U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements

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

Abbreviations

AAMS	Agency Asset Management System
CFC	Cincinnati Finance Center
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CMA	Continuous Monitoring Assessment
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IGMS	Integrated Grants Management System
NCC	National Computer Center
NIST	National Institute of Standards and Technology
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OLEM	Office of Land and Emergency Management
OMB	Office of Management and Budget
PII	Personally Identifiable Information
PPL	PeoplePlus
PTS	Payment Tracking System
RTP	Research Triangle Park
SFFAS	Statement of Federal Financial Accounting Standards
SOC	Service Organization Controls

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U.S. Environmental Protection Agency
Office of Inspector General

17-F-0046
November 15, 2016

At a Glance

Why We Did This Review

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

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

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

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

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

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Listing of OIG reports.

EPA's Fiscal Years 2016 and 2015 Consolidated Financial Statements

EPA Receives an Unmodified Opinion

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

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

Internal Control Material Weaknesses and Significant Deficiencies Noted

We noted the following material weaknesses:

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

We noted significant deficiencies involving:

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

Noncompliance With Laws and Regulations Noted

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

Recommendations and Planned Agency Corrective Actions

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

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

OFFICE OF
INSPECTOR GENERAL

November 15, 2016

MEMORANDUM

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

FROM: Paul C. Curtis, Director
Financial Statement Audits

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

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

Ann Dunkin, Chief Information Officer
Office of Environmental Information

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

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

Action Required

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

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

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

Attachments

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Appendices

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

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Opinion

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

Emphasis of Matter – Asbestos Loans

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

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

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

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

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

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

Evaluation of Internal Controls

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

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

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

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

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

Material Weaknesses

PROPERTY

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

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

SPECIAL ACCOUNTS

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

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

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

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

Significant Deficiencies

CASH

EPA Wrote Off Unresolved Cash Differences With Treasury Without Adequate Support

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

SUSPENSE ACCOUNT

EPA Should Clear Suspense Transactions Timely

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

CAPITALIZED LEASES

EPA Improperly Reclassified a Real Property Capital Lease

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

INFORMATION TECHNOLOGY

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

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

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

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

EPA Needs to Improve Offsite Storage of Backups

In the event of a disaster, the EPA would not be able to readily recover financial and mixed-financial data from its Payment Tracking System, PeoplePlus, and Agency Asset Management System, all located at the National Computer Center in RTP, North

Carolina. The EPA would also not be able to readily recover data from its Integrated Grants Management System Potomac Yard servers, located in Arlington, Virginia. This occurred because the EPA did not implement a data backup storage plan or provide oversight to ensure data backups are stored as required for these critical financial and mixed-financial applications.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in the attachment should be considered among the EPA's significant deficiencies for FY 2016. We reported less significant internal control matters to the agency during the course of the audit. We will not issue a separate management letter.

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

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

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

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

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

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

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

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

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

EPA Did Not Comply With the e-Manifest Act

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

Fee Target for Pesticide Fund Exceeded

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

Antideficiency Act Violations Reported

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

Federal Financial Management Improvement Act Noncompliance

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

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

We identified one significant matter involving compliance with laws and regulations related to the agency's financial management systems that came to our attention during the course of the audit. We found that the EPA did not comply with federal standards for recording interest. We also reported this issue in our 2015 and 2014 audits. We will not issue a separate management letter.

EPA Did Not Comply With Federal Accounting Standards for Recording Interest

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

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

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

Prior Audit Coverage

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

- The EPA failed to capitalize software costs, leading to restated FY 2013 financial statements.
- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- The EPA's property management system does not reconcile to its accounting system.
- Originating offices did not timely forward accounts receivable source documents to the finance center.

- The EPA did not properly reconcile accounts receivable.
- The EPA incorrectly recorded Superfund special account collections and receivables.
- The EPA did not record more than $8 million in accounts receivable for a $9 million Superfund judgment.
- The EPA did not comply with federal accounting standards for recording interest.
- Compass reporting limitations impair accounting operations and internal controls.
- The EPA should improve compliance with internal controls for accounts receivable.
- The EPA should improve controls over expense accrual reversals.
- The EPA should improve its efforts to resolve the EPA’s long-standing cash differences with the Treasury.
- Financial management system user account management needs improvement.
- The OCFO lacks internal controls when assuming responsibility for account management procedures of financial systems.
- Financial and mixed-financial applications did not comply with required account management controls.

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

Agency Comments and OIG Evaluation

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

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

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

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

Internal Control Material Weaknesses and Significant Deficiencies

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

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

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

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

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

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

Agency Comments and OIG Evaluation

The agency concurred with our finding.

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

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

EPA Incorrectly Recorded Unearned Revenue for Superfund Special Accounts

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

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

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

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

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

Table 1: Required Adjustments

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

Source: OIG analysis.

EPA Needs to Reconcile Superfund Special Accounts Unearned Revenue

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

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

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

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

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

Recommendations

We recommend that the Chief Financial Officer:

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

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

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

Agency Comments and OIG Evaluation

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

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

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

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

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

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

Recommendation

We recommend that the Chief Financial Officer:

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

Agency Comments and OIG Evaluation

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

4 – EPA Should Clear Suspense Transactions Timely

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

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

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

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

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

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

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

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

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

Recommendation

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

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

Agency Comments and OIG Evaluation

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

5 – EPA Improperly Reclassified a Real Property Capital Lease

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

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

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

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

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

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

Table 2: Appropriate capital lease entries

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

Source: OIG analysis.

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

Recommendations

We recommend that the Chief Financial Officer:

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

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

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

Agency Comments and OIG Evaluation

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

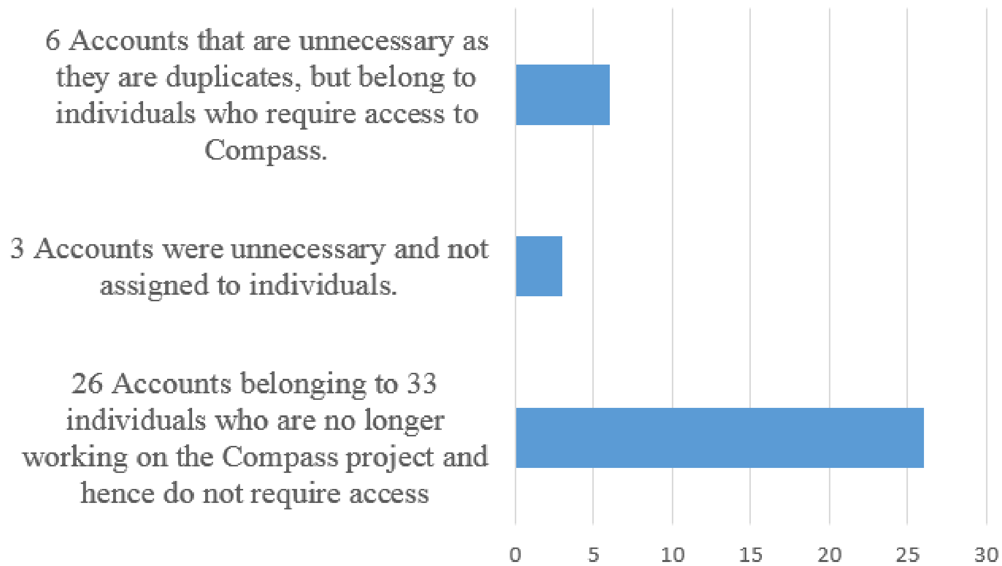
6 – EPA Needs Controls to Monitor Direct Access to the Compass Financials Database

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

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

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

Figure 1: Summary of unnecessary accounts



Source: OIG-generated.

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

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

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

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

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

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

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

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

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

Recommendations

We recommend that the Chief Financial Officer:

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

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

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

Agency Comments and OIG Evaluation

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

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

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

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

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

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

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

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

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

Recommendation

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

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

Agency Comments and OIG Evaluation

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

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

8 – EPA Needs to Improve Offsite Storage of Backups

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

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

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

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

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

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

Payment Tracking System and PeoplePlus

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

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

General Support System, which provides core infrastructure for hosting major OCFO applications, and does not cover the applications themselves.

Agency Asset Management System

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

Integrated Grants Management System

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

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

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

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

Recommendations

We recommend that the Chief Financial Officer:

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

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

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

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

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

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

Agency Comments and OIG Evaluation

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

Attachment 2

Compliance With Laws and Regulations

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

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

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

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

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

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

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

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

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

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

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

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

Agency Comments and OIG Evaluation

The agency concurred with our finding.

Status of Prior Audit Report Recommendations

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

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

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

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

Table 3: Significant deficiencies—issues not fully resolved

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

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

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

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

Source: OIG analysis.

Attachment 4

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

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

RECOMMENDATIONS

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

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

EPA's FYs 2016 and 2015 Consolidated Financial Statements

EPA's Fiscal 2016 and 2015 Consolidated Financial Statements

Financial Section

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Principal Financial Statements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2016 and September 30, 2015
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

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

B. Basis of Presentation

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

C. Budgets and Budgetary Accounting

I. General Funds

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

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

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

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

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

II. Revolving Funds

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

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

III. Special Funds

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

IV. Deposit Funds

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

V. Trust Funds

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

In 2015 EPA established a new receipt account for Superfund special account collections. This allows the Agency to invest the funds until draw down is needed for special accounts disbursements.

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

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

I. Superfund

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

II. Special Accounts Funds Accounting Process Change

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

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

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

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

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

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

III. Other Funds

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

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

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

F. Funds with the Treasury

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

G. Investments in U.S. Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

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

J. Accounts Receivable and Interest Receivable

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

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

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

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

K. Advances and Prepayments

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

L. Loans Receivable

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

M. Appropriated Amounts Held by Treasury

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

N. Property, Plant, and Equipment

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

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

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the projected minimum lease payments must be $75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an $85 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cash flows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value. As of January 30, 2016, EPA's last capital lease ended.

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

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

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

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

O. Liabilities

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

P. Borrowing Payable to the Treasury

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

Q. Interest Payable to Treasury

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

R. Accrued Unfunded Annual Leave

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

S. Retirement Plan

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

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

T. Prior Period Adjustments

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

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

U. Recovery Act Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Deepwater Horizon Oil Spill

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

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

W. Hurricane Sandy

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

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

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

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

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

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

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

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

X. Anadarko Settlement

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

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

Y. Puerto Rico Insolvency

As of October 4, 2016 EPA issued notices of noncompliance to the Puerto Rico Environmental Quality Board (PREQB), the Puerto Rico Department of Health (PRDOH), the Puerto Rico Infrastructure Financing Authority (PRIFA), and the Puerto Rico Government Development Bank (GDB) advising that the agencies are not complying with their obligations to manage and preserve the clean water and drinking water State Revolving Funds in Puerto Rico properly, separately and in perpetuity. GDB has not been disbursing funds from the

Revolving Fund accounts to pay for many of the projects that were authorized to receive grants or loans and has stated it does not have repayment funds available to make payments. Because all or a portion of the approximately $188 million State Revolving Funds is not currently available for eligible uses it triggers violations of various requirements of the Clean Water and Safe Drinking Water Acts. The notice of noncompliance gives PREQB and PRDOH thirty days to submit corrective action plans for approval."

Z. Use of Estimates

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

AA. Reclassifications

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

Note 2. Fund Balance with Treasury (FBWT)

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

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

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

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

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

Note 3. Cash and Other Monetary Assets

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

Note 4. Investments

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

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

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

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

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

Note 5. Accounts Receivable, Net

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

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

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

Note 6. Other Assets

Other Assets as of September 30, 2016 and September 30, 2015 consist of the following:

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

Note 7. Loans Receivable, Net

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

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

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

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

		Interest Rate Re-estimate	Technical Re-estimate	Total
Upward Subsidy Reestimate – FY 2016	$	-	-	-
Downward Subsidy Reestimate - FY 2016		-	-	-
FY 2016 Totals	**$**	**-**	**-**	**-**
Upward Subsidy Reestimate – FY 2015	$	-	-	-
Downward Subsidy Reestimate - FY 2015		2	-	2
FY 2015 Totals	**$**	**2**	**-**	**2**

Schedule for Reconciling Subsidy Cost Allowance Balances

(Post-1991 Direct Loans)

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

EPA has not disbursed Direct Loans since 1993.

Note 8. Accounts Payable and Accrued Liabilities

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

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

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

Other Accrued Liabilities primarily relate to contractor accruals.

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

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

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

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

Note 10. Debt Due to Treasury

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

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

Note 11. Stewardship Land

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

As of September 30, 2016, and 2015, the Agency possesses the following land and land rights:

	FY 2016	FY2015
Superfund Sites with Easements		
Beginning Balance	36	35
Additions	2	1
Withdrawals	0	0
Ending Balance	38	36
Superfund Sites with Land Acquired		
Beginning Balance	35	34
Additions	0	1
Withdrawals	1	0
Ending Balance	34	35

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2016 and 2015, custodial liability is approximately $42,579 thousand and $35,067 thousand, respectively.

Note 13. Other Liabilities

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

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

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

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

Note 14. Leases

A. Capital Leases:

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

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

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

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

B. Operating Leases:

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

The total minimum future operating lease costs are listed below:

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

Note 15. FECA Actuarial Liabilities

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

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

Note 16. Superfund Cashout Advances

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

Note 17. Commitments and Contingencies

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

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

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

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

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

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

A. Gold King Mine

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

B. Superfund

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

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

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

C. Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim. As of September 30, 2016, there is no other case pending in the court.

D. Other Commitments

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

Note 18. Fund from Dedicated Collections (Unaudited)

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

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

A. Funds from Dedicated Collections are as follows:

i. Environmental Services Receipt Account:

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

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

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

iii. ***Superfund Trust Fund:***

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

B. Other Funds from Dedicated Collections:

i. Inland Oil Spill Programs Account:

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

ii. Pesticide Registration Fund:

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

iii. Reregistration and Expedited Processing Fund:

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

iv. Tolerance Revolving Fund:

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

v. Exxon Valdez Settlement Fund:

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

Note 19. Intragovernmental Costs and Exchange Revenue

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

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

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

Note 20. Cost of Stewardship Land

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

Note 21. Environmental Cleanup Costs

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

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

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

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

EPA is required to report the estimated costs related to:

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

b) Accidental damage to non-federal property caused by federal operations, and

c) Other damage to federal property caused by federal operations or natural forces.

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

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

As of September 30, 2016, EPA has one site that requires clean-up stemming from its activities. The claimants' chances of success are characterized as reasonably possible with costs amounting to $900 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund clean-up work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2016 or in FY 2015.

Accrued Clean-up Cost

EPA has 16 sites that will require permanent closure, and EPA is responsible to fund the environmental clean-up of those sites. As of September 30, 2016 the estimated costs for site clean-up were $36.1 million unfunded and $1.1 million funded respectively. In 2015, the estimated costs for site clean-up were $36.2 million unfunded, $3.8 million funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2016, the estimate for unfunded clean-up cost decreased by $62 thousand from the FY 2015 estimate. This decrease is primarily due to decommissioning of the facilities, Environmental due diligence and sample analysis, and asbestos abatement. Also, in FY 2016 a decrease of $2.7 million were incurred compared to FY 2015 was the result of the consolidating of EPA sites at UNLV.

Note 22. State Credits

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

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

Note 23. Preauthorized Mixed Funding Agreements

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

Note 24. Custodial Revenues and Accounts Receivable

	FY 2016	FY 2015
Fines, Penalties and Other Miscellaneous Receipts	**$ 98,926**	**$ 193,850**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	195,188	170,246
Less: Allowance for Uncollectible Accounts	(150,599)	(133,444)
Total	**$ 44,589**	**$ 36,802**

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

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

Budgetary resources, obligations incurred and outlays, as presented in the audited

FY 2016 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2016 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2016 has not yet been published. We expect it will be published by early 2017, and it will be available on the OMB website Office of Management and Budget at https://www.whitehouse.gov/

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

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

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

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

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

Note 27. Unobligated Balances Available

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

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

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

Note 28. Undelivered Orders at the End of the Period

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

Note 29. Offsetting Receipts

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

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

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

A. Appropriation Transfers, In/Out:

For September 30, 2016 and September 30, 2015, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, and Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follow for September 30, 2016 and September 30, 2015:

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

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2016 and September 30, 2015, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and non-expenditure, follow for September 30, 2016 and September 30, 2015:

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

Note 31. Imputed Financing

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2016 were $116.4 million. For FY 2015, the estimates were $120.1 million.

SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" and SFFAS No. 30, "Inter-Entity Cost Implementation," requires federal agencies to recognize the costs of goods and services received from other federal entities that are not fully reimbursed, if material. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2016 total imputed costs were $21.3 million.

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

Note 32. Payroll and Benefits Payable

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

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

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

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

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

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

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

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

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

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

Note 36. Amounts Held by Treasury (Unaudited)

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

A. Superfund

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

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

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

In FY 2016, the EPA received an appropriation of $1,106 million for Superfund. Treasury's Bureau of Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BFS does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2016 and 2015, the Treasury Trust Fund has a liability to EPA for previously appropriated funds and special accounts of $4.8 billion and $5.2 billion, respectively.

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

B. LUST

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

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

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

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

A. Miscellaneous Receipt Act Violations

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

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

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

B. Voluntary Services Prohibition

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

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

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

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

Note 38. Other information

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

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

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

Environmental Protection Agency
As of September 30, 2016, and September 30, 2015
(Dollars in Thousands)

Deferred Maintenance:

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

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

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

The deferred maintenance as of Fiscal Year 2016:

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

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

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

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

c) Identify factors considered in determining acceptable condition standards.

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

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

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

g) Explain significant changes from the prior year.

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

Buildings:

Policy	Explanation
Maintenance and repairs policies and how they are applied.	The maintenance and repair policy is to maintain facilities and real property installed equipment to fully meet mission needs at each site. Systems are maintained to function efficiently at full capacity and to meet or exceed life expectancy of buildings and building systems.
How we rank and prioritize maintenance and repair activities among other activities.	Building and facility program projects are scored and ranked individually based on seven weighted factors to determine priority needs. High scoring projects are prioritized above lower scoring projects. The seven factors considered are: health and safety, energy conservation, environmental compliance, program requirements, repair and upkeep, space alteration, and operational urgency. R&I projects are identified and prioritized on a local basis.
Factors considered in determining acceptable condition standards.	The nine building systems must function at a level that fully meet mission needs. The nine building systems are: structure, roof, exterior components and finish, interior finish, HVAC, electrical, plumbing, conveyance, and specialized program support equipment. Each system is rated from 0 to 5 during facility assessments. Ratings are used to determine facility condition index and estimated deferred maintenance.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	Facilities assessments and the resulting DM&R estimates are applied to capitalize PP&E only. Full facility assessments using the NASA parametric model are used to determine facilities and systems indices and deferred maintenance estimates.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	Buildings are not excluded from DM&R estimates.
Explain significant changes from the prior year.	This is the second year detailed assessments were performed.

EPA held Equipment:

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

Vehicles

Policy	Explanation
Maintenance and repairs policies and how they are applied.	Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer.
How we rank and prioritize maintenance and repair activities among other activities.	The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor*. System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built.
Factors considered in determining acceptable condition standards.	The vehicle is inspected to insure that it (the vehicle) and related specialized equipment are in good working order. The criteria being that the vehicle is being maintained as built and as recommended by the manufacturer.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	All vehicles are capitalized.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	None.
Explain significant changes from the prior year.	This is the second year vehicles have been reported.

Stewardship Land

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

Supplemental Combined Statement of Budgetary Resources

Environmental Protection Agency
For the Period Ending September 30, 2016
(Dollars in Thousands)

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

Required Supplemental Stewardship Information (Unaudited)

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

Investment in The Nation's Research and Development:

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

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

For FY 2016, the full cost of the Agency's Research and Development activities totaled over $623 million. Below is a breakout of the expenses (dollars in thousands): [1]

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

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

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

Investment in The Nation's Infrastructure:

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

a) Construction Grants Program:

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

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

b) State Revolving Funds:

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

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

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

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

Human Capital

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

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

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

Agency Response to Draft Report

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

NOV 10 2016

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

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

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

TO: Paul C. Curtis, Director
Financial Statements Audits

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

AGENCY'S OVERALL POSITION

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

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

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

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

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

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

Disagreements

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

CONTACT INFORMATION

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

Attachment

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

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

Agency Comments:

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

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

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

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

Agency Comments:

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

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

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

TECHNICAL CLARIFICATIONS:

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

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

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

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

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

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