



*EPA's FY 2007
Performance and Accountability Report*

**Section I
Management's Discussion and Analysis**

This document is one chapter from the "Fiscal Year 2007 Performance and Accountability Report, U.S. Environmental Protection Agency," (EPA-190-R-07-001), published on November 15, 2007. This document is available at: <http://www.epa.gov/ocfo/par/2007par>.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Since it was established in 1970, the U.S. Environmental Protection Agency has worked to achieve a cleaner, healthier environment for all Americans. From regulating auto emissions to banning the use of DDT, from cleaning up toxic waste to protecting the ozone layer, and from promoting recycling and resource conservation to revitalizing inner city brownfields sites, EPA and its partners and stakeholders have made enormous strides in protecting human health and the environment.

But while the Agency and its partners have achieved a great deal over the past several decades, much work remains. The environmental problems the country faces today are more complex than those of years past, and implementing solutions—nationally and globally—is more challenging. Population growth and its associated resource consumption, climate change, threats to homeland security, and the spread of disease through global travel, for example, pose important new concerns. Scientific advances and emerging technologies, such as nanotechnology or bioengineering, offer new opportunities for protecting human health and the environment, but also pose new risks and challenges.

EPA and its partners continue to work to address these and other issues. The President has charged EPA with accelerating progress in environmental protection while maintaining our nation's economic competitiveness. This report reviews the results that EPA has achieved during FY 2007 and the advances we have made toward our longer-term strategic goals. It also identifies program performance and overall management challenges. The PAR fulfills the requirements of the Government Performance and Results Act and other management legislation for reporting on environmental and financial performance and demonstrating results.¹

EPA's Long-Term Strategic Goals

1. Clean Air and Global Climate Change
2. Clean and Safe Water
3. Land Preservation and Restoration
4. Healthy Communities and Ecosystems
5. Compliance and Environmental Stewardship

EPA's *FY 2007 Performance and Accountability Report* describes the Agency's results in meeting the 167 performance measures it established in its *FY 2007 Annual Plan*.² It also discusses EPA's financial activities and achievements during the year. Managing taxpayer dollars efficiently and effectively and ensuring the integrity of our programs and processes are critical to EPA's success in delivering the best results to the American people.

MISSION AND ORGANIZATION

EPA's mission is to protect human health and the environment. The Agency leads the nation's environmental science, research, education, and assessment efforts. To accomplish our mission, EPA:

- Develops regulations that implement environmental laws enacted by Congress. We evaluate environmental and pollutant data to set national standards for a variety of environmental programs and delegate to states and tribes the responsibility for issuing permits and for monitoring and enforcing compliance.

- Enforces environmental laws, regulations, and standards by taking legal action. EPA also offers assistance to states, tribes, and the regulated community in understanding and complying with environmental requirements to reach desired levels of environmental quality.
- Provides grants to states, nonprofit organizations, and educational institutions to support program implementation and high-quality research that will improve the scientific basis for decisions on national environmental and human health issues and help the Agency achieve its goals.
- Performs environmental research at laboratories across the country.
- Sponsors voluntary partnerships and programs with more than 10,000 industries, businesses, nonprofit organizations, and state and local governments on more than 40 pollution prevention programs and energy conservation efforts.
- Advances educational efforts to develop an environmentally conscious and responsible public and inspires personal responsibility in caring for the environment.
- Provides publications and material on its website to inform the public.

EPA employs 17,072 people across the country, in our headquarters offices in Washington, DC; our 10 regional offices; and more than a dozen laboratories and field sites. The Agency's staff is highly educated and technically trained: more than half are engineers, scientists, and policy analysts. In addition, EPA employs legal, public affairs, financial, information management, and computer specialists. EPA Administrator Stephen L. Johnson is the first career executive and the first career scientist to lead the Agency. For more information, visit EPA's website at <http://www.epa.gov>.

U.S. Environmental Protection Agency

The mission of the Environmental Protection Agency is to protect human health and the environment



How We Work: Collaboration With Partners and Stakeholders

EPA's partnerships with other countries, other federal agencies, states, tribes, and local governments are essential to address today's increasingly complex environmental challenges. We believe that it is only through our collaborative efforts with our partners—and the participation of business and industry, nonprofit organizations, environmental groups, and the American public—that we can achieve results and meet our goals for a cleaner, safer environment.

In FY 2007, the Agency continued to participate in the Environmental Council of the States (ECOS)-EPA Partnership and Performance Work Group, a senior-level oversight body governing ongoing efforts to strengthen the state-EPA partnership. A major focus for the Work Group in FY 2007 was producing a standardized template that states will use to develop and submit their state grant agreements. The template will show linkages between states' activities and EPA's strategic goals and will allow for meaningful comparisons between planned activities and performance, making progress more visible and programs more transparent. During FY 2008, EPA and states will continue examining state reporting burden and streamlining performance measures, as well as documenting important environmental work being conducted under different environmental program grants.

EPA continued to work in partnership with tribes in a government-to-government relationship to improve compliance in Indian country, focusing particularly on issues concerning drinking water systems, schools, and proper management of solid waste.

Enhancing Tribal Environmental Management

Tribal Compliance Assistance Center

In FY 2007, EPA launched a web-based Tribal Compliance Assistance Center (www.epa.gov/tribalcompliance), specifically designed to increase access to information on federal environmental requirements and to improve environmental compliance and management in Indian country.

One of 15 Compliance Assistance Centers (<http://www.assistancecenters.net>) providing sector-specific information, the Tribal Center offers comprehensive compliance assistance and pollution prevention information for regulated activities in Indian country by environmental topic, as well as by type of facility. The Tribal Center also provides links to compliance and enforcement information and enables tribes and tribal members to report environmental violations directly to EPA. The Center is designed to help tribal environmental professionals find training opportunities and locate specific personnel at EPA to answer their environmental compliance questions.

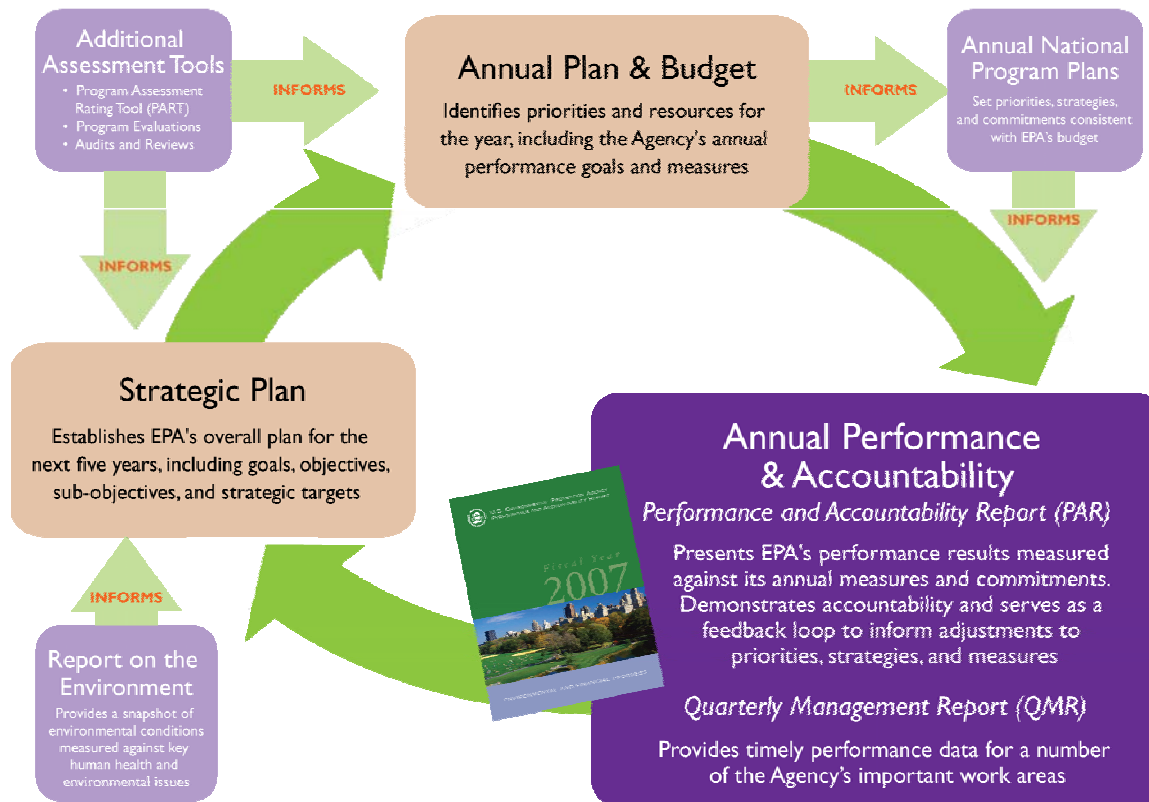
EPA's 2007 *Profile of Tribal Government Operations* (EPA Pub # 310R07001) provides useful information on the complex and wide array of tribal government operations and relevant environmental regulations and pollution prevention opportunities. The *Profile* is available online at <http://www.epa.gov/Compliance/resources/publications/assistance/sectors/notebooks/tribalsn.pdf> and in hard copy from the National Service Center for Environmental Publications at <http://www.epa.gov/nscep/> or by calling 800-490-9198.

Tribal Portal

In July 2007, EPA launched the first-of-its-kind portal website to assist the tribal community, its supporters, and the public find tribal environmental information and data through a single web-based access point. Part of EPA's commitment to strengthen its partnership with Indian tribes and governments to protect human health and the environment, the new website allows EPA to consolidate and share environmental information reflecting the tribal community's perspective and needs in an easy-to-navigate structure. Programs across the Agency, including enforcement, waste, underground storage tanks, and water, are providing information through this central website. Visit the Tribal Portal at <http://www.epa.gov/tribalportal>.

EPA's Performance Management Framework

Planning, Budgeting, and Accountability for Results



How We Work: Our Framework for Performance Management

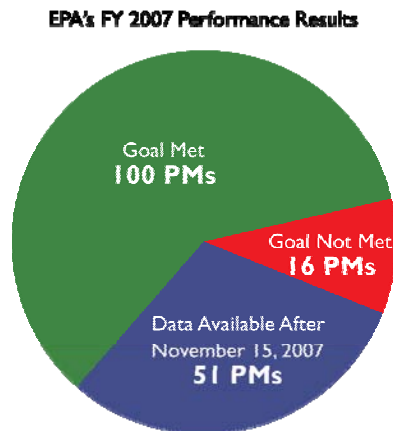
To carry out our mission to protect human health and the environment, EPA established five broad, long-range goals: clean air, clean water, protecting land, providing healthy communities and ecosystems, and promoting environmental compliance and stewardship. Our five goals, 20 supporting objectives, and a number of strategic targets are laid out in EPA's five-year *Strategic Plan*.³ Our *Strategic Plan* also provides the structure for all of our budget documents, and EPA is making great strides in more closely linking our performance with our costs. Each year, we commit to annual goals and measures that support the achievement of our longer-range strategic targets. These annual goals and measures are presented in our *Annual Performance Plan and the Congressional Justification*, and we are accountable for using our resources efficiently and effectively to achieve results against them.

We track our progress in meeting these annual goals and measures through a variety of lenses, including Program Assessment Rating Tool (PART) reviews and our internal Annual Commitment System, which helps us develop and track regional contributions—which reflect state and tribal efforts—to program results. We report on our performance against our annual goals and measures in this annual *Performance and Accountability Report*.

FY 2007 PROGRAM PERFORMANCE

In FY 2007, EPA achieved significant results under each of the five long-term environmental goals established in its *2006-2011 Strategic Plan*. In this section, we (1) offer an overview of our performance across all goals, (2) present summary results and highlight our accomplishments and challenges under each goal, (3) present highlights of our homeland security efforts across the Agency, and (4) describe a few of the efforts, underway in FY 2007, that EPA has initiated to improve its performance measurement and strengthen accountability for achieving results.

Overview of Performance Trends and Results



EPA is strengthening its performance measurement and use of performance information to make the management and budget decisions that will help us achieve our environmental and human health goals. In the past, we have tallied and presented our annual performance results by annual performance goals, which may comprise multiple performance measures. In this report, we have increased transparency and provided a more accurate and precise picture of the Agency's FY 2007 performance by reporting results for each of our performance measures and presenting our overall results by annual performance measures met and not met. We believe that reporting results against individual performance measures will enhance the Agency's, our partners' and stakeholders', and the public's understanding of EPA's actual FY 2007 performance and help in assessing our progress toward our longer-term objectives.

Performance Measures Met

In its *FY 2007 Annual Plan*, EPA committed to 167 annual performance measures (PMs). In FY 2007, the Agency met 100 of these PMs, 86 percent of the PMs for which data were available at the time this report was published.

EPA significantly exceeded its targets for a number of its FY 2007 PMs. In some cases, a particularly strong collaborative effort or application of an innovative new approach allowed the Agency to accomplish more than it had planned. For example, EPA exceeded its targets for

closing open dumps in Indian Country or on other tribal lands. Several regions, notably Region 6 (Dallas) and 9 (San Francisco), were particularly successful in leveraging General Assistance Program grants. Including open dump cleanups in RCRA Supplemental Environmental Projects also increased regional results. In other cases, the Agency had established a new PM and, lacking the experience and trend data it needed to determine ambitious yet realistic targets, set FY 2007 targets conservatively.

Performance Measures Not Met

Despite our best efforts, we and our partners were unable to meet all ambitious targets planned for FY 2007. EPA did not meet 16 of the 116 FY 2007 PMs for which performance data were available. There are a number of reasons for missing these targets:

- Unexpected demands or competing priorities sometimes diverted resources and prevented EPA and its partners from meeting FY 2007 targets.
- In its commitment to develop meaningful goals and measures that evidence environmental outcomes, the Agency in some cases may have overestimated its ability to achieve annual results. For example, EPA set an ambitious target for restoring valuable underwater grasses in the Chesapeake Bay. However, population growth, land use, and other factors have affected progress in reducing nitrogen, phosphorous, and sediment pollution loads entering the Bay. Despite the efforts of EPA, states, and others, pollution reduction strategies have not improved water quality conditions or permitted restoration of aquatic vegetation to the extent envisioned by Chesapeake Bay Program partners.
- Factors affecting the activities of the Agency's federal, state, and local government partners, who collaborate closely with EPA, also had an impact on annual performance results.

EPA is carefully considering the various causes for these FY 2007 shortfalls as we adjust our program strategies and establish annual targets for FY 2008 and beyond. As part of our annual planning process, EPA will continue to work closely with our partners to address challenges and ensure progress toward our environmental and human health objectives.

Data Unavailable

Because final end-of-year data were not available when this report went to press, EPA is not yet able to report on 51 of its 167 PMs. This delay in reporting can be largely attributed to the Agency's sharpened focus on longer-term environmental and human health outcomes rather than activity-based outputs. Environmental outcome results may not become apparent within a fiscal year, and assessing environmental improvements often requires multi-year information. Many variables are involved in evaluating progress toward an outcome-oriented goal, and it takes time to understand and assess such factors as exposure and the resulting impact on human health.

In many cases, reporting cycles—including some which are legislatively mandated—do not correspond with the federal fiscal year on which this report is based. Data reported biennially or on a calendar year basis, for example, are not yet available for this report, but will be provided in subsequent reports. Extensive quality assurance/quality control (QA/QC) processes to ensure the reliability of performance data can also delay reporting. In some cases,

such as for certain compliance and enforcement information, the Agency has adjusted data collection and QA/QC processes to meet the November 15 date for submitting this report. In other cases, EPA presents the most current data now available and will provide complete data in a future report.

EPA relies heavily on performance data obtained from local, state, and tribal agencies, all of which require time to collect the information and review it for quality. Often, EPA is unable to obtain complete end-of-year information from all sources in time to meet the deadline for this report. We are reducing such delays in reporting, however, by capitalizing on new information technologies to exchange and integrate electronic data and information, improve data quality and reliability, and reduce the burden on our partners. For example, sensor network technology offers promise for reducing data lags in measuring particulate matter levels in air and potability in water. With sensor networks in place, EPA and its partners could obtain much of the monitoring data required to assess progress in virtually real-time.

Data Now Available

EPA is now able, however, to report data from previous years that became available in FY 2007. Final performance results data became available for 46 of the FY 2006 PMs on which the Agency did not report in its *FY 2006 Performance and Accountability Report*. Of these 46 FY 2006 PMs, EPA met 39. For example, the Agency exceeded its FY 2006 target for 1,000 environmental assessments of brownfields properties by assessing 2,139 properties. EPA can now report achieving 133 (76 percent) of the 174 FY 2006 PMs for which it has data.

Improving Performance Measures and Performance Management

During FY 2007, EPA developed and implemented a series of key initiatives designed to improve the quality and consistency of its performance information and help the Agency's senior leaders "use measures to manage."

The Agency continued working to improve the quality of all of its performance measures. To support implementation of its key national programs, EPA performed a systematic Agency-wide annual review of all its FY 2007 and FY 2008 measures, and it will continue this review process for FY 2009 measures. These reviews have resulted in a more streamlined set of performance measures and improved linkages between related measures, ensuring that they are useful for performance-based management.

EPA is also creating tools to improve its access to and use of performance measures. In 2007, the Agency began a concerted effort to centralize its performance information in its automated Annual Commitment System (ACS), creating a "Measures Central" that consolidates measures and measures information. For example, ACS now tracks state grant performance information annually, and EPA generates reports using the Office of the Chief Financial Officer's Reporting and Business Intelligence Tool (ORBIT). The Agency has also updated its reporting tools to simplify access to performance information within the Agency.

EPA has continued to improve and refine the Quarterly Management Report (QMR) it initiated in FY 2006. The QMR provides timely performance data for a number of the Agency's important work areas. It complements other budget, performance, and financial management tools that support the Agency's performance management system. Originally, the QMR was used exclusively as an internal management tool. In FY 2007, the Agency made the report available to the public to increase transparency and encourage a constructive dialogue on how

EPA can use performance measures better to protect the environment. By looking at fresh data on a quarterly basis, EPA is using performance measures to “learn and do” rather than simply to “report.” The QMR is available on EPA’s website at <http://www.epa.gov/ocfo/qmr/>.

EPA has become a federal leader in performance analysis and management by integrating management systems and adopting a common vision for their use. The Agency now routinely collects performance data and makes it readily accessible, uses performance measures to inform decisions, and engages managers and staff at various levels. As a result, EPA is building a stronger results-based organizational culture.

Highlights of Program Performance by Goal

The tables below summarize performance results and resource information and highlight key achievements and challenges under each goal. Section II of this report contains detailed performance information.

STRATEGIC GOAL 1 - CLEAN AIR AND GLOBAL CLIMATE CHANGE

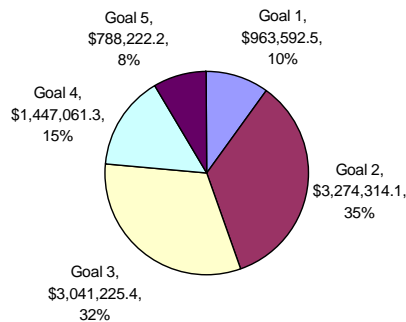
Protect and improve the air so it is healthy to breathe, and risks to human health and the environment are reduced. Reduce greenhouse gas intensity by enhancing partnerships with businesses and other sectors.

Goal 1 FY 2007 Performance Measures (PMs)

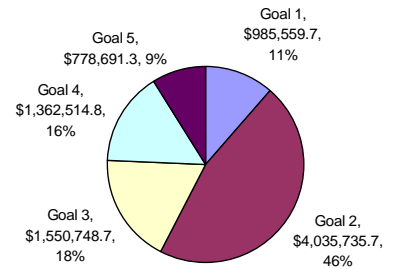
Met = 1 Not Met = 0
Data Available After November 15,
2007 = 25

(Total PMs = 26)

EPA FY 2007 Obligations
(in thousands)



EPA FY 2007 Expenditures
(in thousands)



OBJECTIVE 1 - Healthier Outdoor Air

Key Achievements

- In June 2007, EPA proposed to strengthen the nation's air quality standards for ground-level ozone, revising the standards for the first time since 1997. The proposal is based on the most recent scientific evidence about the health effects of ozone, the primary component of smog. EPA projects that health benefits of the proposed ozone standard could be in the billions of dollars.⁴ The Agency will issue final standards by March 2008.
- Ozone levels have dropped 21 percent nationwide since 1980 as EPA, states, and local governments have worked together to continue to improve the nation's air.

Challenges

- Of the six tracked pollutants, ground-level ozone and particulate matter are the most widespread. We need to integrate our toxics and climate programs with our more traditional criteria pollutant programs. Criteria pollutant reduction strategies that result in more reductions in air toxics, increased energy efficiency, and cleaner fuels should be emphasized in the design of control programs. The Agency needs to ensure that individual programs work together so that we minimize the burden on the regulated community while maximizing pollution reduction across all titles of the Clean Air Act.

OBJECTIVE 2 – Healthier Indoor Air

Key Achievements

- In 2006, the Agency held symposia and worked with grantees to train more than 3,000 health professionals on asthma and environmental trigger management. As a result of the award-winning Asthma Goldfish Public Service Campaign, national awareness of asthma triggers has increased to an all-time high of 33 percent among the general public.
- Through 2006, the Agency worked with approximately 36,000 schools to help implement an effective indoor air quality plan based on criteria set by EPA. Poor ventilation in elementary and secondary schools contributes to unsatisfactory indoor air quality, putting at risk children, a vulnerable segment of the population, who are more susceptible to pollutants and spend long hours in school facilities.
- Radon is the second leading cause of lung cancer in America and is associated with about 20,000 lung cancer deaths every year.⁵ EPA estimates that in FY 2005 (the most recent year for which we have complete data), the combination of homes with radon mitigation systems and homes built with

radon-resistant techniques—voluntary public actions that EPA promoted—saved approximately 575 lives.

Challenges

- Indoor Air is a small, voluntary program addressing multiple contaminants and high risks. To maintain momentum we must work with public, private, and nonprofit partners, each with financial and/or constituency pressures. The program also must link with EPA regulatory and other community-based risk-reduction activities to ensure maximum leverage of limited resources.

OBJECTIVE 3 – Protect the Ozone Layer

Key Achievements

- 2007 marked the 20th anniversary of the signing of the Montreal Protocol. Since signing in 1987, the United States has achieved a 90 percent reduction in the production and consumption of ozone-depleting substances (ODS), ending the production and import of over 1.7 billion pounds of these chemicals per year. The faster the ozone layer is healed, the greater the prevention of human health damages caused by excess UV radiation, including skin cancer.
- In 2005 (the last year for which data are available), the United States reduced annual emissions of ODS by more than 1200 tons (ODS equivalent, which has a climate co-benefit of 1,500 million CO₂-equivalent metric tons per year).

Challenges

- At a September 21, 2007 meeting in Montreal that recognized the 20th anniversary of the Montreal Protocol, the 191 Parties to the Protocol reached a milestone agreement to accelerate recovery of the earth's stratospheric ozone layer and, at the same time, prevent large quantities of greenhouse gas emissions. Parties agreed to speed up by a decade the phaseout of hydrochlorofluorocarbons (HCFCs). Because HCFCs are also greenhouse gases, the agreement to accelerate their phaseout also provides benefits for the climate system. The Agency will have a challenge in identifying acceptable substitutes to ozone depleting substances.

OBJECTIVE 4 – Radiation

Key Achievements

- In FY 2007, EPA participated in several major radiological emergency response exercises, including exercises that simulated the detonation of a defined-area radiological dispersal device (dirty bomb), simulated the detonation of an improvised nuclear device, and tested EPA's Incident Command System during a response to a radiological incident originating on foreign soil.
- The Agency developed RadMap, an interactive desktop tool featuring a Geographic Information System map and quick access to information on long-term radiation monitoring locations across the country. RadMap is designed for use by emergency responders and provides access to key information on 500 monitors and the areas surrounding them.

Challenges

- In FY 2007, EPA continued to expand RadNet, a nationwide system to track environmental radiation. The upgraded system is designed to provide improved coverage as well as additional air monitoring capabilities important during radiological emergencies. Despite some early start-up problems, EPA made significant progress during the year in deploying monitors.

OBJECTIVE 5 – Reduce Greenhouse Gas Intensity

Key Achievements

- EPA achieved significant greenhouse gas reductions in 2006 (the latest year for which data are available) through its climate protection partnership programs and is on track to contribute about 70 percent of the reductions necessary to achieve the President's 2012 greenhouse gas intensity goal.⁶

- EPA partnered with over 11,000 organizations nationwide to improve energy efficiency. The partnerships are working to increase the supply of clean energy across the building, industrial, and transportation sectors by breaking down the market barriers that prevent investments in cost-effective, climate-friendly technologies and practices. EPA currently estimates that its partners reduced greenhouse gas emissions by about 100 million metric tons of carbon equivalents (MMTCE) through measures in place in 2006.
- Through ENERGY STAR, consumers saved more than \$14 billion on their energy bills by purchasing more than 300 million labeled products, constructing almost 200,000 ENERGY STAR new homes, using EPA's energy performance rating system to track and improve the energy use of over 30,000 commercial buildings, and reducing energy use at hundreds of industrial facilities.
- More than 650 organizations committed to purchasing almost 7 billion kilowatt-hours of green power and 200 organizations installed more than 3,500 megawatts of new combined heat and power capacity.
- Through such efforts as the Methane-to-Markets initiative, EPA provided developing and industrialized countries with information and increased technical capacity needed to implement emissions reduction policies and climate protection programs.
- More than 600 freight carriers and shippers, covering 361,000 heavy duty diesel trucks, are now participating in EPA's SmartWay Transport Partnership Program. These partners account for approximately 12 percent of the industry's greenhouse gas emissions. SmartWay partners are implementing fuel efficiency measures that will reduce greenhouse gas emissions by over 1.9 MMTCE per year, with annual fuel savings of \$1.7 billion dollars.

Challenges

- EPA's latest annual report on greenhouse gas emissions, "Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2005" (April 2007), which was prepared for the United Nations Framework on Climate Change, is a study in challenges.⁷ The report shows that the United States is making progress in reducing the emissions of some critical gases as it works toward cutting U.S. greenhouse gas intensity by 18 percent by 2012. Strong economic growth starting in 2005 and an increase in the demand for electricity during warmer summer conditions are expected to keep carbon dioxide emissions high. EPA is targeting its climate protection partnership programs to address this growing electricity demand in the residential, commercial, and industrial sectors.
- For the ENERGY STAR Program, EPA will determine the need for spot testing, to ensure the integrity of the ENERGY STAR label for consumers of home and office products.

OBJECTIVE 6 – Enhance Science and Research

Key Achievements

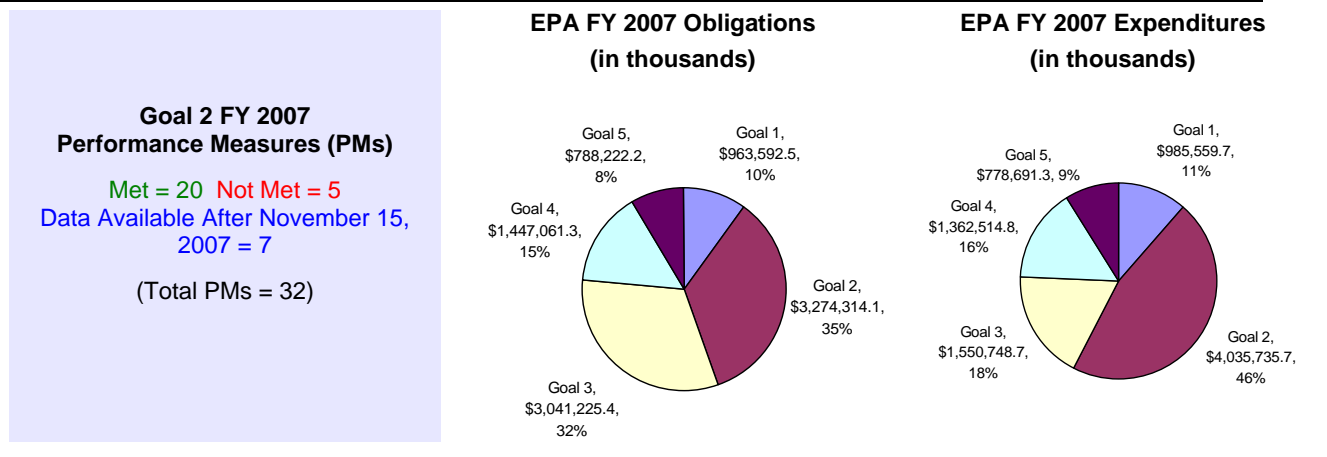
- EPA's Clean Air Research Program completed 100 percent of its planned actions toward the long-term goal of reducing uncertainty in the science that supports standards setting and air quality management decisions. As a result of research conducted under this program, EPA has proposed to strengthen the nation's air quality standards for ground-level ozone, revising the standards for the first time since 1997.

Challenges

- It is difficult for the research program to meaningfully measure its annual progress in reducing uncertainty and in completing a hierarchy of air pollutant sources based on the risk they pose to human health. As a result, the Clean Air Research Program is soliciting input from an independent panel of experts to better define methods for measuring annual progress.

STRATEGIC GOAL 2 – CLEAN AND SAFE WATER

Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health; support economic and recreational activities; and provide healthy habitat for fish, plants, and wildlife.



OBJECTIVE 1 – Protect Human Health

Key Achievements

- In FY 2007, 91.5 percent of the population served by community water systems received drinking water that met all applicable health-based drinking water standards (slightly short of EPA’s target of 94 percent).
- EPA regional offices conducted emergency response preparedness exercises to improve responses in the event of a catastrophic natural or deliberate incident at drinking water or wastewater facilities. EPA prepared and disseminated materials to guide utilities in conducting self-assessments, developing plans, and designing and implementing contamination warning systems.
- EPA met its FY 2007 goal by keeping coastal and Great Lakes beaches open 95 percent of beach season days during the past year’s swimming season (calendar year 2006).
- EPA completed freshwater epidemiology studies that tested a rapid indicator for pollutants in swimming waters. These results will help local governments make decisions on beach closures and health advisory notices quickly and more efficiently.

Challenges

- The nation’s drinking water infrastructure is aging. Water utilities face the challenge of substantial reinvestment in water infrastructure to sustain current levels of service and to meet increasing future public health protection needs. Drinking Water State Revolving Funds (DWSRFs) offer low-interest loans and other assistance to water systems to help provide safe, reliable water service on a sustainable basis. The challenge for the Agency and the states is to manage the DWSRF program in a way that can maximize public health protection with available funds.
- Water systems, particularly small systems, are challenged by the need to apply existing standards for more than 90 chemical, radiological, and microbial contaminants and to implement new ones.
- To prevent groundwater pollution, EPA’s Underground Injection Control Program works with states to monitor hazardous and non-hazardous fluids injected into the ground. A major challenge in implementing the Agency’s rule on motor vehicle waste disposal wells and large capacity cesspools is locating Class V wells (shallow, on-site disposal systems, such as drywells, cesspools, and septic systems) in a Geographical Information System (GIS) format so they can be mapped and compared

to GIS locations for source water protection areas. Managers need this data to set priorities for addressing problem areas and protecting communities with groundwater-based water systems.

OBJECTIVE 2 – Protect Water Quality

Key Achievements

- EPA is making strong progress in addressing impaired waters: In FY 2007, a cumulative 15 percent (against the FY 2007 target of 14.1 percent) of waters listed as impaired in 2000 are now fully attaining water quality standards.
- Under EPA's National Pollutant Discharge Elimination System, permits implementing standards for industrial sources, municipal treatment plants, and storm water prevented discharge of 37 billion pounds of pollutants into waterways.
- EPA released the Wadeable Stream Assessment, the first statistically valid assessment of national stream condition. The assessment found that 28 percent of the nation's streams are in good condition. (Twenty-five to thirty percent of streams across the United States were estimated to have high levels of nutrients or excess sedimentation.)
- Data now available in FY 2007 show that annual load reductions for non-point sources of pollution exceeded the Agency's FY 2006 targets. EPA's partners reduced phosphorus by 11.8 million pounds, nitrogen by 14.5 million pounds, and sediment by 1.2 million tons.
- In FY 2007, the Clean Water Indian Set-Aside Program funded 65 wastewater infrastructure projects in Indian Country, covering over 7,200 homes out of a base of 26,777 homes lacking access to basic sanitation.

Challenges

- Progress in addressing impaired waters will likely slow as listings of waterbodies become more accurate and "easy" restorations are completed. Many remaining problems, such as urban wet weather impairments and persistent legacy pollutants, are complex and may take many years to solve (e.g., restoring stream bank trees to address temperature problems).
- In FY 2007, EPA created a Climate Change Workgroup to assess the implications of climate change for water programs, for example, warming waters, shifting precipitation patterns, and rising sea levels. The workgroup drafted a strategy for responding to climate change, which will be released for public review and comment in early FY 2008. EPA's National Water Program expects to finalize and begin implementing the strategy in FY 2008.

OBJECTIVE 3 – Enhance Science and Research

Key Achievements

- In FY 2007, methods, models, and tools produced by EPA's Office of Research and Development contributed, in part, to risk assessments that resulted in EPA's preliminary determinations not to regulate eleven chemical contaminants from the Contaminant Candidate List (CCL2). In this sound science-based decision, EPA helped to reduce the economic and technical burden on water utilities by allowing them to focus on protecting public health through controlling the high priority contaminants which are currently regulated.
- Through the Salmon 2100 Project, EPA developed a set of policy options for restoring salmon runs to significant, sustainable levels in California, Oregon, Washington, Idaho, and southern British Columbia.

Challenges

- To assess the utility of its research for informing key Agency decisions, EPA's Drinking Water Research Program is implementing a measure based on analyses of EPA documents. Challenges include determining the scope and most cost-effective means of conducting the analyses.

STRATEGIC GOAL 3 – LAND PRESERVATION AND RESTORATION

Preserve and restore the land by using innovative waste management practices and cleaning up contaminated properties to reduce risk posed by releases of harmful substances.

Goal 3 FY 2007 Performance Measures (PMs)

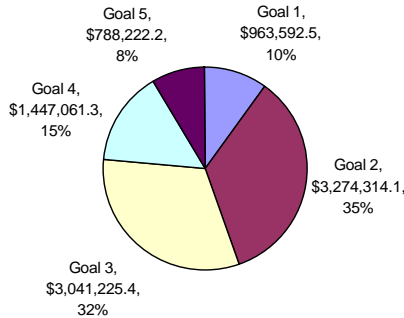
Met = 22

Not Met = 4

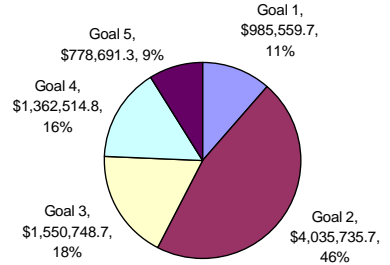
Data Available After November 15, 2007 = 3

(Total PMs = 29)

**EPA FY 2007 Obligations
(in thousands)**



**EPA FY 2007 Expenditures
(in thousands)**



OBJECTIVE 1 – Preserve Land

Key Achievements

- Through EPA-sponsored efforts, the national municipal solid waste (MSW) recycling rate has reached 32 percent of the waste stream (based on the most current data from FY 2005). EPA reduced 49.92 million metric tons of carbon equivalent (MTCE), which translates into removing 39.6 million cars from the road. The MSW recycling rate also reflects a savings of 1.4 quadrillion BTUs, which is equivalent to 11.3 billion gallons of gas or 14 percent of U.S. residential energy demand.
- The number of hazardous waste management facilities with approved controls in place to prevent dangerous releases to air, soil, and groundwater increased to 71 (2.8 percent of the baseline), meeting EPA's FY 2007 target. Pursuant to the Resource Conservation and Recovery Act (RCRA), EPA's hazardous waste management program is on track to bring 95 percent of facilities under approved controls by FY 2008.
- States made significant progress in renewing permits for hazardous waste management facilities, renewing 96 permits during FY 2007 and enabling the RCRA program to meet its FY 2008 goal of 150 permit renewals a year early.

Challenges

- Some facilities pose more of a permitting challenge than others. While the remaining workload represents a small percentage of facilities, it involves more complex permit actions, for example, addressing post-closure sites, nontraditional units (Subpart X), or large and complex federal facilities. Many of the unit types that still need to be addressed pose their own unique challenges.
- To determine underground storage tank (UST) facilities' compliance with release prevention and release detection requirements, EPA has increased efforts to inspect all UST facilities, such that each facility is inspected at least once every 3 years. In FY 2007, states found that many previously un-inspected UST facilities did not comply with requirements. EPA expects that, over time, these more frequent inspections will result in more facilities in compliance. However in the short run, as previously un-inspected or infrequently-inspected facilities are inspected, compliance rates are lower, and the Agency has not met its goal for increasing significant operational compliance rates. EPA expects that this trend will reverse as we continue to implement this inspection initiative.

OBJECTIVE 2 – Restore Land

Key Achievements

- Controlling human exposures is a top priority for EPA's Superfund Remedial Program. In FY 2007, the program controlled all identified unacceptable human exposures from site contamination for current land and/or groundwater use conditions at 13 sites, exceeding our target of 10, for a cumulative total of 1,282 (approximately 83 percent) of 1,543 sites where human exposures are a problem.
- Because groundwater can be a vehicle for spreading contamination, EPA strives to control the migration of contaminated groundwater through engineered remedies or natural processes. In FY 2007, the Superfund program accomplished this goal at 19 of these sites, exceeding its target of 10, and reaching a cumulative total of 977, or approximately 71 percent of the 1,381 sites where groundwater migration is a problem.
- Through its Superfund program, EPA met the target of 24 by completing the construction phase of cleanup at 24 sites across the country for a cumulative total of 1,030 or 65 percent of the sites on the National Priorities List (NPL). In addition, 64 Superfund sites were determined to be ready for reuse in their entirety, exceeding the target of 30.
- EPA exceeded its FY 2007 targets by addressing 1,968 high priority facilities requiring RCRA corrective action. Of this total, current human exposures are now under control at 93 percent of facilities, and the migration of contaminated groundwater is under control at 78 percent of facilities. Final remedies have been constructed for 28 percent of these facilities.
- Leaking underground storage tanks (USTs) at gas stations and other locations release petroleum and other hazardous substances into the environment and are consistently ranked by states as a leading source of groundwater contamination. EPA's state and tribal partners met and exceeded the Agency's target of 13,000 cleanups of leaking USTs, including 30 cleanups in Indian Country, with a total of 13,862 cleanups, including 54 cleanups in Indian Country.
- Since the beginning of the Agency's UST program, EPA has cleaned up more than 77 percent (or 365,361) of all reported releases. In FY 2007, we continued to work with our state and tribal partners to address the backlog of 108,766 leaking UST cleanups not yet completed.

Challenges

- EPA's Superfund program faces several challenges. At private sites, it must balance ongoing work at as many sites as possible while maintaining a cost-effective rate of remediation at each site. At both private and federal sites, it must maintain a high rate of construction completions. Current NPL sites—particularly vast federal facilities that contain a wide variety of contaminants—are far more complex than sites that have already been completed. The program also strives to keep remedies up-to-date in the face of continuing improvements in applicable science and/or technology and the discovery of emerging contaminants. Finally, it must ensure that necessary institutional controls are implemented at remediated Superfund sites, given that state and/or local governments and other federal agencies, not EPA, are the responsible authorities.
- Similarly, meeting RCRA Corrective Action Program targets for human exposure under control and groundwater migration under control will be more difficult in FY 2008, because only the most complex sites remain. Furthermore, the program has begun to emphasize the construction of final remedies, addressing the most complicated of the high priority sites. Looking forward, in FY 2009 the universe of facilities believed to need corrective action will nearly double to 3,746 sites, because we are now dealing with low- and medium-priority National Corrective Action Priority facilities. In the past, emphasis was on high-priority facilities. EPA's challenge will be to accelerate corrective action to address these sites by 2020, the end of the planning horizon.

OBJECTIVE 3 – Enhance Science and Research

Key Achievements

- EPA scientists provided policymakers and land managers with 100 percent of planned research products to support managing land resources and waste and mitigating contaminated sites.

- Agency scientific and research staff also developed new models addressing characteristics of gasoline that contribute to pollutants in drinking water drawn from groundwater. These models support a statutorily-mandated report on the health effects of alternatives to the gasoline additive methyl tert-butyl ether (MTBE), due to the Congress in August 2008.

Challenges

- Addressing the science and technology needs of decision makers—and successfully transferring research products to users to provide better science or reduce costs—is a significant challenge. Among other specific issues, EPA is working to establish federal agency leadership for the fate and transport nanotechnology research program; focusing scientific activities to have a significant impact on material reuse and Brownfields; and developing technologies to remediate Superfund mega-sites more cost-effectively.

STRATEGIC GOAL 4 – HEALTHY COMMUNITIES AND ECOSYSTEMS

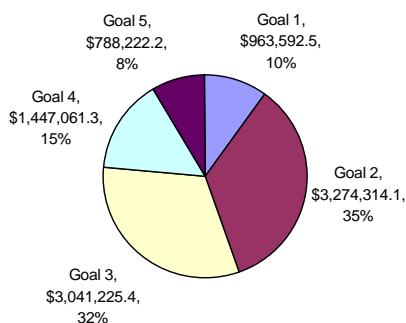
Protect, sustain, or restore the health of people, communities, and ecosystems using integrated and comprehensive approaches and partnerships.

Goal 4 FY 2007 Performance Measures (PMs)

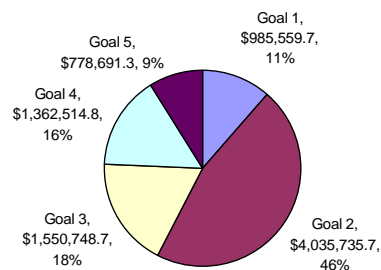
Met = 33 Not Met = 4
Data Available After November 15,
2007 = 13

(Total PMs = 50)

**EPA FY 2007 Obligations
(in thousands)**



**EPA FY 2007 Expenditures
(in thousands)**



OBJECTIVE 1 – Chemical, Organism, and Pesticide Risks

Key Achievements

- An August 2007 report by the Centers for Disease Control indicated that actions EPA took in 2002 to discontinue the industrial production of Perfluorooctyl Sulfonates (PFOS) and Perfluorooctanoic Acid (PFOA) led to a reduction in human blood levels of 32 percent for PFOS and 25 percent reduction for PFOA from 1999/2000 through 2003.
- Using data provided by industry, EPA conducted screening level hazard assessments for 223 high production volume (HPV) chemicals sponsored by the United States and 78 international HPV chemicals sponsored by the Organisation for Economic Co-Operation and Development.
- EPA conducted a significant study to evaluate lead dust levels associated with renovation, repair, and painting that disturb lead-based paint, including developing cost/benefit analysis information. These activities provide the groundwork for issuing the final renovation and repair rule in FY 2008 which will establish lead-safe practices for renovation, remodeling, and painted residential structures containing lead-based paint. This rule is a critical element in the government-wide strategy to eliminate childhood lead poisoning as a significant public health issue by 2010.
- EPA met Pesticide Registration Improvement Act (PRIA) deadlines for 99.8 percent of the 1,600 pesticide registration applications received. In FY 2006, 99.9 percent of approximately 1350 PRIA actions were completed by the due date. This fast and consistent turnaround of registration actions helps increase protection of human health and the environment and achieve the social and economic benefits of using pesticides.
- The Agency produced ecological risk assessments and determinations of potential risk to certain endangered species; consulted with the U.S. Fish and Wildlife Service and National Marine Fisheries Service; and completed rigorous Endangered Species Act assessments to meet tight court-monitored schedules related to three lawsuits.
- EPA implemented the new pesticide registration review program that monitors registered pesticides to ensure continued compliance with the statutory standard of no unreasonable adverse effects.
- EPA promulgated priority data requirement rulemakings for conventional, microbial, and biochemical pesticides which will strengthen technical and scientific information supporting pesticide registration programs and decisions.
- In cooperation with the Canadian Pest Management Regulatory Agency, EPA approved two harmonized NAFTA labels for pesticide products. This will allow pesticide products that meet the

regulatory requirements of all participating countries to move across borders and help prevent non-complying products from entering the United States.

- In August 2007, EPA was part of the delegation that reached a landmark agreement with Canada and Mexico under the Security and Prosperity Partnership for North America to ensure the safe manufacture and use of industrial chemicals. Under this agreement, EPA is expected to complete characterization risk and take necessary follow-up actions on more than 9,000 moderate and HPV chemicals by 2012.
- EPA completed validating three Endocrine Disruptors Screening Program (EDSP) test assays and issued Federal Register notices for a draft list of 73 chemicals for initial screening and peer review. These are long-awaited first steps toward initiating the testing phase of the EDSP.

Challenges

- To comply with the Endangered Species Act, EPA must assess the risks of more than 19,000 pesticide products—each with multiple uses—covering more than 1200 listed species. Completing the risk assessments under the 15-year review cycle schedule established under PRIA is complicated by EPA's need to comply with separate court-ordered schedules requiring additional assessments of potential risks of particular pesticides to particular species.
- Designing, conducting, and getting peer review of the lead dust study for the remodeling and renovation rule presented difficult technical and program management challenges.
- Confidential Business Information claims on industry's baseline reporting on the PFOA Stewardship program delayed Agency efforts to quickly make the information publicly available.
- EDSP continues to experience scientific uncertainties associated with assay development and the validation process. This can affect timing for completion of assay validation. EPA attempts to anticipate challenges and to resolve issues as they arise.

OBJECTIVE 2 – Communities

Key Achievements

- EPA's U.S.- Mexico Border program
 - Provided new drinking water connections to 1,276 homes and connected 73,475 homes to first-time wastewater service.
 - Certified 11 water infrastructure projects for construction, which should benefit more than 30,000 people when completed.
 - Removed approximately 1 million tires from the U.S.-Mexico border region and used them for fuel or in highway paving projects. Of 9 million tires, more than 3 million have been removed to date.
 - Supported Mexico's switch to ultra-low sulfur fuel (less than 15 ppm sulfur) along the U.S.-Mexico Border. This change is expected to reduce emissions along the border, affecting a population of 12 million people, and to improve availability of ultra-low sulfur diesel fuel for U.S. trucks crossing into Mexico.
- EPA's Brownfields and Land Revitalization Program assessed 2,139 properties, cleaned up 88 properties, leveraged 5,504 jobs and \$1.4 billion in cleanup and redevelopment funding, and made 1,598 acres ready for reuse through site assessment or property cleanup. (These are FY 2006 results, which became available in FY 2007 and are the most current data.)
- In FY 2007, EPA awarded 10 Collaborative Problem-Solving (CPS) agreements to assist community-based organizations in addressing a range of environmental health benefits—from reducing indoor exposure to toxic chemicals to reducing exposure to chemicals in well water
- In FY 2007, EPA provided alternative dispute resolution and environmental law training to more than 70 environmental justice grassroots organizations and tribal government representatives. This resulted in the signing of an agreement by the Navajo Nation Environmental Protection Agency and Navajo environmental justice grassroots organizations aimed at increasing tribal awareness of and participation in environmental decision-making on the Navajo reservation.

Challenges

- Implementation of cooperative plans and policies is sometimes affected by circumstances beyond the Agency's control. For example, the decision to delay by 1 year the planned FY 2007 phase-out of leaded gasoline on the part of several Middle Eastern and North African countries was prompted by regional and domestic political events, well beyond the scope of the Agency's influence.
- The unique nature of each community and its environmental health issues and needs often makes it difficult to uniformly assess outcomes and benefits from CPS cooperative agreements or other community-based collaborative problem-solving efforts.

OBJECTIVE 3 – Ecosystems

Key Achievements

- Under the President's 2004 Earth Day Initiative, EPA restored and enhanced 61,856 acres of wetland, exceeding its FY 2007 cumulative target of 12,000 acres. These acres include those supported by Wetland 5 Star Restoration Grants, the National Estuary Program, and Clean Water Act Section 319 Nonpoint Source grants.
- EPA issued the National Estuary Program (NEP) Coastal Condition Report, the first assessment of overall ecological condition of the 28 NEP estuaries. Nationally, 32 percent of U.S. NEP estuaries are in good condition, 29 percent are in fair condition, 37 percent are in poor condition, and 2 percent lack data on condition status.
- In collaboration with its partners, EPA made progress restoring and protecting the Great Lakes Ecosystem, remediating over 440,000 cubic yards of contaminated sediments in two Legacy Act projects.
- At measured sites in the Great Lakes, average concentrations of polychlorinated biphenyls (PCBs) in whole lake trout and walleye samples continued to decline by 5 percent, and the average concentrations of PCBs in the air continued to decline by 7 percent.
- EPA's Chesapeake Bay program reported a decrease in nitrogen and phosphorus discharged in the wastewater from municipal and industrial facilities which flow into the Bay, accounting for a large portion of the estimated nutrient reductions in the Chesapeake Bay watershed to date. (These accomplishments reflect the FY 2007 mid-year results, which are the most accurate.)
- Toward a 2011 goal of 20,000 acres, EPA restored, protected, or enhanced a cumulative 18,660 acres of coastal and marine habitat for the Gulf of Mexico, exceeding its FY 2007 goal of 15,800 acres.
- EPA reduced the number of impaired waterbody listings in the 13 priority areas of the Gulf of Mexico to 62, exceeding the target of 56.

Challenges

- Chesapeake Bay-wide acreage of valuable underwater bay grasses decreased by 25 percent in 2006. This decline was largely due to higher than normal water temperatures in the mid- and lower Bay and poor water clarity throughout the Chesapeake Bay, due to excessive amounts of nitrogen, phosphorus, and sediment. EPA's Chesapeake Bay Program is working to decrease pollutants from runoff and other sources to improve conditions in the Bay.

OBJECTIVE 4 – Enhance Science and Research

Key Achievements

- EPA research programs supported decision-making for healthy communities and ecosystems, achieving 95 percent of research milestones on time.
- EPA's Human Health Research Program discovered a biomarker that can predict the severity of an asthmatic response in susceptible people, resulting in new protocols for improving indoor air quality and providing the scientific basis for public education policies and risk management strategies involving exposure to molds.
- EPA's Global Change Research Program completed 75 percent of a framework linking global change to air quality. By applying an air quality model under various climate scenarios, researchers can study the effect of climate change on air quality.

- EPA's Human Health Risk Assessment program completed the Lead Air Quality Criteria Document (AQCD) on-time—68 days prior to publication of EPA's draft Staff Paper. As a result, EPA remains on schedule to complete by 2010 100 percent of the Integrated Science Assessments (ISAs—formerly known as AQCDs) necessary to inform National Ambient Air Quality Standards regulatory decision-making.

Challenges

- All research agencies and organizations face challenges in measuring and improving the efficiency of research. In FY 2007, EPA made progress in this area by developing new measures that track research cost and performance. Because implementing these measures in a meaningful way remains a challenge, EPA engaged the National Academy of Sciences (NAS) and other agencies, including the Department of Energy, the National Science Foundation, and the National Institutes of Health, in a dialogue about how best to measure the efficiency of research. NAS expects to report its findings, conclusions, and recommendations by early 2008.

STRATEGIC GOAL 5 – COMPLIANCE AND ENVIRONMENTAL STEWARDSHIP

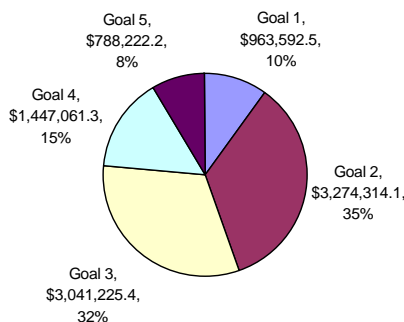
Improve environmental performance through compliance with environmental requirements, preventing pollution, and promoting environmental stewardship. Protect human health and the environment by encouraging innovation and providing incentives for governments, businesses, and the public that promote environmental stewardship.

Goal 5 FY 2007 Performance Measures (PMs)

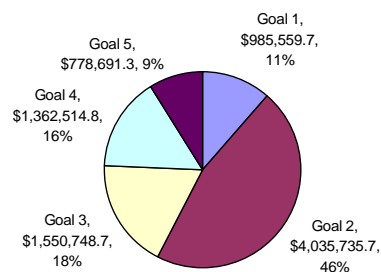
Met = 11 Not Met = 3
Data Available After November 15,
2007 = 3

(Total PMs = 17)

EPA FY 2007 Obligations (in thousands)



EPA FY 2007 Expenditures (in thousands)



OBJECTIVE 1 – Achieve Environmental Protection Through Improved Compliance

Key Achievements

- In FY 2007, EPA achieved an estimated 890 million pounds of reduced, treated, or eliminated pollutants. This is the same amount as last year and represents a significant contribution to environmental protection.⁸
- The twelve most significant enforcement actions taken in FY 2007 will result in an estimated 507 million pounds of reduced, treated, or eliminated sulfur oxides (SO_x), nitrogen oxides (NO_x), and particulate matter (PM) with an estimated \$3.8 billion human health benefit from emissions reductions that will result in fewer premature deaths, non-fatal heart attacks, and reduced incidence of bronchitis and asthma attacks.⁹
- In FY 2007, EPA required regulated entities to invest \$10.6 billion in pollution control and abatement equipment and technology to improve environmental performance or environmental management practices.
- Compliance assistance dramatically increased since FY 2006, increasing the number of regulated entities reached from 1.7 million in FY 2006 to 3.1 million in FY 2007.¹⁰

Challenges

- The Agency is revising how it prioritizes and measures the achievement of environmental results to more completely align measures with key environmental risks and noncompliance patterns addressed by the national compliance and enforcement program. Specifically, we will establish performance measures to track progress toward our national enforcement and compliance priorities.

OBJECTIVE 2 – Improve Environmental Performance Through Pollution Prevention and Other Stewardship Practices

Key Achievements

- Working through its Federal Electronics Challenge Program--a voluntary partnership representing 18 federal agencies committed to the environmentally sound acquisition, use, and disposal of electronic products government-wide—EPA, in FY 2006, decreased federal use of hazardous materials by at least 2.8 million pounds, conserved 452 billion BTUs of energy, and saved \$11.4 million (data substantially finalized in FY 2007). EPA's Electronic Product Environmental Assessment Tool (EPEAT) program, launched in 2006, developed a standard to help institutional purchasers of

electronics select environmentally sound personal computer products, and it is developing standards for four additional electronics products. As a result of the adoption of this standard, the EPEAT program decreased hazardous materials by 9.2 million pounds, conserved 1,457 billion BTUs, and saved \$37 million.

- In conjunction with industry and non-governmental organizations, EPA's Design for the Environment (DfE) Formulator Program achieved annual reductions in the use of approximately 80 million pounds of hazardous chemicals. Over 280 formulator products have received DfE recognition through the "ECO-options" label sold by such major retailers as Home Depot.
- EPA's National Partnership for Environmental Priorities (NPEP) eliminated about 1.3 million pounds of priority list chemicals from being used or released into the environment. This exceeds the Agency's FY 2007 target of 500,000 pounds of chemicals. These partnerships have been established with a variety of public and private companies and organizations that generate wastes containing one or more of 31 "priority chemicals." As outlined in EPA's *2006-2011 Strategic Plan*, NPEP's long-term goal is to reduce 4 million pounds of priority chemicals from domestic waste streams between FY 2007 and FY 2011.
- In FY 2007, the first year of the National Vehicle Mercury Switch Recovery Program, more than 5,900 participants (auto dismantlers, scrap recyclers, automakers, and steel recyclers) removed more than 680,000 mercury-containing automobile switches, preventing the potential migration of 1,500 pounds of highly toxic mercury into the environment. Every state now participates in a mercury switch recovery program.
- In FY 2007, EPA's National Environmental Performance Track (NEPT), a voluntary program to recognize and reward businesses and public facilities demonstrating strong environmental performance beyond current requirements, reported a normalized reduction in water use of 5,300,000,000 gallons and a reduction in materials use of 64,000 tons. Twenty states have adopted programs similar to the national program, and five others are currently following suit.

Challenges

- EPA continues working to achieve consistent and timely performance information from all components of its Pollution Prevention Program (P2), including its ten regional offices and state pollution prevention programs. The Agency made significant progress on this front in FY 2007 by implementing the State P2 Results Reporting System under a cooperative agreement with the National Pollution Prevention Roundtable.

OBJECTIVE 3 – Improve Human Health and the Environment in Indian Country

Key Achievements

- In FY 2007, EPA's Indian Environmental General Assistance Program (GAP) increased participation by tribal governments and inter-tribal consortia. This resulted in tribes building infrastructure to handle a variety of core environmental issues helping achieve EPA/tribal long-term performance goals.

Challenges

- Better tracking of performance and results in Indian country continues to be a challenge. EPA is improving performance measures and will be implementing a new reporting system. By providing information on all EPA's performance measures, including PART measures, the system will enable EPA to standardize, centralize, and integrate EPA regional data and assign accountability for data quality. This will improve our ability to monitor and evaluate performance results in Indian country, helping improve environmental protection on tribal lands.

OBJECTIVE 4 – Enhance Society's Capacity for Sustainability Through Science and Research

Key Achievements

- In April 2007, EPA's People, Prosperity and the Planet (P3) Program held its fourth annual student design competition for sustainability on the National Mall in Washington, DC. More than 300 university students from around the country exhibited their designs for a sustainable tomorrow.

Projects included green buildings, new ideas for bringing clean drinking water to underdeveloped nations, and innovative fuel cell technologies.

Challenges

- It is difficult to measure the success of attempts to include elements of sustainability in decisions on human health and the environment. EPA's Science and Technology for Sustainability Program will assist the Agency in developing meaningful measures to gauge annual and long-term success in this effort.

Accomplishments in Homeland Security and Emergency Response

Strengthening homeland security and responding to environmental emergencies is a top priority for the Agency and the nation. EPA works with other federal agencies to protect human health and the environment in the event of natural disasters and from intentional harm. The Agency plays a lead role in supporting the protection of critical water infrastructure and coordinating the development of national capabilities and strategies to address chemical, biological, and radiological contamination during a terrorist event. Among its important homeland security activities in FY 2007, EPA:

- Participated in several exercises to test the Agency's preparedness for responding to a serious incident. One major exercise scenario involved a large-scale earthquake within the New Madrid fault system, located within the Mississippi River Valley. An event of this magnitude would present numerous serious emergency response and recovery issues. EPA coordinated efforts with the U.S. Coast Guard and other agencies of the National Response Team/Regional Response Team, other national-level coordinating bodies, and affected state, local, and private sector jurisdictions. The exercise helped EPA evaluate our ability to implement the National Incident Management System and National Response Plan and to test the effectiveness of interagency and private coordination, the viability of all appropriate plans, and the availability and adequacy of government and private sector response resources.
- Made fully operational the first water security contamination warning system pilot to quickly detect and respond to contamination incidents and threats to drinking water distribution systems.
- Provided training and technical assistance to approximately 1,000 drinking water and wastewater utilities to enhance their preparedness capabilities and improve their emergency response coordination and communications plans.
- Proposed Acute Exposure Guidelines (AEGs) for 33 chemicals, exceeding the Agency's FY 2007 target of 24 and bringing to 218 the cumulative total of AEGs developed since 1996. AEGs provide short-term exposure limits applicable to a wide range of extremely hazardous substances and are used by first responders in dealing with chemical emergencies, including threats of chemical terrorism.
- Advanced the development of test methods needed to determine the efficacy of disinfectant pesticides for decontamination of important pathogenic threats, including anthrax spores, bubonic plague, and tularemia.
- Collaborated with other federal agencies to co-develop guidelines and procedures for responding to and decontaminating bioterrorism attacks at major airports.
- Developed "message maps"— science-based risk communication tools that enable quick and concise delivery of pertinent information during emergencies affecting drinking water systems.
- Prepared Version 3 of EPA's Standard Analytical Methods Manual, which provides methods for laboratories to use when measuring specific contaminants potentially associated with a

terrorist attack, evaluating the nature and extent of contamination, and assessing decontamination efficacy.

FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

Audit Results

For the eighth consecutive year, the Agency's Office of Inspector General (OIG) issued an unqualified opinion on EPA's financial statements. However, the OIG identified three material weaknesses – one relating to our process for determining the value of delinquent receivables and two information technology (IT) security-related issues. We corrected the delinquent accounts receivable material weakness and restated our FY 2006 financial statements to reflect the value of these receivables. We have initiated corrective actions to resolve the IT-security issues and will complete all actions in FY 2008.

The financial statements and financial data presented in this report have been prepared from the Agency's accounting records in conformity with generally accepted accounting principles (GAAP) in the United States for federal entities. GAAP for federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Restatement

The FY 2006 restatement impacted all financial statements except the Statement of Budgetary Resources. The FY 2006 Consolidated Balance Sheet was restated to reflect a net increase of \$7.5 million in intragovernmental receivables and \$239.9 million in non-federal receivables, which resulted in an increase of \$247.4 million in total assets. Liabilities, which included custodial liabilities (\$8.8 million), cashout advances, Superfund (\$0.7 million) and other non-federal liabilities (\$3.4 million), increased by \$12.9 million.

The cumulative results of operations (CRO) beginning balance on the Consolidated Statement of Changes in Net Position for FY 2006 increased by \$74.3 million. The increase was the result of the reduction in prior fiscal years bad debt expense. In addition, the Net Cost of Operations on this statement decreased by \$160.2 million as a result of the additional revenue earned and reduction in bad debt expense for the re-established receivables. These changes increased the ending CRO balance by \$234.5 million. On the Statement of Custodial Activity, custodial revenue increased by \$1.8 million. Additional information on the restatement is provided in Note 40 of the "Annual Financial Statements" section (Section III) of this report.

Overview of Financial Position

The following discussion summarizes key financial information and significant variances between FY 2006 and FY 2007 in the Agency's financial statements. The financial statements appear in Section III of this report.

Assets

The Agency had total assets of \$17.6 billion at the end of FY 2007. The decrease in the Fund Balance with Treasury was partly offset by an increase in Investments. (See Notes 2 and 4, Section III.) The FY 2006 Consolidated Balance Sheet was restated to show a \$247 million increase in total assets, further contributing to the difference between FY 2007 and FY 2006. (See Note 40, Section III.) The Agency's assets are summarized in the following table.

Assets, U.S. Environmental Protection Agency (Dollars in Thousands)

Asset by Type	FY 2007	Restated FY 2006	Amount of Change	Percent Change
Fund Balance with Treasury	\$10,466,600	\$11,173,443	(\$706,843)	-6.3%
Investments	5,753,061	5,366,264	386,797	7.2%
Accounts Receivable, Net	416,341	618,964	(202,623)	-32.7%
Loans Receivable	23,161	30,836	(7,675)	-24.9%
Property Plant and Equipment, Net	809,873	756,794	53,079	7.0%
Other Assets	85,653	63,431	22,222	35.0%
Total Assets	\$17,554,689	\$18,009,732	(\$455,043)	-2.5%

Liabilities

The Agency had total liabilities of \$1.8 billion at the end of FY 2007. The increase from FY 2006 is primarily the result of a significant increase in Grant Liabilities. (See Note 8, Section III.)

Liabilities, U.S. Environmental Protection Agency (Dollars in Thousands)

Liabilities by Type	FY 2007	Restated FY 2006	Amount of Change	Percent Change
Account Payable and Accrued Liabilities	\$1,034,207	\$833,192	\$201,015	24.1%
Debt Due to Treasury	16,156	18,896	(2,740)	-14.5%
Custodial Liabilities	39,369	41,800	(2,431)	-5.8%
Cashout Advances, Superfund	190,269	224,407	(34,138)	-15.2%
Payroll and Benefits Payable	205,198	195,746	9,452	4.8%
Pensions and Other Actuarial Liabilities	39,786	39,408	378	1.00%
Environmental Cleanup Costs	18,214	10,083	8,131	80.6%
Commitments and Contingencies	-	8	(8)	-100%
Other Liabilities	212,099	237,681	(25,582)	-10.8%
Total Liabilities	\$1,755,298	\$1,601,221	\$154,077	9.6%

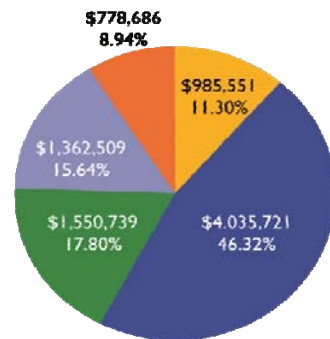
Ending Net Position

The Agency's Net Position at the end of FY 2007 was \$15.8 billion, a \$609 million decrease from the previous year's total of \$16.4 billion. The decrease is primarily attributable to substantially lower undelivered orders in FY 2007. (See Note 31, Section III.)

Results of Operations

The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position. The Agency's Net Cost of Operations for FY 2007 increased by \$528 million from FY 2006. This increase was primarily related to substantially lower bad debts expense reported in the Restated FY 2006 Net Cost Statement. (See Note 40, Section III). EPA's FY 2007 Net Cost of Operations (\$8.7 billion) consisted of Gross Costs (\$9.3 billion) less Earned Revenue (\$550 million). The chart provides the breakout of net costs by strategic goal.

How Funds Were Used: Net Program Costs
(Dollars in Thousands)



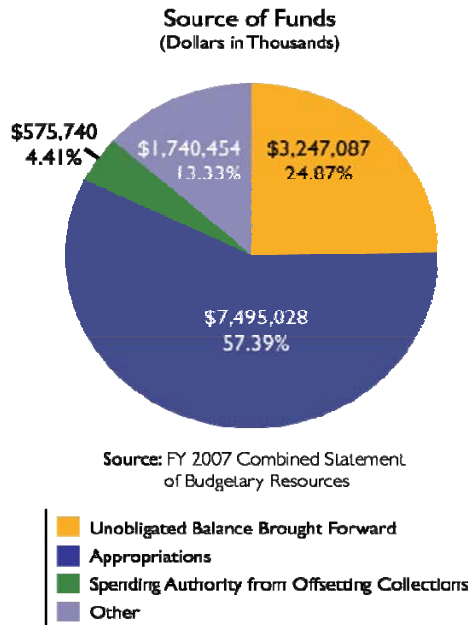
Source: FY 2007 Statement of Net Cost by Goal



Budgetary Resources

The Combined Statement of Budgetary Resources provides information on how resources were made available to the Agency and the status of those resources at the end of the fiscal year. For FY 2007, the Agency had total budgetary resources of \$13 billion compared to \$13.5 billion in FY 2006.

The decrease was primarily due to decreased reimbursements related to the Hurricane Katrina cleanup. Outlays reflect the actual cash disbursed against the Agency's obligations.



Statement of Budgetary Resources
(Dollars in Thousands)

	FY 2007	Restated FY 2006	Amount of Change	Percent Change
Total Budgetary Resources	\$13,058,309	\$13,452,220	(\$393,911)	-2.9%
Obligations Incurred:				
Direct	\$9,027,170	\$9,292,415	(265,245)	-2.9%
Reimbursable	489,752	912,718	(1,402,470)	-46.3%
Total Obligations Incurred	\$9,516,922	\$10,205,133	(\$688,211)	-6.7%
Gross Outlays	\$10,219,637	\$10,607,195	(387,558)	-3.7%
Less: Collections and Receipts	(1,962,646)	(2,291,623)	328,977	-14.4%
Total Net Outlays	\$8,256,991	\$8,315,572	(\$58,581)	-0.7%

Stewardship Information

The Agency reports on Stewardship Land as a component of Required Supplementary Information. Stewardship Land is land and land rights owned by the federal government but not acquired for or in connection with items of general property, plant, and equipment.

EPA acquires title to certain land and land rights related to remedial cleanup sites under the authorities provided in Section 104(j) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The land rights held by the Agency are easements that allow access to cleanup sites or that restrict the usage of remedial sites.

In addition, the Agency reports on three areas of Required Supplementary Stewardship Information – Research and Development, Infrastructure (clean water and drinking water facilities), and Human Capital (awareness training).

Additional financial reporting on the stewardship of these resources is provided in the “Annual Financial Statements” section of this report.











Government-Wide Financial Performance Measurements

The U.S. Chief Financial Officers Council publishes Government-wide financial performance measures on the “Metric Tracking System” (MTS) website at <http://www.fido.gov/mts/cfo/public>. These measures are a series of key financial management indicators that allow government financial managers, the Congress, and stakeholders to assess the financial performance of each agency.

During FY 2007, the Agency’s performance improved from yellow to green in one metric and remained unchanged in the other eight metrics. EPA is currently green in eight and red in one of the nine metrics.

EPA improved its performance in electronic payments by paying over 97 percent of its invoices electronically, which exceeded the goal of 96 percent.

The red rating on the delinquent accounts receivable is a long-standing issue that EPA is working through both internally and externally. The Refining the CFO Council’s Metric Tracking System—Metric 3 Workgroup, of which EPA is a participant, continues to strive for methods to reduce the balance of delinquent accounts receivable government-wide. The Workgroup is reviewing the procedures used to classify, collect, and record accounts receivable to identify similarities which could be used to standardize processes government-wide.

Government-Wide Financial Performance Metrics		
Financial Management Indicator	Rating September 2006	Rating September 2007
Amount In Suspense (Absolute) Greater than 60 Days Old		
Delinquent Accounts Receivable from the Public Over 180 Days		
Electronic Payments		
Percent Non-Credit Invoices Paid On-Time		
All Other:² Fund Balance with Treasury, Net Interest Penalties Paid Purchase Card Delinquency Rates Travel Card Delinquency Rates—Individually Billed Travel Card Delinquency Rates—Centrally Billed		

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of EPA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of EPA in accordance with U.S. generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

IMPROVING MANAGEMENT AND RESULTS









The President's Management Agenda





Over the past 5 years, the President's Management Agenda (PMA) has challenged federal agencies to be "citizen-centered, results-oriented, and market-based" (see <http://www.whitehouse.gov/results>). During FY 2007, EPA made progress under each of the six PMA initiatives for which it is responsible: Human Capital, Competitive Sourcing, Expanded E-Government, Improved Financial Performance, Performance Improvement, and Eliminating Improper Payments.

This year, EPA's fourth quarter PMA scores show EPA as one of the highest-performing agencies in the federal government.¹¹ We are proud to demonstrate continued excellence and progress under our PMA initiatives and expect to continue the trend in 2008.

In addition to tracking PMA progress on a quarterly basis, federal agencies establish yearly goals for the point at which they would be "Proud to Be" in implementing PMA initiatives. This past year, EPA achieved its first green status rating for the Performance Improvement initiative since the PMA's inception. In addition, EPA maintained its green status and progress scores throughout the year in Competitive Sourcing, Financial Performance, and Eliminating Improper Payments. EPA also preserved green status scores in Expanded E-Government. EPA maintained green progress scores in Human Capital and expects to achieve a green status score later this year. More information about the Agency's PMA work is available at <http://www.epa.gov/ocfo/pma.htm>.

EPA's FY 2007 Progress Under The President's Management Agenda

Initiative	Status	Progress	Proud To Be (07/08) Results	Highlights
<p>Human Capital Fosters strong performance and results by increasing personal accountability and linking job requirements to EPA's mission and goals.</p>	 Yellow	 Green	<p>EPA met its goal of "Yellow" for P2B4.</p> <p>EPA has set a goal of Green for P2B5.</p>	<ul style="list-style-type: none"> Exceeded its SES time to hire target of 90 days with its average hiring time of 66 days. Completed competency management cycles for 6 priority Mission Critical Occupations (MCOs) resulting in no significant proficiency gaps. Identified vacancy rates within MCO ranks. Continued achievement in SES mobility implementation, non-SES time to hire, and management hiring satisfaction. Received full certification for SES pay and performance system with continued efforts to further strengthen alignment and results area assessments.
<p>Competitive Sourcing Having public-private competition enables the Agency to determine the most economical mode of delivering services while ensuring the highest quality of those services.</p>	 Green	 Green	<p>EPA met its goal of "Green" for P2B4.</p> <p>EPA has set a goal of maintaining Green for P2B5.</p>	<ul style="list-style-type: none"> EPA has completed 34 competitions to date, covering 288 FTE, with anticipated savings of \$24.8 million. EPA has an approved Green competition plan. EPA completed 7 competitions in the past year covering 70 FTE, with \$7.2 million expected savings. EPA announced 8 competitions, covering 75 FTE performing IT and financial audit services in the Regions and Headquarters. EPA is progressing with a standard competition covering 47 FTE for desktop services for all 11 headquarters offices with selection expected in early FY 2008.
<p>Expanded E-Government Utilizes technology to better serve the United States and its people including electronic information, online transactions, and new information management capabilities.</p>	 Green	 Yellow	<p>EPA met its goal of "Green" for P2B4.</p> <p>EPA has set a goal of maintaining Green for P2B5.</p>	<ul style="list-style-type: none"> E-Travel—began phased deployment of its new travel system, GovTrip, which will support planning and authorizing travel, making reservations, delivering electronic tickets, calculating and approving reimbursements, and archiving data. Full Agency deployment is anticipated by September 2008. E-Rulemaking—As of September 2007, EPA has received over 129 million hits on Regulations.gov. Migration to the Federal Docket Management System has been completed for 28 Federal departments and agencies. These departments and agencies are comprised of over 120 entities that promulgate approximately 90% of all Federal rulemakings. The Office of Management and Budget has assigned Yellow progress scores to all agencies and departments until new Privacy and Security requirements embedded in OMB Memorandum 07-16 are fully met. As required in EPA's current scorecard, the Agency will submit a schedule of completion to OMB by December 14 which delineates how EPA will meet all M-07-16 requirements.
<p>Improved Financial Performance Focuses on running environmental programs in a fiscally responsible manner so citizens' dollars are used wisely and their health and environment are protected.</p>	 Green	 Green	<p>EPA met its goal of "Green" for P2B4.</p> <p>EPA has set a goal of maintaining Green for P2B5.</p>	<ul style="list-style-type: none"> Financial Data Integration—successfully implemented efforts to make financial information readily accessible to decision-makers administering and overseeing grants. Integrated reports contributed to a 10 percent reduction in unliquidated obligations in expired grants. Developed and tested a framework to integrate financial and contracts reporting. Reports that combine financial and contracts data are now available to contract managers to help them address issues relating to the utilization of contract funds and the evaluation of obligations and unliquidated balances. Made significant progress in improving the Agency's management of financial and administrative information associated with natural disasters and other significant emergencies. Developed a template to track costs by mission assignment, region, and state for a given incident of national significance. Met interim and annual financial statements deadlines. Integrated internal controls into our daily activities by publishing a brochure on OMB revised Circular No. A-123, revising the integrity web site to include internal controls, and beginning to develop on-line training for all employees.

Initiative	Status	Progress	Proud To Be (07/08) Results	Highlights																												
<p>Performance Improvement Contributes to EPA's quest for better performance, increased accountability, better informed decision-making, and more transparent, comprehensive reporting of environmental results to the public.</p>	 Green	 Green	<p>EPA met its goal of "Green" for P2B4.</p> <p>EPA has set a goal of maintaining Green for P2B5.</p>	<ul style="list-style-type: none"> EPA worked cooperatively with OMB on the 2007 Program Assessment Rating Tool (PART) process, completing three new PART assessments and three reassessments in 2007; five were rated Moderately Effective and 1 Adequate. See the PART section below for more details. 91% of EPA's 53 PARTed programs are rated Moderately Effective or Adequate. EPA developed efficiency measures for 53 of 53 PARTed programs, leading to EPA's first green status score in the PII initiative. EPA also received green progress scores for all four quarters in FY 2007. 																												
<p>Eliminating Improper Payments Focuses on identifying, preventing, and eliminating erroneous payments.</p>	 Green	 Green	<p>EPA met its goal of "Green" for P2B4.</p> <p>EPA has set a goal of maintaining Green for P2B5.</p>	<ul style="list-style-type: none"> The Improper Payment Information Act (IPIA) of 2002 requires the Agency to annually review all programs and activities that it administers and identify all such programs and activities susceptible to significant improper payments. Significant improper payments are annual payments in the program exceeding both 2.5 percent of the program payments and \$10 million. Continued monitoring payment activities under a 3-year relief from the sampling requirements on payments in the Clean Water and Drinking Water State Revolving Funds. Continued to show a low incidence of improper payments (<0.1 percent) As a result of EPA's ability to demonstrate that its internal controls over improper payments are adequate, OMB has granted the Agency a 3-year relief (FY 2006 - 2009) from statistical sampling of payments in the two state revolving funds. Additional reporting details required by the Improper Payments Improvement Act (IPIA) are provided in Section IV of this Performance and Accountability Report. <table border="1"> <thead> <tr> <th colspan="4">EPA's Improper Payment Reduction Effort Clean Water and Drinking Water State Revolving Funds (SRFs)</th> </tr> <tr> <th>Fiscal Year</th> <th>Target Error Rate</th> <th>Actual Error Rate</th> <th>Actual Improper Payments (dollars in millions)</th> </tr> </thead> <tbody> <tr> <td>FY 2003</td> <td>Baseline</td> <td>0.51%</td> <td>\$12.4</td> </tr> <tr> <td>FY 2004</td> <td>0.49%</td> <td>0.49%</td> <td>\$10.3</td> </tr> <tr> <td>FY 2005</td> <td>0.45%</td> <td>0.15%</td> <td>\$3.0</td> </tr> <tr> <td>FY 2006</td> <td>0.40%</td> <td>0.15%</td> <td>\$3.5</td> </tr> <tr> <td>FY 2007</td> <td>0.35%</td> <td>0.07%</td> <td>\$1.6</td> </tr> </tbody> </table>	EPA's Improper Payment Reduction Effort Clean Water and Drinking Water State Revolving Funds (SRFs)				Fiscal Year	Target Error Rate	Actual Error Rate	Actual Improper Payments (dollars in millions)	FY 2003	Baseline	0.51%	\$12.4	FY 2004	0.49%	0.49%	\$10.3	FY 2005	0.45%	0.15%	\$3.0	FY 2006	0.40%	0.15%	\$3.5	FY 2007	0.35%	0.07%	\$1.6
EPA's Improper Payment Reduction Effort Clean Water and Drinking Water State Revolving Funds (SRFs)																																
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FY 2007	0.35%	0.07%	\$1.6																													

The Program Assessment Rating Tool

EPA uses Program Assessment Rating Tool (PART) assessments, along with program evaluations, audits, and other reviews, to inform policy making, facilitate allocation of resources, and improve environmental outcomes while ensuring the most effective and efficient use of taxpayer dollars. The tables of measures and results provided in Section II of this report, "Performance Results," identify all performance measures associated with the PART that have FY 2007 targets, and we report FY 2007 results for the measures where data are currently available. PART measures without corresponding FY 2007 targets are summarized in a separate table at the end of Section II. These measures will be incorporated into EPA's budget and other documents, including future Performance and Accountability Reports, as data becomes available.

**Distribution of PARTed Programs
Across EPA's Strategic Goals**



EPA's PART ratings, as well as the ratings for other federal programs that have been assessed, are available to the public at <http://www.Expectmore.gov>. As of FY 2007, EPA developed 193 follow-up actions in response to PART assessments. Forty follow-up actions have been completed; 138 are currently active; and 15 have had no action taken to date.

EPA PART FOLLOW-UP ACTIONS		
Type of Follow-Up Action	Number	Focus
Performance	95	Focused on improving the Agency's ability to measure, track, and assess programmatic performance and intended environmental outcomes.
Management	85	Designed to improve EPA's program management practices and facilitate the delivery of environmental results.
Budgetary	12	Designed to ensure that EPA's resources are directed toward delivering strong environmental results
Legislative	1	Designed to affect EPA programs' legislative requirements so that the program purpose is clear and environmental outcomes can be achieved.

Other Tools for Improving Management and Results

Program Evaluation

In FY 2007, many EPA programs were evaluated for design, effectiveness, and efficiency and to identify potential improvements. Program evaluations were conducted by independent third parties, and a number of them were funded through the Agency's annual program evaluation competition sponsored by EPA's Office of Policy, Economics, and Innovation. Appendix A lists program evaluations conducted under each of the Agency's five strategic goals.

Office of Inspector General Audits, Reviews, and Investigations

EPA's Office of Inspector General (OIG) contributes to the Agency's mission to improve human health and environmental protection by assessing the economy, efficiency, and effectiveness of EPA's program management and results; ensuring that Agency resources are used as intended; and developing recommendations for improvements and cost savings. Appendix A lists OIG program evaluations and reviews completed in FY 2007 in support of each of the Agency's five strategic goals. EPA's OIG also contributes to the integrity of and public confidence in the Agency's programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies.

Grants Management

EPA has met or exceeded all of the major performance metrics under its Grants Management Plan and has put in place a comprehensive system of internal controls. As a result of these controls, we have incorporated accountability in our training, performance evaluation, and management reporting systems, enhanced transparency through our competitive process for discretionary grants, and implemented policies to demonstrate the environmental results of our grants. Based on the substantial progress made over the past 7 years, the Agency has corrected its long-standing grants management weakness. To address future challenges, we are developing a new Grants Management Plan that will go into effect in 2008.

Grants Management Performance Measures

Performance Measure	Target	Progress in FY 2006	Progress in FY 2007
Percentage of grants managed by certified project officers	100%	99.1%	99.7%
Percentage of new grants subject to the competition order that are competed	85%	95.0%	94.7%
Percentage of new grants to non-profit recipients subject to the competition order that are competed	75%	90.8%	89.3%
* Percentage of active recipients who receive advanced monitoring	10%	8.4%	10.6%
Percentage of advanced monitoring reports closed within 120 days	90%	93.8%	93.4%
Percentage of eligible grants closed out	99% 90%	99.4% in 2004 and earlier 96.6% in 2005	99.6% in 2005 and earlier 95.8% in 2006
** Percentage of grant work plans that include well-defined environmental outcomes	N/A	N/A	61%

* This performance measure is tracked on a calendar year basis.

** This performance measure is based on a sample of new grants awarded in FY2006. It is a new metric, and a baseline and target will be developed in FY2008. This new measure reflects language in EPA's Environmental Results Order, and it is more precise than the measure used previously. (The earlier measure comprised "percentage of grant work plans that include a discussion of qualitative environmental results.")

EPA HOLDS ITSELF ACCOUNTABLE: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

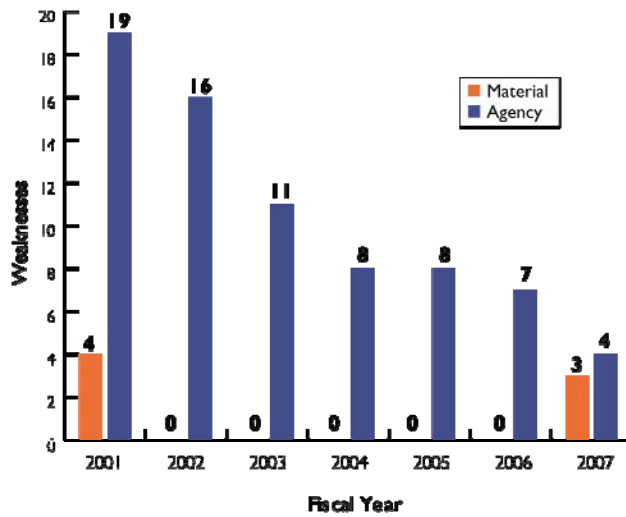
Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to conduct an annual evaluation of their management controls and financial systems and report the results to the President and Congress. In addition, EPA is required to report on the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB revised Circular No. A-123.

In late FY 2007, the Agency was engaged in researching and resolving an emerging issue related to delinquent receivables, which we immediately addressed. During the Agency's FY 2007 Financial Statements Audit, the OIG identified: (1) a material weakness in our process for determining the value of delinquent receivables and (2) six significant deficiencies. Two of the significant deficiencies are systems-related issues, and thus the Agency is required to report them as material weaknesses under Section 4 of FMFIA and as non-compliances under the Federal Financial Management Improvement Act (FFMIA). They are: (1) Key Applications Need Controls and (2) Physical Security of Critical IT Assets. The remaining four significant deficiencies will be reported as internal controls over financial reporting significant deficiencies under OMB revised Circular No. A-123, Appendix A.

The Agency has corrected the delinquent receivables material weakness. We have restated the Agency's FY 2006 financial statements to reflect the value of these receivables and have modified our operating practice of reclassifying receivables. The revision to the FY 2006 statements is reflected in *Section III, Annual Financial Statements*. Corrective actions are underway to rectify the two systems-related material weaknesses and are expected to be completed by December 31, 2007. EPA expects to complete all corrective actions to address the remaining significant deficiencies in FY 2008.

**7-Year Trend of Material and Agency Weaknesses
Fiscal Years 2001–2007**



In FY 2007, EPA closed three of seven Agency-level weaknesses: Safe Drinking Water Information System (SDWIS), Improved Management of Assistance Agreements, and Clean Water Act Section 305(b) Reporting. (See “Management Challenges” in *Section IV, Other Accompanying Information*, for a detailed discussion of these issues.)

**EPA’s Key Management Challenges Reported by the
Office of Inspector General**

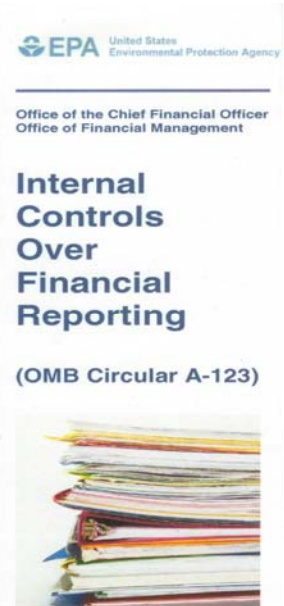
1. Data Gaps
2. Data Standards and Data Quality
3. Information Technology Systems Development and Implementation
4. Managing for Results
5. Workforce Planning
6. Efforts in Support of Homeland Security
7. Efficiently Managing Water and Wastewater Resources and Infrastructure
8. Emissions Factors for Sources of Air Pollution
9. Privacy Programs
10. Voluntary Programs

For details, see “Office of Inspector General’s FY 2007 Key Management Challenges,” on page 11 of *Section IV Other Accompanying Information*.

During FY 2007, EPA conducted its annual assessment on the effectiveness of internal controls over financial reporting, as required by OMB revised Circular No. A-123. Through this process, we identified and documented ten financial management processes and tested 260 key controls. As of June 30, 2007, EPA found no material weaknesses. However, the assessment revealed several significant deficiencies in the areas of financial reporting, accounts receivable, and data security.

Corrective actions for these significant deficiencies were completed by September 30, 2007. Additionally, EPA closed three of its four significant deficiencies reported in the FY 2006 internal control assessment. The remaining significant deficiency, related to quarterly cost reporting, is scheduled for closure in FY 2009. We will continue to monitor the progress in correcting this issue until it is resolved.

EPA took a number of steps to emphasize the importance of internal controls and increase staff awareness of the Agency's management integrity. In FY 2007, we updated our management integrity website so that it now serves as a repository for all FMFIA-related information. The website contains a comprehensive electronic library for quick access to statutory authorities, OMB circulars, Government Accountability Office guidance, Agency-wide guidance, and other pertinent information. In an effort to raise employees' awareness of their responsibility for proper stewardship of federal resources, the Agency developed a new brochure, *Internal Controls Over Financial Reporting*, which is distributed to new employees during the "New Employee Orientation Sessions." Additionally, EPA plans to develop a prototype for annual on-line revised OMB Circular A-123 training. The Agency will pilot the training in FY 2008, prior to expanding the program to include all Agency employees.



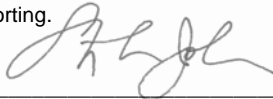
Management Assurances

Fiscal Year 2007 Assurance Statement

The U.S. Environmental Protection Agency's (EPA's) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). EPA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control.

Based on the results of this evaluation, no material weaknesses were found in the design or operation of the Agency's internal controls and no financial management system non-conformances were identified. Subsequently, the Agency's Inspector General identified two systems-related significant deficiencies, which are required to be reported as material weaknesses and as non-compliances under the Federal Financial Management Improvement Act (FFMIA). The Agency has initiated corrective actions to rectify these weaknesses. Except for these weaknesses, I can provide reasonable assurance that as of September 30, 2007, the Agency's internal controls were operating effectively and financial systems conform with government-wide requirements.

EPA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, no material weaknesses were found in the design or operation of internal controls over financial reporting as of June 30, 2007. Subsequently, the Agency's Inspector General identified the Agency's process for determining the value of delinquent receivables as a material weakness. EPA has corrected this weakness. As a result, I can provide reasonable assurance that except for two system-related weaknesses, EPA internal controls were operating effectively as of September 30, 2007, and no other material weaknesses were found in the design or operation of the internal controls over financial reporting.



Stephen L. Johnson
Administrator

November 1, 2007
Date

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies implement and maintain financial management systems that comply with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger. Annually, agency heads are required to assess and report on whether these systems comply with FFMIA.

In assessing compliance with FFMIA, EPA uses the FFMIA implementation guidance issued by OMB, results of OIG reports, annual financial statements audits, the Agency's annual Federal Information Security Management Act Report, and other systems-related activities.

Last year EPA reported that two corrective actions relating to security certification policies for contractor personnel and security certification for grantee personnel were outstanding audit issues. During FY 2007, the Agency published the Personal Identify Verification Handbook to resolve these issues.

Based on all information assessed, the Agency has determined that it is not in overall substantial compliance with FFMIA for FY 2007, based on the two systems-related significant deficiencies mentioned in the FMFIA section above.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) directs federal agencies to evaluate the effectiveness of their information security programs and practices annually and submit a report—including an independent evaluation by the Inspector General—to OMB. Agencies also report quarterly to OMB on the status of remediation of weaknesses found.

EPA's Chief Information Officer, senior agency program officials, and Inspector General submitted EPA's FISMA Report for Fiscal Year 2007 on October 1, 2007. The report presents the results of the Agency's annual security program reviews and reflects EPA's continued efforts to ensure that information assets are protected and secured in a manner consistent with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information. The Agency plans to sharpen its focus in the area of Electronic Authentication (e-Authentication) Risk Assessments in the coming years.

In FY 2007, EPA reported no significant deficiencies in its information security systems. However, subsequent to the Agency's submission of its FY 2007 FISMA Report, OIG identified two significant deficiencies under FISMA that are described under the FMFIA section above.

Improving Financial Management

FY 2007 marks the fourth consecutive year in which EPA has received a "Green" PMA score for Improved Financial Performance. EPA's financial management activities include achieving a clean audit opinion, resolving material weaknesses in a timely manner, improving the Agency's ability to reduce improper payments, deploying E-travel Agency-wide, and replacing legacy systems to meet federal reporting requirements.

The Agency also successfully implemented efforts to make financial information readily accessible to decision-makers. We developed and tested a framework to integrate financial and contracts reporting. Reports that combine financial and contracts data are available to contract managers and will help them address issues relating to the utilization of contract funds and the evaluation of obligations and unliquidated balances.

In addition, we made significant progress in improving the management of financial and administrative information associated with natural disasters and other significant emergencies. The Agency developed a template to track costs by mission assignment, region, and state for a given incident of national significance.

Improving Financial Management Systems

EPA's Financial System Modernization Project, a key element of the overall Financial Replacement System Plan, supports the Agency's mission and goals and the government-wide goals for improving financial management. In addition, the project supports the provision of accurate and comprehensive financial data, including stewardship and operating performance information, and enables effective decision-making at all levels to ensure cost-effective mission achievement and risk mitigation.

The Agency continues to move forward in replacing its core financial system. In February 2007, EPA awarded a contract for software acquisition and implementation services, which included migrating the financial system hosting and application management to a

commercial shared-service provider. However, a protest of the contract award was filed with the Government Accountability Office (GAO), which sustained the protest. The Agency is working to resolve the issues raised by GAO and expects to begin implementing the new financial system in FY 2008.

EPA is also developing an accessible enterprise Administrative Data Warehouse to provide a common source of authoritative data and reduce redundancy in management and data sources. The new warehouse will be phased in by the end of FY 2010, in conjunction with the new financial management system.

Inspector General Act Amendments of 1988

EPA uses the results of OIG audits and evaluations as a tool for assessing its progress and improving its ability to meet its strategic goals. In FY 2007, in response to an OIG review of EPA's audit management process, the Office of the Chief Financial Officer, in collaboration with the OIG, issued guidance and conducted training to reinforce Agency audit follow-up practices. EPA will continue working to strengthen its audit management and complete corrective actions in a timely manner.

In FY 2007, EPA was responsible for addressing OIG recommendations and tracking follow-up activities on 424 audits. The Agency achieved final action (completing all corrective actions associated with an audit) on 201 audits, including Program Evaluation/Program Performance, Assistance Agreement, Contracts, and Single audits.

Category	Disallowed Costs (Financial Audits)		Funds Put To Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	*57	*\$ 63,501,358	3	\$ 41,353,000
B. Audits for which management decisions were made during the period (i) Management decisions with disallowed costs (53) (ii) Management decisions with no disallowed costs (151)	204	\$ 31,714,586	12	\$ 5,844,000
C. Total audits pending final action during the period (A+B)	261	\$ 95,215,944	15	\$ 47,197,000
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of Property d) Other (ii) Write-Offs (iii) Reinstated Through Grantee Appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	192	\$ 32,648,477	9	\$ 20,000
		\$ 15,334		
		\$ 2,068,566		
		\$ 0		
		\$ 2,791,860		
		\$ 7,535,099		
		\$ 237,634		
				\$ 5,000
				\$15,000
E. Audits without final action at end of period (C-D)	69	\$ 62,567,467	6	\$27,197,000

**Note: Table reflects data captured by EPA's Management Audit Tracking System (MATS) for management decisions and final disposition of audit recommendations. Upon verification with OIG, discrepancies identified as omissions from MATS will be reconciled during the next reporting period. Differences in number of reports and amounts of disallowed costs between this report and our previous semiannual report are the result of adjustments made to follow-up data in MATS.*

EPA's FY 2007 management activities for audits with associated dollars (represented in the table above) and for audits without dollars are summarized below.

- *Final Corrective Action Not Taken.* Of the 424 audits that EPA tracked, a total of 232 audits—which include Program Evaluation/Program Performance, Assistance Agreement, Contracts, and Single audits—were without final action and not yet fully resolved at the end of FY 2007. (The 29 audits with management decisions under administrative appeal by the grantee are not included in the 232 total; see discussion below.)
- *Final Corrective Action Not Taken Beyond 1 Year.* Of the 232 audits, EPA officials had not completed final action on 45 audits within 1 year after the management decision (the point at which OIG and the Action Official reach agreement on the corrective action plan). Because the issues to be addressed may be complex, Agency managers often

require more than 1 year after management decisions are reached with OIG to complete the agreed-upon corrective actions. These audits are listed below by category—audits of program performance and single audits—and identified by title and responsible office. Additional details are available on EPA's web site at www.epa.gov/ocfo/par/2007par.

Audits of Program Performance: Final action for program performance audits occurs when all corrective actions have been implemented, which may take longer than 1 year when corrections are complex and lengthy. Some audits include recommendations requiring action by more than one office. EPA is tracking 32 audits in this category.

Office of the Administrator:

2006-P00001 Industrial Wipes Congressional Request

Office of Administration and Resources Management:

2000-P00029 Interagency Agreements Follow-up
2002-P00005 CFDA Program 66.606
2004-P00026 Financial Application Development and Change Control
2005-P00019 People Plus Security Controls Need Improvement

Office of Air:

2005-P00010 Evaluation of CAA Title V Operating Permit Quality
2006-P00024 IFOSEC Series: Security Practices OAR

Office of the Chief Financial Officer:

2006-P00005 IS Service Continuity & Physical Access Controls at NCC
2006-P00027 Undistributed Superfund Costs
2006-100015 2005 Agency Financial Statement - General

Office of Enforcement & Compliance Assurance:

2001-P00006 ENF Agreement Compliance
2001-P00013 State Enforcement Effectiveness – National Audit
2004-P00021 Evaluation of EPA's Petroleum Refinery Enforcement and Compliance
2005-P00024 Priority Enforcement and Compliance Assurance Universe
2006-P00006 Performance Measurement and Reporting for Enforcement

Office of Prevention, Pesticides & Toxic Substances:

1991-101378 Pesticides Inerts
2006-P00009 Impact of Data Gaps on EPA's Implementation of FQPA

Office of Solid Waste and Emergency Response:

2000-P00002 RCRA Corrective Actions
2004-P00005 Mega Financial Responsibilities at Superfund Mine Sites
2003-P00010 Mega EPA's National Hardrock Mining Framework
2005-P00026 RCRA Financial Responsibility Requirements
2006-P00013 SF Mandate: Program Efficiencies
2006-P00016 EPA's Management Strategy for Contaminated Sediments
2006-P00027 Undistributed Superfund Costs
2006-P00007 More Information Is Needed on Toxaphene Degradation Products

Office of Water:

2002-P00012 Controlling and Abating Combined Sewer Overflows
2003-P00018 Drinking Water Capacity
2004-P00030 EPA's Pretreatment Program
2005-P00021 SDWA Tools
2006-P00021 Information Security Series: Security Practices – SDWIS
2006-P00007 More Information Is Needed On Toxaphene Degradation Products
2006-P00016 EPA's Management Strategy for Contaminated Sediments

Single Audits: Final action for single audits occurs when non-monetary compliance actions are completed. This may take longer than one year to implement if the findings are complex or if the grantee does not have the resources to take corrective action. Single audits are conducted of nonprofit organizations, universities,

and state and local governments. EPA is tracking completion of corrective action on 13 single audits for the period beginning October 1, 2007.

Region 5:

2005-300114 North Lawrence Water Authority, FY2003

Region 9:

2005-300212 Yavapai Apache Nation FY 2003

2005-300211 Yavapai Apache Nation FY 2002

Region 10:

2002-300009 Iliama Village Council

2002-300042 Iliama Village Council

2003-300047 Stevens Village Council

2003-300117 Stevens Village Council

2003-300145 Circle Village Council

2004-300011 Northway Village Council

2005-300084 Hoonah Indian Association – FY 2002

2005-300218 Chalkyitsik Village Council

2005-300239 Chalkyitsik Village Council

2006-300085 Stevens Village Council FY 2003

- *Audits Awaiting Decision on Appeal.* EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. At the end of FY 2007, 29 audits were in administrative appeal. When these audits are out of appeal and all issues have been resolved, they will be captured in audit follow-up data reported in EPA's PAR.

¹ The Federal Managers' Financial Integrity Act, the Inspector General Act Amendments, the Government Management Reform Act, the Chief Financial Officers Act, and the Reports Consolidation Act.

² <http://intranet.epa.gov/ocfo/budget/2008/2008cj.htm>

³ <http://www.epa.gov/ocfo/plan/plan.htm>

⁴ U.S. Environmental Protection Agency, Office of Air Quality Planning and Standards, 2007. Regulatory Impact Analyses. Proposed Revisions to the National Ambient Air Quality Standards for Ground-Level Ozone. <http://www.epa.gov/ttn/ecas/ria.htm/ria2007>

⁵ <http://www.epa.gov/radon/healthrisks.html>, and United States Environmental Protection Agency. June 2003. "EPA Assessment of Risks from Radon in Homes PDF." EPA 402-R-03-003.

⁶ For the President's goal, see <http://www.whitehouse.gov/news/releases/2002/02/climatechange.html#>

⁷ *The Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1994-2004*, U.S. EPA 430-R-06-002, April 2006.

⁸ Data Source: Integrated Compliance Information System (ICIS), available at: <http://www.epa.gov/compliance/data/systems/modernization/index.html>.

⁹ Integrated Compliance Information System (ICIS), October 2007, available at: <http://www.epa.gov/compliance/data/systems/modernization/index.html>; Office of Air and Radiation. BenMAP model. For additional information on FY 2007 enforcement settlements, please visit the following EPA web site: <http://www.epa.gov/compliance/resources/cases/index.html>.

¹⁰ US EPA. Integrated Compliance Information System, October 28, 2006 and on-line usage reports. These measures are not calculated from a representative sample of the regulated entity universe. The percentages are based, in part, on the number of regulated entities that answered affirmatively to these questions on voluntary surveys. The percentages do not account for the number of regulated entities who chose not to answer these questions or the majority of entities who chose not to answer the surveys.

¹¹ The Office of Management and Budget (OMB) regularly releases an executive scorecard which rates each federal agency's overall status and progress in implementing the PMA initiatives. The scorecard ratings use a color-coded system based on criteria determined by OMB.