OIG

OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Audit of EPA's Fiscal 2002 and 2001 Financial Statements

Audit Report 2003-1-00045

January 29, 2003

Abbreviations

CPS	Contract Payment System
EPA	Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act
FinRS	Financial Replacement System
FMFIA	Federal Managers' Financial Integrity Act
IFMS	Integrated Financial Management System
IGMS	Integrated Grants Management System
JFMIP	Joint Financial Management Improvement Program
NIST	National Institute of Standards and Technology
OIG	Office of Inspector General
OMB	Office of Management and Budget
PPE	Property, Plant, and Equipment
RSSI	Required Supplemental Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards

Cover photo: By Carl Friedrich, OIG
(North Cascades National Park, Washington)

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

OFFICE OF
INSPECTOR GENERAL

January 29, 2003

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal 2002 and 2001 Financial Statements

FROM: Paul C. Curtis
Assignment Manager
Financial Audit Division (2422T)

TO: Linda M. Combs
Chief Financial Officer (2710A)

Morris X. Winn
Assistant Administrator for
Administration and Resources Management (3101A)

Marcia Mulkey
Director, Office of Pesticide Protection (7510C)

Howard F. Corcoran
Director, Office of Grants and Debarment (3901R)

Attached is our audit report on the Agency's fiscal 2002 and 2001 financial statements. The report reflects our view that the Agency is not in compliance with the managerial cost accounting standard; however, the level of compliance does not meet Office of Management and Budget's definition of substantial non-compliance. We also recognize that the Agency has started a process that will, when fully implemented, provide managers with the type of cost information they need to effectively manage their programs. The audit report also contains other findings that describe issues the OIG has identified and corrective action the OIG recommends.

This audit report represents the opinion of the OIG, and the findings contained in this report do not necessarily represent the final Environmental Protection Agency (EPA) position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. We have no objections to the further release of this report to the public.

In accordance with EPA Order 2750, *Audit Management Process*, the primary action official is required to provide us with a written response to the final audit report within 90 days of the final audit report date. Since this report deals primarily with the financial management issues, we are requesting the Chief Financial Officer, as the primary action official, to take the lead in coordinating and providing us a written response to this report. 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 or not to close this report in our audit tracking system.

Should you or your staff have any questions about the report, please contact me at (202) 566-2523, or Pat Hill, Director, Business Systems at (202) 566-0894.

Attachment

cc: See Appendix III, Report Distribution List

Executive Summary

Introduction

We performed this audit in accordance with the Government Management Reform Act, which requires the Environmental Protection Agency (EPA, or the Agency) to prepare, and the Office of Inspector General (OIG) to audit, the Agency's financial statements each year. 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.

Objectives

Our primary objectives were to determine whether:

- EPA's financial statements were fairly presented in all material respects in conformity with generally accepted accounting principles;

- EPA's internal control over financial reporting related to the financial statements were in place; and

- EPA management complied with applicable laws and regulations which, if not followed, could have a direct and material effect on the financial statements.

Results in Brief

Opinions on EPA's Fiscal 2002 and 2001 Financial Statements

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2002 and 2001, and budgetary resources as of and for the year ended September 30, 2002, in accordance with generally accepted accounting principles.

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

We inquired of EPA's management as to their methods for preparing Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the principal financial statements. However, our audit was not designed to express, and we are not expressing, an opinion on this information.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by Federal trading partner. We did find that, through no fault of EPA, other Federal agencies were unable to reconcile EPA's reported transactions with their records. We note that this is a government-wide issue that needs to be resolved.

Evaluation of Internal Controls

The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls. Material weaknesses are situations where internal controls do not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance in amounts material to the financial statements may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. In evaluating the Agency's internal controls, we noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In evaluating the Agency's internal control structure, we identified seven reportable conditions in the following areas, which are detailed further in Attachment 1:

- Documentation and Approval of Journal Vouchers
- Reconciling Unearned Revenue for State Superfund Contracts
- Reconciling Deferred Cashouts
- Integrated Grants Management System Security Plan
- Automated Application Processing Controls for the Integrated Financial Management System

- Capitalization of Superfund Contractor-Held Property
- Revenue Recognition on Cashouts

Tests of Compliance with Laws and Regulations

As part of obtaining reasonable assurance about whether the Agency's financial statements were free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations for which noncompliance could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with all laws and regulations applicable to the Agency was not an objective of our audit. Accordingly, we do not express such an opinion.

We did not identify any instances of noncompliance with laws and regulations that would result in material misstatements to the audited financial statements. However, we did note the following noncompliance issues, which are discussed further in Attachment 2.

Compliance with the Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires that, as a part of our annual financial statement audit, we determine whether EPA's financial management systems substantially comply with Federal financial management system requirements, applicable accounting standards, and the Standard General Ledger at the transaction level.

We did not identify any instances of substantial (as defined by OMB) noncompliance with FFMIA requirements. We recognize improvements the OCFO has made in cost accounting and believe that while there are still noncompliance issues with cost accounting, those noncompliances no longer meet OMB's definition of substantial noncompliance.

- The Agency was not in compliance with Statement of Federal Financial Accounting Standards No. 4 that requires EPA to provide full costs per output to management in a timely fashion.

We also identified the following three additional instances of FFMIA noncompliance.

- Reconciliation of intra-governmental transactions was not in compliance with OMB and Treasury Financial Manual requirements. However, it does not meet the OMB criteria for substantial noncompliance.

- The Contract Payment System was not in compliance with the Joint Financial Management Improvement Program system requirements.

- The fiscal 1999 Remediation Plan to correct some FFMIA issues has not been completed.

Compliance with the Treasury Financial Manual

The Agency does not prepare the SF 224 Statement of Transactions in accordance with the Treasury Financial Manual.

Compliance with the Food Quality Protection Act of 1996

The Agency was not in compliance with the requirements of the Food Quality Protection Act of 1996 because it exceeded the amount of maintenance fees that could be used for expedited processing. The Agency subsequently made adjustments to correct the non-compliance.

Agency Comments and OIG Evaluation

In a memorandum dated January 22, 2003, the Office of the Chief Financial Officer responded to our draft report. The OCFO generally concurred with our findings and is the process of implementing corrective actions. However, the OCFO did expand on comments in some areas to reflect their view that they have made substantial improvements.

The OCFO believes that they are complying with the Managerial Cost Accounting Standard by preparing quarterly subobjective level reports, taking actions to execute the Agency's plan for expanding cost information, and moving from 10 goals to 5 in the new Strategic Plan. We recognize improvements that the Agency has made in the area of Cost Accounting and believe that the new plan for expanding cost information will eventually provide managers the cost information they need to manage. However, we do not agree with OCFO that the subobjective level reports provide useful, timely, and full cost information.

The OCFO also stated that they developed a new process and report for reconciling the Contract Payment System with the Integrated Financial Management System that they believe satisfies the OIG's concerns. The OIG did not review the new process and report because they were developed after we completed our work.

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Inspector General's Report on EPA's Fiscal 2002 and 2001 Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidating balance sheets of the U.S. Environmental Protection Agency (EPA, or the Agency) and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other), as of September 30, 2002 and 2001, and the related consolidating statements of net cost, changes in net position and financing, and consolidated statements of net cost by goal and custodial activity for the years then ended, and the related combined statement of budgetary resources for the year ended September 30, 2002. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted 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 01-02, *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors, and other Federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts, and interagency agreements performed at a later date may disclose questioned costs of an amount undeterminable at this time. In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.[1] The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not 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 its operations that are presented in the financial statements. The amounts included for the

1 The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other assets of the Agency's activities.

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost by goal, changes in net position, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2002 and 2001, and budgetary resources as of and for the year ended September 30, 2002, in accordance with generally accepted accounting principles.

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

We inquired of EPA's management as to their methods for preparing Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by Federal trading partner. We did find that, through no fault of EPA, other Federal agencies were unable to reconcile EPA's reported transactions with their records (see Attachment 2 for additional details on this issue).

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, 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 timely and reliable preparation of the financial statements and RSSI in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
>
> **Reliability of performance reporting** - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Compliance with applicable laws and regulations - Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements or RSSI; and any other laws, regulations, and government-wide policies identified by OMB.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 reportable conditions, although none of the reportable conditions is believed to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on these internal controls and, accordingly, we do not express an opinion on such controls.

Finally, with respect to internal controls related to performance measures presented in *EPA's Fiscal Year 2002 Annual Report*, Section 1, Overview and Analysis (which addresses requirements for a Management's Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

Reportable Conditions

Reportable conditions are internal control weakness matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the OMB objectives for financial reporting discussed above.

In evaluating the Agency's internal control structure, we identified seven reportable conditions, as follows:

Documentation and Approval of Journal Vouchers

EPA's Financial Reports and Analysis Branch did not always adequately document journal vouchers and standard vouchers prior to the transactions being entered into the Integrated Financial Management System (IFMS). For example, of 447 transaction documents reviewed, 39 did not have adequate backup to support entries, and 3 did not have appropriate signatures. After performing additional work we were able to determine that most of the entries appeared to be correct. However, we are concerned about the vulnerability associated with executing transactions without proper documentation and supervisory review and approval. The review and approval process would reduce the potential for errors occurring.

Reconciling Superfund State Cost Share Contracts

EPA did not reconcile the unearned revenue from State Superfund Contracts for fiscal 2002. When EPA assumes the lead for a Superfund site remedial action in a state, the State Superfund Contract clarifies EPA and state responsibilities. EPA records unearned revenue when a State is billed for its share of the estimated remedial action costs on the site, and recognizes earned revenue as it incurs costs. However, EPA's Financial Management Division did not reconcile the unearned revenue from State Superfund Contracts to the general ledger liability account - Unearned Advances, Non-Federal. This was because EPA relied on its accounting system's internal controls and Regional year-end adjustments to unearned revenue. As a result, EPA could not ensure the accuracy of the State Superfund Contract unearned revenue accounts. Additional work performed by the OIG enabled the Agency to post adjustments to reduce the variance.

Reconciliation of Deferred Cashouts

EPA did not properly reconcile Superfund cashouts at the Regional level. Cashouts represent money that potentially responsible parties agree to pay EPA for cleanups. We found that EPA's Regions did not periodically reconcile the uncollected receivables for Superfund cashouts to the general ledger liability accounts Deferred Cashouts Federal and Deferred Cashouts Non-Federal. This occurred because the Financial Management Division did not require the reconciliations or provide guidance. As a result, the Regional finance offices were not able to reconcile their deferred cashouts and could not ensure the accuracy of the accounts, which totaled approximately $44 million. While the combined net difference of the variances were under $2 million, the individual variances in the regional offices were significant and could result in a material misstatement if proper reconciliations are not performed.

IGMS Security Plan Compliance with Federal Requirements

The Integrated Grants Management System (IGMS) security plan did not adequately describe the security requirements or the controls used to protect the system and its data. The IGMS security plan reflected only 41 percent of the 140 elements required by the National Institute of Standards and Technology's (NIST) Special Publication 800-18. In addition, the IGMS security plan included only 50 percent of the 30 Core Financial System technical requirements mandated by the Joint Financial Management Improvement Program (JFMIP). The IGMS security plan was missing many key elements required by federal regulations because the Director for Grants and Debarment used EPA's Information Security Planning Guidance as a benchmark for developing the IGMS security plan. Management agreed that addressing NIST and JFMIP system requirements would significantly raise the bar for evaluating security plans. As such, management has established a schedule for addressing unmet requirements.

Automated Application Processing Controls

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Capitalization of Superfund Contractor-Held Property

EPA did not capitalize and depreciate approximately $33.3 million in Superfund contractor-held property in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting For Property, Plant, and Equipment*. Instead, the Agency expensed all costs for contractor-held property used for Superfund site-specific projects. The Agency explained that it expensed property on these Superfund remediation sites because the property would remain at the site and not be useful on future sites due to contamination. The $33.3 million cumulative amount included approximately $10.2 million for fiscal 2002 and $23.1 million from prior years. By expensing these costs, the Agency is understating the value of its property in the possession of contractors and, therefore, the value of general Property, Plant, and Equipment. Subsequently, the Agency adjusted the financial statements to capitalize contractor-held property used for Superfund site-specific projects.

Revenue Recognition on Cashouts

The Financial Management Division overstated by $53 million a fiscal 2001 on-top financial statement adjustment for earned revenue from past costs in Superfund special accounts. This overstatement also affected the fiscal 2002 Superfund financial statements by understating liabilities and overstating income. EPA did not restate the financial statements because it lacked adequate internal controls for reporting corrections of errors. As a result, EPA's fiscal 2001 and 2002 financial statements would have been materially misstated without prompting by the OIG.

Attachment 1 describes each of the above reportable conditions in more detail, and contains our recommendations on actions that should be taken to correct these conditions. We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls

OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act (FMFIA or Integrity Act) report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FMFIA report. EPA reports on Integrity Act decisions in EPA's *Fiscal Year 2002 Annual Report*. For a discussion on Agency reported Integrity Act material weaknesses and corrective action strategy, please refer to EPA's *Fiscal Year 2002 Annual Report*, Section III, FY 2002 Management Accomplishments and Challenges.

For reporting under FMFIA, material weaknesses are defined differently than they are for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control,* defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB defines material weaknesses in internal control as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weakness that was not reported by the Agency as part of the Integrity Act process.

The Agency did not report any material weaknesses for fiscal 2002 as part of the Integrity Act process.

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. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB Memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. 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 (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

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. There are a number of ongoing investigations involving EPA's grantees and contractors that could disclose violations of laws and regulations, but a determination about these cases has not been made.

None of the noncompliances discussed below would result in material misstatements to the audited financial statements.

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. OMB Bulletin No. 01-02, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, substantially changed the guidance for determining whether or not an Agency substantially complied with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The document is intended to focus Agency and auditor activities on the essential requirements of FFMIA. The document lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to Agency heads for developing corrective action plans to bring an Agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances where the Agency's financial management systems did not substantially comply with the applicable Federal accounting standard.

We recognize improvements the OCFO has made in cost accounting and believe that while there are still noncompliance issues with cost accounting, those noncompliances no longer meet OMB's definition of substantial noncompliance. However, the Agency was not in compliance with Statement of Federal Financial Accounting Standards No. 4 that requires EPA to provide full costs per output to management in a timely fashion.

We identified three other FFMIA noncompliances, related to reconciliation of intra-governmental transactions, Contract Payment System compliance with JFMIP system requirements, and completion of the fiscal 1999 FFMIA remediation plan. However, these noncompliances do not meet the definition of substantial noncompliance as described in OMB guidance.

Our tests also disclosed two other instances of noncompliance with laws and regulations, related to the Food Quality Protection Act of 1996 and the Treasury Financial Manual for preparation of SF 224 "Statement of Transactions."

Attachment 2 provides additional details, as well as our recommendations on actions that should be taken on these matters. We will also be reporting other less significant matters involving compliance with laws and regulations in a separate management letter.

Prior Audit Coverage

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

- Complying with FFMIA requirements.
- Reconciliation and Reporting intra-governmental transactions, assets and liabilities by Federal trading partner.
- Complying with SFFAS No. 4, including accounting for the cost to achieve goals and identifying and allocating indirect costs.
- Accounting for capitalized property.
- Recording accrued liabilities for grants.
- Interagency Agreement invoice approval process.
- Documenting EPA's IFMS.
- Complying with Federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Documentation and approval of journal vouchers.

- Timely repayment of Asbestos Loan Debt to Treasury.
- Assessing automated application processing controls for the IFMS.
- Compliance of financial system security plans.

Attachment 3, Status of Prior Audit Report Recommendations, summarizes the current status of corrective actions taken on prior audit report recommendations with corrective actions in process.

The Chief Financial Officer, as the Agency's Audit Follow-up Official, oversees EPA's follow-up on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the Chief Financial Officer with various Assistant Administrators, Regional Administrators, and Office Directors before they can be completely resolved. A few issues have been unresolved for many years. The OIG will continue to work with the Office of Chief Financial Officer in helping to resolve all audit issues resulting from our financial statement audits.

Agency Comments and OIG Evaluation

In a memorandum dated January 22, 2003, the Office of the Chief Financial Officer responded to our draft report. The OCFO generally concurred with our findings and is in the process of implementing corrective actions. However, the OCFO did expand on comments in some areas to reflect their view that they have made substantial improvements.

The OCFO believes that they are complying with the Managerial Cost Accounting Standard by preparing quarterly subobjective level reports, taking actions to execute the Agency's plan for expanding cost information, and moving from 10 goals to 5 in the new Strategic Plan. We recognize improvements that the Agency has made in the area of Cost Accounting and believe that the new plan for expanding cost information will eventually provide manager's the cost information they need to manage. However, we do not agree with OCFO that the subobjective level reports provide useful, timely and full cost information.

The OCFO also stated that they developed a new process and report for reconciling the Contract Payment System with IFMS that they believe satisfies the OIG's concerns. The OIG did not review the new process and report because they were developed after we completed our work.

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 EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Paul C. Curtis
Assignment Manager
Financial Audit Division
Office of Inspector General
U.S. Environmental Protection Agency
January 22, 2003

Attachment 1

Reportable Conditions

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1 - Documentation of Journal and Standard Vouchers Needs Improvement

EPA's Financial Reports and Analysis Branch did not always adequately document journal vouchers and standard vouchers prior to the transactions being entered into IFMS. For example, of 447 transaction documents reviewed, 39 did not have adequate backup to support entries, and 3 did not have appropriate signatures.

The General Accounting Office Standards for Internal Control in the Federal Government (1999) state that all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination. The Standards also state qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. Further, EPA's Comptroller Policy Announcement No. 93-02 states that all journal voucher entries must be submitted to the Financial Reports and Analysis Branch for approval. The Policy Announcement also states that "EPA policies require that all financial transactions recorded in the accounting system be supported by adequate source documentation, and that this documentation be easily accessible." The EPA form for journal and standard voucher documents, as provided for in EPA's IFMS User's Guide, includes a place for preparer and approval signatures.

After performing additional work we were able to determine that most of the entries appeared to be correct. However we are concerned about the vulnerability associated with executing transactions without proper documentation and supervisory review and approval. The review and approval process would reduce the potential for errors occurring.

Recommendations

We recommend that the Office of Chief Financial Officer:

1-1. Remind staff of the need to properly document accounting transactions before entry into IFMS.

1-2. Make all staff aware of existing procedures to assure that all journal and standard vouchers are reviewed and approved prior to entry into IFMS.

Agency Comments

The OCFO agreed in principle with our findings and will issue a memorandum to staff instructing them on the importance of following existing procedures and of providing adequate supporting documentation for journal voucher entries.

2 - Improvement Needed in Reconciling Unearned Revenue for State Superfund Contracts

EPA did not reconcile the unearned revenue from State Superfund Contracts for fiscal 2002. When EPA assumes the lead for a Superfund site remedial action in a state, the State Superfund Contract clarifies EPA and state responsibilities. EPA records unearned revenue when a State is billed for its share of the estimated remedial action costs on the site, and recognizes earned revenue as it incurs costs. However, EPA's Financial Management Division did not reconcile the unearned revenue from State Superfund Contracts to the general ledger liability account - Unearned Advances, Non-Federal. This occurred because EPA relied on its accounting system's internal controls and Regional year-end adjustments to unearned revenue. As a result, EPA could not ensure the accuracy of the State Superfund Contract unearned revenue accounts, which totaled approximately $45 million.

The Chief Financial Officers Act requires the Agency's Chief Financial Officer to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, that provides for complete, reliable, consistent, and timely information. EPA should have adequate internal controls to ensure that it performs annual reconciliations of the State Superfund Contract unearned revenue accounts.

For the six Regions examined, we found variances totaling $12,122,052 between the calculated unearned revenue and the corresponding Regional general ledger balances. In addition, we found errors in all six of the Regional year-end adjustments on the spreadsheets examined. Further, in our analysis of the overall reasonableness of Unearned Advances for all of EPA, we found a variance of $5,388,426 between the unearned revenue for all accounting points as of September 30, 2002, and the consolidated general ledger balance.

Based upon the additional work performed by the OIG, the Agency was able make on-top adjustments to the financial statements for most of the Regional errors and reduce the overall variance to avoid a material misstatement of Unearned Advances. Due to the complexity of accounting for unearned revenue, proper annual reconciliations are needed to ensure the reliability of Unearned Advances.

Recommendations

We recommend that the Office of Chief Financial Officer have the Financial Management Division:

1-3. Annually calculate the combined unearned revenue from State Superfund Contracts for all accounting points and reconcile the amount to the consolidated Unearned Advances balance.

1-4. Improve the reliability of Regional State Superfund Contract spreadsheet calculations for the year-end unearned revenue adjustments by providing the Regional finance offices with additional training in the preparation of the spreadsheet and by conducting a review of the completed spreadsheets.

Agency Comments

The OCFO agreed with our findings and will issue written guidance for calculations and reconciliation of accounts by June 30, 2003. The Financial Management Division will also review the regions' computations for accuracy.

3 - Improvement Needed in Reconciling Deferred Cashouts

EPA did not properly reconcile Superfund cashouts at the Regional level. Cashouts represent money that potentially responsible parties agree to pay EPA for cleanups. We found that EPA's Regions did not periodically reconcile the uncollected receivables for Superfund cashouts to the general ledger liability accounts - Deferred Cashouts, Federal and Deferred Cashouts, Non-Federal. This occurred because the Financial Management Division (FMD) did not require the reconciliations or provide guidance. As a result, the Regional finance offices were not able to reconcile their deferred cashouts and could not ensure the accuracy of the accounts, which totaled approximately $44 million.

We previously brought this issue to the attention of the OCFO in a position paper last year. The Financial Management Division completed the proper reclassification entries, as recommended. However, while the Financial Management Division issued "Superfund Special Account Guidance" on July 16, 2002, to provide the Regional finance offices with accounting procedures for recording and tracking special account funds, this memorandum did not include guidance for reconciling Deferred Cashouts, Federal and Non-Federal.

We found variances between the total of uncollected receivables for non-Federal Superfund cashouts and the corresponding balance for Deferred Cashouts. The combined variance for the six Regions examined totaled $1,714,160. However, the combined variance included significant offsetting amounts, including a Region 2 understatement of $11,803,352 to Deferred Cashouts and a Region 9 overstatement of $7,220,634. These significant Regional variances indicate that a material misstatement of Deferred Cashouts could occur if proper reconciliations are not performed.

The Chief Financial Officers Act requires the Agency's Chief Financial Officer to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, that provides for complete, reliable, consistent, and timely information. Each Region should have adequate internal controls to ensure that it performs periodic reconciliations of the deferred cashout accounts.

Recommendation

1-5. We recommend that the Chief Financial Officer have the Financial Management Division provide the Regional finance offices with guidance for reconciling the Deferred Cashout, Federal and Non-Federal accounts on a regular basis.

Agency Comments

The OCFO concurred with our findings and will issue written guidance for reconciling accounts by June 30, 2003.

4 - Integrated Grants Management System Security Plan Does Not Address Required Controls

The Integrated Grants Management System (IGMS) security plan did not adequately describe the security requirements or the controls used to protect the system and its data. The IGMS security plan reflected only 41 percent of the 140 elements required by the National Institute of Standards and Technology's (NIST) Special Publication 800-18. In addition, the IGMS security plan included only 50 percent of the 30 Core Financial System technical requirements mandated by the JFMIP. The IGMS security plan was missing many key elements required by federal regulations because the Director for Grants and Debarment used EPA's Information Security Planning Guidance as a benchmark for developing the IGMS security plan. Management agreed that addressing NIST and JFMIP system requirements would significantly raise the bar for evaluating security plans. As such, management has established a schedule for addressing unmet requirements.

OMB Circular A-127 establishes security controls requirements for financial and mixed-financial systems, including JFMIP mandatory system controls. Likewise, OMB Circular A-130 establishes security requirements for system security plans, including those found in NIST publications. EPA also mandated using the Information Security Planning Guidance as a benchmark for developing major application security plans.

IGMS information has a direct and material impact on the Agency's financial statements. A security plan that does not comply with federal regulations limits management's assurance that the system's owner has identified all applicable security requirements. In addition, management cannot be assured that adequate controls are in place or planned for meeting those requirements

Recommendation

1-6. We recommend that the Director for Grants and Debarment revise the IGMS security plan to include all applicable elements of federally-acceptable security plans for major, financial computer applications, including but not limited to NIST, JFMIP, and Agency requirements.

Agency Comments

The OFCO accepted our recommendation to revise the IGMS Security Plan to include requirements identified in the JFMIP standards for financial systems and NIST Publication 800-18. Management's plan for addressing the audit recommendation indicates the IGMS Security Plan should be in compliance with JFMIP and NIST standards by December 31, 2004.

5 - Automated Application Processing Controls for Integrated Financial Management System Could Not Be Assessed

As we first reported in our fiscal 1995 financial statement audit report, we continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Prior Reports Noted Issues

During past financial statement audits, we attempted to evaluate controls without documentation, but these alternatives proved to be inefficient and impractical. Program level transaction flowcharts or similarly descriptive narrative system documentation were not available. Furthermore, we previously concluded that the IFMS user manuals and other EPA contractor baseline Federal financial systems manuals did not contain the level of detail necessary to construct tests of automated internal controls that would satisfy our field work standards.

Since 1995, Agency officials have maintained that the current level of documentation is sufficient. Nevertheless, Agency officials have taken actions on a number of our recommendations, including completing a system documentation analysis, developing updated accounts receivable documentation, and completing an analysis for creating a comprehensive IFMS data dictionary.

Our fiscal 2000 financial statement audit work indicated EPA upgraded its user documentation in 1999, and that it was adequate for users' needs for entering data. However, we determined that the combined upgraded users' and technical systems documentation still did not address critical system operational controls, such as access to tables or data, electronic approvals, and use of supervisory overrides. Furthermore, neither the users nor technical systems documentation addressed transaction "processing" edits and data flows. Lastly, the Agency has not developed a data dictionary.

Fiscal 2002 Review Results

As part of our fiscal 2002 financial statement audit, we evaluated the Agency's IFMS replacement activities and found that EPA has taken tangible steps to replace IFMS with the Financial Replacement System (FinRS) project. In fiscal 2002, the Agency performed the following activities:

- Included a budget for FinRS in its annual submission to OMB, Exhibit 300B. The milestones and costs associated with FinRS were estimated using a reasonable method.

- Formed the Systems Planning and Integration Staff, which reports directly to the Comptroller and is responsible for the development of the overall financial system plan. The Systems Planning and Integration Staff's mission and responsibilities are appropriate for replacing IFMS.

- Initiated a contract to develop a high level strategic financial systems assessment that includes alternatives for the replacement of financial systems, along with a cost/benefit analysis of the solutions.

In conclusion, we believe that the steps described above indicate EPA is moving in a credible fashion towards replacing IFMS. However, until the new system is in place and we have had a chance to audit it, we will not be able to assess the adequacy of the automated internal control structure.

Agency Comments

While OCFO continues to believe its current level of documentation is sufficient, management has taken a number of actions to improve documentation, as stated above. The OCFO believes the issue will be resolved with implementation of the replacement system.

6 - Capitalization of Superfund Contractor-Held Property Needs to Be Improved

EPA did not capitalize and depreciate approximately $33.3 million in Superfund contractor-held property in accordance with SFFAS No. 6, *Accounting For Property, Plant, and Equipment*. Instead, the Agency expensed all costs for contractor-held property used for Superfund site-specific projects. The Agency explained that it expensed property on these Superfund remediation sites because the property would remain at the site and not be useful on future sites due to contamination. The $33.3 million cumulative amount included approximately $10.2 million for fiscal 2002 and $23.1 million from prior years. By expensing these costs, the Agency is understating the value of its property in the possession of contractors and, therefore, the value of general Property, Plant, and Equipment (PP&E).

According to SFFAS No. 6, paragraph 26 states, "All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use." Paragraph 39 asserts, "General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess."

As a result of EPA's decision not to capitalize all contractor-held property, general PP&E was understated by approximately $33.3 million in the fiscal 2002 financial statements, accumulated depreciation was understated by a component of that amount, and expenses were overstated.

Recommendation

1-7. We recommend that the Office of Chief Financial Officer capitalize current Superfund site-specific contractor-held property costs meeting capitalization thresholds and only remove property from the general PP&E accounts, in accordance with SFFAS No. 6.

Agency Comments

The OCFO agreed with our findings and made the corrections to the fiscal 2002 and 2001 financial statements. The OCFO will issue written guidance on capitalization criteria by June 30, 2003.

7 - Revenue Recognition on Cashouts Needs to Be Improved

EPA did not restate the fiscal 2001 financial statements to reflect a $53 million error, and the fiscal 2002 financial statements were also impacted. The Financial Management Division overstated by $53 million a fiscal 2001 on-top financial statement adjustment for earned revenue from past costs in Superfund special accounts. This overstatement also affected the fiscal 2002 Superfund financial statements by understating liabilities and overstating income. EPA did not restate the financial statements because it lacked adequate internal controls for reporting corrections of errors. As a result, EPA's fiscal 2001 and 2002 financial statements would have been materially misstated without prompting by the OIG.

SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, requires reporting entities to restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period.

EPA did not properly characterize several Region 9 special account amounts in a fiscal 2001 on-top adjustment as unearned revenue from future costs or earned revenue from past costs. As a result, EPA understated the fiscal 2001 balance of Advances Cashouts Non-Federal, and overstated Miscellaneous Receipts Revenue Public Exchange, by $53,255,918. Although Region 9 issued a corrected analysis of the special accounts, Financial Management Division did not restate its financial statements to reflect the correction.

Recommendations

We recommend that the Office of Chief Financial Officer have the Financial Management Division:

1-8. Restate the fiscal 2001 financial statements and adjust the fiscal 2002 financial statements for the $53 million misstatement.

1-9. Implement internal controls to ensure that EPA complies with financial reporting standards for reporting corrections of errors.

Agency Comments

The OCFO agreed with our findings and made corrections to the fiscal 2002 and 2001 financial statements.

Compliance with Laws and Regulations

Table of Contents

Federal Financial Management Improvement Act Noncompliance Issues [2]

Other Noncompliance Issues

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[2] We are reporting these noncompliance issues under FFMIA as they directly relate to FFMIA reporting requirements; however, we note that the issues do not meet the OMB criteria for substantial noncompliance under FFMIA.

8 - EPA Progressed Toward Compliance with Managerial Cost Accounting Standard

During fiscal 2002 EPA did not comply with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. Specifically, EPA did not comply with the requirement to provide costs per output to management in a timely fashion. Additionally, under EPA's current cost accounting structure, when costs per output are produced, such costs are not full costs and are not in sufficient detail to be useful to managers. However, EPA recently created enhanced reporting capabilities that allow any EPA employee to determine the cost of EPA outputs using the Financial Data Warehouse**.** We believe this action, along with an additional initiative to expand cost accounting capabilities within EPA, allows us to reduce the degree of noncompliance with the Standard**.** However, while the Agency can now produce timely reports on costs per output, such reports do not include full costs such as grant accruals. We believe the Agency still needs to go further to produce full cost reports that are useful for managers.

Objectives and Purpose of the Standard

Compliance with the Standard, to us, means that a meaningful, useful system is in place and is being effectively utilized by the Agency. The specific objectives of SFFAS No. 4 are listed in paragraph 22 of the Standard. They include:

- Provide program managers with relevant and reliable information relating costs of outputs and activities. Based upon this information, program managers can respond to inquires about the costs of the activities they manage. The cost information will assist them in improving operational economy and efficiency.

- Provide relevant and reliable cost information to assist the Congress and executives in making decisions and allocating Federal resources, authorizing and modifying programs, and evaluating program performance.

- Ensure consistency in costs reported in general purpose financial reports and to program managers. This includes standardizing terminology for managerial cost accounting to improve communication among Federal organizations and users of cost information.

The focus of the statement is on cost information needed to improve Federal financial management and management decisions. The Standard identifies five essential cost information areas: (1) budgeting and cost control, (2) performance measurement, (3) determining reimbursements and setting fees and prices, (4) program evaluations, and (5) making economic choice decisions.

In recent years, cost accounting has become increasingly important, and Congress has placed a greater emphasis on improving information to manage Federal programs. The FFMIA of 1996 was intended to ensure agencies develop and use systems that generate reliable, timely, and consistent information necessary for managing current operations. Also, the managerial cost accounting concepts and requirements contained in the Standard require each Federal agency to produce reliable and timely information on the full costs of Federal programs, their activities, and outputs.

Some Cost Reports Are Being Used

EPA's accounting structure does provide a significant amount of financial information and several Agency offices regularly produce reports which contain useful cost information. Some examples of reports being used by managers as tools to administer programs are:

- Reports are generated using the Financial Data Warehouse that show the amounts committed, unliquidated obligations, and amount expended by GPRA objective.

- The Office of Prevention, Pesticides and Toxic Substances' Special Review and Reregistration Division uses a report that shows the amount obligated and spent on each related goal, objective, and subobjective.

- The Office of Research and Development uses a report that tracks budgeted amounts and expenditures at the laboratory/center, division, and branch levels.

- Region 3 uses a report which displays environmental programs and management expenses by various categories (e.g., travel costs, material costs, etc.) for the Chesapeake Bay Program.

- Region 4 uses a report to track Leaking Underground Storage Tank (LUST) current expenditures, unliquidated obligations, and future planned spending for each State by LUST site.

- Region 2 uses a report that depicts Brownfield program costs by recipient for all grants and loans.

We believe that the financial information provided by these types of reports is useful for managing EPA programs, and believe that other useful financial reports also may exist throughout the Agency. The Standard requires EPA to report the full costs of its outputs in general purpose financial reports. Because Agency defines its outputs as its subobjectives, we believe that the Agency is required to report the full costs of its subobjectives. In fiscal 2002, the Agency did not meet this requirement, but as of January 2003, using the Financial Data Warehouse, any EPA employee can determine the cost of any Agency output. We do not believe this completely meets the requirement for the Agency to report the full costs of its outputs in general purpose financial reports, because it does not include costs such as grant accruals. However, we believe this is a significant step towards meeting the requirements of the Standard.

We agree with the steps the OCFO is taking steps to expand the cost accounting information available to EPA managers. The Agency should develop a standardized set of functional reports and disseminate them for use throughout EPA program and regional offices. A standardized set of cost accounting reports would help to ensure that cost accounting methodologies are consistently applied throughout the Agency and would allow for comparisons between EPA offices or among EPA programs. In addition, we look forward to assessing the results of OCFO's current action plan to expand the use of meaningful cost information at EPA. As part of that plan, OCFO intends to educate managers about the benefits of cost accounting, determine the cost accounting needs of EPA's various programs, and develop an effective and flexible cost accounting system. The plan relies on a business intelligence reporting tool - *Business Objects* - to provide the Agency's standard financial reporting system. The OCFO's plan anticipates that by the end of fiscal 2003, *Business Objects* will provide EPA manager with useful, detailed, and timely cost information. We commend OCFO for developing this plan and believe that effective implementation of the plan should improve the quality and timeliness of EPA's cost information.

EPA Should Change its Cost Accounting Outputs

We believe one of the factors that hinders the quality of EPA's cost accounting information is how OCFO has chosen to define its cost accounting "outputs." As stated earlier, the Standard requires EPA to report the full costs of its outputs, and defines an output as "any product or service generated from the consumption of resources." In Comptroller Policy Announcement 98-10, OCFO defines the Agency's outputs as its Program Results Code (PRC) subobjectives. This definition creates a problem, because many of EPA's subobjectives do not conform to the SFFAS No. 4 definition of an output - that is, they are not discrete products or services. We would like to see OCFO change EPA's cost accounting outputs from the subobjective level to discrete products or services generated by the Agency. We also think the Agency's outputs should be redefined because, in many instances, reporting costs at the subobjective level presents costs at too high a level to be useful to managers for activity-based assessments and decision-making purposes.

We believe the Agency's cost accounting processes should enable managers to know the cost of Agency efforts to meet Annual Performance Goals (APGs). Showing the costs associated with each APG in EPA's Annual Performance Report would enable stakeholders to measure the efficiency and effectiveness of EPA's accomplishments. We recognize that any changes in the Agency's outputs should only be made after consultation with program and regional managers, as well as with other stakeholders.

We recommend that the OCFO :

2-1. Set a goal to provide EPA managers with useful and timely reports that present the full costs of their outputs and programs by the end of fiscal year.

2-2. Continue to implement the actions specified in the September 2002 plan to expand cost information at EPA.

2-3. Promote change of the Agency's cost accounting outputs, so they will represent discrete products and services produced by the Agency.

Agency Comments and OIG Evaluation

The OCFO believes that they are complying with the Managerial Cost Accounting Standard by preparing quarterly subobjective level reports, taking actions to execute the Agency's plan for expanding cost information, and moving from 10 goals to 5 in the new Strategic Plan. We recognize improvements that the Agency has made in the area of Cost Accounting and believe that the new plan for expanding cost information will eventually provide managers the cost information they need to manage. However, we do not agree with OCFO that the subobjective level reports provide useful, timely, and full cost information.

9 - EPA Continues to Experience Difficulties in Reconciling Intra-Governmental Transactions

EPA continues to experience difficulties in reconciling some of its intra-governmental assets and liabilities due to some Federal entities not performing reconciliations. Without the proper confirmations from its trading partners, EPA has limited assurance that intra-governmental balances are accurate. EPA experienced similar occurrences last year that prohibited the Agency from complying with the applicable requirements. Consequently, EPA prepared the required supplementary information using data from the Agency's financial accounting system.

OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* requires Federal agencies to report intra-governmental assets, liabilities, and earned revenue (exchange and non-exchange) by Federal trading partner. This information is to be presented in the financial statements as Required Supplementary Information and should reconcile with the applicable line items in the financial statements. The Treasury Financial Manual also requires Federal agencies to disclose intra-governmental assets, liabilities, and earned revenue by trading partner in the Federal Agencies Centralized Trial-Balance System transmission. On September 28, 2001, Treasury updated the *Federal Intra-governmental Transactions Accounting Policies and Procedures Guide* to provide additional guidance to Federal entities (agencies) to reconcile intra-governmental transactions. EPA's intra-governmental earned revenue did not exceed the $500 million criterion; therefore, EPA is excluded from reconciling and disclosing this activity.

The Office of Chief Financial Officer issued a supplemental procedural policy in May 2001 to assist finance offices in confirming and reconciling intra-governmental transactions. The Office of Chief Financial Officer continues to undertake proactive efforts to reconcile intra-governmental transactions in order to comply with Federal financial reporting requirements. The OIG acknowledges and commends EPA's efforts to reconcile intra-governmental transactions as required by Federal financial reporting requirements.

Intra-governmental reconciliations has been a major issue within the Federal government. A study directed by a JFMIP task force identified multiple deficiencies that prohibit Federal agencies from reconciling intra-governmental transactions. Short-term major priorities being addressed are developing identification codes at business level, revising the standard general ledger, determining standard data structure, and creating a web-based clearinghouse portal for intra-governmental activity. OIG suggests that EPA continue its proactive efforts in reconciling the Agency's intra-governmental transactions to comply with Federal financial reporting requirements.

Agency Comments

The OCFO agreed with our findings and will continue to participate in government-wide initiatives to resolve difficulties of reconciling intergovernmental transactions between agencies.

10 - Contract Payment System Not In Compliance with Joint Financial Management Improvement Program System Requirements

During fiscal 2002, the Contract Payment System (CPS) was not in compliance with JFMIP mandatory system requirement because no report existed to reconcile the total number of dollars and transactions transferred daily between CPS and IFMS.

OMB Circular A-127 states that agency financial management systems shall conform to existing applicable functional requirements, as defined in a series of publications issued by the JFMIP. The JFMIP Core Financial System Requirements, dated November 2001, states "the Core system must provide internal controls with the Application Program Interface (e.g., control totals, record counts) to ensure the integrity of received and processed transactions (Technical Document-04)."

Rather than reconciling line counts and control totals for all batch transactions electronically submitted to IFMS, the CPS staff relied on identifying and correcting rejected transactions. As such, the CPS staff assumed that all transactions transmitted by CPS and not shown as rejected within the IFMS Suspense File were posted correctly and completely within the IFMS General Ledger.

As an additional compensating control, EPA management relied on reconciliations of CPS data transferred from IFMS into the Financial Data Warehouse. Although CPS employees were not responsible for monitoring the subsequent posting of transactions to the general ledger, they periodically used Financial Data Warehouse data to follow up on and reconcile specific transactions. It is important to note that a single transaction sent as part of the CPS nightly interface could create multiple transactions in the general ledger, and cascade into many tables within IFMS. As such, the manual reconciliation process was reserved for transactions that needed additional attention. Our review also noted that neither the interface between CPS and IFMS nor the one between IFMS and the Financial Data Warehouse used batch controls that would ensure the integrity of the data, as required by JFMIP. We concluded that current interface controls did not meet JFMIP requirements and could not provide the intended level of assurance regarding the complete and accurate transfer of contract payment information into the IFMS general ledger.

Subsequent to our review, CPS staff modified the *IFMS Transaction Totals Report* to include a section that provides both dollar and line counts for the transactions received from CPS into the IFMS suspense file. Management agreed to use this report on a daily basis to ensure that the transactions transmitted by CPS were accurately and completely received within the IFMS Suspense File. We did not review the newly created report or the new process as a part of this audit.

Agency Comments

The OCFO believes that the revised report satisfies the OIG’s concerns.

11 - Fiscal 1999 FFMIA Remediation Plan Not Yet Completed

After 3 years, EPA had not yet completed two key action items from the Office of Chief Financial Officer's 1999 Remediation Plan for achieving compliance with FFMIA requirements. When an agency's systems do not significantly comply with FFMIA financial management systems requirements, the agency must establish a remediation plan that identifies the resources, remedies, and intermediate target dates necessary to bring the systems into substantial compliance. The remediation plan must bring the agency's financial management systems into substantial compliance no later than 3 years after the date the determination was made, unless the agency identifies special conditions at the onset of the plan. EPA established its Remediation Plan in 1999 and, at that time, assigned specific action items and milestone dates to achieve compliance within the specified 3 year period.

In its August 2002 status report to OMB, Office of Chief Financial Officer management reported that both Item #11 and #13 (further discussed below) were completed in June 2002. However, subsequent examination disclosed that neither item had been completed by September 30, 2002, as required by FFMIA. Both of these action items were to be completed by program offices other than the Office of Chief Financial Officer. Item # 11 called for EPA to "implement a security certification process for key personnel," while Item # 13 required the Office of Environmental Information to establish a process for the Chief Information Officer's independent review of security program effectiveness.

Item # 11

Our review disclosed that the Office of Environmental Information had completed a proposal to require more stringent levels of background checks for personnel based on the sensitivity of their access to EPA systems and data. However, the Office of Environmental Information did not possess the authority to enact the proposal. As such, they submitted the proposal to the Office of Human Resources and Organizational Services, so it could be incorporated into Agency policies and procedures. Our further review determined that the Office of Human Resources and Organizational Services had not included this process in the Agency's Draft *Personnel Security Manual*. Subsequent to fiscal 2002, when the Office of Human Resources and Organizational Services had not finalized the Agency's *Personnel Security Manual*, the Office Administration and Resources Management transferred the responsibility for completing and issuing the draft manual to its Office of Administration. The Office of Administration and Resources Management could not specify a firm date when all of the security certification processes would be approved and implemented. In the interim, EPA does not have a formal program in place to adequately address background investigations and other personnel security issues for key personnel (employees, grantees, contractors, etc.).

Because Item #11 had not been completed by September 30, 2002, EPA was also in noncompliance with the FFMIA requirement to complete its remediation plan actions within 3 years.

Item # 13:

While the Office of Environmental Information had taken some independent oversight actions involving security, it had not instituted policies or procedures that established a formal process for the independent Chief Information Officer review of the effectiveness of the security program. We informed management that we expected the process to:

- Identify the major components of the Agency's Security Program, and
- Establish a formal methodology that documents a systematic recurring approach for evaluating the effectiveness of each of the components.

Subsequent to the period under review, the Office of Environmental Information finalized a formal procedures document that established the process for an independent Chief Information Officer review of the security program. We did not review the scope or soundness of the Office of Environmental Information's procedures document as part of this audit.

Recommendations

With respect to Item # 11, we recommend that the Office of the Chief Financial Officer:

2-4. Obtain an updated schedule with firm milestone dates from the Office Administration and Resources Management as to when it will complete actions to establish a security certification process for key personnel.

2-5. Revise the 1999 Remediation Plan to indicate the correct responsible office, and most feasible date when the Office Administration and Resources Management will complete the specified action necessary to bring the Agency into compliance with FFMIA.

2-6. Provide the revised 1999 Remediation Plan status report to OMB to disclose the changes for Item #11.

Agency Comments

The OCFO agrees with the report recommendations and will obtain an updated schedule from the Office of Administration and Resources Management for revamping the Agency's personnel security program. Then, OCFO will revise the 1999 Remediation Plan and reissue the Remediation Plan status report to OMB for Item #11.

12 - EPA Not in Compliance with Food Quality Protection Act

EPA did not comply with the Food Quality Protection Act of 1996 for fiscal 2002 because the Agency exceeded the limitation on the usage of maintenance fees. The Act stipulates that maintenance fees should not exceed $17 million, and not more than one-tenth of these fees should be used for personnel and resources for expedited processing and review. The Office of Pesticide Programs collected approximately $16 million in maintenance fees in fiscal 2002, and therefore did not exceed the $17 million threshold. However, the Office of Pesticide Programs used approximately $2.2 million of the $16 million for expedited processing and review, thus exceeding the one-tenth mandate by $600,000. Office of Pesticide Programs officials said they were unaware of the new one-tenth requirement and instead used the old requirement of one-seventh.

After we brought this issue to the attention of the Office of Pesticide Programs, that Office partnered with payroll personnel to redistribute personnel and resource costs to reflect the new one-tenth requirement for fiscal 2002. We commend the Office for addressing the issue in an expeditious manner.

Recommendation

2-7. We recommend that the Director, Office of Pesticide Programs closely monitor amendments to the Food Quality Protection Act to identify revisions that establish new compliance requirements and ensure action is taken to comply with the requirements.

Agency Comments and OIG Evaluation.

The Office of Pesticide Programs agreed to closely monitor amendments to the Food Quality Protection Act to identify any potential revisions that will impact compliance requirements.

13 - EPA Not in Compliance with Treasury Financial Manual for Preparation of SF 224

EPA did not complete the required SF 224 "Statement of Transactions" during fiscal 2002 in accordance with Treasury guidance since it reported adjusted rather than actual amounts. EPA reconciled its IFMS against external information available from Treasury, such as CASHLINK and Intra-governmental Payment and Collection system, then adjusted the SF 224 for differences found. Outstanding items or differences between IFMS and Treasury were then reported on the SF 224 in suspense accounts (68F3875 or 68F3885) until receipt of proper documentation (normally the following month), and then processed in IFMS. However, by reporting adjusted IFMS amounts rather than EPA's actual general ledger amounts, the Agency prevented differences from being reported by Treasury on the Statement of Differences (Form 6652).

Treasury Financial Manual, Volume 1, Part 2 - Chapter 3300, Reports of Agencies for which the Treasury Disburses (FMS Form 224), Section 3330, Preparation of FMS Form 224, states "each reporting office will prepare the FMS form directly from its accounts promptly at the close of each accounting month." However, instead of following this guidance, several regions and finance centers followed desk procedures from 1995 that were not in compliance with the Treasury Financial Manual. Preparing the SF 224 based on Treasury records rather than EPA's actual general ledger amounts does not provide an accurate account of the Agency's financial activity at the time of completion. This can result in a misstatement of EPA's Fund Balance with Treasury as well as its annual financial statements.

Recommendations

We recommend that the Office of Chief Financial Officer:

2-8. Update desk procedures to adhere to Treasury Financial Manual requirements and disseminate to all regions and finance centers for implementation.

2-9. Complete the SF 224 solely from finance accounts without referencing Treasury accounts.

2-10. Discontinue including the adjusted amount on the SF 224, thus enabling Treasury to report these amounts through the Statement of Differences (Form 6652).

Agency Comments

The OCFO agreed with our findings and recommendations. The OCFO formed a workgroup to re-engineer and standardize current Agency financial processes relating to SF 224 reporting, reconciliation, and the Agency Fund Balance with Treasury. The workgroup has developed a corrective action plan with milestones to address report recommendations.

Attachment 3

Status of Prior Audit Report Recommendations

EPA's position is that "audit follow-up is an integral part of good management" and "corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations." The Chief Financial Officer is the Agency Audit Follow-Up Official and is responsible for ensuring that corrective actions are implemented. To resolve long-standing audit recommendations, the Deputy Chief Financial Officer formed an Audit Follow-Up Council in July 2000. The Council reviews the progress on audit findings, discusses approaches to resolving audit issues, and provides coordination and support across the Office of Chief Financial Officer on audit-related matters. Council membership consists of the Deputy Chief Financial Officer, the Office of the Chief Financial Officer Audit Follow-Up Coordinator, the Comptroller, Comptroller Division Directors, and the Director of the Office of Planning, Analysis, and Accountability.

Through its efforts, the Council has resolved several long-standing issues, and during the audit of the fiscal 2001 financial statements, we noted substantial progress in completing a number of corrective actions from prior years. In fiscal 2002, corrective action was completed for EPA's interagency agreement invoice approval process, i.e., an automated project officer notification system was implemented. The remaining issue areas from prior financial statement audits, with corrective actions in process, are listed in the table on the following page.

Audit Issue Areas with Corrective Actions in Process
• **Automated Application Processing Controls for IFMS:** Improvements have been made, but there are continuing problems. Until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a reportable condition concerning the current accounting system and its automated application processing controls. Please see Attachment 1 for additional information.
• **Financial System Security Plans:** The Agency reported that all planned corrective actions had been completed. However, OIG auditors determined that two corrective actions had not been completed as reported. Please see Attachment 2 for additional information.
• **Managerial Cost Accounting Standards:** In the audits of the fiscal 1999, 2000, and 2001 financial statements, we reported that EPA did not comply with the managerial cost accounting standard. The Chief Financial Officer, while acknowledging the desirability for continuing improvements as envisioned by the standard, disagrees with our conclusion that EPA did not comply with the standard. However, recent actions by the Agency in enhancing reporting capabilities along with an additional initiative to expand cost accounting capabilities allowed us to reduce the degree of noncompliance. Please refer to Attachment 2 for details on this audit issue.

EPA's Fiscal 2002 and 2001 Financial Statements

January 2003

EPA's FY 2002 CFO AUDITED FINANCIAL STATEMENTS

Produced by the U.S. Environmental Protection Agency
Office of the Chief Financial Officer
Office of the Comptroller
Financial Management Division

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Note: All components of *EPA's FY2002 CFO Audited Financial Statements* are included in ***EPA's FY 2002 Annual Report*** (Publication Number: EPA-190-R-03-001). The "Overview and Analysis" section of this report serves as ***Section I*** of the Annual Report. The "Principal Financial Statements" section of this report is contained in ***Section IV*** of the Annual Report.

OVERVIEW AND ANALYSIS

OVERVIEW AND ANALYSIS

INTRODUCTION

The United States Environmental Protection Agency (EPA) was established in 1970 to protect human health and safeguard the environment. Since that time the Agency has worked continuously to ensure that the American people have air that is safe to breathe, water that is clean and safe to drink, and land that is protected from toxic chemicals and other hazards. Consistent with the Government Performance and Results Act (GPRA), in 1997 EPA established 10 long-term strategic goals that identify the environmental results the Agency is working to achieve and reflect the sound financial and management practices it intends to employ. These goals and the accompanying statement of objectives and strategies to achieve results constituted the Agency's first Strategic Plan under GPRA. In 2000, when the Agency released a revised Strategic Plan, the goals were modified slightly. Each fiscal year, as required under GPRA, the Agency develops an Annual Plan that translates these long-term goals and objectives into specific actions to be taken and resources to be used during the year. EPA is accountable to the American people for making yearly progress toward its annual and long-term goals and is required to assess that progress and report to Congress and the public. As a result, at the end of every fiscal year, the Agency develops an Annual Report that describes the year's programmatic and financial achievements.

This Annual Report is intended to provide a comprehensive assessment of the Agency's fiscal year (FY) 2002 progress in protecting human health and the environment and in using taxpayer dollars efficiently and effectively to do so. The Agency's FY 2002 performance results were achieved by using a mix of tools and approaches and by adjusting strategies in light of the performance assessments of previous years' accomplishments. Throughout the year EPA worked closely with its primary partners–states, tribes and other federal agencies–whose contributions were critical to many of the results described in the report.

EPA's FY 2002 Annual Report contains four main sections. First, this Overview and Analysis is intended to provide a broad view of EPA's performance and fiscal accountability over the past year.[1] In discussing performance results, the Overview focuses on environmental achievements, particularly under EPA's Goals 1 through 6. The Overview also presents approaches and tools the Agency is using to improve managing for results, discusses significant factors that might affect future Agency operations, and highlights EPA's accomplishments in sound financial management.

Section II describes in greater detail the results that EPA–working with its federal, state, tribal, and local government partners–achieved under each of the Agency's 10 goals. It also presents progress in meeting the Annual Performance Goals established in EPA's FY 2002 Annual Plan and longer-range strategic goals and objectives identified in EPA's 2000 Strategic

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[1] The Overview and Analysis also addresses requirements for a "Management's Discussion and Analysis" of the annual financial statements included in EPA's FY 2002 Annual Report. Because the *FY 2002 Annual Report* consolidates a number of specific reports, some required components of the "Management's Discussion and Analysis" are presented in greater detail elsewhere in this report. In particular, EPA's mission statement and long-range goals appear at the front of the report and an EPA organization chart is included as Appendix C. For a discussion of the Agency's performance goals, objectives, and results, refer to Section II. Management accomplishments and challenges are discussed in Section III. Financial statements, along with a discussion of systems, controls, and legal compliance, are presented in Section IV.

Plan. Section III discusses major management challenges EPA faced during the year and presents the Agency's approaches and accomplishments in addressing the challenges. Finally, Section IV summarizes EPA's financial activities and achievements and presents the Agency's annual financial statements, which have been independently audited by EPA's Inspector General.

PERFORMANCE RESULTS

During FY 2002 EPA and its partners, building on FY 2001 accomplishments, made significant progress in protecting human health and the environment. The sections below highlight key environmental and program results, summarize the Agency's performance in meeting its FY 2002 performance goals, and discuss some of EPA's current performance issues and concerns.

Environmental Accomplishments

Clean Air: Under EPA's Clean Air goal, the Agency and its partners made significant progress in FY 2002 in reducing air pollution and protecting Americans–particularly children, the elderly, and people with respiratory ailments–from the health risks posed by air pollution. During FY 2002 EPA's state and tribal partners continued to work toward achieving or maintaining the National Ambient Air Quality Standards, and the Agency provided guidance, tools, and resources to help its partners meet their objectives. As a result, in FY 2002 more than 19 million Americans live in geographic areas newly designated by EPA as achieving clean air.[1] In FY 2002 as EPA promulgated 13 new standards for toxic air pollutants, its state and tribal partners implemented standards for toxic pollutants that were already in place.[2] In FY 2002 emissions of toxic air pollutants nationwide from stationary and mobile sources combined were reduced by an additional 1.5 percent, or 90,000 tons, from FY 2001 levels. This percentage represents a cumulative reduction of almost 33.8 percent, or about 2 million tons, from the 1993 baseline of 6 million tons.[3]

Power-generating utilities regulated under the market-based Acid Rain Program continue to achieve or exceed the required reductions for sulfur dioxide (SO_2) and nitrogen oxide (NO_x). Through FY 2001 SO_2 emissions continued to decline from their high of 17 million tons in 1980 to 10.6 million tons. NO_x emissions were reduced by 2 million tons nationally during the same period.[4]

Lastly, EPA issued emissions standards for several types of previously unregulated non-road engines and vehicles that contribute to ozone formation and/or particulate matter emissions, both which cause significant health concern. These standards apply to recreational vehicles, diesel marine engines, and large industrial spark-ignition engines. When the standards are fully implemented, EPA expects an overall 72 percent reduction in hydrocarbon emissions from such engines, an 80 percent reduction in NO_x emissions, and a 56 percent reduction in carbon monoxide emissions annually. These controls will improve visibility in national parks and wilderness areas and reduce exposure for people who operate, work with, or are close to these engines and vehicles. The annual human health benefits of this rulemaking include avoiding about 1,000 premature deaths, preventing 1,000 hospital admissions, reducing asthma attacks by 23,400, and preventing 200,000 days of lost work. In monetary terms, EPA estimates these health benefits to be worth roughly $8 billion per year when the standards are fully implemented.[5]

Clean and Safe Water: In FY 2002 EPA continued its work to ensure that all Americans have drinking water that is clean and safe to drink; that the country's rivers, lakes, wetlands, aquifers, and coastal and ocean waters are healthy; and that watersheds and aquatic ecosystems are restored and protected. During FY 2002, 91 percent of Americans who obtained their drinking water from community water systems received drinking water that met all EPA health standards.[6]

EPA and its partners worked in FY 2002 to increase the security of the nation's drinking water supplies and wastewater systems and protect them from potential terrorist attacks. Since November 2001 about 6,000 drinking water and wastewater plant managers and operators have received security training in assessing the vulnerabilities of their water supply systems, developing emergency and response plans, and communicating risks to communities. EPA expects that the drinking water supplies of more than 120 million people, or nearly half the population served by the nation's community water systems, will be more secure as a result of the greater awareness fostered by this FY 2002 training. Lastly, in FY 2002 EPA developed a protocol for ensuring the safe disposal of wastewater from the cleanup of anthrax-contaminated sites.

Safe Food: Throughout FY 2002 EPA worked to ensure that the nation's food supply is safe from risks posed by pesticide residues. Through its pesticide registration program, EPA made available to the agricultural community alternatives to currently used pesticides posing risks to human health and the environment. EPA registered an alternative to methyl bromide, 9 organophosphate alternatives, 11 bio-pesticides, and 4 conventional reduced-risk pesticides. The Agency also completed its first-ever cumulative risk assessment of a group of pesticides that have a common mechanism of toxicity or a common effect on the human body. This risk assessment evaluated how much risk a group of pesticides posed to human health by estimating human exposure to the pesticides through food, water, skin, and inhalation in residential and public settings in this country. By continuing to conduct cumulative risk assessments in FY 2003, EPA will be able to determine whether the risks posed by groups of similar pesticides meet the current safety standard required by the Food Quality Protection Act of 1996.

Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems: In FY 2002 EPA continued its work to reduce risk in communities, homes, workplaces, and ecosystems. In FY 2002 the Agency launched a national advertising campaign coupled with a major outreach effort, cosponsored by EPA and key medical, consumer, and community organizations, to protect the more than 15 million children who are exposed to secondhand smoke in their homes. In addition, in FY 2002 the Agency, working cooperatively with the chemical industry, established the Voluntary Children's Chemical Evaluation Program. Under this program 35 chemical manufacturers and 10 consortia have volunteered to sponsor and respond to risk assessments for 20 chemicals to which children have a high likelihood of being exposed. Further, during FY 2002 EPA, in partnership with states, facilitated the safe disposal of more than 10,000 transformers and 22,000 large capacitors containing a group of toxic chemicals known as polychlorinated biphenyls, or PCBs. Finally, in FY 2002 nearly 1,000 hospitals across the country enrolled in EPA's Hospitals for a Healthy Environment program, which seeks to cut the waste generated by hospital facilities in half and to eliminate the use of mercury, a toxic chemical.

Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response: To better protect this nation's land, EPA continued to promote safe waste management, clean up hazardous waste sites, return abandoned or underutilized industrial and commercial properties to productive use, and respond rapidly and effectively to waste-related accidents and emergencies. During FY 2002 EPA's emergency response program supported the environmental cleanup at the World Trade Center (WTC) and the Pentagon. EPA employees monitored these locations for toxic and other air pollutants released from the burning of building contents (particularly from plastics and computers), assisted with waste management, advised on cleanup and decontamination, and provided information to the public. At the WTC EPA was the federal lead on environmental contamination. When outbreaks of anthrax bioterrorism occurred during October 2001, the Agency's response personnel led the effort to clean up and decontaminate six post offices in Florida and four congressional office buildings in Washington, DC. Success in this area depended on counterterrorism research, planning, and preparedness at the federal, state, and local levels.

In FY 2002 the Agency exceeded its performance goal of completing the cleanup of 40 Superfund sites by achieving "construction completes" at 42 sites on the Superfund National Priority List. In addition, the Brownfields Program leveraged more than $4.8 billion in public and private investments and resulted in more than 21,000 jobs in cleanup, construction, and redevelopment from 1995 through June 2002. The primary goal of EPA's Brownfields Program is to provide states, tribes, and local governments with the tools and financial assistance they need to assess, clean up, and redevelop Brownfield properties. Since 1995, 3,807 properties have been assessed using federal funds. The job training and development demonstration pilots have trained more than 1,200 participants, of whom more than 750 have obtained jobs.

Reduction of Global and Cross-Border Environmental Risks: By working collaboratively with other countries, international organizations, and U.S. federal agencies, EPA provided U.S. leadership in addressing global environmental challenges. For example, EPA and the Government of Mexico–in cooperation with other federal agencies, the 10 states along the U.S.-Mexican border, and participating tribes–drafted a new "Border 2012" environmental program. This program will protect the environment and the 11.8 million people living near the border over the next 10 years by, among other things, providing potable drinking water and wastewater services, reducing the health and water quality risks posed by discarded tire piles and exposure to pesticides, and addressing the high rates of asthma in children living near the border. Further, at the World Summit on Sustainable Development in Johannesburg, South Africa, in August and September 2002, EPA announced new global partnerships to develop children's environmental health indicators, reduce indoor air pollution, eliminate lead from gasoline, and reduce sulfur in vehicle fuels.

<u>A Credible Deterrent to Pollution and Greater Compliance with the Law:</u> In FY 2002 EPA took significant actions to promote and monitor compliance with environmental laws as well as to enforce the laws as appropriate. During FY 2002 EPA helped small and medium-sized businesses, local governments, and federal facilities to understand and to comply with their environmental regulatory obligations through 10 Internet-based Compliance Assistance Centers.

During FY 2002 EPA concluded several enforcement settlements that significantly advanced environmental and human health protection. In FY 2002 EPA's Enforcement and Compliance Assurance Program eliminated 266 million pounds of pollution from the air, water, and land, and compelled violating companies to invest $56.4 million in environmental improvements. For example, EPA reached a settlement to end the discharge of an estimated 30 million gallons a year of untreated wastewater contaminated with bacteria, pathogens, and other harmful pollutants into the Baltimore harbor. Also during FY 2002 a judicial action was concluded against a large brass fitting company in Alabama for violations of the Resource Conservation and Recovery Act. Illegal treatment of hazardous waste foundry sand at the facility resulted in lead-contaminated sand which the company then donated to city and county governments for use as fill on playgrounds and ballfields. The settlement will eliminate public contact with the sand. Under another settlement reached in FY 2002, a large energy utility in New Jersey will spend $337 million to install state-of-the-art pollution controls to reduce its emissions of SO_2 by 90 percent and NO_x by more than 80 percent, eliminating about 54,000 tons of air pollutants per year.

Other Agency Accomplishments and the President's Management Agenda (PMA)

To successfully protect human health and the environment, EPA recognizes that it must develop and apply the best available science in carrying out its programs, function effectively as an organization, serve the public responsively, and use its resources wisely. For example, to improve its understanding of environmental risk as well as its ability to detect and address emerging environmental problems, in FY 2002 the Agency produced a modeling framework for estimating human exposure to pollutants through multiple environmental media (e.g., air, water, food) and multiple pathways. This framework will help the Agency in assessing and managing risks for a variety of pollutants, such as pesticides and toxic air pollutants and in protecting children and other susceptible subpopulations from harmful exposures. Further, during FY 2002 EPA developed two innovative computer software programs that allow industry and state and local decision makers to apply the best available science to (1) estimate the potential environmental impact of chemical process designs, and (2) evaluate the inhalation impact of metal finishing facilities on workers and nearby residents. (Refer to Goal 8 for more information.)

In FY 2002 EPA also made significant progress in ensuring that it has safe, healthy, energy-efficient office facilities and laboratories to support its work and employees. During FY 2002 EPA completed the new state-of-the art laboratory facilities in North Carolina and Kansas that will enable the Agency to better address the environmental scientific challenges of the 21st century. In January 2002 EPA's Massachusetts laboratory facility received a White House "Closing the Circle Award" for its environmental performance. Finally, EPA completed its relocation to the newly renovated buildings in the Federal Triangle complex in Washington, DC. This project began in 1993 and involved the design and renovation of 1.3 million square feet to support the work of 5,500 EPA employees. (Refer to Goal 10 for more information.)

EPA's senior managers recognize that managing the organization and its resources effectively is key to achieving long-term environmental results. The Agency's most significant accomplishments in this area occurred as it addressed the five areas identified in the President's Management Agenda (PMA)[7], the Administration's strategy for improving the management and performance of the federal government. In FY 2002 the President's Office of Management and Budget (OMB) credited EPA for taking major steps forward in each of the five areas. OMB's PMA scorecard[8]– used to rate agencies on each initiative using a "score" of red, yellow or green–designated EPA's progress as green in all five areas, marking EPA as 1 of the 2 agencies out of the 24 CFO agencies accomplishing this progress rating as of September 30, 2002.

Improved Financial Performance: This area of the PMA calls for reducing erroneous payments and ensuring that federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. EPA made significant progress in FY 2002 in improving its financial performance by reviewing internal controls to assess the potential for making erroneous payments under the State Revolving Funds managed by the water program, submitting the final FY 2001 financial statements on time with clean audit opinions, and issuing interim financial statements on schedule. The Agency also made great strides in the grants arena by issuing a grants competition policy, appointing a senior executive as the Agency Grants Competition Advocate, establishing an internal web site to facilitate implementation, and providing training on the policy. EPA also made significant progress in FY 2002 by correcting all four of its current material weaknesses–deficiencies in program policies, guidance, or procedures that might impair EPA's ability to achieve its mission–under the Federal Managers Financial Integrity Act.

Budget and Performance Integration: This area focuses on linking resources to performance, using program evaluation in planning and budget decision-making, and improving accountability for performance. As one of the few agencies with an integrated, goal-based budget, EPA has long been a leader in budget and performance integration consistent with the PMA. In FY 2002 the Agency made good progress addressing the PMA criteria for this area, including developing a methodology to include social costs in the Agency's revised strategic plan. EPA's selection as a finalist for the President's Quality Award in the area of budget and performance integration distinguished the Agency government-wide.

Expanded Electronic Government: This area seeks to make it easier for people to receive high quality government services through the Internet, while reducing the cost of delivering those services. In FY 2002 EPA was recognized by OMB as a model partner for its work under 14 E-government projects that use information technology to improve environmental decision making, eliminate redundant activities across multiple federal agencies, and achieve a more seamless, citizen-centered provision of services. EPA also was designated to be the managing partner and lead agency for the Online Rulemaking Initiative, which will make the rulemaking process more transparent to citizens and businesses.

Strategic Management of Human Capital: This area calls for ensuring that an agency's human capital strategy is aligned with its mission and organizational objectives. EPA uses its Human Resource Council, made up of senior managers from across the Agency, as a forum to discuss key human resource issues and provide direction for its human capital efforts. In FY 2002 EPA launched a Senior Executive Service Candidate Development Program, hired a group of highly skilled and educated EPA interns, and provided grants competition training for current EPA employees, all aimed at improving and enhancing EPA's human resources. The Agency also is aligning its human capital strategy with its revised Strategic Plan to help build the skills and competencies needed in its workforce to carry out the Agency's mission and to strengthen employee recruitment and retention.

Competitive Sourcing: This area of the PMA focuses on achieving greater efficiencies in program administration and effective competition between public and private sources. EPA has embraced the President's competitive sourcing initiative, and is committed to introducing more competition into the activities EPA performs. By doing so, the Agency can improve how it protects the environment and human health. Competitive sourcing provides EPA with an opportunity to take a fresh look at how the Agency conducts operations, to reevaluate what EPA does as well as how it is done, to generate greater value for the taxpayer, and to introduce efficiencies to business processes. In FY 2002 the Agency completed all targeted conversions and 100 percent of the combined FY 2002/2003 competitive sourcing goal. EPA also launched an Agency-wide competitive sourcing team to develop recommendations for a strategic and sustainable approach to competitive sourcing. The team's report will include an analysis of Agency-wide, cross-cutting functions and activities that can be *bundled* as possible candidates for further study and competition with the private sector as well as a proposed framework for conducting competitive sourcing at EPA.

Summary of Performance Data

In FY 2002 EPA met 48 (83 percent) of the Annual Performance Goals (APGs) for which data are provided in this report. (EPA identified 71 APGs in its FY 2002 Annual Plan; however, final results for 13 of these APGs are not available until FY 2003 or later, and will be discussed in future annual reports.) This reflects an improvement over the total percentage of goals met in FY 2001. The goal chapters in Section II include charts that present EPA's FY 2002 performance results and highlights of 4-year performance trends (FY 1999-FY 2002).

During FY 2002 final performance results data became available for six FY 2001 and two FY 2000 APGs. For example, the Agency met its FY 2001 goals for reducing greenhouse gas emissions and consumption of ozone depleting substances as well as SO_2 and NO_x emissions. EPA can now report achievement of 46 (69 percent) of the 67 APGs for which it has FY 2001 data. For FY 2000 EPA can now report achievement of 58 (82 percent) of the 71 APGs for which it has performance data. Delays in reporting cycles and targets set beyond the fiscal year continue to affect three FY 2001 APGs, two FY 2000 APGs, and four FY 1999 APGs.

Performance Issues and Concerns

Despite the best efforts of EPA and its partners, the Agency was not able to meet all planned targets for FY 2002. However, the Agency does not expect the shortfall in meeting these APGs to compromise progress toward achieving its long-range goals and strategic objectives. For 4 of the 11 missed APGs, EPA fell only slightly short of the targets and met the cumulative goals.

External factors contributed to seven of the missed APGs. For example, EPA had anticipated that 10 areas would be redesignated from non-attainment to attainment of the ozone standard in FY 2002, but fell considerably short of that goal. Several states previously revocated for the 1-hour ozone standard decided not to redesignate and instead wait for implementation guidance for the new 8-hour ozone standard. As long as issues remain concerning the move toward the more protective 8-hour ozone standard, states are reluctant to request redesignation to the current 1-hour ozone standard.

EPA had anticipated that six areas would be redesignated to attainment of PM standards, but due to delays in the redesignation process for one state and the failure of a second state to submit a maintenance plan as scheduled, only four areas were redesignated to attainment. Despite these difficulties, EPA and states continue to work together to ensure progress in meeting the present ozone and PM standards while facilitating a smooth transition as new standards are implemented.

In addition, under its goal to achieve Credible Deterrent to Pollution and Greater Compliance with the Law, EPA anticipated a pollution reduction of 300 million pounds of pollutants due to enforcement settlement provisions, an estimated target based on the results of concluded enforcement actions from previous years. In FY 2002 only 266 million pounds of pollutants were reduced. The Agency does not establish quotas for the number of enforcement cases to be pursued, and estimated pollution reduction targets sometimes vary widely from year to year. EPA greatly exceeded the targets for pollution reduction in FY 2000 and FY 2001. The Agency continues to direct enforcement actions to maximize compliance and address environmental and human health problems.

One final example of external factors contributing to performance shortfalls is the Agency’s leaking underground storage tank (LUST) program, which oversees cleanup of releases from underground storage tanks containing gasoline, other petroleum products, or hazardous substances. In 2002 EPA and its state partners completed 15,769 cleanups, for a total of nearly 284,000 since 1987. The FY 2002 target of 22,000 cleanups was not met due to the presence at many sites of the contaminate methyl tertiary butyl ether (MTBE), a gasoline additive, which has complicated cleanup and resulted in longer-than-expected cleanup times and higher-than-expected cleanup costs at LUST sites. MTBE contamination also led to the reopening of previously closed sites in 12 states, thus deflecting resources from completion of other cleanup sites.

For some missed APGs, shortfalls cannot be attributed to a single reason. For example, under the Agency's Clean Water Goal, EPA missed its target for issuing National Pollutant Discharge Elimination System (NPDES) permits for major point sources. NPDES permits help reduce or eliminate discharges into the Nation's waters of inadequately treated wastewater from municipal and industrial facilities and of pollutants from urban stormwater, combined sewer overflows, and concentrated animal feeding operations. In FY 2002 permits issued covered only 83 percent of the targeted 90 percent of major point sources. While EPA is making progress to address the permit backlog, the missed target can be attributed to a number of factors including complexities associated with integrating individual permits with watershed and other planning processes.

In summary, EPA and its partners did not meet 10 of the 58 FY 2002 APGs for which performance data are currently available. These APGs are associated with 7 of EPA's 10 strategic goals. The Agency is considering the various causes of these shortfalls–legal issues, redirection or shortages of staff, continued complexities in cleanup processes, technological limitations, and other factors–as it adjusts APGs and program strategies for FY 2003 and sets priorities for 2004 and beyond. The performance data charts in Section II provide more complete information on missed targets and discuss Agency progress toward achievement of its strategic goals and objectives.

IMPROVING RESULTS

In FY 2002 EPA strengthened its ability to achieve environmental results and measure its performance. The Agency's Managing for Improved Results Steering Group, composed of senior managers from across EPA, examined a number of current management practices–including priority-setting, planning and budgeting, and performance tracking and reporting–with an eye toward dramatically improving them. In FY 2002 the group finalized a set of short- and long-term recommendations for improving EPA's results-based management processes. Many of the short-term recommendations were implemented in FY 2002 and have become the driving force behind development of EPA's FY 2004 budget and the 2003 revision of the Agency's Strategic Plan.

For example, in FY 2002 EPA institutionalized a process for developing its annual funding request by analyzing the previous year's results and engaging partners and stakeholders to identify priority areas. This process focused on the Agency's ability to fulfill commitments set forth in its Strategic Plan. It included a series of meetings on each of the 10 strategic goals with the Deputy Administrator and Chief Financial Officer to examine the Agency's performance and identify areas where EPA is not achieving its intended results. Taken together, the recommendations that the Results Group developed in FY 2002 will improve the alignment of day-to-day activities with strategic goals and objectives; improve accountability between EPA's headquarters and regional offices; strengthen the involvement of the Agency's 10 regions, states, and tribes in EPA's planning and priority-setting processes; and build the capacity of Agency managers and staff in managing for results.

In addition in FY 2002, 11 EPA programs, accounting for 20 percent of EPA's budget, were evaluated using the Administration's new Program Assessment Rating Tool (PART), which aims to identify opportunities for federal agencies to improve strategic planning, management, and results of its programs. The results of PART analyses, which showed that some programs have insufficient data, reinforced the need for EPA to continue its progress in identifying outcome-based goals and measures to better link its activities to actual improvements in health or ecosystem quality. In FY 2003 OMB plans to conduct PART reviews for another 20 percent of the Agency's programs during the FY 2005 budget formulation process.

As discussed below, in FY 2002 EPA strengthened other areas critical to its ability to achieve long-term results: (1) collaborating with its partners, (2) conducting and applying the results of program evaluations, (3) tracking and measuring performance, (4) addressing environmental performance data issues, and (5) anticipating future trends and issues.

Strengthening Partnerships

Many of the FY 2002 advances in environmental protection discussed in Section II would not have been possible without strong collaboration between EPA and its federal, state, local, and tribal partners. EPA continues to collaborate closely with states and tribes and is committed to strengthening vital partnerships with organizations such as the Environmental Council of the States (ECOS) and the Tribal Caucus. EPA envisions a stronger role for states and tribes in its annual planning and budgeting and has been striving to involve them early in these processes. In FY 2002 ECOS and tribal representatives participated in EPA's FY 2004 Annual Planning Meeting to present recommendations for the Agency's FY 2004 budget priorities. Similarly, during FY 2002 EPA regional offices consulted with states and tribes on overall EPA budget priorities and developing regional budget initiatives.

Apart from soliciting state input and participation in its annual planning processes, EPA worked closely with ECOS and other state organizations in FY 2002 as it began to revise its long-range Strategic Plan. In spring 2002 EPA solicited state views on the greatest challenges and opportunities in environmental and human health protection that the Agency and the nation would likely face in the coming 5 to 10 years. These views were taken into account as the Agency developed options for a new strategic goal framework. The Agency's managers shared these goal framework options with ECOS, carefully considering the state feedback as they developed their recommendations for EPA Administrator Whitman. In July 2002, after the Administrator announced a new five-goal structure, EPA continued consulting with states to help determine more precisely the desired results to be achieved under each of the new strategic goals. EPA will continue to consult extensively with states in completing the 2003 Strategic Plan and will carefully consider state priorities and issues as it develops the objectives, strategies, and approaches for achieving the Agency's new strategic goals.

EPA and several states, through an ECOS Ad Hoc Committee, conducted a joint system evaluation of the National Environmental Performance Partnership System (NEPPS) during FY 2002. The evaluation reviewed the accomplishments of Performance Partnerships and barriers to further improvement in results-based partnering with states. Recommendations from this evaluative process pull together and build upon other Agency efforts such as the Managing for Improved Results initiative, Indicators project, and the new EPA Innovations Strategy. The Agency will work with selected states in FY 2003 to model having the Performance Partnership Agreement (PPA) become the definitive operating agreement between the Agency and a state. A complementary effort to improve the value of Performance Partnership Grants (PPGs) is also underway with anticipated benefits in flexibility and reduced transaction costs to be realized in FY 2003 and beyond.

During FY 2002 EPA also continued to work closely with tribal governments to identify priorities, improve management of environmental issues, and help develop the capacity to carry out environmental programs in Indian Country. For example, in FY 2002 EPA developed a highly accessible database containing environmental profiles of 300 federally recognized tribes. This new database includes historical information, maps, geographic dimensions, inventories of regulated facilities, governmental structure, descriptions of wastewater and drinking water facilities, grant activities, and the status of environmental programs for each individual tribe. EPA also developed resource materials useful to both the tribes and the Agency in managing tribal grants and maintaining quality grant oversight. The Agency worked closely with authorized tribes to publish the brochure *How Water Quality Standards Protect Tribal Waters*, an informative tool for citizens, tribes, and other stakeholders.

During FY 2002 EPA continued to collaborate with other federal agencies on a wide variety of programs with environmental protection benefits. EPA developed and managed the WTC Multi-Agency Database, which provided decision makers from 13 government and private partner organizations at the WTC site with access to the results of environmental monitoring. In FY 2002 the Agency also developed a Compendium of Environmental Programs, an interactive Web-enabled database that catalogues and cross-references the environmental programs of 29 federal departments and agencies for use in their collaborative planning, implementation, program evaluation, and resource sharing.

In FY 2002 EPA teamed with the Department of the Army and the Department of Defense Logistics Agency to implement alternatives to ozone-depleting halons used in fire protection. EPA and its two Defense Department partners also began jointly investigating environmentally friendly options for destroying stockpiles of certain ozone-depleting substances. Also, because of a strong partnership between EPA and the U.S. Forest Service, the U.S. Fish and Wildlife Service, and the Natural Resources Conservation Service, as well as state and local governments in Maryland, Pennsylvania, and Virginia, EPA exceeded its commitment to reduce nonpoint source pollution and restore important forest areas near local waterways and the Chesapeake Bay. As a result EPA and its partners are ahead of schedule to restore 2,010 miles of critical riparian forest areas by 2010 and in FY 2003 will set new goals to extend this restoration.

Further, working with its federal partners in FY 2002, EPA was able to clean up five Superfund sites at federally owned facilities. EPA also entered into a partnership with the National Oceanic and Atmospheric Administration to promote coastal resource protection through smart growth in coastal areas. This collaboration provides developers, local governments, infrastructure providers, and others with information, technical assistance, and recommendations regarding best practices to minimize the detrimental environmental impacts of growth in these sensitive areas.

Using Program Evaluation

During FY 2002 EPA continued to build Agency-wide capability to effectively conduct program evaluations and analyses that inform management decisions, enhance organizational learning, promote innovation, and foster better environmental results. For example, in FY 2002 EPA conducted an evaluation to assess how effectively the Agency's Clean Air Program is using its resources to build tribal capacity for addressing air quality in Indian Country. The evaluation noted the success that EPA has had since 1995 in increasing the number of tribes participating in the Clean Air Program, but also recognized the significant remaining need for support, expertise, and coordination in Indian Country. The evaluation led to 30 recommendations for improving EPA's approaches to addressing air problems in tribal lands. EPA began implementing many of the recommendations in FY 2002 before the evaluation was complete, and several more will be implemented over time.

In an FY 2002 report, the General Accounting Office (GAO) recognized EPA's Compliance Assistance Program as one of five federal public information dissemination programs employing useful program evaluation strategies that could serve as a model for other federal agencies.[9] GAO also found that EPA's Compliance Assistance Program is the only program that had developed an approach for measuring the long-term health and environmental outcomes or benefits resulting from its program. In many cases, the positive environmental effects of complying with environmental requirements could be seen relatively quickly. To continue to promote such program evaluation efforts and help foster environmental program evaluation as a nationally recognized discipline, EPA launched a Web-based "gateway" in FY 2002, linking environmental program evaluation information within EPA and with information resources outside the Agency.[10] In FY 2003 EPA will continue to add relevant information to this site, specifically focusing on new developments and new information from states, tribes, and the academic community.

Improving Environmental Indicators and Performance Measurement

During FY 2002 EPA made significant progress in developing and improving environmental indicators and performance measures to measure and assess the Agency's results over the next several years. For example, in FY 2002 EPA began work on an Agency-wide Environmental Indicators Initiative. Environmental indicators are measurements of environmental conditions over time. Indicators help measure the state of air, water, and land resources; the pressures on them; and the resulting effects on ecological and human health. The purpose of the Environmental Indicators Initiative is to improve the Agency's ability to report on the status of and trends in environmental conditions and their impacts on human health and the nation's natural resources. As a first step, in FY 2002 EPA collected currently available data and indicators and began drafting a report on the environment, which it plans to release for public comment in FY 2003.

In FY 2002 the Agency continued to increase the environmental outcome orientation of its annual performance goals and measures (APGs and PMs) that are used to plan and budget resources. EPA recognizes that to use its resources wisely, it should measure the results it is achieving with respect to environmental protection in terms of outcomes such as cleaner air and cleaner water. During FY 2002 the Agency increased the percentage of environmental outcome-oriented APGs tied to its annual budget by 7 percentage points while increasing the percentage of outcome-oriented PMs by 11 percentage points.[11] In addition, the Agency streamlined its APGs and PMs by consolidating two overlapping sets of goals and measures into a single, more easily understandable set for EPA's FY2004 Annual Plan and Budget.

In FY 2002 the Agency also worked to develop improved performance measures in a number of highly focused projects. For example, during FY 2002 new draft measures were developed for assessing the impact in future years of the Agency's planned implementation of provisions relevant to international technical assistance in the Stockholm Convention on Persistent Organic Pollutants (POPs). In this case measures of current activities, such as inventorying stockpiles of POPs, were tied to the more important externally reported measures of POPs stockpiles collected and destroyed. When appropriate, the Agency can use such external measures for external communication as well as management.

Finally, during FY 2002, in an effort to develop more useful measures, the Agency selected several performance measurement improvement projects to fund via an Agency-wide competition. Two examples of these projects include developing outcome PMs for EPA's Brownfields Program and evaluating a measure of the effects of harmful pesticides on bird populations.

Improving Data Quality

During FY 2002 the Agency continued to improve its ability to detect and correct errors in environmental data, standardize reporting, and exchange and integrate electronic data and data quality information among its federal, state, and local data-sharing partners. In FY 2002 EPA completed work on an internal set of Information Quality Guidelines to help ensure that the information the Agency provides to the public is of the highest quality.[12] These guidelines were developed using an electronically enhanced public participation process, and they contain EPA's policy and procedural guidance for maximizing the quality of the information the Agency disseminates. The guidelines also contain new Agency procedures for individuals to seek and obtain correction of information collected by EPA that might not comply with these information guidelines. The information contained in the Performance Data Charts in *Section II -*

Performance Results relative to data quality references can be found in *Appendix B - Data Quality for Assessment of FY 2002 Performance*.

This FY 2002 Annual Report is one of EPA's first publicly released documents to apply the guidelines to the data on which the Agency's performance is being measured. The report documents, to the extent possible, the quality of the Agency's performance data; makes transparent the methods of analysis and data manipulation; and references data sources. Most of this information is captured in Appendix B. That appendix also explains how EPA's program offices use well-established and robust Agency policies and procedures to ensure data quality, such as the quality system, peer review process, Inspector General's audits, and other error correction processes. Appendix B also discusses the limitations of the performance data contained in this report, as well as data lags in reporting progress toward some FY 2002 goals.

During FY 2002 EPA undertook several other initiatives to improve the quality of its environmental data. For example, EPA's Science Advisory Board Executive Committee began investigating commonly accepted means by which the scientific community communicates information, analyses, and findings. In addition, EPA's Science Policy Council began work on developing assessment factors for use in reviewing the quality of data submitted to the Agency by third parties. Lastly, EPA's National Health and Environmental Effects Research Laboratory developed and tested software to capture, sort, store, and retrieve the wealth of scientific data developed by EPA's research organizations.

Considering Future Trends

During FY 2002 EPA continued to look to the future to identify potential new challenges and opportunities for human health and environmental protection. The Agency recognizes that in addition to addressing long-standing environmental protection issues, it must try to anticipate and plan for future developments. The future will be marked by increased rates of change and greater uncertainty about the responses of complex biological, ecological, social, and political systems. EPA is exploring ways to keep pace with these developments by looking ahead to better understand potential threats, such as global warming. Further, the Agency and its partners increasingly recognize that many world developments are likely to present opportunities to further develop environmental protection efforts.

Population growth and the way resources are consumed to sustain this growth are altering the earth in unprecedented ways. The earth's population now exceeds 6 billion. Over the next 25 years this total will increase by nearly 2 billion, largely in developing countries. By 2025 an estimated 2.7 billion people will live in areas experiencing severe water scarcity, creating the potential for regional conflicts over water rights. In the United States, growth in the South and Southwest will pose water management problems such as substantial water and wastewater infrastructure maintenance, aquifer depletion, and surface water contamination. The expected unprecedented population growth will also affect the Agency's long-standing environmental concerns, such as air quality. Urbanization of undeveloped areas, for example, will likely increase demands for transportation, potentially leading to more vehicle miles traveled and increased emissions of pollutants.

Today's world is on the edge of a far-reaching industrial transformation. A number of recent technological developments and advances will pose new issues for human health and environmental protection. Scientists have deciphered the human genome and the genomes of many other organisms, including rice, the food most consumed throughout the world. A number of patents have been filed for a new type of technology where devices are built using single atoms and molecules; i.e., nanotechnology. EPA may need to examine the impact that nanotechnology might have on human health and the environment and also to explore opportunities to foster more environmentally benign technologies that use fewer resources and less energy. Production of industrial biotechnology products, such as pharmaceuticals raised as crop plants, is growing and might present environmental and human health protection issues. In the area of research advances, scientists might soon be able to ascertain whether current droughts are a normal variation of the earth's weather patterns or an increasingly likely phenomenon due to the effects of climate change. To plan for the future, EPA and its partners must consider these and other technological and scientific advances and the implications they hold for environmental protection work.

During FY 2002, as part of its strategic planning work, EPA completed several efforts to assist managers and staff in adopting a longer-range, futures perspective and in applying their findings to planning activities. In May 2002 senior Agency managers met to discuss emerging issues in environmental protection. The managers focused on two topics, fuel cells and genomics, as examples of emerging technologies with significant implications for EPA's work. In addition, the Agency has been using the results of a Look-Out Panel, including interviews with leaders and experts outside the Agency on future challenges and opportunities facing EPA. This panel will also inform the development of EPA's 2003 Strategic Plan.

The National Advisory Council for Environmental Policy and Technology (NACEPT) provides independent advice to the EPA Administrator on a broad range of environmental policy, technology, and management issues. Earlier this year NACEPT completed a major report *The Environmental Future: Emerging Challenges and Opportunities for EPA.*[13] The report makes several overarching recommendations related to planning: create an ongoing scanning process that involves all major parts of EPA; support the ongoing work of EPA's Futures Network and provide additional training on environmental scanning, scenario development, and modeling; and incorporate futures analysis into EPA's strategic planning. EPA is considering how it will incorporate the findings of this report into its planning processes. In addition to these planning-related recommendations, there are more than 50 emerging challenges and opportunities. These represent important environmental issues for the future that do not fit well with EPA's traditional roles. The Agency will encourage the programs and regions to consider the emerging challenges and opportunities identified in the report in their long-term planning and use them as a starting point for futures projects within their core work areas. As a result, these programs should be better prepared to respond to changing environmental conditions.

EPA intends to continue using innovative approaches and sound science to investigate complex interdisciplinary problems in environmental protection and to address them in its strategic planning. The Agency will need to expand its efforts to achieve interagency and international cooperation to address environmental issues on a global scale and will continue to rely on relationships with its federal, state, local, and tribal government partners and with its stakeholders to anticipate and address future environmental challenges.

LOOKING AHEAD TO FY 2003

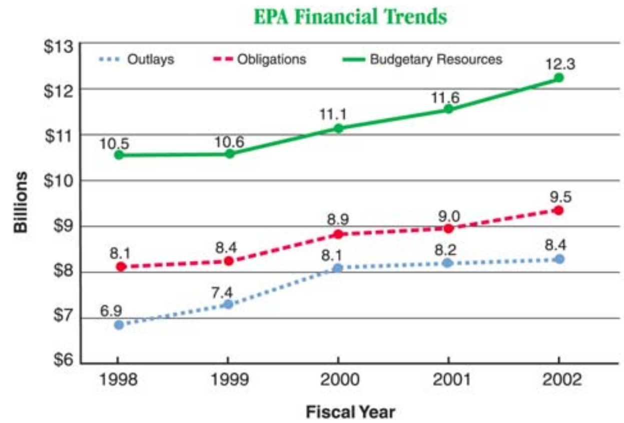
Over the next year EPA expects to make significant improvements in the use of performance and results information to inform the Agency's internal planning and decision making and to communicate to the public the environmental results it is achieving. During FY 2003 many of the recommendations of the Agency's Results Steering Group will be carried out for both near-term improvements and more far-reaching reforms to improve the way EPA manages for results. In FY 2003 the Agency will issue a revised Strategic Plan. Among other improvements, the Plan will contain a smaller set of more environmentally focused strategic goals and objectives. As recommended by the Results Steering Group, the Plan will set clear directions for the Agency, enable cross-Agency and cross-program planning, accommodate EPA program and regional office priority setting, and reflect input from EPA partners and stakeholders.

Finally, as mentioned earlier, in FY 2003 EPA plans to release a draft report on the environment. This report will use available national environmental indicators data to describe the current status of environmental conditions and human health concerns. It will also address many of the public's frequently asked questions on the environment, and will reflect work being done by others, such as the H. John Heinz III Center for Science, Economics and the Environment, the EPA Science Advisory Board, and the National Research Council.

FINANCIAL ANALYSIS

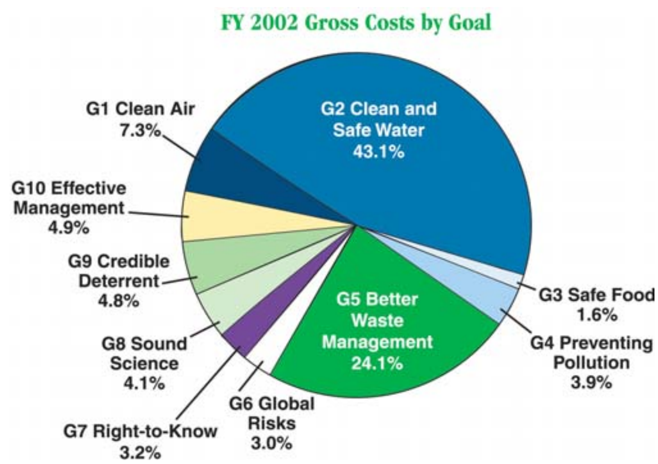
A central theme of the President's Management Agenda is the need for greater accountability in government. The financial statements provided in Section IV are one important aspect of Agency accountability in that they provide a snapshot of EPA's financial position at the end of the fiscal year. These financial statements are prepared in accordance with established federal accounting standards and audited by EPA's Inspector General. In addition to the financial statements, other views of how the Agency spends its resources are depicted in the discussion below.

EPA Resources: 1998 to 2002

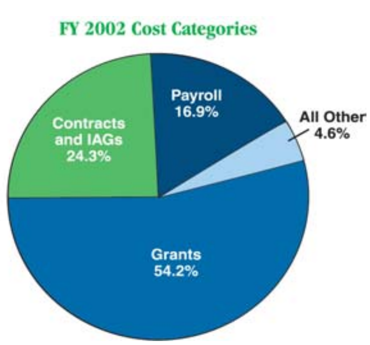


EPA's available resources from all appropriations and aggregate spending are depicted in the *EPA Financial Trends* chart.[14] Budgetary Resources consist of resources available each fiscal year largely from three sources: (1) yearly appropriations received from Congress, (2) unspent appropriations from previous years that the Agency has the authority to use in subsequent fiscal years, and (3) resources received from other sources such as collections of federal receipts that remit to the Agency and that the Agency may use for specific purposes. Obligations reflect legal authority and commitments to incur costs on the part of the government. For example, an obligation is recognized when the government awards a contract or a grant. The actual payment of the contract or grant may extend over several years depending on the terms and conditions. Outlays represent cash payments for goods and services received. The Statement of Budgetary Resources in Section IV provides more detail on the makeup of these resources.

EPA FY 2002 Spending



EPA spending can be depicted a number of different ways. The *Gross Costs by Goal* chart provides the percentage breakdown of EPA costs by each of the 10 strategic goals.[15] *Costs* are EPA's expenses for services rendered or activities performed whether from contractors, grantees, or EPA staff salaries. The difference between this graph and the Statement of Net Costs in Section IV is that *net costs* reflect a reduction for any related offsetting income such as Superfund cost recovery receipts. FY 2002 costs incurred to achieve the Agency's 10 goals total about $8 billion.



EPA's obligations and costs are largely for services performed outside the Agency. As illustrated in the *FY 2002 Cost Categories* chart[16], more than 75 percent of EPA's costs are in the form of contracts or grants. EPA's costs are also incurred in the Agency's headquarters and regional offices, which are responsible for carrying out many of the Agency's programs.

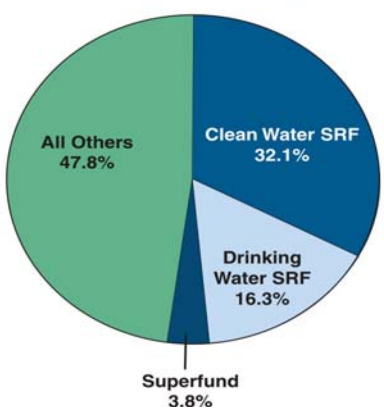
FY 2002 OBLIGATIONS BY GOAL (Dollars in Millions)													
Appropriations	G-1	G-2	G-3	G-4	G-5	G-6	G-7	G-8	G-9	G-10	Reim.	Other	Total
State & Tribal Assistance Grants	233	3,241	0	99	74	10	25	0	70	0	0	0	3,752
All Other	355	649	112	223	273	203	167	301	363	376	287	700*	4,009
Superfund	0	0	0	0	1,473	0	10	3	18	52	130	0	1,686
TOTAL	**588**	**3,890**	**112**	**322**	**1,820**	**213**	**202**	**304**	**451**	**428**	**417**	**700**	**9,447**
% of Total	*6.22*	*41.18*	*1.19*	*3.41*	*19.27*	*2.25*	*2.14*	*3.22*	*4.77*	*4.53*	*4.41*	*7.41*	*100.00*
NOTE: Actual costs are reflected in Section IV - Annual Financial Statements													

* The $700 million represents an annual payment from the general revenue to the Hazardous Substance Superfund and transfers from other federal agencies.

Most of EPA's costs are associated with grant programs, and nearly half of the Agency's grants are awarded from two state revolving funds (SRFs). The Clean Water SRF (CWSRF) provides assistance for wastewater and other water projects, such as those dealing with nonpoint sources, estuaries, and storm water. The Drinking Water SRF (DWSRF) provides financing for improvements to community water systems to assist in complying with the Safe Drinking Water Act. The DWSRF also allows states to use grant funds for other activities that support their drinking water programs. (See Section II, Goal 2, for more information on the SRFs.)

Funding for both revolving funds is awarded as grants to states and tribes, which then make loans to municipalities and other entities for construction of infrastructure projects, purchases of land or conservation easements, and implementation of other water quality activities. Additional funds from state match and leveraged bond proceeds expand the capital available in the SRFs to address priority water quality and public health needs, while loan repayments and earnings ensure funding for these activities far into the future. The flexibility and revolving nature of the SRFs have provided states with a powerful tool to apply needed funding toward their clean water and drinking water infrastructure needs.

FY 2002 Major Grant Categories



Through FY 2002 CWSRFs have turned $19.5 billion in federal capitalization grants into more than $38.7 billion in assistance to municipalities and other entities for wastewater projects. In recent years CWSRFs have directed about $4 billion in annual loan assistance to wastewater projects. More than $200 million of these funds are used each year to manage polluted runoff, making the CWSRF an effective tool in addressing nonpoint source problems.[17]

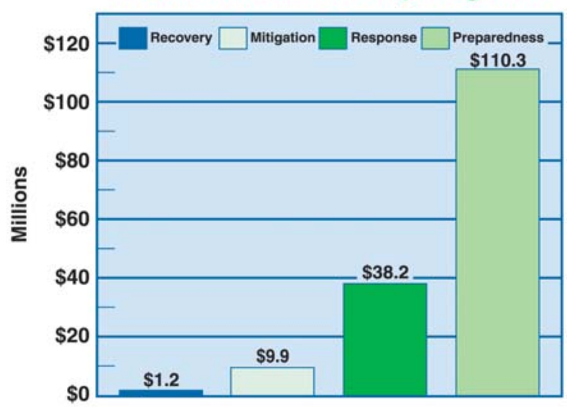
In a similar fashion the newer DWSRFs have turned $4.4 billion in federal capitalization grants into more than $5.1 billion in loan assistance, of which $1.3 billion was provided in assistance in FY 2002 alone.[18] States have also used more than $694 million of their DWSRF grants to fund other programs and activities that enhance water system management and protect sources of drinking water.

The large dollar volume of these two grant programs is the reason that more than 43 percent of EPA's costs are incurred in connection with its Clean and Safe Water Goal, as depicted in the *Major Grant Categories* chart. Other grant programs include categorical assistance to states and tribes, consistent with EPA's authorizing statutes, and research grants to universities and other nonprofit institutions.

Homeland Security Spending

EPA's actions in responding to homeland security concerns in the wake of September 11 are described in Section II. During FY 2002 the Agency obligated a total of $159.6 million[19] for homeland security for the activities shown in the chart. Most of these resources have been devoted to *Preparedness*, which addresses many potential kinds of terrorism incidents. *Response* covers the immediate actions taken in response to the September 11 and other attacks. *Mitigation* is action taken to reduce the risk and potential damage caused by future events, and *Recovery* constitutes actions to rebuild and otherwise return to normal.

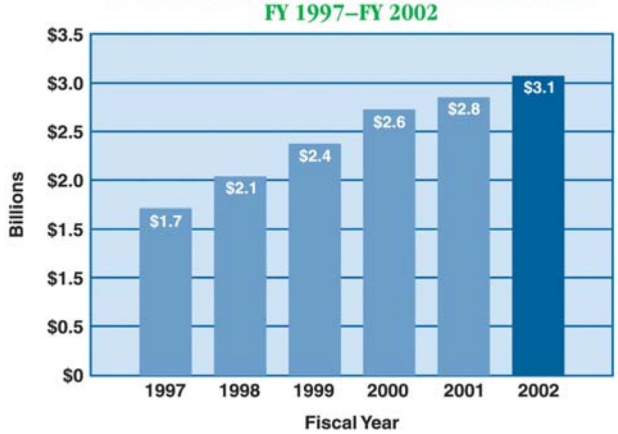
FY 2002 Homeland Security Obligations



Superfund Cost Recovery

The Superfund Program was established under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 (P.L. 96-510) to address public health and environmental threats from abandoned toxic waste dumps and releases of hazardous substances. CERCLA was subsequently amended by the Superfund Amendments and Reauthorization Act (SARA) of 1986 (P.L. 99-499).

Cumulative Superfund Trust Fund Cost Recoveries
FY 1997–FY 2002



Under CERCLA, Congress authorized the Superfund Program for 5 years (1981–1985) with funding of $1.6 billion and established the Hazardous Substance Response

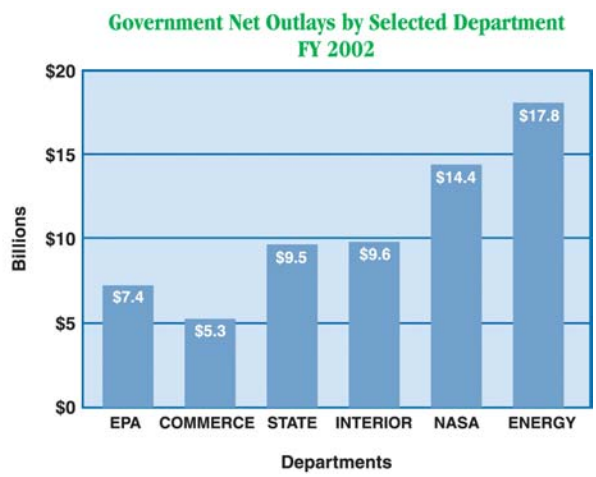
Trust Fund, known as the Hazardous Substance Superfund (Trust Fund). Because of the long-term nature and expense of site cleanups, Congress reauthorized the Superfund Program by passing SARA. Under SARA the Superfund Program was authorized for an additional 5 years (1987–1991) and the Trust Fund's funding level was increased to $8.5 million. The Omnibus Budget Reconciliation Act, passed by Congress on November 5, 1990, extended the Superfund program for an additional 4 years (1992–1995) and increased the Trust Fund's funding level by $5.1 billion. Although the Superfund Program has not been reauthorized, the program continues to operate based on annual congressional appropriations.

The Trust Fund was largely funded by excise taxes charged on crude oil and petroleum and on the sale or use of certain chemicals. Also, a corporate environmental tax (alternative minimum tax) was levied on corporations having a taxable annual income in excess of $2 million. The Trust Fund's other revenue sources include cost recoveries, fines and penalties, interest revenue from investments, and general revenue appropriated by Congress. Superfund cost recoveries represent amounts recovered by EPA through legal settlements with responsible parties for site clean up cost incurred by EPA. Tax revenues provided the Trust Fund with most of its funding until the Superfund's authority to tax expired on December 31, 1995. With the expiration of tax authority, current Trust Fund revenue is composed of the other revenues discussed above; appropriations from general revenues make up the largest funding source in this group.

Cost recovery continues to be a major revenue source of the Trust Fund. Cumulative cost recovery receipts since the inception of the program now total $3.1 billion.[20]

EPA Spending Related to Other Federal Agencies

As published in the Treasury Department's annual Statement of Receipts and Outlays, EPA's net outlays are relatively small in relation to those of other federal agencies and the federal government as a whole. A comparison of EPA with selected cabinet-level departments is displayed.



Innovative Environmental Financing: The Advantage of Public-Private Partnerships

EPA leverages federal funds through several innovative environmental financing efforts that are mutually beneficial public-private partnerships, such as the Environmental Finance Program.

The Environmental Finance Program uses leveraging and partnerships to extend the reach and impact of its activities. The program has three closely related components that provide financial outreach services to Agency customers and the regulated community. First, the Environmental Financial Advisory Board (EFAB), a discretionary federally chartered advisory committee, provides innovative ideas and recommendations to the EPA Administrator and EPA program offices on ways to lower costs, increase investments, and promote public-private partnerships with respect to environmental and public health protection. Second, the Environmental Finance Center (EFC) Network, consisting of nine university-based programs in eight EPA regions, delivers targeted technical assistance and partners with states, tribes, local governments, and the private sector to address how to cover the costs of meeting environmental standards. Through FY 2002 the EFCs had worked in 46 states delivering this assistance and sharing information among interested parties and throughout the network. (See Section II, Goal 10, for more information.) Third, the Environmental Financing Information Network, through its highly popular Web site and other means, catalogues the work and accomplishments of EFAB and the EFC Network and has provided full-text copies of more than 50 EFAB documents, summaries of over 350 environmental financing tools, and about 1,000 abstracts and case studies of valuable environmental finance documents.

Notes:

1.Geographic Areas redesignated by EPA as in attainment of the NAAQS: *Billings MT Area, Redesignated to Attainment for CO*, 67 FR 7966, February 21, 2002. *Denver-Boulder CO Area Redesignated to Attainment for CO*, 66 FR 64751, December 14, 2001. *Great Falls Area MT Area Redesignated to Attainment for CO*, 67 FR 31143, May 9, 2002. *Klamath Falls OR Area Redesignated to Attainment for CO*, 66 FR 48349, September 20, 2001. *Lowell MA Area Redesignated to Attainment for CO,* 67 FR 7272, February 19, 2002. *Medford OR Area Redesignated to Attainment for CO*, 67 FR 48388, July 24, 2002. *New York-N. New Jersey-Long Island NY Area Redesignated to Attainment for CO,* 67 FR 54574, August 23, 2002. *New York-N. New Jersey-Long Island NY Area Redesignated to Attainment for CO*, 67 FR 19337, April 19, 2002. *Springfield MA Area Redesignated to Attainment for CO*, 67 FR 7272, February 19, 2002. *Waltham MA Area Redesignated to Attainment for CO*, 67 FR 7272, February 19, 2002. *Worcester MA Area Redesignated to Attainment for CO*, 67 FR 7272, February 19, 2002. *Cincinnati-Hamilton KY Area Redesignated to Attainment for Ozone*, 67 FR 49600, July 31, 2002. *Adams, Denver, and Boulder Counties; Denver Metropolitan Areas Redesignated to Attainment for PM-10*, 67 FR 58335, September 16, 2002. *Mohave County (part); Bullhead City AZ Area Redesignated to Attainment for PM-10*, 67 FR 43020, June 26, 2002. *Pinal and Gila Counties; Payson AZ Area Redesignated to Attainment for PM-10,* 67 FR 43013 , June 26, 2002. *Ramsey County; (part) MN Area Redesignated to Attainment for PM-10,* 67 FR 48787, July 26, 2002. *AQCR 238: Marathon County: Rothschild Sub-city Area, Rib Mountain, Weston WI Area Redesignated to Attainment for SO2*, 67 FR 37328, May 29, 2002. *Central Steptoe Valley NV Area Redesignated to Attainment for SO2*, 67 FR 17939, April 12, 2002.

2. Sources for standards for toxic pollutants already in place in FY 2002: Generic MACT: Carbon Black Production, Cyanide Chemicals Manufacturing, Ethylene Processes, and Spandex Production, 67 FR 39301, June 7,2002. *Large Appliances: (Surface Coating)*, 67 FR 48253, July 23, 2002. *Leather Finishing Operations*, 67 FR 915510, February 27, 2002. *Polyvinyl Chloride & Copolymers Production,* 67 FR 45885, July 9, 2002. *Primary Copper*, 67 FR 40477, June 12, 2002. *Tire Manufacturing,* 67 FR 45598, July 9, 2002. *Cellulose Production: Carboxymethylcellulose Production, Cellulose Ethers Production, Cellulose Food Casing Manufacturing, Cellophane Production, Methylcellulose Production, Rayon Production*, 65 FR 52166, August 28, 2000, and Signed: May 15,2002. *Petroleum Refineries:* Catalytic Cracking, Catalytic Reforming & Sulfur Plant Units. 67 FR 43244, April 11, 2002. *Wet Formed Fiberglass Mat Production*, 67 FR 17823, April 11, 2002.

3. U.S. EPA, *Emissions Modeling System for Hazardous Air Pollutants* (August 2002), http://www.epa.gov/scram001/tt22.htm.

4. U.S. EPA, Clean Air Markets-Progress and Results: *The EPA Acid Rain Program 2001 Progress Report*, http://www.epa.gov/airmarkets/cmprpt/arp01/index.html.

5. U.S. EPA, EPA's *Tier 2/Gasoline Sulfur Final Rulemaking* (February 10, 2000) *Regulatory Impact Analysis.* Chapter VII*: Benefit-Cost Analysis*, EPA 420-R-99-023, December 22, 1999, http://www.epa.gov/otaq/regs/ld-hwy/tier-2/frm/ria/chvii.pdf. See also EPA's *Heavy-Duty Engine and Vehicle Standards and Highway Diesel Fuel Sulfur Control Requirements* (December 21, 2000), Chapter VII*: Benefit-Cost Analysis*. *Regulatory Impact Analysis* EPA420-R-00-026 (December 2000), http://www.epa.gov/otaq/regs/hd2007/frm/ria-vii.pdf .

6. U.S. EPA, Office of Ground Water and Drinking Water's Drinking Water National Information Management System, http://www.epa.gov/OGWDW/dwsrf/dwnims.html.

7. Office of Management and Budget, The Executive Office of the President, Federal Management, *The President's Management Agenda*, http://www.whitehouse.gov/omb/budget/fy2002/pma_index.html.

8. Office of Management and Budget, The Executive Office of the President, July 15, 2002, *Executive Branch Management Scorecard, Agency Scorecard*: U.S. EPA, http://www.whitehouse.gov/omb/budintegration/scorecards/epa_scorecard.html.

9. General Accounting Office, *Program Evaluation, Strategies for Assessing How Information Dissemination Contributes to Agency Goals*, GAO-02-923 (September 2002).

10. U.S. EPA, Evaluation Support, Evaluation of Environmental Programs, http://www.epa.gov/evaluate/.

11. U.S. EPA, Office of the Chief Financial Officer, Office of Planning, Analysis, and Accountability, Analysis Staff, Internal analysis, Outcome Orientation According to the GAO Classification and the Hierarchy of Indicators (HoI), (April 2002).

12. U.S. EPA, Office of Environment Information, *Information Quality Guidelines,* http://www.epa.gov/oei/qualityguidelines/index.htm.

13.National Advisory Council for Environmental Policy and Technology, The Environmental Future: Emerging Challenges and Opportunities for EPA EPA 100-R-02-001, (Washington, DC, U.S. EPA, Office of the Administrator, Office of Cooperative Environmental Management September 2002), http://www.epa.gov/ocem.

14. Section IV,FY 1998 to FY 2002 Statement of Budgetary Resources.

15. Section IV,FY 2002 Statement of Net Costs.

16. U.S. EPA, Office of the Chief Financial Officer (OCFO), EPA's Integrated Financial Accounting System.

17. U.S. EPA, Office of Water, Clean Water State Revolving Fund National Information Management System, http://www.epa.gov/r5water/cwsrf.

18. U.S. EPA, Office of Ground Water and Drinking Water's Drinking Water National Information Management System, http://www.epa.gov/OGWDW/dwsrf/dwnims.html.

19. U.S. EPA, OCFO, EPA's FY 2002 Budget Automation System.

20. U.S. Department of the Treasury, FY 2002 Superfund Trust Fund Financial Statements.

PRINCIPAL FINANCIAL STATEMENTS

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Financial Statements

Notes to Financial Statements

Notes to Financial Statements (continued)

Supplemental Information Requested by OMB

Required Supplemental Information

Required Supplemental Stewardship Information

Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 2002 and 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Superfund Trust Fund FY 2002	Superfund Trust Fund FY 2001*	All Others FY 2002	All Others FY 2001	Combined Totals FY 2002
ASSETS					
Intragovernmental					
Fund Balance With Treasury (Note 2)	$ 32,229	$ 6,706	$ 11,688,934	$ 11,272,374	$ 11,721,163
Investments (Note 4)	3,309,975	3,724,044	1,952,052	1,778,818	5,262,027
Accounts Receivable, Net (Note 5)	33,309	31,178	72,298	69,977	105,607
Other (Note 6)	4,520	5,521	4,578	4,386	9,098
Total Intragovernmental	$ 3,380,033	$ 3,767,449	$ 13,717,862	$ 13,125,555	$ 17,097,895
Cash and Other Monetary Assets (Note 3)	0	0	10	0	10
Accounts Receivable, Net (Note 5)	411,437	466,038	49,398	75,027	460,835
Loans Receivable, Net - Non-Federal (Note 7)	0	0	64,646	75,552	64,646
Property, Plant and Equipment, Net (Notes 9 and 37)	38,746	40,169	551,336	526,893	590,082
Other (Note 6)	780	8,878	4,937	1,128	5,717
Total Assets	$ 3,830,996	$ 4,282,534	$ 14,388,189	$ 13,804,155	$ 18,219,185
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	$ 116,239	$ 123,537	$ 43,983	$ 41,659	$ 160,222
Debt Due to Treasury (Note 10)	0	0	24,290	31,124	24,290
Custodial Liability (Note 11)	0	0	69,706	77,778	69,706
Other (Note 12)	23,727	21,308	26,381	27,507	50,108
Total Intragovernmental	$ 139,966	$ 144,845	$ 164,360	$ 178,068	$ 304,326
Accounts Payable and Accrued Liabilities (Note 8)	145,805	137,735	511,236	655,274	657,041
Pensions and Other Actuarial Liabilities (Note 14)	7,698	7,731	31,759	31,902	39,457
Environmental Cleanup Costs (Note 20)	0	0	13,309	14,528	13,309
Cashout Advances, Superfund (Notes 15 and 36)	337,139	447,955	0	0	337,139
Commitments and Contingencies (Note 18)	0	3,778	20	6,020	20
Payroll and Benefits Payable (Note 33)	39,136	35,111	177,432	163,730	216,568
Other (Notes 12 and 13)	45,515	27,659	47,479	60,536	92,994
Total Liabilities	$ 715,259	$ 804,814	$ 945,595	$ 1,110,058	$ 1,660,854
NET POSITION					
Unexpended Appropriations (Note 16)	$ 0	$ 0	$ 10,923,889	$ 10,358,961	$ 10,923,889
Cumulative Results of Operations (Notes 36 & 37)	3,115,737	3,477,720	2,518,705	2,335,136	5,634,442
Total Net Position	3,115,737	3,477,720	13,442,594	12,694,097	16,558,331
Total Liabilities and Net Position	$ 3,830,996	$ 4,282,534	$ 14,388,189	$ 13,804,155	$ 18,219,185

* *Cashout Advances; Property, Plant and Equipment, Net; and Cumulative Results of Operations, Superfund, are restated for FY 2001.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 2002 and 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Combined Totals FY 2001*	Intra-agency Elimination FY 2002	Intra-agency Elimination FY 2001	Consolidated Totals FY 2002	Consolidated Totals FY 2001*
ASSETS					
Intragovernmental					
Fund Balance With Treasury (Note 2)	$ 11,279,080	$ 0	$ 0	$ 11,721,163	$ 11,279,080
Investments (Note 4)	5,502,862	0	0	5,262,027	5,502,862
Accounts Receivable, Net (Note 5)	101,155	(47,412)	(48,128)	58,195	53,027
Other (Note 6)	9,907	(4,447)	(5,739)	4,651	4,168
Total Intragovernmental	$ 16,893,004	$ (51,859)	$ (53,867)	$ 17,046,036	$ 16,839,137
Cash and Other Monetary Assets (Note 3)	0	0	0	10	0
Accounts Receivable, Net (Note 5)	541,065	0	0	460,835	541,065
Loans Receivable, Net - Non-Federal (Note 7)	75,552	0	0	64,646	75,552
Property, Plant and Equipment, Net (Note 9 and 37)	567,062	0	0	590,082	567,062
Other (Note 6)	10,006	0	0	5,717	10,006
Total Assets	$ 18,086,689	$ (51,859)	$ (53,867)	$ 18,167,326	$ 18,032,822
LIABILITIES					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	$ 165,196	$ (47,480)	$ (48,512)	$ 112,742	$ 116,684
Debt Due to Treasury (Note 10)	31,124	0	0	24,290	31,124
Custodial Liability (Note 11)	77,778	0	0	69,706	77,778
Other (Note 12)	48,815	(4,379)	(5,355)	45,729	43,460
Total Intragovernmental	$ 322,913	$ (51,859)	$ (53,867)	$ 252,467	$ 269,046
Accounts Payable and Accrued Liabilities (Note 8)	793,009	0	0	657,041	793,009
Pensions and Other Actuarial Liabilities (Note 14)	39,633	0	0	39,457	39,633
Environmental Cleanup Costs (Note 20)	14,528	0	0	13,309	14,528
Cashout Advances, Superfund (Notes 15 and 36)	447,955	0	0	337,139	447,955
Commitments and Contingencies (Note 18)	9,798	0	0	20	9,798
Payroll and Benefits Payable (Note 33)	198,841	0	0	216,568	198,841
Other (Notes 12 and 13)	88,195	0	0	92,994	88,195
Total Liabilities	$ 1,914,872	$ (51,859)	$ (53,867)	$ 1,608,995	$ 1,861,005
NET POSITION					
Unexpended Appropriations (Note 16)	$ 10,358,961	$ 0	$ 0	$ 10,923,889	$ 10,358,961
Cumulative Results of Operations (Notes 36 & 37)	5,812,856	0	0	5,634,442	5,812,856
Total Net Position	16,171,817	0	0	16,558,331	16,171,817
Total Liabilities and Net Position	$ 18,086,689	$ (51,859)	$ (53,867)	$ 18,167,326	$ 18,032,822

* *Cashout Advances; Property, Plant and Equipment, Net; and Cumulative Results of Operations, Superfund, are restated for FY 2001.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Net Cost
For the Years Ended September 30, 2002 and 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Superfund Trust Fund FY 2002	Superfund Trust Fund FY 2001*	All Others FY 2002	All Others FY 2001	Combine Totals FY 2002
COSTS					
Intragovernmental	$ 348,980	$ 426,499	$ 782,110	$ 710,290	$ 1,131,090
With the Public	1,209,338	1,177,849	5,678,789	5,784,628	6,888,127
Expenses from Other Appropriations (Note 23)	114,297	103,654	(114,297)	(103,654)	0
Total Costs (Note 37)	$ 1,672,615	$ 1,708,002	$ 6,346,602	$ 6,391,264	$ 8,019,217
Less:					
Earned Revenues, Federal (Note 19)	22,932		104,318		127,250
Earned Revenues, Non-Federal (Note 19)	477,768		24,927		502,695
Total Earned Revenues (Notes 19 and 36)	$ 500,700	435,141	$ 129,245	77,933	$ 629,945
NET COST OF OPERATIONS	$ 1,171,915	$ 1,272,861	$ 6,217,357	$ 6,313,331	$ 7,389,272

Environmental Protection Agency
Consolidating Statement of Net Cost
For the Years Ended September 30, 2002 and 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Combined Totals FY 2001*	Intra-agency Eliminations FY 2002	Intra-agency Eliminations FY 2001	Consolidated Totals FY 2002	Consolidated Totals FY 2001*
COSTS					
Intragovernmental	$ 1,136,789	$ (20,795)	$ (19,627)	$ 1,110,295	$ 1,117,162
With the Public	6,962,477	0	0	6,888,127	6,962,477
Expenses from Other Appropriations (Note 23)	0	0	0	0	0
Total Costs (Note 37)	$ 8,099,266	$ (20,795)	$ (19,627)	$ 7,998,422	$ 8,079,639
Less:					
Earned Revenues, Federal (Note 19)		(20,795)		106,455	
Earned Revenues, Non-Federal (Note 19)		0		502,695	
Total Earned Revenues (Notes 19 and 36)	513,074	$ (20,795)	(19,627)	$ 609,150	493,447
NET COST OF OPERATIONS	$ 7,586,192	$ 0	$ 0	$ 7,389,272	$ 7,586,192

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS						
Intragovernmental	$ 101,347	$ 183,063	$ 37,022	$ 55,734	$ 440,640	$ 36,020
With the Public	487,461	3,264,051	91,795	253,462	1,488,511	206,938
Total Costs	588,808	3,447,114	128,817	309,196	1,929,151	242,958
Less:						
Earned Revenue, Federal	266	3,744	109	1,497	92,691	4,081
Earned Revenue, Non Federal	25	2,290	14,960	1,193	473,739	586
Total Earned Revenue (Note 19)	291	6,034	15,069	2,690	566,430	4,667
Management Cost Allocation	59,337	87,575	26,585	37,863	143,513	16,636
NET COST OF OPERATIONS	**$** 647,854	**$** 3,528,655	**$** 140,333	**$** 344,369	**$** 1,506,234	**$** 254,927

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management*	Global Risks
COSTS						
Federal	$ 87,360	$ 156,900	$ 30,210	$ 41,065	$ 465,452	$ 39,816
With the Public	458,256	3,482,906	77,687	236,933	1,441,486	186,919
Total Costs (Note 37)	545,616	3,639,806	107,897	277,998	1,906,938	226,735
Less:						
Earned Revenue (Note 36)	702	4,966	17,051	1,545	457,649	7,286
Total Earned Revenue (Note 19)	702	4,966	17,051	1,545	457,649	7,286
Management Cost Allocation						
NET COST OF OPERATIONS	$ 610,872	$ 3,711,968	$ 124,503	$ 318,520	$ 1,553,091	$ 242,731

Detailed descriptions of the above Goals are provided in *EPA's FY 2002 Annual Report, Section II – Performance Results.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Right to Know	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals**	Consolidated Totals
COSTS						
Intragovernmental	$ 60,624	$ 62,030	$ 106,374	$ 23,393	$ 4,048	$ 1,110,295
With the Public	193,241	263,592	281,171	366,798	(8,893)	6,888,127
Total Costs	253,865	325,622	387,545	390,191	(4,845)	7,998,422
Less:						
Earned Revenue, Federal	130,237	800	234	(125,025)	(2,179)	106,455
Earned Revenue, Non Federal	154	84	914	3,300	5,450	502,695
Total Earned Revenue (Note 19)	130,391	884	1,148	(121,725)	3,271	609,150
Management Cost Allocation	28,089	30,408	81,910	(511,916)	0	0
NET COST OF OPERATIONS	$ 151,563	**$** 355,146	**$** 468,307	**$** 0	**$** (8,116)	**$** 7,389,272

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Right to Know	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals**	Consolidated Totals
COSTS						
Federal	$ 41,540	$ 58,804	$ 100,116	$ 66,461	$ 29,438	$ 1,117,162
With the Public	126,154	290,056	299,021	424,036	(60,977)	6,962,477
Total Costs (Note 37)	167,694	348,860	399,137	490,497	(31,539)	8,079,639
Less:						
Earned Revenue (Note 36)	324	706	786	4,330	(1,898)	493,447
Total Earned Revenue (Note 19)	2,335,136	10,358,961	786	10,358,961	(1,898)	493,447
Management Cost Allocation						
NET COST OF OPERATIONS	$ (2,167,442)	$ (2,654,016)	$ 398,351	**$** (2,512,379)	**$** (29,641)	$ 7,586,192

** *See Note 30.*

Detailed descriptions of the above Goals are provided in *EPA's FY 2002 Annual Report, Section II – Performance Results*.

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Cumulative Results of Operations Superfund Trust Fund	Cumulative Results of Operations All Others	Unexpended Appropriations All Others	Cumulative Results of Operations Consolidated Totals*	Unexpended Appropriations Consolidated Totals*
Net Position - Beginning of Period, restated (Notes 36 and 37)	$ 3,477,720	$ 2,335,136	$ 10,358,961	$ 5,812,856	$ 10,358,961
Budgetary Financing Sources:					
Appropriations Received	0	0	7,356,085	0	7,356,085
Appropriations Transferred In/Out (Note 31)	0	0	28,598	0	28,598
Other Adjustments (Note 34)	0	0	(35,460)	0	(35,460)
Appropriations Used	0	6,784,295	(6,784,295)	6,784,295	(6,784,295)
Nonexchange Revenue (Notes 17 and 35)	108,038	260,111	0	368,149	0
Transfers In/Out (Note 31)	(103,448)	63,672	0	(39,776)	0
Trust Fund Appropriations (Note 17)	676,292	(676,292)	0	0	0
Income from Other Appropriations (Note 23)	114,297	(114,297)	0	0	0
Total Budgetary Financing Sources	$ 795,179	$ 6,317,489	$ 564,928	$ 7,112,668	$ 564,928
Other Financing Sources:					
Transfers In/Out (Note 31)	47	398	0	445	0
Imputed Financing Sources (Note 32)	14,706	83,039	0	97,745	0
Total Other Financing Sources	$ 14,753	$ 83,437	$ 0	$ 98,190	$ 0
Net Cost of Operations	(1,171,915)	(6,217,357)	0	(7,389,272)	0
Net Position - End of Period	$ 3,115,737	$ 2,518,705	$ 10,923,889	$ 5,634,442	$ 10,923,889

* *This statement does not have any intra-agency eliminations for FY 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2001 (*Restated*See Notes 36 and 37)*
(Dollars in Thousands)

	Superfund Trust Fund FY 2001*	All Others FY 2001	Combined Totals FY 2001*	Intra-agency Eliminations FY 2001	Consolidated Totals FY 2001*
Net Cost of Operations (Notes 36 and 37)	$ 1,272,861	$ 6,313,331	$ 7,586,192	$ 0	$ 7,586,192
Financing Sources					
(Other than Exchange Revenue)					
Appropriations Used	0	6,867,762	6,867,762	0	6,867,762
Taxes & Non Exchange Interest (Note 17)	226,861	276,346	503,207	0	503,207
Other Non Exchange Revenue	2,775	11,878	14,653	0	14,653
Imputed Financing (Note 32)	13,686	77,855	91,541	0	91,541
Trust Fund Appropriations (Note 17)	633,603	(633,603)	0	0	0
Transfers-In (Note 31)	0	62,861	62,861	(47,894)	14,967
Transfers-Out (Note 31)	(127,927)	0	(127,927)	47,894	(80,033)
Income from Other Appropriations (Note 23)	103,654	(103,654)	0	0	0
Net Change in Cumulative Results of Operations	(420,209)	246,114	(174,095)	0	(174,095)
Increases/Decreases in Unexpended Appropriations	0	239,122	239,122	0	239,122
Change in Net Position	(420,209)	485,236	65,027	0	65,027
Net Position-Beginning of Period	3,875,439	12,208,861	16,084,300	0	16,084,300
Prior Period Adjustment (Note 37)	22,490		22,490		22,490
Adjusted Net Position-Beginning of Period	3,897,929	12,208,861	16,106,790	0	16,106,790
Net Position-End of Period (Notes 36 and 37)	$ 3,477,720	$ 12,694,097	$16,171,817	$ 0	$ 16,171,817

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2002	All Others FY 2002	Combined Totals FY 2002
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations Received	$ 0	$ 7,371,085	$ 7,371,085
Borrowing Authority	0	0	0
Net Transfers	1,329,490	101,010	1,430,500
Other	0	0	0
Unobligated Balances:			
Beginning of Period	714,321	1,911,304	2,625,625
Net Transfers, Actual	0	500	500
Anticipated Transfers Balance	0	0	0
Spending Authority from Offsetting Collections:			
Earned and Collected	193,835	262,102	455,937
Receivable from Federal Sources	3,523	1,410	4,933
Change in Unfilled Customer Orders			
Advance Received	(22,548)	2,133	(20,415)
Without Advance from Federal Sources	1,749	62,549	64,298
Anticipated for Rest of Year	0	0	0
Transfers from Trust Funds	0	48,671	48,671
Total Spending Authority from Collections	$ 176,559	$ 376,865	$ 553,424
Recoveries of Prior Year Obligations (Note 26)	230,628	89,440	320,068
Permanently Not Available (Note 26)	(2,000)	(42,292)	(44,292)
Total Budgetary Resources (Note 25)	$ 2,448,998	$ 9,807,912	$ 12,256,910
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	$ 1,548,650	$ 7,514,054	$ 9,062,704
Reimbursable	149,354	248,610	397,964
Total Obligations Incurred (Note 25)	$ 1,698,004	$ 7,762,664	$ 9,460,668
Unobligated Balances:			
Apportioned (Note 27)	726,589	1,917,637	2,644,226
Exempt from Apportionment	0	0	0
Unobligated Balances Not Available (Note 27)	24,405	127,611	152,016
Total Status of Budgetary Resources	$ 2,448,998	$ 9,807,912	$ 12,256,910
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligations Incurred, Net	$ 1,290,817	$ 7,296,359	$ 8,587,176
Obligated Balances, Net - Beginning of Period	2,108,696	9,324,855	11,433,551
Accounts Receivable	3,694	72,577	76,271
Unfilled Customer Orders from Federal Sources	66,448	253,348	319,796
Undelivered Orders, Unpaid	(1,831,268)	(9,277,925)	(11,109,193)
Accounts Payable	(260,633)	(656,652)	(917,285)
Total Outlays (Note 25)	$ 1,377,754	$ 7,012,562	$ 8,390,316
Disbursements	$ 1,549,041	$ 7,323,740	$ 8,872,781
Collections	(171,287)	(311,178)	(482,465)
Less: Offsetting Receipts (Note 28)	(248,252)	(687,650)	(935,902)
Net Outlays	$ 1,129,502	$ 6,324,912	$ 7,454,414

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2002	All Others FY 2002	Consolidated Totals* FY 2002
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	$ 1,698,004	$ 7,762,664	$ 9,460,668
Less: Spending Authority from Offsetting			0
Collections and Recoveries	(407,187)	(466,305)	(873,492)
Obligations, Net of Offsetting Collections	$ 1,290,817	$ 7,296,359	$ 8,587,176
Less: Offsetting Receipts (Note 28)	(248,252)	(687,650)	(935,902)
Net Obligations	$ 1,042,565	$ 6,608,709	$ 7,651,274
Other Resources			
Transfers In/Out without Reimbursement,			
Property (Note 31)	$ 47	$ (47)	$ 0
Imputed Financing Sources (Note 32)	14,706	83,039	97,745
Income from Other Appropriations (Note 23)	114,297	(114,297)	0
Net Other Resources Used to Finance Activities	$ 129,050	$ (31,305)	$ 97,745
Total Resources Used To Finance Activities	$ 1,171,615	$ 6,577,404	$ 7,749,019
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS			
Change in Budgetary Resources Obligated	$ 64,738	$ (422,293)	$ (357,555)
Resources that Fund Prior Period Expenses (Note 29)	(1,590)	(399)	(1,989)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations			
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	0	4,394	4,394
Offsetting Receipts Not Affecting Net Cost	248,252	11,358	259,610
Resources that Finance Asset Acquisition	(6,587)	(53,692)	(60,279)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	(48,758)	48,670	(88)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 256,055	$ (411,962)	$ (155,907)
Total Resources Used to Finance the Net Cost of Operations	$ 1,427,670	$ 6,165,442	$ 7,593,112

** This statement did not have any intra-agency eliminations for FY 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Superfund Trust Fund FY 2002	All Others FY 2002	Consolidated Totals* FY 2002
COMPONENTS OF 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 (Note 29)	$ 0	$ 0	$ 0
Increase in Environmental and Disposal Liability (Note 29)	0	578	578
Up/Downward Reestimates of Subsidy Expense	0	(371)	(371)
Increase in Public Exchange Revenue Receivable	(305,035)	(2,422)	(307,457)
Increase in Workers Compensation Costs (Note 29)	0	0	0
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	$ (305,035)	$ (2,215)	$ (307,250)
Components Not Requiring/Generating Resources			
Depreciation and Amortization	7,854	27,022	34,876
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	41,426	27,108	68,534
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$ 49,280	$ 54,130	$ 103,410
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	(255,755)	51,915	(203,840)
Net Cost of Operations	$ 1,171,915	$ 6,217,357	$ 7,389,272

** This statement did not have any intra-agency eliminations for FY 2002.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Financing
For the Year Ended September 30, 2001 (*Restated *See Notes 36 and 37)*
(Dollars in Thousands)

	Superfund Trust Fund FY 2001*	All Others FY 2001	Consolidated Totals FY 2001**
Obligations and Nonbudgetary Resources			
Obligations Incurred	$ 1,570,056	$ 7,431,802	$ 9,001,858
Less: Spending Authority from Offsetting Collections			
Earned Reimbursements			
Collected	(311,271)	(227,827)	(539,098)
Receivable from Federal Sources	3,716	6,306	10,022
Change in Unfilled Customer Orders	(41,203)	(36,273)	(77,476)
Transfers from Trust Funds	0	(46,178)	(46,178)
Recoveries of Prior Year Obligations	(196,644)	(76,814)	(273,458)
Imputed Financing for Cost Subsidies (Note 32)	13,686	77,855	91,541
Income from Other Appropriations (Note 23)	103,654	(103,654)	0
Transfers In/Out of Nonmonetary Assets	0	0	0
Exchange Revenue Not in the Entity's Budget (Note 36)	(128,757)	(2,072)	(130,829)
Total Obligations and Nonbudgetary Resources	1,013,237	7,023,145	8,036,382
Resources that Do Not Fund Net Cost of Operations			
Change in Amount of Goods/Services Ordered but			
but Not Yet Provided (Increases)/Decreases	145,931	(117,998)	27,933
Change in Unfilled Customer Orders, etc.	41,203	36,273	77,476
Costs Capitalized on the Balance Sheet			
General Plant, Property and Equipment (Note 37)	(12,530)	(74,092)	(86,622)
Purchases of Inventory		52	52
Adjustments to Costs Capitalized on the Balance Sheet	(40)	(4)	(44)
Collections that Decrease Credit Program Receivables or			
Increase Program Liabilities	0	7,722	7,722
Adjustment for Trust Fund Outlays that Do Not			
Affect Net Cost	(47,894)	(587,424)	(635,318)
Total Resources that Do Not Fund Net Costs of Operations	126,670	(735,471)	(608,801)
Components of Costs that Do Not Require or Generate Resources			
Depreciation and Amortization (Note 37)	7,091	19,333	26,424
Bad Debt Related to Uncollectible Receivables	133,761	2,881	136,642
Loss (Gain) on Disposition of Assets	(9,426)	895	(8,531)
Other Expenses Not Requiring Budgetary Resources	699	(5,686)	(4,987)
Total Costs That Do Not Require Resources	132,125	17,423	149,548
Financing Sources Yet to be Provided	829	8,234	9,063
Net Costs of Operations (Notes 36 and 37)	$ 1,272,861	$ 6,313,331	$ 7,586,192

*** This statement did not have any intra-agency eliminations for FY 2001.*

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Custodial Activity
For the Years Ended September 30, 2002 and 2001
(Dollars in Thousands)

	FY 2002	FY 2001
Revenue Activity:		
Sources of Collections		
Fines and Penalties	$ 94,237	$ 114,830
Other	9,322	31,754
Total Cash Collections	$ 103,559	$ 146,584
Accrual Adjustment	(8,070)	(24,692)
Total Custodial Revenue (Note 24)	$ 95,489	$ 121,892
Disposition of Collections:		
Transferred to Others (General Fund)	$ 103,818	$ 147,045
Increases/Decreases in Amounts to be Transferred	(8,329)	(25,153)
Total Disposition of Collections	$ 95,489	$ 121,892
Net Custodial Revenue Activity (Note 24)	$ 0	$ 0

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Notes to Financial Statements
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, 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 books and records of the Agency in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 01-09, and the Agency's accounting policies which are summarized in this note. In addition, to the guidance in Bulletin 01-09, the Statement of Net Cost has been prepared by the EPA strategic goals. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency's use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate Federal pollution control efforts. The Agency is generally organized around the media and substances it regulates -- air, water, land, hazardous waste, pesticides and toxic substances. For FY 2002, the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed 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 Agency allocates funds from its appropriation to other Federal agencies to carry out the Act. 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. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other Federal agencies. The Superfund Trust Fund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

All Other Funds include other Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other Federal agencies as authorized by the Economy Act of 1932. Trust Fund appropriations are the Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund. General Fund appropriations are the State and Tribal Assistance Grants (STAG), Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector General (IG), Buildings and Facilities (B&F), and Payment to the Hazardous Substance Superfund. General Fund appropriation activities that no longer receive current definite appropriations but have unexpended authority are the Asbestos Loan Program and Energy, Research and Development. Revolving Funds include the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) Revolving Fund and Tolerance Revolving Fund which receive no direct appropriations; however, they do collect fees from public industry as a source of reimbursement for the services provided. In addition to FIFRA and Tolerance, a Working Capital Fund (WCF) was established and designated as a franchise fund to provide computer operations support and postage service for the Agency. A Special Fund was established to collect the Exxon Valdez settlement as a result of the Exxon Valdez oil spill. All Other Funds are as follows:

The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 (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 environment. Funds are used for grants to non-state entities including Indian tribes under section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2005, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act (OPA) of 1990. Monies were appropriated to the Oil Spill Response Trust Fund in 1993. 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 of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The State and Tribal Assistance Grants (STAG) appropriation provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2002, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The Science and Technology appropriation is accounted for under

Treasury symbol 0107.

The Environmental Programs and Management (EPM) appropriation includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the operating programs. Areas supported from this appropriation include Clean Air; Clean and Safe Water; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans' Right to Know About Their Environment; Sound Science; Improved Understanding of Environmental Risk; and Greater Innovation to Address Environmental Problems; Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The Environmental Programs and Management appropriation is accounted for under Treasury symbol 0108.

The Office of Inspector General appropriation provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund Trust Fund and the Leaking Underground Storage Tank Trust Funds are appropriated under those Trust Fund accounts and are transferred to the Office of Inspector General account. The audit function provides contract, internal and performance, and financial and grant audit services. The Office of Inspector General appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds being accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the Environmental Protection Agency. The Buildings and Facilities appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations from the General Fund of the Treasury to finance activities conducted through Hazardous Substance Superfund. Payment to the Hazardous Substance Superfund is accounted for under Treasury symbol 0250.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program Fund disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Fund receives the subsidy payment, borrows from Treasury and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 0118 for the subsidy and administrative support, under Treasury symbol 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans, and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act of 1972 as amended and as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services of pesticide chemicals in or on food and animal feed. Effective

January 2, 1997, fees collected are now being collected and deposited in the Reregistration and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The Working Capital Fund (WCF) includes two activities: computer support services and postage. WCF derives revenue from these activities based upon a fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenues generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund 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 the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Allocations and appropriations transferred to the Agency from other Federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce which provide economic assistance to state and local developmental activities, the Agency for International Development which provides assistance on environmental matters at international levels, and from the General Services Administration which provides funds for rental of buildings, and operations, repairs, and maintenance of rental space. The transfer allocations are accounted for under Treasury symbols 0200, 1010, and 4542; and the appropriation transfers are accounted for under 0108.

Clearing Accounts include the Budgetary suspense account, Unavailable Check Cancellations and Overpayments, and Undistributed IPAC Payments and Collections. Clearing accounts are accounted for under Treasury symbols 3875, 3880, and 3885.

Deposit funds include Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6266, 6275, and 6500.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 3200, and 3220.

The Environmental Services Receipt account 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 will be appropriated to the S&T appropriation and to the EPM appropriation to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund includes gifts for pollution control programs that are usually designated for a specific use by the donor and deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the

All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated to general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds were $53.5 million for FY 2001 and $49.1 million for FY 2002.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund 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 Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the 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 LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriations for S&T, EPM and for the Office of the Inspector General 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 Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adapted 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 was financed under a permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan was disbursed.

Funding of the FIFRA and the Tolerance Revolving Funds 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 WCF is provided by fees collected from other Agency appropriations collected to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other Federal agencies are funded by a non expenditure transfer of funds from the other Federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts, deposit accounts, and receipt accounts receive no budget. The amounts are recorded to the Clearing and Deposit accounts pending further disposition. Amounts recorded to the Receipt accounts capture amounts receivable to or collected for the General Fund of the U.S. Treasury.

D. Basis of Accounting

Superfund and All Other Funds

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. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

Superfund

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other Federal agencies under Inter-Agency Agreements (IAGs), state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs), under CERCLA Section 122(b)(3), placed in special accounts. Special accounts were previously limited to settlement amounts for future costs; however, beginning in FY 2001, cost recovery amounts received under CERCLA Section 122(b)(3) settlements could be placed in special accounts. Cost recovery settlements that are not placed in special accounts, continue to be deposited in the Superfund Trust Fund.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as Other Financing Sources when earned, i.e., 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

Superfund and All Other Funds

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments. (See Note 2)

G. Investments in U.S. Government Securities

All Other Funds

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

H. Notes Receivable

Superfund

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt. (See Note 6)

I. Marketable Equity 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. Currently EPA does not hold any marketable securities.

J. Accounts Receivable and Interest Receivable (See Note 5)

Superfund

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) as amended by the Superfund Amendments and Reauthorization Act (SARA) provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record 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 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 Superfund State Contracts (SSCs), cost sharing arrangements under SSCs 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% or 50% of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA and both accounts receivable and interest receivable to the General Fund of the Treasury.

K. Advances and Prepayments

Superfund and All Other Funds

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred. (See Note 6)

L. Loans Receivable

All Other Funds

Loans are accounted for as receivables after funds have been disbursed. The amount of Asbestos Loan Program loans obligated but not disbursed is disclosed in Note 7. 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

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. (See Note 17)

N. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS), implemented in FY 1997, maintains EPA's personal property, real property, and capital software records in accordance with Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment, "(SFFAS No. 6). The FAS automatically generates depreciation entries monthly based on acquisition dates. Purchases of EPA-held and contractor-held personal property are capitalized if valued at $25 thousand or more with an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years, depreciating 10% the first and sixth year and 20% in years two through five. This modified straight-line method is still used for contractor-held property. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal property are depreciated using the straight-line method for specific assets with useful lives ranging from two to 15 years.

Superfund contractor-held property used as part of the remedy for site-specific response actions is capitalized in accordance with 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, EPA will retain control of the property, e.g., pump and treat facility, for 10 years or less, and will transfer its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with EPA's 10 year retention period, depreciation for this property will be based on a 10 year life. However, if any property is transferred to a state in a year or less, this property will be 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.

In FY 1997 the EPA's Working Capital Fund, a revenue generating activity, implemented requirements to capitalize software if the purchase price was $100,000 or more with an estimated useful life of two years or more. In FY 2001, the Agency began capitalizing software for All Other Funds whose acquisition value is $500,000 or more in accordance with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Software is depreciated using the straight-line method over the specific assets' useful lives ranging from two to 10 years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is $75 thousand or more. Land is capitalized regardless of cost. Buildings were valued at an estimated original cost basis and land was valued at fair market value, if purchased prior to FY 1997. Real property purchased during and after FY 1997 are valued at actual costs. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred. (See Note 9)

O. Liabilities

Superfund and All Other Funds

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collection of revenue for services provided. 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

All Other Funds

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2001 and FY 2002, there was no outstanding interest payable to Treasury since payment was made through September 30.

R. Accrued Unfunded Annual Leave

Superfund and All Other Funds

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 the Balance Sheet as a component of "Payroll and Benefits Payable" (see Note 33).

S. Retirement Plan

Superfund and All Other Funds

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, 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 1 percent of pay and matches any employee contributions up to an additional 4 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," (SFFAS No. 5) , which was effective for the FY 1997 financial statements, 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, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the 'Cost Factors' to compute EPA's liability for each program.

T. Prior Period Adjustments

Prior period adjustments will be made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles," which is effective for FY 2002. EPA will make prior period adjustments for material errors as follows in accordance with SFFAS No. 21. 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. (See Notes 36 and 37.)

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2002 and 2001, consist of the following (in thousands):

	FY 2002			FY 2001		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	$ 32,229	$ 0	$ 32,229	$ 6,706	$ 0	$ 6,706
LUST	16,405	0	16,405	18,158	0	18,158
Oil Spill	3,796	0	3,796	3,165	0	3,165
Revolving Funds:						
FIFRA/Tolerance	3,028	0	3,028	3,496	0	3,496
Working Capital	57,380	0	57,380	51,267	0	51,267
Appropriated	11,504,638	0	11,504,638	11,088,824	0	11,088,824
Other Fund Types	99,575	4,112	103,687	88,218	19,246	107,464
Total	$ 11,717,051	$ 4,112	$ 11,721,163	11,259,834	$ 19,246	$ 11,279,080

Entity fund balances include balances that are available to pay current liabilities and to finance authorized purchase commitments. Also, Entity Assets, Other Fund Types consist of the Environmental Services Receipt account. The Environmental Services Receipt account is a special fund receipt account. Upon Congress appropriating the funds, EPA will use the receipts in the Science and Technology appropriation and the Environmental Programs and Management appropriation.

The non-entity Other Fund Type consist of clearing accounts and deposit funds. These funds are awaiting documentation for the determination of proper accounting disposition.

For FY 2002, the amounts on the financial statements are $2,828 thousand less than the balances on Treasury's records. These differences consist mainly of unrecorded transactions from the last two months of FY 2002 that will be recorded by the agency early in FY 2003. The differences for Superfund and All Other Funds are $1,301 thousand and $1,527 thousand, respectively.

Note 3. Cash

In All Others, as of September 30, 2002, Cash consisted of imprest funds totaling $10 thousand.

Note 4. Investments

As of September 30, 2002 and 2001, investments consisted of the following:

		Cost	Unamortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Superfund						
Intragovernmental Securities:						
Non-Marketable	FY 2002	$ 3,234,352	$ (62,650)	$ 12,973	$ 3,309,975	$ 3,309,975
	FY 2001	$ 3,630,186	$ (33,967)	$ 59,891	$ 3,724,044	$ 3,724,044
All Others						
Intragovernmental Securities:						
Non-Marketable	FY 2002	$ 1,892,769	$ (36,752)	$ 22,531	$ 1,952,052	$ 1,952,052
	FY 2001	$ 1,703,909	$ (52,551)	$ 22,358	$ 1,778,818	$ 1,778,818

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). 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 these securities to cash as soon as practicable.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2002 and 2001, consist of the following:

	FY 2002		FY 2001	
	Superfund	All Others	Superfund	All Others
Intragovernmental Assets:				
Accounts & Interest Receivable	$ 33,309	$ 72,298	$ 31,178	$ 69,977
Total	**$ 33,309**	**$ 72,298**	**$ 31,178**	**$ 69,977**
Non-Federal Assets:				
Unbilled Accounts Receivable	$ 87,443	$ 2,210	$ 86,470	$ 1,668
Accounts & Interest Receivable	783,279	101,392	949,566	133,787
Less: Allowance for Uncollectibles	(459,285)	(54,204)	(569,998)	(60,428)
Total	**$ 411,437**	**$ 49,398**	**$ 466,038**	**$ 75,027**

The Allowance for Doubtful Accounts is determined on a specific identification basis as a result of a case-by-case review of receivables, and a reserve on a percentage basis for those not specifically identified.

Note 6. Other Assets

For FY 2002, inventory and operating materials and supplies were included in Other Non-Federal Assets. In FY 2001, these items were originally reported on a separate line.

Other Assets for September 30, 2002, consist of the following:

	Superfund Trust Fund	All Others	Combined Totals
Intragovernmental Assets:			
Advances to Federal Agencies	$ 141	$ 4,163	$ 4,304
Advances to Working Capital Fund	4,379	0	4,379
Advances for Postage	0	415	415
Total Intragovernmental Assets	**$ 4,520**	**$ 4,578**	**$ 9,098**
Non-Federal Assets:			
Travel Advances	$ (13)	$ (911)	$ (924)
Letter of Credit Advances	0	2,388	2,388
Grant Advances	0	3,054	3,054
Other Advances	793	148	941
Operating Materials and Supplies	0	216	216
Inventory for Sale	0	42	42
Total Non-Federal Assets	**$ 780**	**$ 4,937**	**$ 5,717**

Other Assets for September 30, 2001, consist of the following:

	Superfund Trust Fund	All Others	Combined Totals
Intragovernmental Assets:			
Advances to Federal Agencies	$ 166	$ 4,265	$ 4,431
Advances to Working Capital Fund	5,355	0	5,355
Advances for Postage	0	121	121
Total Intragovernmental Assets	**$ 5,521**	**$ 4,386**	**$ 9,907**
Non-Federal Assets:			
Travel Advances	$ 7	$ (854)	$ (847)
Letter of Credit Advances	0	315	315
Grant Advances	0	1,322	1,322
Other Advances	769	92	861
Bank Card Payments	1	0	1
Operating Materials and Supplies	0	252	252
Inventory for Sale	0	1	1
Bankruptcy Settlement*	8,101	0	8,101
Total Non-Federal Assets	**$ 8,878**	**$ 1,128**	**$ 10,006**

*Bankruptcy Settlement: A promissory note in the amount of $8.1 million was issued to the Superfund in a bankruptcy settlement by Joy Global, Inc. The note was paid off in FY 2002.

Note 7. Loans Receivable, Net - Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance 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. The Act 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 present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 2002 and 2001, is provided in the following sections.

	FY 2002			FY 2001		
	Loans Receivable, Gross	**Allowance***	**Value of Assets Related to Direct Loans**	**Loans Receivable, Gross**	**Allowance***	**Value of Assets Related to Direct Loans**
Direct Loans Obligated Prior to FY 1992	$ 41,181	$ 0	$ 41,181	$ 49,683	$ 0	$ 49,683
Direct Loans Obligated After FY 1991	38,664	(15,199)	23,465	42,779	(16,910)	25,869
Total	**$ 79,845**	**$ (15,199)**	**$ 64,646**	**$ 92,462**	**$ (16,910)**	**$ 75,552**

* 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 Post Credit Reform Loans:

	Interest Differential	**Expected Defaults**	**Fee Offsets**	**Total**
Direct Loan Subsidy Expense - FY 2002	$ 115	$ 157	$ 0	$ 272
Downward Subsidy Reestimate - FY 2002	(496)	(816)	0	(1,312)
FY 2002 Totals	$ (381)	$ (659)	$ 0	$ (1,040)
Direct Loan Subsidy Expense - FY 2001	$ 1,227	2,353	0	3,580

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities, both Federal and non-Federal, are current liabilities consisting of the following amounts as of September 30, 2002:

Federal:	**Superfund Trust Fund**	**All Other Funds**	**Combined Total**

Accounts Payable to other Federal Agencies	$ 4,964	$ 620	$ 5,584
Liability for Allocation Transfers	20,017		20,017
Expenditure Transfers Payable to other EPA Funds	45,701		45,701
Accrued Liabilities, Federal	45,557	43,363	88,920
Total Federal Accounts Payable & Accrued Liabilities	$ 116,239	$ 43,983	$ 160,222
Non-Federal:			
Accounts Payable, non-Federal	$ 43,344	$ 74,260	$ 117,604
Advances Payable, non-Federal	14	3	17
Interest Payable	333	1	334
Grant Liabilities	14,590	348,474	363,064
Other Accrued Liabilities, non-Federal	87,524	88,498	176,022
Total non-Federal Accounts Payable & Accrued Liabilities	$ 145,805	$ 511,236	$ 657,041

The Accounts Payable and Accrued Liabilities, both Federal and non-Federal, consisted of the following amounts as of September 30, 2001:

Federal:	**Superfund Trust Fund**	**All Other Funds**	**Combined Total**
Accounts Payable to other Federal Agencies	$ 759	$ 1,118	$ 1,877
Liability for Allocation Transfers	20,163		20,163
Expenditure Transfers Payable to other EPA Funds	44,887		44,887
Accrued Liabilities, Federal	57,728	40,541	98,269
Total Federal Accounts Payable & Accrued Liabilities	$ 123,537	$ 41,659	$ 165,196
Non-Federal:			
Accounts Payable, non-Federal	$ 39,746	$ 91,050	$ 130,796
Advances Payable, non-Federal	5	33	38
Interest Payable	126		126
Grant Liabilities	16,921	476,749	493,670
Other Accrued Liabilities, non-Federal	80,937	87,442	168,379
Total non-Federal Accounts Payable & Accrued Liabilities	$ 137,735	$ 655,274	$ 793,009

Note 9. General Plant, Property and Equipment

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under “All Others” and consists of software; real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

As of September 30, 2002, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$ 25,968	$ (15,245)	$ 10,723	$ 148,693	$ (92,920)	$ 55,773
Software	961	(85)	876	26,358	(2,520)	23,838
Contractor-Held Property:						
Superfund Site-Specific	32,472	(12,065)	20,407	0	0	0
General	10,407	(3,667)	6,740	18,412	(9,689)	8,723
Land and Buildings						
Capital Leases	0	0	0	41,614	(14,889)	26,725
Total	$ 69,808	$ (31,062)	$ 38,746	$ 756,592	$ (205,256)	$ 551,336

As of September 30, 2001, Plant, Property and Equipment consisted of the following (as restated; see Note 37):

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$ 23,832	$ (15,031)	$ 8,801	$ 161,253	$ (105,484)	$ 55,769
Software	559	(5)	554	10,398	(148)	10,250
Contractor-held Property:						
Superfund Site- Specific	32,472	(8,818)	23,654	0	0	0
General	9,447	(2,287)	7,160	16,752	(7,647)	9,105
Land and Buildings						
Capital Leases	0	0	0	40,992	(13,126)	27,866
Total	$ 66,310	$ (26,141)	$ 40,169	$ 730,249	$ (203,356)	$ 526,893

Note 10. Debt

The Debt consisted of the following as of September 30, 2002 and 2001:

	FY 2002			FY 2001		
All Others	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
Other Debt:						
Debt to Treasury	$ 31,124	$ (6,834)	$ 24,290	$ 37,922	$ (6,798)	$ 31,124
Classification of Debt:						
Intra-governmental Debt			$ 24,290			$ 31,124
Total			$ 24,290			$ 31,124

Note 11. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the General Fund of the Treasury. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

The Other Liabilities, both intragovernmental and non-Federal, for September 30, 2002 are as follows:

Other Liabilities - Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Employer Contributions & Payroll Taxes	$ 3,169	0	$ 3,169
Other Advances	2,470	0	2,470
Advances, HRSTF Cashout	16,618	0	16,618
Deferred HRSTF Cashout	30	0	30
Resources Payable to Treasury	0	0	0
Superfund - Non-Current			
Unfunded FECA Liability	0	1,440	1,440
Total Superfund	$ 22,287	$ 1,440	$ 23,727
All Other - Current			
Employer Contributions & Payroll Taxes	$ 13,883	$ 0	$ 13,883
WCF Advances	4,379	0	4,379
Other Advances	1,435	0	1,435
Liability for Deposit Funds	(91)	0	(91)
Resources Payable to Treasury	2	0	2
Subsidy Payable to Treasury	371	0	371
All Other - Non-Current			
Unfunded FECA Liability	0	6,402	6,402
Total All Other	$ 19,979	$ 6,402	$ 26,381

Other Liabilities - Non-Federal	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Unearned Advances, Non- Federal	$ 45,515	0	45,515
Total Superfund	$ 45,515	$ 0	$ 45,515
All Other - Current			
Unearned Advances, Non- Federal	$ 6,569	$ 0	$ 6,569
Deferred Credits	0	0	0
Liability for Deposit Funds, Non-Federal	4,181	0	4,181
All Other - Non-Current			
Capital Lease Liability	0	36,729	36,729
Total All Other	$ 10,750	$ 36,729	$ 47,479

The Other Liabilities, both intragovernmental and non-Federal, for September 30, 2001, are as follows:

Other Liabilities - Intragovernmental	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Superfund - Current			
Employer Contributions & Payroll Taxes	$ 2,682	0	$ 2,682
Other Advances	1,045	0	1,045
Advances, HRSTF Cashout	15,208	0	15,208
Deferred HRSTF Cashout	947	0	947
Resources Payable to Treasury	0	0	0
Superfund - Non-Current			
Unfunded FECA Liability	0	1,426	1,426
Total Superfund	$ 19,882	$ 1,426	$ 21,308
All Other - Current			
Employer Contributions & Payroll Taxes	$ 11,935	$ 0	$ 11,935
WCF Advances	5,355	0	5,355
Other Advances	2,646	0	2,646
Liability for Deposit Funds	(85)	0	(85)
Resources Payable to Treasury	2	0	2
Subsidy Payable to Treasury	1,313	0	1,313
All Other - Non-Current			
Unfunded FECA Liability	0	6,341	6,341
Total All Other	$ 21,166	$ 6,341	$ 27,507

Other Liabilities - Non-Federal	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Superfund - Current			
Unearned Advances, Non- Federal	$ 27,659	0	27,659
Total Superfund	$ 27,659	$ 0	$ 27,659
All Other - Current			
Unearned Advances, Non- Federal	$ 4,275	$ 0	$ 4,275
Deferred Credits	0	0	0
Liability for Deposit Funds, Non-Federal	19,331	0	19,331
All Other - Non-Current			
Capital Lease Liability	0	36,930	36,930
Total All Other	$ 23,606	$ 36,930	$ 60,536

Note 13. Leases

The Capital Leases as of September 30, 2002 and 2001, consist of the following:

Capital Leases, All Other Funds:

Summary of Assets Under Capital Lease:	**FY 2002**	**FY 2001**
Real Property	$ 40,913	$ 40,913
Personal Property	701	79
Total	$ 41,614	$ 40,992
Accumulated Amortization	$ 14,889	$ 13,126

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator 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 has one capital lease for a xerox copier that expired in FY 2002 and capital leases for seven shuttle buses terminating in FY 2007. The real property leases terminate in fiscal years 2010, 2013, and 2025. The charges are expended out of the Environmental Programs and Management (EPM) appropriation. The total future minimum lease payments of the capital leases are listed below.

Future Payments Due:	**All Others**
Fiscal Year	
2003	$ 6,439
2004	6,439
2005	6,439
2006	6,439
2007	6,331
After 5 Years	83,605
Total Future Minimum Lease Payments	115,692
Less: Imputed Interest	(78,963)
Net Capital Lease Liability	$ 36,729
Liabilities not Covered by Budgetary Resources (See Note 12)	$ 36,729

Operating Leases:

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

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2002. Most of these leases include a base rental charge and escalator 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). Two of these operating leases expired in FY 2002. Two of these operating leases that were due to expire in FY 2002 were extended: one until FY 2004 and the other on a monthly basis. Two others expire in fiscal years 2017 and 2020. The fifth lease that expired in FY 2001 was extended until FY 2007. The charges are expended out of the EPM appropriation. The total minimum future costs of operating leases are listed below.

Fiscal Year	**Superfund**	**All Others**	**Total Land & Buildings**
2002	$ 0	$ 2,102	$ 2,102
2003	0	74	74
2004	0	74	74
2005	0	74	74
2006	0	74	74
Beyond 2006	0	920	920
Total Future Minimum Lease Payments	$ 0	$ 3,318	$ 3,318

Note 14. Pension and Other Actuarial Liabilities

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 at September 30, 2002 and 2001, consisted of the following:

	FY 2002		FY 2001	
	Superfund	All Other	Superfund	All Other
FECA Actuarial Liability	$ 7,698	$ 31,759	$ 7,731	$ 31,902

The FY 2002 present value of these estimates was calculated using a discount rate of 5.2 percent. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances, Superfund

Cashouts are funds received by EPA, a state, or another Potentially Responsible Party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations

As of September 30, 2002 and 2001, the Unexpended Appropriations consisted of the following for All Other Funds:

Unexpended Appropriations:	**FY 2002**	**FY 2001**
Unobligated		
Available	$ 1,725,016	$ 1,635,071
Unavailable	52,896	64,930
Undelivered Orders	9,145,977	8,658,960
Total	$ 10,923,889	$ 10,358,961

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the “Hazardous Substance Superfund Trust Fund” (Superfund) and the “Leaking Underground Storage Tank Trust Fund” (LUST).

Superfund (Audited)

Superfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2002 and 2001. The amounts contained in these statements have been provided by the Treasury and are audited. Outlays represent amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2002

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 1,876	$ 1,876
Total Undisbursed Balance	0	1,876	1,876
Interest Receivable	0	12,973	12,973
Investments, Net of Discounts	2,762,430	534,572	3,297,002
Total Assets	$ 2,762,430	$ 549,421	$ 3,311,851
Liabilities & Equity			
Equity	$ 2,762,430	$ 549,421	$ 3,311,851
Total Liabilities and Equity	$ 2,762,430	$ 549,421	$ 3,311,851
Receipts			
Corporate Environmental	$ 0	$ 7,466	$ 7,466
Cost Recoveries	0	248,252	248,252
Fines & Penalties	0	1,444	1,444
Total Revenue	0	257,162	257,162
Appropriations Received	0	676,292	676,292
Interest Income	0	110,577	110,577
Total Receipts	0	1,044,031	1,044,031
Outlays			
Transfers to/from EPA, Net	1,329,490	(1,329,490)	0
Transfers to CDC	0	(49,502)	(49,502)
Total Outlays	1,329,490	(1,378,992)	(49,502)
Net Income	$ 1,329,490	$ (334,961)	$ 994,529

SUPERFUND FY 2001

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 768	$ 768
Total Undisbursed Balance	0	768	768
Interest Receivable	0	59,891	59,891
Investments, Net of Discounts	2,837,243	826,910	3,664,153
Total Assets	$ 2,837,243	$ 887,569	$ 3,724,812
Liabilities & Equity			
Equity	$ 2,837,243	$ 887,569	$ 3,724,812
Total Liabilities and Equity	$ 2,837,243	$ 887,569	$ 3,724,812
Receipts			
Petroleum-Imported	$ 0	$ 2,471	$ 2,471
Petroleum-Domestic	0	(12)	(12)
Certain Chemicals	0	32	32
Imported Substances	0	5	5
Corporate Environmental	0	3,861	3,861
Cost Recoveries	0	202,132	202,132
Fines & Penalties	0	2,112	2,112
Total Revenue	0	210,601	210,601
Appropriations Received	0	633,603	633,603
Interest Income	0	220,504	220,504
Total Receipts	0	1,064,708	1,064,708
Outlays			
Transfers to EPA	1,227,360	(1,227,360)	0
Transfers to CDC	0	(74,835)	(74,835)
Total Outlays	1,227,360	(1,302,195)	(74,835)
Net Income	$ 1,227,360	$ (237,487)	$ 989,873

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2002 there were no fund receipts from cost recoveries, and only $40 thousand in cost recoveries were received in FY 2001. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in these statements have been provided by Treasury and are audited. 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 2002

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 12,232	$ 12,232
Total Undisbursed Balance	0	12,232	12,232
Interest Receivable	0	22,531	22,531
Investments, Net of Discounts	80,875	1,848,646	1,929,521
Total Assets	$ 80,875	$ 1,883,409	$ 1,964,284
Liabilities & Equity			
Equity	$ 80,875	$ 1,883,409	$ 1,964,284
Total Liabilities and Equity	$ 80,875	$ 1,883,409	$ 1,964,284
Receipts			
Highway TF Tax	$ 0	$ 173,351	$ 173,351
Airport TF Tax	0	13,199	13,199
Inland TF Tax	0	474	474
Refund Gasoline Tax	0	(2,167)	(2,167)
Refund Diesel Tax	0	(3,357)	(3,357)
Refund Aviation Tax	0	(310)	(310)
Total Revenue	0	181,190	181,190
Interest Income	0	67,563	67,563
Total Receipts	0	248,753	248,753
Outlays			
Transfers to/from EPA, Net	72,912	(72,912)	0
Total Outlays	72,912	(72,912)	0
Net Income	$ 72,912	$ 175,841	$ 248,753

LUST FY 2001

	EPA	Treasury	Combined
Undistributed Balances			
Available for Investment	$ 0	$ 12,211	$ 12,211
Total Undisbursed Balance	0	12,211	12,211
Interest Receivable	0	22,358	22,358
Investments, Net of Discounts	83,460	1,673,000	1,756,460
Total Assets	$ 83,460	$ 1,707,569	$ 1,791,029
Liabilities & Equity			
Equity	$ 83,460	$ 1,707,569	$ 1,791,029
Total Liabilities and Equity	$ 83,460	$ 1,707,569	$ 1,791,029
Receipts			
Highway TF Tax	$ 0	$ 167,408	$ 167,408
Airport TF Tax	0	16,114	16,114
Inland TF Tax	0	582	582
Refund Gasoline Tax	0	(834)	(834)
Refund Diesel Tax	0	(1,584)	(1,584)
Refund Aviation Tax	0	(19)	(19)
Refund Aviation Fuel Tax	0	(123)	(123)
Cost Recovery	0	40	40
Total Revenue	0	181,584	181,584
Interest Income	0	94,802	94,802
Total Receipts	0	276,386	276,386
Outlays			
Transfers to EPA	74,617	(74,617)	0
Total Outlays	74,617	(74,617)	0
Net Income	$ 74,617	$ 201,769	$ 276,386

Note 18. Commitments and Contingencies

EPA may be a party in various administrative proceedings, legal 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.

Superfund

Under CERCLA +106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA +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 +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.

There are currently one CERCLA +106(b) administrative claim. If the claimant is successful, the total losses on the administrative and judicial claims could amount to approximately $17.8 million. The Environmental Appeals Board has not yet issued final decisions on the administrative claim; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimant's chance of success overall is characterized as reasonably possible.

All Other

There is one material claim which may be considered threatened litigation involving all other appropriated funds of the Agency. If the claimant is successful, the total losses of the claim could amount to $82.8 million. The claim is currently being evaluated by GSA contracting officials and their private sector claims consultant. The claimant's chance of success overall is characterized as reasonably possible.

Judgement Fund

In cases that are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgement is assessed and the Judgement 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 judgement, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions.

As of September 30, 2002, there are no material claims pending in the Treasury Judgement Fund.

Note 19. Exchange Revenues, Statement of Net Cost

For FY 2002, the exchange revenues reported on the Statement of Net Cost are separated into Federal and non-Federal portions. Exchange revenues were reported only in total for the FY 2001 Statement of Net Cost. Exchange revenues on the Statement of Net Cost include income from services provided, non-custodial interest revenue (with the exception of interest earned on trust fund investments), and non-custodial miscellaneous earned revenue.

Note 20. Environmental Cleanup Costs

The EPA has one site that requires clean up stemming from its activities. Costs amounting to $20 thousand may be paid out of the Treasury Judgement Fund. (The $20 thousand represents the lower end of a range estimate, of which the maximum of the range will total $200 thousand.) The claimant's chance of success is characterized as probable. EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs. However, it is expected that the Department of Defense and General Services Administration will bear all or most of the cost of remediation.

<u>Accrued Cleanup Cost</u>

The EPA has 14 sites that will require future clean up associated with permanent closure and one site with clean up presently underway. The estimated costs will be approximately $13.4 million. Since the cleanup costs associated with permanent closure are 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.

The FY 2002 estimate for unfunded cleanup costs increased by $1 million resulting from a Denver facility move from an existing site to a newly renovated building at the Denver Federal Center. Of the remaining $13.3 million in estimated cleanup costs, approximately $6 million represents the estimated expense to close the current RTP facility. These costs will be incurred within the next year. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities. There was a net decrease of approximately $1.8 million in funded cleanup costs from FY 2001 to FY 2002. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

Note 21. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (SSCs) 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 they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, States will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty 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. 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, 2002, total remaining State credits have been estimated at $11.2 million. The estimated ending credit balance on September 30, 2001 was $10.7 million.

Note 22. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, Potentially Responsible Parties (PRPs) agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and Reauthorization Act (SARA) of 1986, a PRP 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, 2002, EPA had 15 outstanding preauthorized mixed funding agreements with obligations totaling $37.4 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 23. Income and Expenses from other Appropriations

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During Fiscal Years 2002 and 2001, EPA had one appropriation which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The

Environmental Programs and Management (EPM) appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

All of the expenses from EPM were distributed among EPA's two Reporting Entities: Superfund and All Others. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses.

As illustrated below, this estimate does not impact the net effect of the Statement of Net Costs.

	FY 2002			FY 2001		
	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect
Superfund	$ 114,297	$ (114,297)	$ 0	$ 103,654	$ (103,654)	$ 0
All Others	(114,297)	114,297	0	(103,654)	103,654	0
Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Note 24. Custodial Revenues and Accounts Receivable

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

	FY2002	FY2001
Fines, Penalties and Other Misc Revenue (EPA)	$ 95,489	$ 121,892
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts		
Accounts Receivable	$ 107,779	$ 123,966
Less: Allowance for Doubtful Accounts	39,383	46,186
Total	$ 68,396	$ 77,780

Note 25. Statement of Budgetary Resources

Reconciliations of budgetary resources, obligations incurred, and outlays, as presented in the audited Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the years ended September 30, 2002 and 2001, are as follows:

FY 2002	Budgetary Resources	Obligations Incurred	Outlays
Superfund			
Statement of Budgetary Resources	$ 2,448,998	$ 1,698,004	$ 1,377,754
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(17,463)	(17,463)	(1,313)
Budget of the United States Government	$ 2,431,535	$ 1,680,541	$ 1,376,441
All Other			
Statement of Budgetary Resources	$ 9,807,912	$ 7,762,664	$ 7,012,562
Less: Funds Reported by Other Federal Entities	(24,419)	(24,066)	(24,582)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	0	(622)	(26)
Budget of the United States Government	$ 9,783,493	$ 7,737,976	$ 6,987,954

FY 2001	Budgetary Resources	Obligations Incurred	Outlays
Superfund			
Statement of Budgetary Resources	$ 2,284,377	$ 1,570,056	$ 1,199,748
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(3,650)	13,813	0
Budget of the United States Government	$ 2,280,727	$ 1,583,869	$ 1,199,748
All Other			
Statement of Budgetary Resources	$ 9,343,106	$ 7,431,802	$ 7,015,605
Less: Funds Reported by Other Federal Entities	(26,148)	(25,677)	(25,342)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	(5,229)	(5,229)	0
Budget of the United States Government	$ 9,311,729	$ 7,400,896	$ 6,990,263

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

Details of Recoveries of Prior Year Obligations and Permanently Not Available on the Statement of Budgetary Resources are represented by the following categories:

Superfund	FY 2002	FY 2001
Recoveries of Prior Year Obligations	$ 230,628	$ 196,644
Less: Rescinded Authority	(2,000)	0
Total	$ 228,628	$ 196,644

All Others	FY 2002	FY 2001
Recoveries of Prior Year Obligations	$ 89,440	$ 76,815
Adjustments to Beginning Unobligated Balances	0	0
Less: Payments to Treasury	(6,834)	(6,798)
Rescinded Authority	(1,588)	(15,668)
Canceled Authority	(33,870)	(36,254)
Total	$ 47,148	$ 18,095

Note 27. Unobligated Balances Available

Availability of unobligated balances are shown comparatively for FY 2002 and FY 2001. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2003. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

Superfund		**FY 2002**		**FY 2001**
Unexpired Unobligated Balance	$	726,589	$	714,321
Authority Available for Apportionment		24,386		0
Expired Unobligated Balance		19		0
Total	$	750,994	$	714,321

All Others				
Unexpired Unobligated Balance	$	1,917,637	$	1,791,475
Authority Available for Apportionment		1,150		0
Expired Unobligated Balance		126,461		119,829
Total	$	2,045,248	$	1,911,304

Note 28. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund or trust fund receipt accounts offset gross outlays. For FY 2002, the following receipts were generated from these activities:

Superfund		**FY 2002**
Trust Fund Recoveries	$	248,252
Total	$	248,252

All Others		
Special Fund Environmental Service	$	11,358
Trust Fund Appropriation		676,292
Total	$	687,650

Note 29. Statement of Financing

Specific components requiring or generating resources in future periods and resources that fund expenses recognized in prior periods are related to changes in liabilities not covered by budgetary resources. For FY 2002, the following line items are reconciled to the increases or decreases in those liabilities.

Statement of Financing lines:		Superfund Trust Fund		All Other Funds		Combined Total
Resources that fund expenses recognized in prior periods	$	(1,590)	$	(399)	$	(1,989)
Increases in environmental liabilities		0		578		578
Total	$	(1,590)	$	179	$	(1,411)
Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items						
Unfunded Annual Leave Liability	$	2,206	$	5,375	$	7,581
Unfunded Contingent Liability		(3,778)		(6,000)		(9,778)
Unfunded Workers Compensation Liability		14		61		75
Actuarial Workers Compensation Liability		(32)		(143)		(175)
Subsidy Payable to Treasury		0		(942)		(942)
Unfunded Clean-up Costs Liability		0		578		578
Negative subsidy entries		0		616		616
Subsidy re-estimate entries		0		634		634
Total	$	(1,590)	$	179	$	(1,411)

Note 30. Costs Not Assigned to Goals

FY 2002's Statement of Net Cost by Goal has -$4.8 million in gross costs not assigned to goals. This amount is comprised of decreases of $6.0 million in unfunded contingent liabilities and $2.5 million in bad debt expenses; offset by increases of $2.0 million interest on borrowing, $0.6 million in environmental cleanup costs, $0.6 million in undistributed Federal payroll-related costs, and $0.5 million in other interest costs.

For FY 2001's Statement of Net Cost by Goal, -$31.5 million in gross costs were not assigned to goals. This amount was comprised of a decrease of $57.0 million to the year-end grant accruals; partially offset by $19.7 million in bad debt expense not assigned to goals, $2.4 million in interest on Treasury borrowing, $3.1 million in undistributed imputed costs, and $0.3 million in miscellaneous expenses.

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

Appropriation Transfers, In/Out:

For FY 2002, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers which affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and a reconciliation with the Statement of Budgetary Resources follow:

Fund/Type of Account		Superfund		All Other Funds
GSA Building Fund	$	0	$	23,948
EPM (from current year balances)		0		3,750
EPM (from prior year balances)		0		500
STAG		0		400
Total Appropriation Transfers	$	0		28,598
Net Transfers to Invested Funds*	$	1,329,490	$	72,912
Total of Net Transfers on Statement of Budgetary Resources	$	1,329,490	$	101,510

* *Portion of transfers on Statement of Budgetary Resources that are not part of Appropriation Transfers on Statement of Changes in Net Position*

Transfers in/out Without Reimbursement, Budgetary:

For FY 2002, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. A breakdown of the transfers-in and transfers-out, expenditure and nonexpenditure, follows:

Type of Transfer/Funds		**Superfund**		**All Other Funds**
Transfers-in(out), expenditure, Superfund to S&T fund	$	(36,891)	$	36,891
Transfers-in(out), expenditure, Superfund to OIG fund		(11,867)		11,867
Transfers-out, nonexpenditure, from Superfund to other Federal agencies		(5,188)		
Transfers-out, nonexpenditure, from Treasury trust fund to CDC		(49,502)		
Transfers-in, nonexpenditure, Oil Spill				15,000
Transfer-in(out) adjustments, canceled funds				(86)
Total Transfers in(out) without Reimbursement, Budgetary	$	(103,448)		63,672

Transfers in/out without Reimbursement, Other Financing Sources:

For FY 2002, Transfers in/out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of 1) transfers of property, plant, and equipment between EPA funds and 2) transfers of negative subsidy to a special receipt fund for the credit reform funds. The amounts reported on the Statement of Changes in Net Position are as follows:

Type of Transfer/Funds		**Superfund**		**All Other Funds**
Transfer-in(out) of property, between Superfund and EPM	$	47	$	(47)
Transfer-out of FY 2002 negative subsidy, to be paid in FY 2003				(371)
Adjustment to transfer-out of FY 2001 negative subsidy, paid out in FY 2002 and adjusted to funded expenses				816
Total Transfers in(out) without Reimbursement, Budgetary	$	47		398

For FY 2001, the consolidated amounts shown as transfers-in on the Statement of Changes in Net Position are comprised of transfers from other Federal agencies in accordance with applicable legislation. The consolidated amounts shown as transfers-out are nonexpenditure transfers to other Hazardous Substance Superfund allocation agency funds, such as HHS and Labor. Elimination transactions consist of intra-agency transfers between EPA funds.

Note 32. Imputed Financing

In accordance with Statement of Federal Financial Accounting Standard No. 5 (Liabilities of the Federal Government), Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the Office of Personnel Management (OPM) trust funds. These amounts are recorded as imputed costs and imputed financing for the 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 2002 were $14.7 million and $83.0 million for Superfund and All Other Funds, respectively. For FY 2001, the estimates were $13.4 million and $76.5 million for Superfund and All Other Funds, respectively.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgement Fund payments on behalf of the agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions. For FY 2002, no Judgement Fund payments were made on EPA's behalf. For FY 2001, entries for Judgement Fund payments totaled $0.3 million and $1.3 million for Superfund and All Other Funds, respectively.

Note 33. Payroll and Benefits Payable

The amounts that relate to payroll and benefits payable to EPA employees for the years ending September 30, 2002 and 2001, are detailed in the following tables.

FY 2002 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Superfund - Current			
Accrued Funded Payroll and Benefits	$ 9,146	$ 0	$ 9,146
Withholdings Payable	6,897	0	6,897
Employer Contributions Payable, non Federal (TSP)	443	0	443
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave	0	22,647	22,647
Total - Superfund - Current	$ **16,489**	$ **22,647**	$ **39,136**
All Other Funds - Current			
Accrued Funded Payroll and Benefits	$ 41,309	$ 0	$ 41,309
Withholdings Payable	30,233	0	30,233
Employer Contributions Payable, non Federal (TSP)	1,943	0	1,943
Other Post-employment Benefits Payable	29	0	29
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave	0	103,598	103,598
Total - All Other Funds - Current	$ **73,834**	$ **103,598**	$ **177,432**

FY 2001 Payroll and Benefits Payables	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total

Superfund - Current			
Accrued Funded Payroll and Benefits	$ 8,361	$ 0	$ 8,361
Withholdings Payable	5,935	0	5,935
Employer Contributions Payable, non Federal (TSP)	372	0	372
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave	0	20,440	20,440
Total - Superfund - Current	$ **14,671**	$ **20,440**	$ **35,111**
All Other Funds - Current			
Accrued Funded Payroll and Benefits	$ 37,099	$ 0	$ 37,099
Withholdings Payable	26,410	0	26,410
Employer Contributions Payable, non Federal (TSP)	1,645	0	1,645
Other Post-employment Benefits Payable	33	0	33
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave	0	98,223	98,223
Total - All Other Funds - Current	$ **65,507**	$ **98,223**	$ **163,730**

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 are comprised of rescissions to appropriated funds and cancellations of funds that expired on September 30, 1997. These amounts affected Unexpended Appropriations for All Other Funds for FY 2002.

Rescissions to Appropriated Funds	$ 1,588
Canceled Authority	33,872
Total Other Adjustments	$ 35,460

Note 35. Nonexchange Revenue, Statement of Changes in Net Position

The Nonexchange Revenue, Budgetary Financing Sources on the Statement of Changes in Net Position for FY 2002 is comprised of the following items:

	Superfund Trust Fund	**All Other Funds**	**Combined Total**
Interest on Trust Fund Investments	$ 110,577	$ 67,563	$ 178,140
Tax Revenue, Net of Refunds	7,466	181,190	188,656
Fines and Penalties Revenue *	(10,005)	0	(10,005)
Special Receipt Fund Revenue	0	11,358	11,358
Total Nonexchange Revenue	$ 108,038	$ 260,111	$ 368,149

* *Fines and penalties revenue included the following negative items: a $9,664 thousand write-off and $1,339 thousand allowance for uncollectible accounts.*

Note 36. Correction of Error in Revenue, Prior Year, Superfund

In fiscal year 2001, in accordance with agency General Counsel opinions, EPA started placing both past and future cost settlement amounts into site-specific accounts that could be used immediately without a Congressional appropriation. (See also Note 15, Cashout Advances, Superfund.) In that same fiscal year a material error was made in accruing revenue from the cashout advance account. That error resulted in an overstatement of earned revenue of $53,256 thousand for FY 2001 for Superfund. The applicable statements are restated in accordance with Statement of Federal Financial Standards No. 21, Paragraphs 10 and 11.

The FY 2001 Statements of Changes in Net Position and Financing are restated in the same format as the FY 2001 EPA Audited Financial Statements. Because extensive format changes to these statements were required in FY 2002 by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, these statements will not be comparative. The lines affected on the FY 2001 Statement of Financing were "Exchange Revenue not in the Entity's Budget" and "Net Cost of Operations."

The effect of the change on Earned Revenue, Net Cost of Operations, and Net Position, Superfund, for FY 2001 are as follows:

	Amount on FY 2001 Statements	Revenue Restatement Increase/ (Decrease)	Property Restatement (See Note 37) Inc / (Dec)	Restated Amount
Earned Revenue (applied to Strategic Goal of Better Waste Management)	$ 488,397	$(53,256)	---	$ 435,141
Net Cost of Operations	$1,220,769	$ 53,256	$ (1,164)	1,272,861
Net Position	$3,507,322	$(53,256)	23,654	3,477,720

Note 37. Correction of Error in Contractor-held Property, Prior Years, Superfund

Prior to FY 2002, Superfund contractor-held property used on site-specific response actions were charged to expense in the period acquired. While some of this site-specific property was transferred to states for mandatory operation and maintenance, other items were held by EPA for a period in excess of two years. These items should have been capitalized and depreciated in accordance with Federal accounting standards for property, plant, and equipment.

The omission of these Superfund site-specific items resulted in material errors in prior years' statements from FY 1996 to FY 2001. In accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles", the FY 2001 statements presented have been restated. The effect on statements for fiscal years prior to FY 2001 is reported as a prior period adjustment increase of $22,490 thousand to FY 2001's beginning net position. The effect on relevant statement lines for Superfund for the fiscal years 1996 to 2001 are presented below.

The FY 2001 Statements of Changes in Net Position and Financing are restated in the same format as the FY 2001 EPA Audited Financial Statements. Because extensive format changes to these statements were required in FY 2002 by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements, these statements will not be comparative. The lines affected on the FY 2001 Statement of Financing were "Costs Capitalized on the Balance Sheet-General Property, Plant, and Equipment", "Depreciation and Amortization", and "Net Cost of Operations."

Effect on Property, Plant and Equipment, Net, Superfund:

FY	Effect on Cost	Effect on Depreciation	Net Effect	Cumulative Effect	Amount Reported on Statements	Corrected Balances (FY 2001 Restated)
1996	$ 1,359	$ 68	$ 1,291	$ 1,291	$ 8,735	$ 10,026
1997	8,410	815	7,595	8,886	6,485	15,371
1998	4,129	1,053	3,076	11,962	6,560	18,522
1999	6,040	1,540	4,500	16,462	13,407	29,869
2000	8,334	2,306	6,028	22,490	13,581	36,071
2001	4,224	3,060	1,164	23,654	16,515	40,169

Effect on Total Costs*, Superfund:

Fiscal Year	Amount Reported on Statements	Net Effect of Error (from previous table)	Corrected Balances (FY 2001 Restated)
1996**	$ 1,542,925	$ (1,291)	$ 1,541,634
1997	1,489,086	(7,595)	1,481,491
1998	1,505,963	(3,076)	1,502,887
1999	1,744,559	(4,500)	1,740,059
2000**	1,644,516	(6,028)	1,638,488
2001	1,709,166	(1,164)	1,708,002

Effect on Net Position, Superfund:

Fiscal Year	Amount Reported on Statements	Cumulative Effect of Error (from previous table)	Revenue Restate-ment (see Note 36)	Corrected Balances (FY 2001 restated)
1996**	$ 6,106,381	$ 1,291		$ 6,107,672
1997	5,649,530	8,886		5,658,416
1998	5,064,268	11,962		5,076,230
1999	4,301,250	16,462		4,317,712
2000**	3,875,439	22,490		3,897,929
2001	3,507,322	23,654	$(53,256)	3,477,720

* *Because of changes in OMB Form and Content Bulletin requirements, for FY 1996 and 1997 "Total Funded Costs" plus "Unfunded Expenses" provided the closest comparison with later years' statements' "Total Costs." For years in which the Statement of Net Cost by Goal was presented, the costs were applied to the Strategic Goal of "Better Waste Management."*

** *As restated on the following year's Audited Financial Statements.*

Environmental Protection Agency
Required Supplemental Information
As of September 30, 2002
(Dollars in Thousands)
(Unaudited)

Deferred Maintenance

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. No deferred maintenance was reported for any of the four categories.

Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2002).

EPA confirmed its investment balances with the Bureau of the Public Debt, Department of the Treasury. In addition, EPA sent out requests to trading partners to reconcile and confirm intragovernmental receivables and transfers. Responses or inquiries were received from the Department of Commerce, Department of the Treasury, Department of Housing and Urban Development, the Nuclear Regulatory Commission, the Tennessee Valley Authority, and the National Science Foundation.

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
04	Government Printing Office	$ 0	$ 0	$ 0	$ 0	$ 47	$ 1,683
11	Executive Office of the President				3		
12	Department of Agriculture			115	4		
13	Department of Commerce				61	4	22
14	Department of Interior			13,583	568		5
15	Department of Justice			80		58	
17	Department of the Navy			70	468		
18	U. S. Postal Service			16			415
19	Department of State				20		2,418
20	Department of the Treasury	3,309,975	1,952,052	35	155		
21	Department of the Army			8,120	23		
31	Nuclear Regulatory Commission			2	1		
45	Equal Employment OpportunityCommission				53		
47	General Services Administration			6	2		

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
57	Department of the Air Force			131	185		
58	Federal Emergency Management Agency				9,549		
68	EPA (between Superfund and All Other)				47,412	4,387	60
69	Department of Transportation				9,695		
72	Agency for International Development				1,153		
75	Department of Health and Human Services			510	442		
80	National Aeronautics and Space Administration				10		
86	Department of Housing and Urban Development				46		
89	Department of Energy			124	399		
96	US Army Corps of Engineers			8	1,344		
97	US Department of Defense			10,509	60		
99	Treasury General Fund				371		
00	Unassigned	0	0	0	274	24	(25)
Total		$3,309,975	$1,952,052	$33,309	$72,298	$4,520	$4,578

Intragovernmental Liabilities

EPA received a few requests for intragovernmental liabilities reconciliation from trading partners. EPA was able to confirm balances with the National Science Foundation (49), the Department of Commerce (13), the Department of Justice (15), the Office of Personnel Management (24), the Nuclear Regulatory Commission (31), the Department of the Treasury (20), and the Department of Labor (16).

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
03	Library of Congress	$ 0	$ 0	$ 13	$ 194	$ 0	$ 0
04	Government Printing Office			60	1,023		
12	Department of Agriculture		84	877	991	2,119	(5)
13	Department of Commerce	889		947	2,819		187
14	Department of Interior	901		3,566	2,415	4	90
15	Department of Justice	617	58	4,183	96	1,232	
16	Department of Labor	2,258		147	477	1,440	6,402
17	Department of the Navy	351			89	872	47

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
18	United States Postal Service			2	2	15	
19	Department of State				208		
20	Department of the Treasury			44	266		372
21	Department of the Army			27		896	
24	Office of Personnel Management			47	367	2,318	10,163
31	US Nuclear Regulatory Commission			2	9		20
36	Dept. of Veterans Affairs				74		
45	EEOC				40		
47	General Services Administration			4,473	15,315	8,750	(91)
49	National Science Foundation			6	91		
57	Department of the Air Force					2,673	
58	Federal Emergency Management Agency	15,317		21	66		
59	Nat'l Foundation on Arts and Humanities			12			
64	Tennessee Valley Authority				74		36
68	EPA (between Superfund and All Others)	45,742	27	1,711			4,379
69	Department of Transportation			4,128	3,420		17
72	Agency for International Development				5		
75	Department of Health and Human Services	16		3,431	7,850		
80	National Aeronautics and Space Administration				239		
86	Department of Housing and Urban Development						827
89	Department of Energy			378	4,407		164
93	Federal Mediation Service				22		
95	Independent Agencies			5	508	1,490	

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
96	US Army Corps of Engineers	4,613	438	21,191	1,533	5	19
97	Office of the Secretary of Defense			49	338	1,044	33
99	Treasury General Fund					851	3,721
00	Unassigned	(22)	13	237	425	18	
Total		$70,682	$620	$45,557	$43,363	$23,727	$26,381

For All Other Funds' remaining intragovernmental liabilities, $24,290 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and $69,706 thousand in Custodial Liability is assigned to the Treasury General Fund (trading partner Code 99).

Intragovernmental Revenues and Costs

EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of $500 million.

	Superfund	All Others
Intragovernmental Earned Revenue	$22,932	$104,318
Associated Costs to generate above Revenue (Budget Functional Classification 304)	22,932	104,318

Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources
As of September 30, 2002
(Dollars in Thousands)

	STAG	Environ-mental Programs & Manage-ment	Science and Technology	FIFRA	LUST Trust Fund	All Other	Total All Other
BUDGETARY RESOURCES							
Budgetary Authority:							
Appropriations Received	$ 3,738,276	$ 2,093,511	$ 788,397	$ 0	$ 0	$ 750,901	$ 7,371,085
Borrowing Authority	0	0	0	0	0	0	0
Net Transfers	400	3,750	0	0	72,912	23,948	101,010
Other	0	0	0	0	0	0	0
Unobligated Balances:							
Beginning of Period	1,299,314	306,938	200,941	1,917	6,220	95,974	1,911,304
Net Transfers, Actual	0	500	0	0	0	0	500
Anticipated Transfers Balance	0	0	0	0	0	0	0
Spending Authority-Offsetting Collections							
Earned and Collected	16,944	66,735	7,823	17,802	2	152,796	262,102
Receivable from Federal Sources	0	6,161	(5,908)	0	0	1,157	1,410
Change in Unfilled Customer Orders							
Advance Received	0	166	475	(1)	0	1,493	2,133
Without Advance from Federal Sources	0	59,663	1,610	0	0	1,276	62,549
Anticipated for Rest of Year	0	0	0	0	0	0	0
Transfers from Trust Funds	0	0	36,891	0	0	11,780	48,671
Total Spending Authority from Collections	$ 16,944	$ 132,725	$ 40,891	$ 17,801	$ 2	$ 168,502	$ 376,865
Recoveries of Prior Year Obligations	62,743	15,315	2,072	0	1,032	8,278	89,440
Permanently Not Available	0	(27,868)	(6,533)	0	0	(7,891)	(42,292)
Total Budgetary Resources	$ 5,117,677	$ 2,524,871	$ 1,025,768	$ 19,718	$ 80,166	$ 1,039,712	$ 9,807,912
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$ 3,751,750	$ 2,091,207	$ 798,823	$ 0	$ 76,939	$ 795,335	$ 7,514,054
Reimbursable	0	79,514	1,468	19,342	0	148,286	248,610
Total Obligations Incurred	$ 3,751,750	$ 2,170,721	$ 800,291	$ 19,342	$ 76,939	$ 943,621	$ 7,762,664
Unobligated Balances:							
Apportioned	1,365,927	249,695	203,607	376	3,227	94,805	1,917,637
Exempt from Apportionment	0	0	0	0	0	0	0
Unobligated Balances Not Available	0	104,455	21,870	0	0	1,286	127,611
Total Status of Budgetary Resources	$ 5,117,677	$ 2,524,871	$ 1,025,768	$ 19,718	$ 80,166	$ 1,039,712	$ 9,807,912
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS							
Obligations Incurred, Net	$ 3,672,063	$ 2,022,681	$ 757,328	$ 1,541	$ 75,905	$ 766,841	$ 7,296,359
Obligated Balances, Net - Beginning	7,917,132	783,265	492,591	1,547	83,186	47,134	9,324,855
Accounts Receivable	0	15,680	41,803	0	0	15,094	72,577
Unfilled Customer Orders-Federal Sources	0	179,292	10,575	0	0	63,481	253,348
Undelivered Orders	(7,886,623)	(704,134)	(543,042)	(839)	(74,673)	(68,614)	(9,277,925)
Accounts Payable	(349,388)	(191,514)	(72,695)	(1,782)	(7,146)	(34,127)	(656,652)
Total Outlays	$ 3,353,184	$ 2,105,270	$ 686,560	$ 467	$ 77,272	$ 789,809	$ 7,012,562
Disbursements	$ 3,370,128	$ 2,172,171	$ 731,059	$ 18,267	$ 77,274	$ 954,841	$ 7,323,740
Collections	(16,944)	(66,901)	(44,499)	(17,800)	(2)	(165,032)	(311,178)
Less: Offsetting Receipts	0	0	0	0	0	(687,650)	(687,650)
Net Outlays	$ 3,353,184	$ 2,105,270	$ 686,560	$ 467	$ 77,272	$ 102,159	$ 6,324,912

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Balance Sheet
As of September 30, 2002
(Dollars in Thousands)

		Unaudited
ASSETS		
Intragovernmental		
Fund Balance With Treasury	$	57,380
Accounts Receivable, Net Federal		10,754
Other		419
Total Intragovernmental	$	68,553
General Property, Plant and Equipment, Net		11,746
Other Non Federal Assets		43
Total Assets	$	80,342
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities, Federal	$	1,978
Other Federal Liabilities		29,206
Total Intragovernmental	$	31,184
Accounts Payable & Accrued Liabilities, Non Federal		16,450
Payroll and Benefits Payable Non Federal		1,683
Other Non Federal Liabilities		
Total Liabilities	$	49,317
NET POSITION		
Cumulative Results of Operations	$	31,025
Total Net Position		31,025
Total Liabilities and Net Position	$	80,342

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Net Cost
For the Year Ended September 30, 2002
(Dollars in Thousands)

		Unaudited
COSTS		
Intragovernmental	$	17,836
With the Public		112,735
Total Costs	$	130,571
Less:		
Earned Revenues, Federal		131,178
Earned Revenues, Non Federal		(32)
Total Earned Revenues	$	131,146
NET COST OF OPERATIONS	$	(575)

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Changes in Net Position
For the Year Ended September 30, 2002
(Dollars in Thousands)

		Unaudited
Net Position - Beginning of Period	$	28,708
Prior Period Adjustments		0
Beginning Balances, as adjusted	$	28,708
Budgetary Financing Sources:		
Transfers In/Out		0
Other		0
Total Budgetary Financing Sources	$	0
Other Financing Sources:		
Transfers In/Out		0
Imputed Financing Sources		1,742
Other		0
Total Other Financing Sources	$	1,742
Net Cost of Operations		575
Net Position - End of Period	$	31,025

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Budgetary Resources
For the Year Ended September 30, 2002
(Dollars in Thousands)

		Unaudited
BUDGETARY RESOURCES		
Budgetary Authority:		
Appropriations Received	$	0
Borrowing Authority		0
Net Transfers		0
Other		0
Unobligated Balances:		
Beginning of Period		23,034
Net Transfers, Actual		0
Anticipated Transfers Balance		0
Spending Authority from Offsetting Collections:		
Earned and Collected		130,822
Receivable from Federal Sources		328
Change in Unfilled Customer Orders		
Advance Received		1,621
Without Advance from Federal Sources		(699)
Anticipated for Rest of Year		0
Transfers from Trust Funds		0
Total Spending Authority from Offsetting Collections	$	132,072
Recoveries of Prior Year Obligations		2,415
Permanently Not Available		0
Total Budgetary Resources	$	157,521
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Reimbursable	$	130,359
Unobligated Balances:		
Apportioned		27,162
Exempt from Apportionment		0
Unobligated Balances Not Available		0
Total Status of Budgetary Resources	$	157,521
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred, Net	$	(4,128)
Obligated Balances, Net - Beginning of Period		28,232
Accounts Receivable		114
Unfilled Customer Orders from Federal Sources		3,675
Undelivered Orders		(14,993)
Accounts Payable		(19,014)
Total Outlays	$	(6,114)
Disbursements	$	126,330
Collections		(132,444)
Less: Offsetting Receipts		0
Net Outlays	$	(6,114)

Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

		Unaudited
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$	130,359
Less: Spending Authority from Offsetting Collections and Recoveries		(134,487)
Obligations Net of Offsetting Collections and Recoveries	$	(4,128)
Less: Offsetting Receipts		0
Net Obligations	$	(4,128)
Other Resources		
Transfers In/Out Without Reimbursement, Property	$	0
Imputed Financing Sources		1,742
Other (+/-)		0
Income from Other Appropriations		0
Net Other Resources Used to Finance Activities	$	1,742
Total Resources Used To Finance Activities	$	(2,386)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	$	(597)
Resources that Fund Prior Period Expenses		(170)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		0
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances		0
Offsetting Receipts Not Affecting Net Cost of Operations		0
Resources that Finance the Acquisition of Assets		(1,717)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations		0
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$	(2,484)
Total Resources Used to Finance the Net Cost of Operations	$	(4,870)
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	$	0
Increase in Environmental and Disposal Liability		0
Upward/Downward Reestimates of Credit Subsidy Expense		0
Increase in Exchange Revenue Receivable from the Public		0
Increase in workers compensation costs		0
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	$	0
Components Not Requiring or Generating Resources		
Depreciation and Amortization	$	4,326
Revaluation of Assets or Liabilities		0
Other Expenses Not Requiring Budgetary Resources		(31)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$	4,295
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	4,295
Net Cost of Operations	$	(575)

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2002
(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. The Environmental Protection Agency's (EPA) Office of Research and Development, 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 both risk assessment and risk management. Science 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 and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, efficient and effective approaches to reducing environmental risks.

Among the Agency's highest priorities are research programs that address the effects of the environment on children's health, the potential risks of unregulated contaminants in drinking water, the health effects of air pollutants such as particulate matter, and the protection of the nation's ecosystems. For FY 2002, the full cost of the Agency's Research and Development activities totaled over $682.5 million. Below is a breakout of the expenses (dollars in thousands):

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Programmatic Expenses	507,828	543,777	541,117	555,794	559,218
Allocated Expenses	53,322	58,728	59,523	90,039	123,307

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. Beyond 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

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. These are reported below as Other Infrastructure Grants.

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

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Construction Grants	444,817	414,528	55,766	63,344	149,841
Clean Water SRF	1,109,017	925,744	1,564,894	1,548,270	1,389,048
Safe Drinking Water SRF	94,936	387,429	588,116	728,921	708,528
Other Infrastructure Grants	138,363	245,606	212,124	282,914	367,259
Allocated Expenses	187,649	213,117	266,299	424,999	576,536

STEWARDSHIP LAND

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (J) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership 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.

As of September 30, 2002, the Agency possesses the following land and land rights:

Superfund Sites with Easements	
Beginning Balance	29
Additions	2
Withdrawals	0
Ending Balance	31
Superfund Sites with Land Acquired	
Beginning Balance	25
Additions	1
Withdrawals	2
Ending Balance	24

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):

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Training and Awareness Grants	39,131	46,630	49,265	48,697	49,444
Fellowships	11,084	10,239	9,570	11,451	8,728
Allocated Expenses	5,273	6,142	6,472	9,744	12,827

Appendix II

<u>Agency’s Response to Draft Report</u>

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

JAN 22 2003

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Draft Audit Report on EPA's Fiscal 2002 and 2001 Financial Statements

FROM: Joseph L. Dillon
Comptroller

TO: Paul C. Curtis
Assignment Manager
Financial Audit Division

Thank you for providing us the opportunity to comment on and respond to the findings and recommendations made in the "Draft Audit of EPA's Fiscal 2002 and 2001 Financial Statements." Attached is our response to the specific audit findings and recommendations.

I would like to express our appreciation for the OIG's recognition of the many actions and initiatives that have been taken to resolve prior financial statement audit issues and the accomplishments of the Audit Follow-Up Council established by the Deputy CFO. I also greatly appreciate OIG's positive acknowledgment of OCFO's proactive efforts to reconcile intra-governmental transactions.

If you have any questions concerning our response to the draft audit report findings, please contact Juliette McNeil, Director of the Financial Management Division at 564-4905.

Attachments

cc: Linda Combs
Mike Ryan

Attachment I

RESPONSE TO DRAFT AUDIT OF EPA'S FISCAL 2001 AND 2002 FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

1 – Documentation of Journal and Standard Vouchers Needs Improvement

We recommend that the Office of Chief Financial Officer:

1-1. Remind staff of the need to properly document accounting transactions before entry into IFMS.

Agency Comments:

After discussing what constitutes adequate documentation with the OIG staff, we have agreed to provide copies of key reports on diskette and to further document any calculations that support journal voucher entries. The Financial Management Division (FMD) Director will issue a general reminder to the staff to fully document and support all entries to IFMS.

Corrective Action	Target Date
Issue reminder to staff	February 15, 2003

1-2. Make all staff aware of existing procedures to assure that all journal and standard vouchers are reviewed and approved prior to entry into IFMS.

Agency Comments:

The FMD Director will issue a memorandum to staff reminding them of the importance of following existing procedures requiring review and approval of journal and standard vouchers prior to entry into IFMS.

Corrective Action	Target Date
Issue reminder to staff	February 15, 2003

2 – Improvement Needed in Reconciling Unearned Revenue for State Superfund Contracts

We recommend that the Office of Chief financial Officer have the Financial Management Division:

1-3. Annually calculate the combined unearned revenue from State Superfund Contracts for all accounting points and reconcile the amount to the consolidated Unearned Advances balance.

Agency Comments:

FMD will calculate the Superfund State Contract (SSC) unearned revenue and will perform a reconciliation at year end to validate the unearned revenue remaining after the regional SSC accruals have been posted.

Corrective Action	Target Date
Issue written guidance for calculations and reconciliation of accounts	June 30, 2003

1-4. Improve the reliability of Regional State Superfund Contract spreadsheet calculations for the year-end unearned revenue adjustments by providing the Regional finance offices with additional training in the preparation of the spreadsheet and by conducting a review of the completed spreadsheets.

Agency Comments:

EPA regional offices have been provided detailed guidance on how to calculate the accrual amount. FMD staff will continue to work with the regions to help ensure regional personnel understand how to calculate the accrual effectively. FMD also will review the regions' computations for accuracy.

3 – Improvement Needed in Reconciling Deferred Cashouts

1-5. We recommend that the Chief financial Officer have the Financial Management Division provide the Regional finance offices with guidance for reconciling the Deferred Cashout, Federal and Non-Federal accounts on a regular basis.

Agency Comments:

We agree with the need to prepare written guidance for reconciling uncollected cashout accounts receivable related to general ledger liability accounts 2326 (Deferred Cashouts Federal) and 2327 (Deferred Cashouts Non-Federal).

Corrective Action	Target Date
Issue written guidance for reconciling accounts	June 30, 2003

4 – Integrated Grants Management System Security Plan Does Not Address Required Controls

1-6. We recommend that the Director for Grants and Debarment revise the IGMS security plan to include all applicable elements of federally-acceptable security plans for major, financial computer applications, including but not limited to NIST, JFMIP, and Agency requirements.

Agency Comments:

We agree with the Inspector General's recommendation to revise the IGMS Security Plan to include requirements identified in the Joint Financial Management Improvement Program (JFMIP) standards for financial systems and the National Institute of Standards and Technology Standard 800-18. We believe the findings will be useful in identifying opportunities for improvement in the IGMS Security Plan.

Over the last several years we have invested considerable effort in revising the Integrated Grant Management System Security Plan to meet federal requirements. The move to NIST Standard 800-18 and the JFMIP core financial standards as the criteria by which security plans are judged represented a challenge for us. We have developed an action plan for meeting those requirements.

Corrective Action	**Target Date**
Complete final revisions to security plan	December 31, 2004

5 – Automated Application Processing Controls for Integrated Financial Management System Could Not Be Assessed

Agency Comments: The OIG made no recommendations but did state that the Agency is moving in a credible fashion towards replacing IFMS. We believe our current level of documentation is sufficient. However, as noted in the draft audit report, we have taken a number of actions to improve documentation, including completing a system documentation analysis and an analysis for creating a comprehensive data dictionary. The issue will be resolved with the implementation of the replacement system.

6 – Capitalization of Contractor-Held Property Needs to Be Improved

1-7. We recommend that the Office of Chief Financial Officer capitalize current Superfund site-specific contractor-held property costs meeting capitalization thresholds and only remove property from the general PP&E accounts, in accordance with SFFAS No.6.

Agency Comments:

We agree with the OIG that Superfund site-specific property that meets the capitalization threshhold should be capitalized over its useful life.

Corrective Action	Target Date
Issue written guidance on capitalization criteria	June 30, 2003

7 – Revenue Recognition on Cashouts Needs to Be Improved

We recommend that the Office of Chief Financial Officer have the Financial Management Division:

1-8. Restate the fiscal 2001 financial statements and adjust the fiscal 2002 financial statements for the $53 million misstatement.

Agency Comments:

In the revised FY 2002 statements, EPA has restated its FY 2001 Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Financing to correctly reflect the prior year's revenue and net position. We removed the revenue from the FY 2002 results, and have added a footnote disclosing the nature of the error and the effect of the restatement.

1-9. Implement internal controls to ensure that EPA complies with financial reporting standards for reporting corrections of errors.

Agency Comments:

FMD will track the current year postings for prior year "on the top" adjustment accruals to validate that estimates were reasonably determined and for any with large variances, investigate and adjust early in the current year.

COMPLIANCE WITH LAWS AND REGULATIONS

8 – EPA Did Not Comply with Managerial Cost Accounting Standard

NOTE: We understand that you will be revising your report to reflect that EPA is no longer in substantial noncompliance with the Brown Bill.

We recommend that the Office of the Chief Financial Officer:

2-1. Set a goal to provide EPA managers with useful and timely reports that present the full costs of their outputs and programs by the end of fiscal year.

Agency Comments:

We believe that we have met the goal. We currently prepare quarterly subobjective level reports that are posted to the OCFO Intranet site. In addition to the Intranet sub-objective level reports, we have the capability to produce sub-objective level cost reports from the Financial Data Warehouse and the Budget Automation System. As we continue to develop our reporting tools, our reporting capabilities will only be enhanced.

2-2. Continue to implement the actions specified in the September 2002 plan to expand cost information at EPA.

Agency Comments:

We are taking actions to execute the Agency's Plan for Expanding Cost Information at EPA.

2-3. Promote change of the Agency's cost accounting outputs so that they will represent discrete products and services produced by the Agency.

Agency Comments:

We designated our "products and services" under Comptroller Policy Announcement 98-10. We believe that sub-objective is an adequate level for defining "products and services" and that this level is useful to managers. However, the Agency will be moving from 10 goals to 5 in the new Strategic Plan and is evaluating what additional information will be useful to EPA managers. We expect the revised structure will provide additional dimensions on which the Agency will account for its resources.

9 – EPA Continues to Experience Difficulties in Reconciling Intra-Governmental Transactions

Agency Comments:

The OIG made no recommendations but did recognize our efforts to comply with the federal requirements. We will continue to participate in the government-wide initiatives to resolve the difficulties of reconciling intergovernmental transactions between agencies. To date, the OCFO has completed or initiated the following short term remedies in reconciling intra-governmental transactions:

- began reconciling quarterly with those trading partners that are able to do so;
- issued Transmittal Notice No. 03-01, implementing the Duns and Bradstreet Data Numbering System (DUNS) numbers as unique business location identifiers;
- designated an Agency Registration Official to manage these DUNS numbers;
- joined the federal Integrated Acquisition Environment Team and began participating in its weekly meetings; and
- issued Policy Announcement 03-03 to implement the Office of Management and Budget's new business rules for intragovernmental transactions.

10 - Contract Payment System Not in Compliance with Joint Financial Management Improvement Program System Requirements

Agency Comments: The OIG stated that no report existed to reconcile the total number of dollars and transactions transferred daily between CPS and IFMS and therefore the Agency did not comply with JFMIP Standard TD-04, which requires such an internal control. However, we advised the OIG that CPS has relied on a detailed reconciliation process to ensure that all transactions processed in CPS are accurately reflected in IFMS. This reconciliation compares the amount obligated, paid, and unpaid against every accounting line in both systems. Any disagreements appear on the reconciliation report, which is closely monitored by RTP staff and appropriate action taken whenever a discrepancy occurred. The OIG did not identify any discrepancies between CPS and IFMS.

Subsequent to the OIG review, CPS staff modified the existing IFMS Transaction Totals Report to include a section that provides both dollar and line counts for the transactions received from CPS into the IFMS suspense file. EPA management agreed to use this report on a daily basis to ensure that the transactions transmitted by CPS were accurately and completely received within the IFMS Suspense File. The new report will be used in addition to our regular report.

The OIG did not review the newly created report or the new process as a part of this audit and makes no recommendations in this report. We believe the revised report satisfies the OIG's concerns.

<u>11 – Fiscal 1999 FFMIA Remediation Plan Not Yet Completed</u>

With respect to #11 of the Remediation Plan, we recommend that the Office of Chief Financial Officer:

2-4. Obtain an updated schedule with firm milestone dates from the Office Administration and Resources Management as to when it will complete actions to establish a security certification process for key personnel.

Agency Comments:

OCFO agrees to obtain an updated schedule from the Office of Administration and Resources Management (OARM).

2-5. Revise the 1999 Remediation Plan to indicate the correct responsible office, and most feasible date when the Office Administration and Resources Management will complete the specified action necessary to bring the Agency into compliance with FFMIA.

Agency Comments:

OCFO agrees to revise the Remediation Plan to show OARM's responsibility for the security certification process and to include their target date for completion of the action.

2-6. Provide the revised 1999 Remediation Plan status report to OMB to disclose the changes for Item # 11.

Agency Comments:

OCFO agrees to provide the revised status report to OMB.

<u>12 – EPA Not in Compliance with Food Quality Protection Act</u>

2-7. We recommend that the Director, Office of Pesticide Programs closely monitor amendments to the Food Quality Protection Act to identify revisions that establish new compliance requirements and ensure action is taken to comply with the requirements.

Agency Comments:

Upon identification of the change in compliance requirements, the Office of Pesticide Programs (OPP) immediately took corrective action and is now in compliance with the revisions to the Food Quality Protection Act. OPP will closely monitor amendments to the Act to identify any potential revisions that will impact compliance requirements. Because of these actions, we recommend that this finding be deleted from the final audit report.

13 – EPA Not in Compliance with Treasury Financial Manual For Preparation of SF 224

We recommend that the Office of Chief Financial Officer:

2-8. Update desk procedures to adhere to Treasury Financial Manual requirements and disseminate to all regions and finance centers for implementation.

Agency Comments:

We concur with the OIG findings and recommendations. In November 2002 , the Financial Statement Acceleration Cash Workgroup (Cash Workgroup) began a series of meetings to reengineer and standardize current Agency financial processes relating to SF 224 reporting, reconciliation, and the Agency Fund Balance with Treasury. The Cash Workgroup has developed a corrective action plan to address the recommendations of the OIG and started identifying Agency-wide interim policies for SF 224 reporting and reconciliation.

Corrective Action	Target Date
Issue policies and procedures	April 30, 2003

2-9. Complete the SF 224 solely from finance accounts without referencing Treasury accounts.

Agency Comments:

See Agency comments in response to 2-8.

Corrective Action	Target Date
Prepare SF 224 from general ledger accounts	January 31, 2003

2-10. Discontinue including the adjusted amount on the SF 224, thus enabling Treasury to report these amounts through the Statement of Differences (Form 6652).

***Agency Comments*:**

See Agency comments in response to 2-8.

Corrective Action	**Target Date**
Discontinue including the adjusted amount on the SF 224	January 31, 2003

14 – Agency Not in Compliance with Appropriations Law for Multiple Appropriation Grants

No recommendations. The OIG noted that in fiscal 2001 the Agency had adopted new policies and procedures for allocating costs on Multiple Appropriation awards that would correct this problem for new grants. However, the OIG stated that there remained less than $3M in "pipeline" grants that were issued under the prior practices.

Agency Comments:

We have provided documentation to the OIG showing that approximately $2.1M in grant obligations remain in the "pipeline." Because the Agency has taken corrective actions, and the amounts remaining are immaterial in a multi-billion dollar grant program, we recommend removing this finding from the final audit report.

Appendix III

Report Distribution List

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