3,535,697	$ 6,980,112	$ 15,337,786
Actual offsetting collections (discretionary and mandatory)	(100,743)	(41)	(3)	32,377	(536)	(1,613,223)	(1,682,169)
Change in uncollected customer payments from Federal sources	(61,884)	-	-	(19,911)	-	(177,847)	(259,642)
Budget authority, net (discretionary and mandatory)	$ 2,624,148	$ 43,290	$ 1,180,424	$ 823,910	$ 3,535,161	$ 5,189,042	$ 13,395,975
Outlays, gross (discretionary and mandatory)	$ 2,751,509	$ 29,495	$ 1,105,209	$ 806,008	$ 4,287,414	$ 2,670,917	$ 11,650,552
Actual offsetting collections (discretionary and mandatory)	(100,743)	(41)	(3)	32,377	(536)	(1,613,223)	(1,682,169)
Outlays, net (discretionary and mandatory)	2,650,766	29,454	1,105,206	838,385	4,286,878	1,057,694	9,968,383
Distributed offsetting receipts	-	-	-	-	-	(1,173,784)	(1,173,784)
Agency outlays, net (discretionary and mandatory)	$ 2,650,766	$ 29,454	$ 1,105,206	$ 838,385	$ 4,286,878	$ (116,090)	$ 8,794,599

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2014
(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

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

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

For FY 2014, the full cost of the Agency's Research and Development activities totaled over $584M. Below is a breakout of the expenses (dollars in thousands):

	FY2010	FY2011	FY2012	FY2013	FY2014
Programmatic Expenses	590,790	597,558	580,278	531,901	510,911
Allocated Expenses[1]	71,958	80,730	133,637	78,189	73,622

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

INVESTMENT IN THE NATION'S INFRASTRUCTURE:

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund (SRF) programs.

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

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

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

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

	FY2010	FY2011	FY2012	FY2013	FY2014
Construction Grants	18,186	35,339	14,306	6,944	1,447
Clean Water SRF	2,966,479	2,299,721	1,925,057	1,976,537	1,534,453
Drinking Water SRF	1,938,296	1,454,274	1,240,042	1,027,613	1,187,212
Other Infrastructure Grants	264,227	269,699	196,085	166,050	118,706
Allocated Expenses	631,799	548,375	777,375	524,326	516,102

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

HUMAN CAPITAL

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

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

	FY2010	FY2011	FY2012	FY2013	FY2014
Training and Awareness Grants	25,714	23,386	21,233	20,769	23,255
Fellowships	6,905	9,538	10,514	11,157	8,082
Allocated Expenses	3,973	4,448	7,311	4,118	4,226

Schedule of Spending (Unaudited)

The Schedule of Spending (SOS) presents an overview of how and where EPA is spending money. The SOS that follows reflects total budgetary resources available to the Agency, gross outlays, and fiscal year-to-date total obligations for the Agency.
What Money is Available to Spend represents the authority that EPA was given to spend by law and the status of that authority. In this section:

- Total Resources represents amounts approved for spending by law.
- Less Amount Not Agreed to be Spent represents amounts that EPA was allowed to spend but did not take actions to spend.
- Less Amount Not Available to be Spent represents the amount of total budgetary resources that were not approved for spending.
- Total Amounts Agreed to be Spent represents the amount of spending actions taken by EPA for the fiscal year. This represents contracts, orders and other legally binding obligations of the federal government to pay for goods and services when received.

How was the Money Spent identifies the major categories for which EPA made payments during the year. In this section:

- Total Spending represents the sum of all payments EPA made during each year against Amounts Agreed to be Spent. Balances include payments made to liquidate Amounts Agreed to be Spent originating in both the current as well as from prior fiscal years.
- Amounts Remaining to be Spent represents the difference between Total Spending versus Amounts Agreed to be Spent. Since payments can relate to spending activity initiated in the current and prior years, it is not unusual for total payments in a fiscal year to exceed the amount of the new spending actions originated that year, that are reported under Amounts Agreed to be Spent. When this condition occurs, negative amounts will be displayed as the balance of Amounts Remaining to be Spent.

Environmental Protection Agency
FY 2014 Schedule of Spending
For the Periods Ending September 30, 2014 and 2013 (Restated)
(Dollars in Thousands)

What Money is Available to Spend?	2014	2013
Total Resources	$ 14,638,896	$ 13,296,567
Less: Amount Not Agreed to be Spent	894,141	3,008,632
Less: Amount Not Available to be Spent	2,068,195	197,815
Total Amount Agreed to be Spent	$ 11,676,560	$ 10,090,120
How was the Money Spent?		
Clean Air		
Contracts	$ 197,993	$ 213,753
Grants	322,990	381,548
Payroll	448,930	491,748
Rent, Communications and Utilities	4,701	5,918
Structures and Equipment	13,002	12,674
Travel	1,476	3,902
	$ 989,092	$ 1,109,543
Clean & Safe Water		
Contracts	$ 354,021	$ 372,225
Grants	4,231,201	4,252,790
Payroll	523,143	544,225
Rent, Communications and Utilities	1,864	1,892
Structures and Equipment	3,412	4,192
Travel	3,987	5,035
Insurance	104	115
	$ 5,117,732	$ 5,180,474
Land Preservation & Restoration		
Contracts	$ 2,009,856	$ 2,142,423
Financial Transfers	1,000,000	-
Grants	546,321	582,121
Payroll	724,351	733,652
Rent, Communications and Utilities	2,657	2,767
Structures and Equipment	9,456	9,694
Travel	8,968	11,636
Insurance	12,341	15,611
	$ 4,313,950	$ 3,497,904
Healthy Communities & Ecosystems		
Contracts	$ 144,564	$ 149,325
Grants	60,255	65,882
Payroll	506,930	508,493
Rent, Communications and Utilities	1,786	1,900
Structures and Equipment	1,254	2,517
Travel	3,124	3,749
Insurance	20	28
	$ 717,933	$ 731,894
Compliance & Environmental Stewardship		
Contracts	$ 94,292	$ 100,268
Grants	30,499	32,356
Payroll	615,615	663,765
Rent, Communications and Utilities	1,789	1,898
Structures and Equipment	1,755	1,782
Travel	3,424	5,069
Insurance	677	800
	$ 748,051	$ 805,938
Total Spending	$ 11,886,758	$ 11,325,753
Amounts Remianing to be Spent	(210,198)	(1,235,633)
Total Amounts Agreed to be Spent	$ 11,676,560	$ 10,090,120

Appendix II

Agency Response to Draft Report

November 13, 2014

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY14-0281, "*Audit of EPA's Fiscal 2014 and 2013 (Restated) Consolidated Financial Statements,"* dated November 10, 2014

FROM: David A. Bloom
Acting Chief Financial Officer

TO: Paul C. Curtis, Director
Financial Statement Audits

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

AGENCY'S OVERALL POSITION

The agency concurs with all 39 recommendations. We have attached a technical comments document which explains the agency's position on several report findings.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1	Require project officers to track and accumulate software costs by project from inception through date placed in service.	Concur. OCFO will share a corrective action plan for personal property and software with the OIG in 2nd quarter FY 2015.	March 31, 2015.
2	Require the Reporting and Analysis Staff to coordinate with Office of Administration and Resources Management project officers to receive	Concur. OCFO will share a corrective action plan for personal property and software with the OIG in 2nd quarter FY 2015.	October 31, 2018.

	software project cost support once placed into service.		
3	Document and support project costs for all software costs placed into service over the past 7 years.	Concur. OCFO will share a corrective action plan for personal property and software with the OIG in 2nd quarter FY 2015.	October 31, 2018.
4	Capitalize and book the RTP lab renovation costs and calculate depreciation.	Concur. OCFO has booked the lab renovation costs and calculated the requisite depreciation.	Completed November 2014.
5	Improve and maintain support for how EPA lab renovation projects are funded.	Concur. OCFO will review and revise policies and procedures to clarify how EPA lab renovation projects are funded.	March 31, 2016.
6	Review funding sources of all current and future lab renovations to ensure correct funding is utilized.	Concur. OCFO will review and revise policies and procedures to clarify how reviews of funding sources shall be conducted for future lab renovations to ensure correct funding is utilized.	March 31, 2016.
7	Develop policies and procedures for capital improvements/betterments to real property, specifically, to address EPA lab renovations which could include bulk purchases of equipment and funding from agency program appropriations other than the B&F appropriation.	Concur. OCFO will review and revise policies and procedures to clarify for capital improvements/ betterments to real property, specifically, EPA lab renovations which could include bulk purchases of equipment and funding from Agency program appropriations other than the B&F appropriation.	March 31, 2016.
8	Request the Office of General Counsel determine whether the legal opinion referenced herein represents a legally acceptable position regarding the definition of "construction," and provides adequate examples to guide determinations of when renovation work should be funded out of agency	Concur. OCFO will request an updated legal opinion more specific to EPA lab renovation projects, which include equipment costs and funding sources other than B&F as part of the process to revise and clarify policies and procedures on lab renovations.	March 31, 2015.

	program appropriations (e.g. S&T) or B&F funds.		
9	Update inventory records according to EPA's Property Bulletin No. 14-004.	Concur. FMSD currently communicates with the agency's property managers, monthly, to discuss operational requirements and business processes. All assets identified and acknowledged as unaccounted for after the close of FY14 will be entered into the system and verified electronically by close of business on December 1, 2014. In addition, OARM will require all agency Senior Resource Officials (SRO) to certify semi-annually that assets are updated in accordance with EPA's Property Bulletin No. 14-004, and reassess certification frequency in one year.	December 1, 2014.
10	Identify the personal property records missing from the agency's property management system and record them in the system.	Concur. OARM has made contact with the Programs and Regions to identify missing assets. Assets will be entered into Maximo and verified through Compass.	December 1, 2014.
11	Conduct Board of Survey investigations more frequently to adequately address missing and uninventoried property. Document the results of Board of Surveys and update the property management records accordingly.	Concur. OARM will notify the agency's property managers to perform and review investigations during the annual inventory and as soon as assets are noted as unaccounted.	December 1, 2014.
12	Research and resolve differences between Compass and the property management system timely.	Concur. OCFO has begun to resolve the differences between Compass and Maximo as required by the Resource Management Directive System on property.	September 30, 2015.

13	Require the Office of Administration, Facilities Management and Service Division, to verify the correctness and update all capitalized property records in the official property system as required.	Concur. OARM will work with the Office of the Chief Financial Officer to develop recommendations and an implementation plan for an improved business process to verify that capital assets are updated in the agency's property management system.	May 30, 2015.
14	Require project officers to approve federal disbursements timely.	Concur. OCFO and OARM will work together with agency project officers to approve federal disbursement timely. OCFO's new Interagency Agreement Policy will require POs to review and approve disbursements timely.	March 31, 2015.
15	Require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account.	Concur. OCFO will follow up with project officers and regions to obtain disbursement approvals and information to clear suspense transactions.	March 31, 2015.
16	Reclassify the $11.3 million collection from the Environmental Services Special Fund to the fines and penalties fund using appropriate entries to ensure that current year general ledger accounts and financial statements are properly stated.	Concur. OCFO completed on September 10, 2014. The collection has been reclassified from the Environmental Services Special Fund to the Fines and Penalties fund using appropriate entries to ensure that current year general ledger accounts and financial statements are properly stated. Steps have been taken to follow agency guidance which directs servicing finance offices to analyze each collection to determine the reason for the remittance and collection type.	Completed September 10, 2014.
17	Require enforcement officers to include CFC on stipulated penalty letters mailing list.	Concur. OECA will issue a memorandum to senior enforcement managers in the Regions and Headquarters	May 31, 2015. *See* attached technical document comments.

		reminding enforcement personnel of the importance of providing timely documentation to the Cincinnati Finance Center of all EPA-issued stipulated penalty demands. This memorandum will further request all enforcement personnel to copy the CFC on any penalty demand issued by a Region or Headquarters, regardless of whether the stipulated penalty arose from violations of a civil judicial consent decree or judgment or violations of an administrative settlement or judgment.	
18	Remind personnel to timely forward legal documents or administrative settlement agreements to the finance center.	Concur. OECA will issue a memorandum to senior enforcement managers in the Regions and Headquarters reminding enforcement personnel of the importance of providing timely documentation to the CFC of all accounts receivable that arise from administrative enforcement actions and EPA-issued stipulated penalty demands. These include civil penalties imposed under settlement agreements under any environmental statute and cost recovery and cash-out administrative settlements under CERCLA. This memorandum will further request all enforcement personnel to copy the CFC on any penalty demand issued by a Region or Headquarters, regardless of whether the stipulated penalty arose from violations of a civil judicial consent decree or judgment or violations of an	May 31, 2015. *See* attached technical document comments.

		administrative settlement or judgment.	
19	Work with the DOJ to forward DOJ legal documents timely to CFC.	Concur. OECA is already working with DOJ from an earlier recommendation in OIG Report No. 13-1-0054.	Completed March 28, 2014. *See* attached technical document comments.
20	Work with the Office of Enforcement and Compliance Assurance to update EPA Superfund guidance to require originating offices to timely forward the Superfund Accounts Receivable Control Forms to the finance center.	Concur. Procedures to forward control forms were discussed during SF Lean held in Kansas City in May 2014. OCFO will update guidance to require originating offices to timely forward the Superfund Accounts Receivable Control Forms to the finance center.	September 30, 2015.
21	Require the Office of Grants and Debarment to instruct personnel to forward source documents for grant disallowed costs timely to the finance center even if the bill is under dispute or in negotiation for a payment plan.	Concur. The agency has already provided instructions to the Grants Management Office (GMO) community.	Completed. See attached technical document comments.
22	Require the Office of Grants and Debarment to follow up to ensure that the EPA forwards the documents timely.	Concur. OARM, as part of its ongoing outreach to the GMO community, will ensure the GMOs are aware of the requirement.	January 31, 2015. See attached technical document comments.
23	Investigate variances between the general ledger control accounts and the accounts receivable subsidiary ledger bill detail and correct errors by recording entries to the control accounts and/or the accounts receivable bill detail, as needed.	Concur. OCFO corrected many of the variances from the prior year in the 3rd and 4th quarter of fiscal year 2014. The remaining variances will be corrected in the first quarter fiscal year 2015.	December 31, 2014.
24	Reconcile federal and non-federal accounts receivable separately.	Concur. OCFO will design a framework for providing timely and accurate reconciliations of federal and non-federal accounts receivable.	July 31, 2015.

25	Develop accurate reports for accounts receivable principal charges and non-principal charges.	Concur. The agency acknowledges that we made an error for not reporting principal, interest, handling charges and penalties correctly for March 2014. The agency has corrected the error in the subsequent reconciliation and will continue for all reconciliations going forward. The agency has accurate reports.	Completed July 30, 2014 (Ongoing quarterly activity).
26	Require headquarters program offices and regional offices to deobligate unneeded funds identified during the annual unliquidated obligation reviews.	Concur. As a part of our new ULO tool implementation, OCFO will reiterate and help verify timely deobligations of funds deemed unneeded by the program/region.	September 30, 2015.
27	Require the Information Security Officer to conduct an access control review with all offices that warehouse information technology assets. This would include ensuring: a. Appropriate approving officials approve access for all personnel entering the respective server rooms. b. The offices update access rosters and post them according to local procedures. c. The offices create plans of action and milestones within the EPA information security weakness tracking systems to track when the office would complete the access control review if the respective office is unable or lack the capability to complete the review within the next 30 days.	Concur. In July 2014, the Las Vegas Finance Center completed a 100% recertification of all the Las Vegas La Plaza IT related security controlled area doors, including the server room that required all site Office Directors/Managers to review and recertify door access for all individuals with existing access.	Completed July 2014.
28	Require LVFC to implement a process to	Concur. LVFC will implement a quarterly testing process for the	December 31, 2014.

	regularly test the card reader system within the finance center.	card readers within the center beginning in the first quarter of FY2015.	
29	Require the Information Security Officer to conduct an access control review with all offices that warehouse information technology assets. This would include ensuring all offices: a. Lock all server racks to prevent unauthorized access. b. Create plans of action and milestones within the EPA information security weakness tracking systems to track the security of server racks if the respective office is unable to immediately or lack the capability to lock the server racks within the next 30 days.	Concur. OARM Cincinnati has locked the cabinet in the AWBERC telecommunications room. Access to the AWBERC telecommunications room has been further restricted to personnel that need access to the installed equipment. A PIV Card reader has been added to the door to control and track access, and the lock has been changed to remove it from the building master keys.	Completed Summer 2014.
30	Require the Information Security Officer coordinate with the responsible offices that warehouse or manage information technology assets for CFC to: a. Implement a process for monitoring humidity levels in the Norwood server room. b. Reposition the water sensors in the Norwood server room at the appropriate height to prevent water damage to servers.	Concur. In October 2014, OARM Cincinnati added humidity sensors in the Norwood server room which includes humidity thresholds through the facility alarm system. The Norwood server room water sensors have been relocated to more appropriate locations and heights in the room.	Completed October 2014.
31	Require the Information Security Officer coordinate with the responsible offices that warehouse or manage information technology	Concur. a. The OARM-Cincinnati server room temperature and humidity are monitored 24/7 in the AWBERC Boiler Room, and	Completed October 2014.

	assets for the LVFC, CFC and RTP Finance Center to: a. Establish and document threshold levels for temperature and humidity monitoring in the server rooms. b. Create plans of action and milestones within the EPA information security weakness tracking systems to track the remediation of the noted environmental control weaknesses if the respective office is unable to immediately or lack the capability correct the weakness within the next 30 days.	thresholds are set, and monitored. RTP and LV ISOs will coordinate IT asset warehousing issues with the responsible offices. b. No POAMs are required.	
32	Require the Information Security Officer to develop a process to monitor the completion of all plans of action and milestones that were entered into the EPA information security weakness tracking system.	Concur. The agency has already completed all the recommended action.	Completed--In place prior to audit.
33	Require the Information Security Officer to coordinate with the responsible offices within the Office of Administration and Resources Management to develop and implement a strategy to improve CCTV coverage for the OCFO's IT assets. The improved CCTV coverage and strategy should include: a. Improving camera-monitoring systems at the AWBERC server room to increase visibility of the server racks and within the telecomm room and to coordinate monitoring of the	Concur. OARM Cincinnati was in the process of calibrating DVR video retention times after upgrading the video surveillance systems capacity during the Office of the Inspector General review. Adequate historical data was not maintained during the upgrade. The video retention period for the AWBERC server room has been increased to in excess of 30 days. OARM Cincinnati has installed seven additional infrared surveillance cameras in the AWBERC server room, and one in the AWBERC telecommunications room. The Norwood camera has been replaced with an infrared	Completed September 2014.

	Norwood server room with automated lighting. b. Increasing CCTV monitoring storage time to meet EPA-approved storage requirements detailed in the EPA's Cincinnati Security Management Program Contract. c. Requiring offices to create plans of action and milestones within the EPA's information security weakness tracking system to track the completion of any CCTV improvement tasks that cannot be completed within the next 30 days. d. Developing a process to monitor the completion of all plans of action and milestones that were entered into the EPA information security weakness tracking system.	camera. The installation of infrared cameras eliminates the need for automatic lighting in the server rooms.	
34	Maintain written documentation that demonstrates management has approved changes to the Compass accounting posting module.	Concur. OCFO management implemented a procedure to document via email the posting model changes that are approved. Email approvals will be filed with the posting model tracking spreadsheet in the posting model binder.	Completed November 1, 2014.
35	Instruct CFC to perform an analysis of delinquent receivables to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards and EPA policy, and record any unrecorded interest.	Concur. OCFO will continue to review delinquent receivables to ensure interest is accruing properly and will continue to work closely on Compass issues to resolve them on a long-term basis in cases where interest has not been calculated in Compass (and it should be).	Completed November 1, 2014. (Ongoing activity)
36	Instruct CFC to follow the terms in the legal source	Concur. OCFO will explore having Compass functionality enhanced to allow for interest to	July 31, 2015.

	documents when recording interest receivables.	be calculated from a date other than the receivable date.	
37	Instruct LVFC to follow EPA policy and the terms of the legal source document and record the document effective date in Compass as the account receivable document date for grant receivables.	Concur. OCFO will also work with the Grants Management Officers to ensure source documentation for grant receivables is submitted to the LVFC in a timely manner.	January 31, 2015.
38	Determine and correct the cause of Compass system problems related to Superfund and installment interest.	Concur. OCFO will continue to research and confirm system issues related to Superfund and installment interest. OCFO intends to implement a software patch in November 2014 to correct the known system issues related to interest.	November 30, 2014.
39	Comply with the material weakness reporting requirements as prescribed by OMB Circular A-123, which are: a. Material weaknesses and a summary of corrective actions shall be reported to OMB and Congress through the Performance and Accountability Report. b. Progress against corrective action plans should be periodically assessed and reported to agency management.	Concur. OCFO has followed the appropriate A-123 steps to report an internal control weakness. OCFO will continue to apprise agency management of progress of addressing corrective actions.	a. Completed November 7, 2014. See attached technical document comments. b. March 31, 2015.

CONTACT INFORMATION

If you have any questions regarding this response, please contact Jeanne Conklin, Acting Director, Office of Financial Management on (202) 564-5342.

Attachment

cc: Mark Hague
Charles Sheehan
Nanci Gelb
Cynthia Giles

Kevin Christensen
Rich Eyermann
Jeanne Conklin
Meshell Jones-Peeler
Stefan Silzer
Susan Shinkman
Cyndy Mackey
John Showman
Vaughn Noga
Quentin Jones
Robert Hill
Paul Curtis
Christopher Osborne
Istanbul Yusuf
Richard Gray
Leo Gueriguian
Steven Blankenship
David Shelby
Lisa Ayala
John O'Connor
Aileen Atcherson
Sherri Anthony
Dale Miller
Jill Beresford
Pat Watson
Nicole Modafari
Margaret Hiatt
Wanda Arrington
Arthur Budelier
Cynthia Poteat
Robert Hairston
Sheila May
Gwendolyn Spriggs
Sandy Womack
Brandon McDowell
Debra Lang
Lorna Washington
Susan Lindenblad
Janice Kern
Bernie Davis-Ray

Attachment

Technical Comments Related to OIG's Draft Audit Report No. OA-FY14-0281, "*Audit of EPA's Fiscal 2014 and 2013 (Restated) Consolidated Financial Statements,"* dated November 10, 2014

- **<u>OIG Finding #16 - "EPA's 2014 FMFIA Annual Assurance Statement is Inaccurate"</u>**

Agency Response: *Concur.*

Agency Position on Finding: The agency disagrees with the facts as stated in this OIG Finding. The agency had every intention of fully disclosing internal controls over software through the FMFIA process. The facts are as follows:

- In May 2014, the agency's A-123 process identified internal control weaknesses in its accounting for software transactions. The extent of the value of the errors was not known during the A-123 review.
- On June 30, 2014, the EPA provided its A-123 work papers on software to the OIG.
- From May through August 2014, OCFO conducted further research to determine the magnitude of the software errors and possible accounting solutions.
- On August 7, 2014, OCFO stated in its FY 2014 FMFIA assurance letter "Additional research was being performed to provide process improvements on recommended corrective actions" from the A-123 findings.
- On August 28, 2014, OCFO disclosed in a white paper to the OIG that the software issue identified in the A-123 was an accounting error that could be remedied and provided the agency's corrective action plan.
- The agency began processing the software accounting corrections. The correction process continued through late October. The value of the corrections was not fully known until mid-October. After the agency determined the magnitude of the software errors, the agency restated its FY 2013 financial statements to have the correct beginning balance for the FY 2014 financial statements.
- On October 23, 2014, OCFO proposed at the annual EPA Senior Leadership Council Management Integrity Meeting that a new agency-level weakness be declared due to issues surrounding personal property including software. The SLC approved the proposal and declared a new agency-level weakness. OIG staff attended this meeting.
- The OIG misinterpreted the agency's draft AFR language as an intent not to report a material weakness. The agency fully intended to include language in the AFR.
- On November 7, 2014, OCFO provided draft assurance language to OMB disclosing the new material weakness with updated charts for the AFR.
- OCFO will work with the OIG during next year's FMFIA process and the drafting of the AFR to avoid unnecessary confusion over this process.

- **<u>OIG Finding #7- "Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center"</u>**

Agency Response: *Concur on Recommendations, Not "Significant Deficiency" Designation*

Agency Position on Finding: The agency disagrees with OIG's finding that the identified delays in providing accounts receivable documentation to the Cincinnati Finance Center (CFC) constitute a significant deficiency under FMFIA. Such delays did *not* present a reasonable possibility that a material misstatement of EPA's financial statement would not be prevented, or detected and corrected in a timely manner. In support of the agency's position, we offer the following:

- Two of the 40 cases in which the OIG identified delays in providing accounts receivable documentation to CFC are not accounts receivable arising from an enforcement case brought by EPA or DOJ.
  - One of the civil judicial cases cited by OIG, involving a civil penalty of more than $29.9 million, was a citizen suit brought under the Clean Water Act in which the United States was not a party. This $29.9 million in civil penalties accounted for almost 50 percent of the $61.7 million in accounts receivable for which documentation was identified by the OIG as untimely.
  - One of the accounts receivable on OIG's list of untimely administrative cases involved disallowed costs in the amount of $135,346 under a grant involving the Pueblo of Acoma. Because this does not appear to relate to an enforcement action, OECA cannot address the cause of this delay.
- In 27 of the remaining 38 cases, documentation was provided to CFC within 30 days of the effective date of the order/consent decree giving rise to the accounts receivable. Since these receivables were not payable until at least 30 days after the effective date, CFC received documentation in sufficient time to ensure that there was not a material misstatement of EPA's financial statement. Furthermore, the total accounts receivable for the 11 cases for which documentation was not received by CFC within 30 days equaled only $2.3 million of the $61.7 million attributed to cases in which the documentation was not timely provided to CFC.
- DOJ, and not EPA, has responsibility for providing accounts receivable documentation to CFC. OECA continues to meet quarterly with DOJ in an effort to address untimely documentation.

1. Require enforcement officers to include CFC on stipulated penalties mailing list.

EPA has significantly improved the timeliness of documentation relating to administrative penalties. In both FY 2013 and FY 2014, EPA has been timely in providing administrative penalty documentation to CFC at least 95 percent of the time. Although OECA recognizes that there is room for improvement in the timeliness of documentation related to EPA-issued stipulated penalty demands, the delays and the stipulated penalty amounts associated with delayed documentation were not sufficient to constitute a significant deficiency under FMFIA.

2. Remind personnel to timely forward legal documents or administrative settlement agreements to the finance center.

With regard to civil penalties assessed under administrative settlement agreements, EPA has been timely in providing penalty documentation to CFC at least 95 percent of the time for both FY 2013 and FY 2014. OECA recognizes that there is room for improvement in the timeliness of documentation related to non-penalty settlements (e.g., administrative cost recovery and cash-out settlements under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)). However, OECA does not agree that the delays and the accounts receivable amounts associated with delayed documentation were sufficient to constitute a significant deficiency under FMFIA.

3. Work with the DOJ to forward DOJ legal documents timely to CFC.

OECA completed this corrective action as of March 28, 2014, in response to a recommendation addressing the same issue made by the OIG in its *Audit of EPA's Fiscal 2012 and 2011 Consolidated Financial Statements* (No. 13-1-0054; November 15, 2012). In its 2012 Audit Report, the OIG found that some civil judicial documents that give rise to accounts receivable were not being timely provided to the CFC, resulting in late recording of receivables. In response, OECA agreed to meet with CFC and the Department of Justice (DOJ) on a quarterly basis, beginning the second quarter of FY 2013 through the second quarter of FY 2014, to assess the timely transmission of civil judicial orders that give rise to accounts receivable. OECA met with CFC and DOJ in June, September, and December 2013, and March 2014 to discuss the timely provision (*i.e.*, within five business days) of civil judicial documents by DOJ and other accounts receivable issues, including the process for tracking how timely such documents are provided using data provided by OCFO, and reconciling DOJ and EPA tracking systems. By memorandum dated March 28, 2014, OECA verified that it had completed this corrective action.

In any event, OECA and CFC intend to continue to review the timeliness data each quarter and to address with DOJ any issues that are identified, typically in a quarterly meeting on accounts receivable issues. Additionally, CFC and DOJ recently assisted OECA with its regional accounts receivable evaluations to determine how effectively the accounts receivable process is working within the Agency and to identify areas needing improvement. OECA is currently drafting a national report that will summarize the evaluation results and will identify areas needing improvement and provide best practices.

5. Instruct personnel to forward source documents for grant disallowed costs timely to the finance center even if the bill is under dispute or in negotiation for a payment plan.

The agency has already provided instructions to the Grants Management Office (GMO) community as follows:

OGD and OCFO have addressed this issue in EPA Manual 2750 Audit Management Procedures issued September 28, 2012 (see Part II, Section B.3. Assistance Agreements.)

On November 16, 2012, OGD issued a guidance memo to the GMOs on unallowed costs in advanced administrative reviews and single/OIG audit final decisions. The memo emphasized that LVFC must be notified of all actions regarding the disallowance of costs. It also instructed GMOs to include standard payment instructions in Management Decision Letters to recipients and to copy the Las Vegas Finance Center on Management Decision Letters to ensure compliance with the 5-day requirement in RMDS 2540-9-1.

OGD's IPERIA guidance, PN-2013-G03, issued October 1, 2013, provides that "[w]**hen it is determined that unallowed costs are to be repaid, GMOs must also ensure that LVFC is copied on all management decision letters."**

Further, OGD has revised Section 4.5.3.4 on Cost Disallowance in its Assistance Agreement Almanac to state that:

EPA's LVFC must be copied on all enforcement actions where costs are disallowed and repayment requested. According to Policy RMDS 2540-9, the Agency is required to establish an account receivable in its financial system within 5 days of the debt being established.

Similarly, Section 4.7.3 on Audit Resolution and Follow-up has been revised (for Management Decision Letters to Recipients) to state:

The letter advising the recipient of EPA's management decision must be signed by the Action Official or their designee and mailed to the recipient via certified mail, return receipt requested, within 5 calendar days of OIG concurrence (when applicable). The letter will become the agency's final decision unless disputed by the recipient. If the Action Official's decision includes an audit disallowance requiring repayment of funds, the letter also constitutes a written demand for payment under the EPA claims collection requirements (http://intranet.epa.gov/fmdvally/policies/direct/2540-09pro_2.pdf), Section III, "Non Federal Delinquent Debt" and a copy must be provided to the Las Vegas Finance Center (LVFC) in order to establish an account for the debt within 5 days that the management decision is issued.

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