



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **Audit of EPA's Fiscal 2008 and 2007 Consolidated Financial Statements**

**Report No. 09-1-0026**

**November 14, 2008**

## **Abbreviations**

CFC	Cincinnati Finance Center
DFAS	Defense Finance and Accounting Service
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMFIA	Federal Managers' Financial Integrity Act
GAO	Government Accountability Office
IFMS	Integrated Financial Management System
LVFC	Las Vegas Finance Center
OCFO	Office of the Chief Financial Officer
OFM	Office of Financial Management
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTOP	Office of Technology Operations and Planning
READ	Registry of EPA Applications and Databases
RSSI	Required Supplementary Stewardship Information
RTP	Research Triangle Park



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Audit

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

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

## Background

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

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2009/20081114-09-1-0026.pdf](http://www.epa.gov/oig/reports/2009/20081114-09-1-0026.pdf)

## **Audit of EPA's Fiscal 2008 and 2007 Consolidated Financial Statements**

### **EPA Receives Unqualified Opinion**

We rendered an unqualified, or clean, opinion on EPA's Consolidated Financial Statements for fiscal 2008 and 2007, meaning that they were fairly presented and free of material misstatement.

### **Significant Deficiencies Noted**

We noted the following eight significant deficiencies:

- EPA's oversight of payroll reconciliation needs improvement.
- Accrual was not properly calculated for federal unbilled receivables.
- EPA needs to reconcile Superfund State Contract funds and credits in the general ledger to subsidiary accounts.
- EPA's review of unliquidated obligations for interagency agreements and Headquarters-funded grants was incomplete.
- The Integrated Financial Management System Vendor Table was susceptible to unauthorized changes and changes were not adequately documented.
- Improvement was needed in monitoring Superfund Special Account balances.
- The lack of a system implementation process contributed to financial applications not complying with requirements.
- EPA did not properly account for capitalized software and related accumulated depreciation.

### **Noncompliances With Laws and Regulations Noted**

EPA was in noncompliance with regulations relating to:

- The Asbestos Loan Program (related to the Anti-Deficiency Act).
- Prompt payment of invoices (related to the Prompt Payment Act).
- Reconciling intragovernmental transactions (related to Treasury policy).

### **Agency Comments and Office of Inspector General Evaluation**

In a memorandum received on November 12, 2008, from the Chief Financial Officer, the Agency generally agreed with our findings and has implemented some of our recommendations. The Agency also stated it does not agree with our findings regarding the Asbestos Loan Anti-Deficiency Act violation, Prompt Payment Act violation, or systems implementation process. The Agency also believes it does adequate payroll reconciliations but agreed to work with the Office of Inspector General to develop reconciliations.




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

OFFICE OF  
INSPECTOR GENERAL

November 14, 2008

**MEMORANDUM**

**SUBJECT:** Audit of EPA's Fiscal 2008 and 2007 Consolidated Financial Statements  
Report No. 09-1-0026

**FROM:** Paul C. Curtis   
Director, Financial Statement Audits

**TO:** Lyons Gray  
Chief Financial Officer

Attached is our audit report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2008 and 2007 consolidated financial statements. We are reporting eight significant deficiencies. We also identified an instance of noncompliance with the Anti-Deficiency Act, and a violation of the Prompt Payment Act. Further, we identified a noncompliance with laws and regulations related to reporting intragovernmental transactions. Attachment 3 contains the status of recommendations related to significant deficiencies and noncompliances with laws and regulations reported in prior years' reports. The significant deficiencies and noncompliances included in Attachment 3 also apply for fiscal 2008.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$2,174,361.

This audit report represents the opinion of the Office of Inspector General, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. We have no objections to the further release of this report to the public. This report will be available at <http://epa.gov/oig/>.

In accordance with EPA Manual 2750, *Audit Management Process*, you are required to provide us with a written response to the final audit report within 90 days of the final report date. The response should address all issues and recommendations contained in Attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether or not to close this report in our audit tracking system.

Should you or your staff have any questions about the report, please contact me at (202) 566-2523; or Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899.

#### Attachments

cc: See Appendix III, Distribution

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## **Inspector General's Report on EPA's Fiscal 2008 and 2007 Consolidated Financial Statements**

The Administrator  
U.S. Environmental Protection Agency

We have audited the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA, or the Agency) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the consolidated financial statements present fairly, including the accompanying notes, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by goal, changes in net position, custodial activity, and combined budgetary resources of EPA as of and for the years ended September 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.



## **Review of EPA’s Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management’s Discussion and Analysis**

We inquired of EPA’s management as to its methods for preparing Required Supplementary Stewardship Information (RSSI), Required Supplementary Information, Supplemental Information, and Management’s Discussion and Analysis, and reviewed this information for consistency with the financial statements. The Supplemental Information includes the unaudited Superfund Trust Fund financial statements for fiscal 2008 and 2007, which are being presented for additional analysis and are not a required part of the basic financial statements. Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EPA’s RSSI, Required Supplementary Information, Supplemental Information, and Management’s Discussion and Analysis.

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

## **Evaluation of Internal Controls**

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

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

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

In planning and performing our audit, we considered EPA’s internal controls over financial reporting by obtaining an understanding of the Agency’s internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management’s assertion on internal controls included in Management’s Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982

(FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies. None of the issues presented are considered by us to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on these internal controls and, accordingly, we do not express an opinion on such controls.

### ***Significant Deficiencies***

Significant deficiencies noted are summarized below and detailed in Attachment 1.

#### **EPA's Oversight of Payroll Reconciliation Needs Improvement**

EPA's Washington Finance Center performs bi-weekly and monthly reconciliations of EPA's payroll and SF-224 transactions between PeoplePlus and the Defense Finance and Accounting Service (DFAS), EPA's payroll service provider. However, the Agency does not reconcile EPA's payroll to the amounts reported to Treasury on Form 941, *Employer's Quarterly Federal Tax Return*. As a result, EPA did not detect errors in wages and tax amounts DFAS reported to the Department of Treasury (Treasury). The Treasury Financial Manual requires agencies to perform timely reconciliations, and implement effective and efficient reconciliation processes. In addition to the misreporting of wages and taxes, which could adversely impact EPA employees, inadequate oversight, including not reconciling EPA's payroll with the amounts reported to Treasury, could increase the risks of fraud, waste, and mismanagement of funds, and impact the financial statements.

### **Accrual Not Properly Calculated for Federal Unbilled Receivables**

EPA did not properly calculate the third quarter fiscal 2008 accrual for federal unbilled receivables (unbilled accrual). Using EPA's third quarter unbilled accrual spreadsheet, we calculated the accrual to be \$28,542,223, which is \$4,021,487 less than the \$32,563,710 amount entered in the Integrated Financial Management System (IFMS). OMB Circular A-127, *Policies and Standards for Financial Management Systems*, requires financial management systems to provide complete, reliable, consistent, timely and useful financial management information on federal government operations. EPA did not properly review the accrual to identify problems within the accrual calculation. As a result, the \$4 million error led to a misstatement of the related assets and revenue in the financial statements. The Agency determined not to make an adjustment for the error.

### **EPA Needs to Reconcile Superfund State Contract Funds and Credits in the General Ledger to Subsidiary Accounts**

EPA's Superfund State Contract Credits and unearned revenue did not agree with supporting spreadsheets by significant amounts. The credits differed from supporting spreadsheets by \$5,383,760, and we found multiple errors in the unearned revenue spreadsheets. Guidance from EPA's Office of Financial Management requires a quarterly calculation and reconciliation of the Superfund State Contract spreadsheets to the general ledger. However, Cincinnati Finance Center (CFC) finance personnel did not reconcile the spreadsheets to the general ledger because they were not familiar with the process, and they were not aware they needed to do the reconciliation. As a result, CFC could not ensure the accuracy of the Superfund State Contract credit and unearned revenue general ledger accounts or the amount reported in the financial statements, which totaled approximately \$14 million and \$44 million, respectively, as of September 30, 2008.

### **EPA's Review of Unliquidated Obligations for Interagency Agreements and Headquarters-Funded Grants Was Incomplete**

EPA Office of Grants and Debarment's (OGD's) review of unliquidated obligations for inactive Interagency Agreements and Headquarters-funded regional grants was incomplete. OGD did not review all Interagency Agreements and Headquarters-funded regional grants in the inactive obligations reports provided by the Office of the Chief Financial Officer's (OCFO's) Office of Financial Management. Federal and Agency guidance require unliquidated obligations to be reviewed annually. However, OGD did not follow Agency guidance and use the inactive Interagency Agreements unliquidated obligations report provided by the Office of Financial Management; instead, OGD generated its own report based on the project period end date. In addition, OGD did not review Headquarters-funded regional grants assigned to them because it believed these grants were the responsibility of EPA's Regional Grant Management Offices. As a result, the Agency had no assurance that the unliquidated obligations for Interagency Agreements and grants were accurate and represented valid and viable obligations.

### **IFMS Vendor Table Susceptible to Unauthorized Changes and Changes Were Not Adequately Documented**

The IFMS Vendor Table was susceptible to employees making changes to vendor payment information without detection. Further, CFC did not retain supporting documentation for numerous Vendor Table changes made for 13 different vendors in fiscal 2008. FMFIA specifies that agency heads must establish internal controls that reasonably ensure that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Also, Government Accountability Office (GAO) *Standards for Internal Controls* state that all transactions are to be clearly documented, and that documentation should be properly managed, maintained, and readily available for examination. The Vendor Table contains critical information (e.g., bank routing and account numbers) used to distribute payments to vendors, including grantees. An individual exploiting this system weakness could divert vendor payments to an unauthorized banking account without a supervisor or management official being notified that the vendor payment information changed. As such, having internal control processes to prevent or detect unauthorized changes, as well as documentation to support changes, is essential to protecting EPA funds from possible misappropriation.

### **Improvement Needed in Monitoring Superfund Special Account Balances**

CFC did not adequately monitor Superfund Special Account balances. EPA's Office of Financial Management policy requires CFC to track all Special Account transactions and balances. Because CFC did not adequately monitor the financial condition of special accounts, we found \$1,370,087 in special account drawdowns recorded in excess of the balance of interest earned plus principal for some sites.

### **Lack of System Implementation Process Contributed to Financial Applications Not Complying with Requirements**

Ongoing instances of financial applications noncompliance with federal and EPA system requirements persist at EPA finance centers. Reviews at EPA's three main finance centers disclosed that financial applications were placed into operation without required security controls implemented, key security documents developed, or the systems assessed for compliance with Federal Financial Management System Requirements. OMB stresses the importance of these required security tasks and documents because they provide management with needed information to plan, budget, and put into service risk mitigation strategies. The deficiencies occurred because OCFO system owners and project managers had not completed an internal compliance review over this area and the senior information official had not put into place an ongoing oversight process to ensure implemented applications comply with prescribed systems requirements. Without such a process, EPA cannot reasonably assure that these same types of problems will not persist.

## **EPA Did Not Properly Account for Capitalized Software and Related Accumulated Depreciation**

EPA did not properly account for Capitalized Software and the related depreciation, resulting in misstatements of Capitalized Software (net of accumulated depreciation) and depreciation expense. EPA accumulates software development costs until the software is placed into service. For financial statement reporting purposes, accumulated software development costs are reported on the same line as Capitalized Software costs. EPA policy states that capitalized software is depreciated beginning when the software is placed into service. During fiscal 2008, EPA had accumulated software development costs of \$212 million, of which \$78 million was for software put into service in fiscal 2008. Of the \$78 million, \$61 million should have been placed in service in fiscal 2007 or earlier. We found that the Office of Environmental Information does not have effective controls to determine when capitalized software is moved from the development phase into service. As a result, depreciation expense for fiscal years 2007 and prior were understated by amounts ranging from less than \$1 million to over \$5 million a year. The impact for correcting the previous year's depreciation results in an overstatement of fiscal 2008 depreciation expense by \$26 million.

Attachment 3 contains the status of recommendations related to significant deficiencies reported in prior years' reports. The significant deficiencies included in Attachment 3 also apply for fiscal 2008. We reported less significant matters regarding internal controls in the form of point sheets during the course of the audit. We will not issue a separate management letter.

### **Comparison of EPA's FMFIA Report with Our Evaluation of Internal Controls**

OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB Bulletin 07-04 defines material weaknesses in internal control as a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

The Agency did not report, and our audit did not detect, any material weaknesses for fiscal 2008.

## Tests of Compliance with Laws and Regulations

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

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

Our tests of laws and regulations disclosed the following noncompliance issues, which are discussed in further detail in Attachment 2.

### **EPA Asbestos Loan Program Violated the Anti-Deficiency Act**

EPA violated the Anti-Deficiency Act when it recorded the upward subsidy re-estimate for the Asbestos Loan Program without an approved apportionment letter from OMB. According to the Anti-Deficiency Act, "an officer or employee of the United States Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation." OCFO's Office of Budget authorized \$32,530 to be entered into IFMS by the Las Vegas Finance Center without the required apportionment letter. OCFO's Reporting and Analysis Staff notified the Las Vegas Finance Center prior to the fiscal year end that an apportionment letter would be needed. OCFO's Office of Budget did not get the apportionment letter or an exemption from OMB prior to recording the upward subsidy estimate in IFMS. As a result, the Agency incurred \$32,530 before the amount was authorized and available. By obligating funds in excess of appropriated amounts, the Agency created an anti-deficiency situation in violation of the Anti-Deficiency Act.

### **EPA Violated the Prompt Payment Act by Not Paying Telecommunications Invoices Promptly**

EPA violated the Prompt Payment Act by not paying 20 fiscal 2008 telecommunications invoices timely. EPA's Contracts Management Manual requires that obligating documents be provided to the finance center timely. The Prompt Payment Act requires payment of a properly received invoice within the payment terms of the invoice and/or contract. If invoices are not paid by the due date, interest payments are to be paid starting on the day after the due date and calculated through the payment date. According to the

Research Triangle Park (RTP) Finance Center and the Office of Technology Operations and Planning (OTOP), several factors caused the late payments: (1) RTP Finance Center returned 3 invoices in April 2008 because OTOP did not process funding allocations; (2) OTOP did not allocate funds and timely forward obligating documents for the 20 invoices to the RTP Finance Center; (3) the Project Officer did not promptly approve and forward the 20 invoices for payment; and (4) RTP Finance Center did not follow up with OTOP after it returned the invoices to determine when they should be paid. The late payment of these 20 invoices, totaling \$2,469,147, resulted in an estimated interest charge of \$42,509 due to the vendor.

### **EPA Should Continue Effort to Reconcile Intragovernmental Transactions**

As of September 30, 2008, EPA reported \$192 million in unreconciled differences with 46 trading partners for intragovernmental transactions. Of that amount, \$55 million was reported by Treasury to be material differences. The remaining \$137 million represented amounts reported for non-verifying agencies, accruals, timing differences, and other agencies whose differences were not reported as material. According to the Treasury Financial Manual, verifying agencies are those that are required to report in the Governmentwide Financial Report System. These include the 24 major Chief Financial Officers Act agencies and 11 other agencies material to the *Financial Report of the United States Government*. Treasury policy requires verifying agencies to confirm and reconcile intragovernmental transactions with their trading partners. Based on our review of correspondence with other agencies, EPA had difficulty reconciling these differences primarily because of differing accounting treatments and accrual methodologies between federal agencies. EPA's inability to reconcile its intragovernmental transactions contributes to a long-standing governmentwide problem that hinders the ability of GAO to render an opinion on the Consolidated Financial Statements of the Federal Government.

### **Federal Financial Management Improvement Act Noncompliance**

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. An OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to agency heads for developing corrective action plans to bring an agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances where the Agency's financial management systems did not substantially comply with FFMIA requirements.

We reported other less significant matters involving compliance with laws and regulations in point sheets during the course of our audit. We will not be issuing a separate management letter.

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

## Prior Audit Coverage

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

- Implementation of accounting processes for reclassification of receivables.
- Allowance for doubtful accounts calculation.
- Recording and accounting for accounts receivable.
- Federal and EPA information security applications for key applications.
- Access and security practices over critical information technology assets.
- Controls over the IFMS suspense table.
- Maintaining adequate documentation for obligation accounting adjustments.
- Payroll internal controls.
- Reconciling and reporting intragovernmental transactions, assets, and liabilities by federal trading partner.
- Recording marketable securities.
- Assessing automated application processing controls for IFMS.

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

## Noteworthy Achievements

We identified the following noteworthy achievements during our audit of EPA's fiscal 2008 financial statements:

- EPA has made significant progress in reconciling intragovernmental reconciliations. As of September 30, 2006, EPA's non treasury general fund differences had totaled \$826,697,883. This had been reduced by \$634,067,380 as of September 30, 2008, resulting in a difference of \$192,630,503 as of September 30, 2008.
- EPA rescinded the Currently Not Collectable policy that was identified as a material weakness in the fiscal 2007 financial statement audit report. EPA is now properly reporting accounts receivable at their net realizable value.
- EPA consolidated its fiscal 2008 FMFIA guidance documents into a single, comprehensive package with information and tools for reviewing internal controls over



programmatic and financial operations and reporting the results. The guidance enabled EPA to consolidate its OMB Circular A-123 review of internal controls over financial reporting and the Quality Assurance Reviews of financial operations in the regions and finance centers into one coordinated effort.

- EPA has made progress on liquidating obligations on grants where the period of performance has expired. The Agency stated that it freed up \$32 million in funds in expired grants and contracts for other high priority work in the Agency. In addition, the Agency stated that more than \$83 million has been redeployed within the Agency to date, including \$13 million liquidated during fiscal 2008. We also commend EPA for the immediate action taken to complete the review of all Headquarters-funded regional grants and Interagency Agreements based on our review of fiscal 2008 obligations.
- EPA has significantly improved maintaining adequate documentation for accounting adjustments. During the fiscal 2007 audit, we found that EPA made adjustments to transactions in IFMS without adequate and proper documentation. We did not identify any unsupported accounting adjustment entries during the fiscal 2008 audit.

## Agency Comments and OIG Evaluation

In a memorandum dated November 12, 2008, OCFO responded to our draft report.

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

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



Paul C. Curtis  
Director, Financial Statement Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
November 14, 2008

# Significant Deficiencies

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## 1 - EPA's Oversight of DFAS Payroll Reconciliation Needs Improvement

EPA does not perform reconciliations of its records to the Form 941s, *Employer's Quarterly Federal Tax Return*, or annual Form W-3, *Transmittal of Wage and Tax Statements*, filed on EPA's behalf by DFAS. EPA's Washington Finance Center performs bi-weekly and monthly reconciliations of EPA's payroll and SF-224 transactions between PeoplePlus and DFAS, EPA's payroll service provider. However, the Agency does not reconcile EPA's payroll to the amounts reported to the Department of Treasury on Form 941. As a result, EPA did not detect errors in wages and tax amounts DFAS reported to the Treasury. The Treasury Financial Manual requires agencies to perform timely reconciliations, and implement effective and efficient reconciliation processes. Internal Revenue Service Publication 15 (Circular E), *Employer's Tax Guide*, requires employers to reconcile Form W-3 with the quarterly Form 941s to reduce discrepancies. In addition to the misreporting of wages and taxes, which could adversely impact EPA employees, inadequate reconciling could increase the risks of fraud, waste, and mismanagement of funds, and impact the financial statements.

According to Internal Revenue Service Publication 15 (Circular E), all employers who pay wages subject to income tax withholding or Social Security and Medicare taxes are required to file quarterly a Form 941. To help reduce discrepancies, employers are responsible for reconciling Form W-3 with the quarterly Form 941s. DFAS prepares its Form 941 to include EPA and other federal agencies' payroll activities reported to Treasury.

We found that EPA wages and tax liabilities reported to the Internal Revenue Service during calendar 2007 were inaccurate. EPA's tax liabilities were underpaid by \$337,982. The Agency did not perform a reconciliation of its records to the DFAS-prepared Form 941 for the first two quarters of calendar 2008. We attempted reconciliations for the first two quarters of calendar 2008, and found differences that EPA could not readily explain.

Treasury Financial Manual, Volume 1, Part 2, Chapter 5100, Reconciling Fund Balance with Treasury Accounts, discusses Treasury's reliance on monthly financial report data from all federal agencies in order to meet its congressionally mandated central accounting and reporting responsibilities. Reconciling accounts is a key internal control process; it assures the reliability of EPA's receipt and disbursement data reported by agencies. Therefore, agencies must perform timely reconciliations and implement effective and efficient reconciliation processes.

In addition, the Federal Acquisition Regulations (Subpart 37.5-Management Oversight of Service Contracts) state that contracting officials should seek "best practices" techniques in contract management and administration within their own contracting activities. Best practices could include oversight or monthly progress reports to inform EPA management of potential problems (differences).

EPA does perform bi-weekly and monthly reconciliations of EPA's payroll and SF-224 transactions between PeoplePlus and DFAS, but the Agency does not reconcile its payroll to the amounts DFAS reports to the Department of Treasury on Form 941. DFAS personnel acknowledged that they did not send the Internal Revenue Service enough funds for EPA and the

information reported to Treasury for 2007 was inaccurate. DFAS may act as EPA's agent or contractor serving as EPA's payroll provider, but fiduciary responsibility to ensure that payroll is accurately reported rests with EPA. EPA is ultimately responsible for its payroll, the payment of income tax withheld, and both the employer and employee portions of Social Security and Medicare taxes. Good management practices and contract administration techniques should be used regardless of the contracting method.

Inadequate oversight, including not reconciling EPA's payroll with the amounts reported to Treasury, could:

- increase the risks of fraud, waste, and mismanagement of funds;
- impact the financial statements (i.e., payroll expenses not being properly stated); and
- affect EPA's ability to effectively monitor budget execution.

We believe oversight of DFAS' payroll reconciliation activities could lead to earlier detection of differences between amounts reported to Treasury and EPA's general ledger. Because EPA does not reconcile payroll records to DFAS' quarterly 941 submissions and the annual W-3, EPA has no assurance that EPA's payroll and tax liabilities reported to the Treasury were accurate and properly reflected in EPA's general ledger. EPA has expressed a willingness to perform the reconciliations with OIG and DFAS assistance.

## **Recommendations**

We recommend that the Office of the Chief Financial Officer:

1. Establish better oversight for payroll support services by:
  - a. Performing quarterly Form 941 reconciliations of payroll amounts recorded in EPA's general ledger to wage and tax amounts reported by DFAS to ensure the payroll amounts are properly reported to Treasury and properly recorded in EPA's general ledger.
  - b. Reconciling the annual Form W-3 and related Form 941s to ensure consistency of amounts with EPA's general ledger.
2. Reconcile EPA's 2007 and 2008 wage and tax liabilities to amounts reported by DFAS on the quarterly Form 941s and the 2007 Form W-3, and ensure that any differences have been resolved by corrected Forms 941s and W-3, including the posting of amounts in EPA's general ledger.

## **Agency Comments and OIG Evaluation**

The Agency did not agree with our findings or recommendations. The Agency disagreed that the 2007 data was incorrect by \$337,000 and instead stated the difference was \$2,800 for one employee. The Agency did agree to work with DFAS and OIG to jointly develop a quarterly taxable wage reconciliation report.

As previously stated, we compared the 2007 W-2 data provided by DFAS to the quarterly Form 941s and found a difference of \$337,000 in taxes. This amount included not only federal withholdings, but also Social Security and Medicare withholding amounts. The Agency's amount of \$2,800 reflects only a portion of the difference we found. The Agency did not include in its analysis Social Security, Medicare, or a reconciliation to DFAS's list of W-2s amounts. The OIG is willing to assist the Agency in arriving at a workable solution to ensure that payroll records are properly reconciled and reported in the Agency's general ledger.

## 2 - Accrual Not Properly Calculated for Federal Unbilled Receivables

EPA did not properly calculate the third quarter fiscal 2008 accrual for federal unbilled receivables (unbilled accrual). Using EPA's third quarter unbilled accrual spreadsheet, we calculated the accrual to be \$28,542,223, which is \$4,021,487 less than the \$32,563,710 amount entered in IFMS. OMB Circular A-127, *Policies and Standards for Financial Management Systems*, requires financial management systems to provide complete, reliable, consistent, timely, and useful financial management information on federal government operations. EPA did not properly review the accrual to identify problems within the accrual calculation. As a result, the \$4 million error led to a misstatement of the related assets and revenue in the third quarter financial statements. The Agency made the appropriate adjustments in the fourth quarter.

The following problems led to the inaccuracy of the third quarter unbilled accrual calculation:

- Site identification numbers were positioned in the wrong column (expenditure column) on some lines of accounting.
- The formula used to summarize the accrual total was not mathematically correct because it did not include all lines of accounting.
- The accrual amounts for each line were not summed correctly using the accrual methodology (cumulative expenses, less billed amount, less stand alone collections, plus accrued liabilities, equals unbilled accrual).
- Data on some accounting lines was misaligned. Difficulties in converting from Financial Data Warehouse, to text, and then to Excel, and problems with sorting the spreadsheet data may have contributed to the misalignment.
- Accrual calculations for some individual organization codes included credit balances where the billed amount was greater than the expenses resulting in credit accrual balances.

Had EPA properly reviewed the accrual, it could have identified the problems within the accrual calculation before entry of the third quarter unbilled accrual into IFMS.

### Recommendation

3. We recommend that the Office of the Chief Financial Officer implement a review process to verify the accuracy and reasonableness of each quarterly unbilled accrual before it is entered into IFMS. Steps should include:
  - (a) Verifying that column amounts are properly calculated.
  - (b) Ensuring that the unbilled accrual column totals properly.
  - (c) Verifying that all data elements and fields are properly captured and aligned when converting data from one application (e.g., text) to another (e.g., Excel).
  - (d) Researching those lines of accounting with unbilled accrual credit balances to determine if the credit amounts should be excluded from the overall unbilled accrual calculation.
  - (e) Documenting evidence of the items reviewed.

### Agency Comments and OIG Evaluation

The Agency agreed with our findings and recommendation.

### **3 - EPA Needs to Reconcile Superfund State Contract Funds and Credits in the General Ledger to Subsidiary Accounts**

EPA's Superfund State Contract (SSC) credits and unearned revenue did not agree with supporting spreadsheets by significant amounts. The credits differed from supporting spreadsheets by \$5,383,760, and we found multiple errors in the unearned revenue spreadsheets. Guidance from EPA's Office of Financial Management requires a quarterly calculation and reconciliation of the SSC spreadsheets to the general ledger. However, CFC finance personnel did not reconcile the spreadsheets to the general ledger because they were not familiar with the process, and they were not aware they needed to do the reconciliation. As a result, CFC could not ensure the accuracy of the SSC credit and unearned revenue general ledger accounts or the amount reported in the financial statements, which totaled approximately \$14 million and \$44 million, respectively, as of September 30, 2008.

Each region inputs its State credits in the SSC spreadsheet. The credits on the spreadsheet totaled \$19,717,360. The combination of the SSC general ledger accounts totaled \$14,333,600. CFC has not yet found the reason for the \$5,383,760 variance.

When EPA assumes the lead for a Superfund site remedial action in a State, the SSC clarifies EPA's and the State's responsibilities to complete the remedial action. EPA records a liability (unearned revenue) when billing a State for its share of the estimated site costs. EPA recognizes earned revenue as costs are incurred on the site.

CFC did not properly reconcile the calculated unearned revenue from SSCs to the general ledger. Several factors contributed to the difficulty in completing the reconciliation:

- CFC prepared the fourth quarter SSC calculation spreadsheet with data recorded as of August 31, 2008, instead of September 30, 2008 as required.
- The OIG identified an \$879,484 variance between the amount of reimbursable expenses in EPA Fund 5R1/TR1 included in the SSC calculation spreadsheet and those recorded in the general ledger. However, CFC has not made corrections for the variances.
- CFC did not reconcile the billings from the SSC spreadsheet to the billings for SSCs recorded in the general ledger.

The general ledger activity for SSC activity may include invalid transactions. We identified at least \$5.8 million in the general ledger in older EPA funds that could relate to billings that were not collected or payments that were not billed, or may not be related to SSCs and thus distort the general ledger balance.

According to Comptroller Policy Announcement No. 99-01, *Recording and Tracking Work Performed – Superfund State Credits*, all State credits must be approved by the responsible Financial Management Office and all State credits are subject to verification by audit by the OIG. By accurately tracking and recording all approved credits site-specifically, the Agency is

able to track the status of credit balances and accurately record the credit balances available in the financial statements.

The *Monthly/Quarterly Adjustment Guidance*, issued on February 23, 2004, by OCFO's Office of Financial Management (OFM), requires a quarterly review and reconciliation to verify the SSC calculation spreadsheet detail totals to IFMS. The guidance also requires the fourth quarter SSC revenue accrual to capture SSC agreements, billings, expenditures, and credits as of September 30.

The Chief Financial Officers Act requires the Agency's Chief Financial Officer to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, that provides for complete, reliable, consistent, and timely information. EPA should have adequate internal controls to ensure that it performs annual reconciliations of the SSC unearned revenue accounts. Without performing a proper reconciliation, CFC could not ensure the accuracy of the SSC unearned revenue accounts. The Agency also identified Superfund State Cost Shares as a significant deficiency during its review of internal controls over financial reporting.

## **Recommendations**

We recommend that the Office of the Chief Financial Officer:

4. Complete quarterly reconciliations of the SSC credits and unearned revenue to the general ledger according to OFM guidance.
5. Research transactions in older funds, and eliminate invalid transactions.
6. Confer with regions to verify the regions' manual entries to the SSC spreadsheet agree with the supporting documentation by site.

## **Agency Comments and OIG Evaluation**

The Agency agreed with our findings and recommendations.



## 4 - EPA's Review of Unliquidated Obligations for Interagency Agreements and Headquarters-Funded Grants Was Incomplete

EPA's OGD review of unliquidated obligations for inactive Interagency Agreements and Headquarters-funded regional grants was incomplete. OGD did not review all Interagency Agreements and Headquarters-funded regional grants in the inactive obligations reports provided by OCFO's OFM. Federal and Agency guidance require unliquidated obligations to be reviewed annually. However, OGD did not follow Agency guidance and use the inactive Interagency Agreements unliquidated obligations report provided by OFM; instead, OGD generated its own report based on the project period end date. In addition, OGD did not review Headquarters-funded regional grants assigned to them because it believed these grants were the responsibility of EPA's Regional Grant Management Offices. As a result, the Agency had no assurance that the unliquidated obligations for Interagency Agreements and grants were accurate and represented valid and viable obligations.

GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, Title 7, Chapter 3, requires each agency to review its unliquidated obligations at least once a year to reasonably assure itself that all transactions meeting the criteria of legally valid obligations have been included. In addition, EPA Comptroller Policy Announcement No. 96-04, *Review of Unliquidated Obligations*, requires all responsible parties to conduct complete annual reviews of all current and prior year unliquidated obligations to ensure that all recorded obligations are still valid and viable. EPA's OFM is responsible for providing the reports of inactive unliquidated obligations, which form the basis on which the unliquidated obligation reviews are conducted. According to Policy Announcement No. 96-04:

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

We found that the Agency's fiscal 2008 annual review of unliquidated obligations for inactive Interagency Agreements and grants was incomplete. Specifically:

- OGD did not complete its review of all 121 unliquidated obligation balances of inactive Interagency Agreements from the inactive Interagency Agreements unliquidated obligations report provided by OFM, which was based on inactive obligations (i.e., obligations with no activity for 180 days or more). Instead, OGD generated its own report consisting of 79 Interagency Agreements based on the Interagency Agreements' project period end dates.
- Of the 79 Interagency Agreements reviewed by OGD, only 33 were also on the report provided by OFM, meaning 88 Interagency Agreements (totaling \$5.6 million) assigned to OGD by OFM were not reviewed.

- Of the 79 Interagency Agreements reviewed, OGD did not follow up timely with Project Officers on the status of 17 inactive Interagency Agreements, totaling \$1.2 million, to determine their validity before certifying completion of its annual unliquidated obligation review.
- OGD did not review 86 Headquarters-funded regional grants, totaling \$5.2 million, from the report provided by OFM. OGD did not review the Headquarters-funded regional grants because it believed these grants were the responsibility of EPA's Regional Grant Management Offices. However, OGD did not inform either the Regional Grant Management Offices or OFM that it was not reviewing these grants, and it did not reassign these grants to the Regional Grant Management Offices to review during the annual unliquidated obligation review.

EPA's *Procedures and Technical Guidance for FY 2008 Unliquidated Obligations Review* names the responsible officials for reviewing inactive obligations. The annual guidance provides specific procedures for OGD to follow during its review of grants and Interagency Agreements. The reviewing official and Project Officers must analyze and discuss unliquidated obligations that have been inactive for 6 months or more (180 days) and identify those which are not valid or viable. Inactive Headquarters unliquidated grant and Interagency Agreement obligations must be reviewed and certified by a responsible official. Two certifications are required – the FMFIA Assurance Letter, due July 31, 2008; and the Review of Unliquidated Obligations Year-end Certification, due October 9, 2008. The FMFIA Assurance Letter must include certification that a review of unliquidated balances in grants and Interagency Agreements has been completed, and appropriate actions taken to deobligate unneeded funds.

By not completing reviews of all inactive Interagency Agreements and grants, EPA has no assurance that the unliquidated obligation balances for Interagency Agreements and grants, which include Headquarters-funded regional grants, are accurate and represent valid and viable obligations. Further, inadequate unliquidated obligation reviews could impact the financial statements by not identifying unneeded funds that should be deobligated.

## **Recommendations**

We recommend that the Director, Office of Grants and Debarment:

7. Complete the review of inactive Interagency Agreements and Headquarters-funded regional grants that were not reviewed during the annual unliquidated obligations review, to determine whether they are valid and viable obligations that should remain open.
8. Follow up with Project Officers on the status of the inactive Interagency Agreements that were not resolved during the annual unliquidated obligation review process to determine their validity.

We recommend that the Office of the Chief Financial Officer:

9. Have OFM work with OGD to determine how to identify Headquarters-funded regional grants for assignment to the Regional Grant Management Offices as part of the annual unliquidated obligation review process.

### **Agency Comments and OIG Evaluation**

We acknowledge EPA's noteworthy accomplishments in liquidating dollars on those grants where the period of performance expired. However, we also stress the importance of reviewing timely all inactive unliquidated obligations, not just those whose period of performance has expired. This could increase the likelihood to identify obligations, which are not valid and viable, and whose funds can be deobligated and put to better use. We commend the Agency for the immediate action taken to complete the review of all Headquarters-funded regional grants and Interagency Agreements, including following up with Project Officers on the status of Interagency Agreements that were not resolved during the fiscal 2008 annual review of unliquidated obligations. Because OGD has addressed Recommendations 7 and 8, no further response or action is required.

## **5 - IFMS Vendor Table Susceptible to Unauthorized Changes and Changes Were Not Adequately Documented**

The IFMS Vendor Table was susceptible to employees making changes to vendor payment information without detection. Further, CFC did not retain supporting documentation for numerous Vendor Table changes made for 13 different vendors in fiscal 2008. FMFIA specifies that agency heads must establish internal controls that reasonably ensure that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Further, *GAO Standards for Internal Controls* state that all transactions are to be clearly documented, and that documentation should be properly managed, maintained, and readily available for examination. The Vendor Table contains critical information (e.g., bank routing and account numbers) used to distribute payments to vendors, including grantees. An individual exploiting this system weakness could divert vendor payments to an unauthorized banking account without a supervisor or management official being notified that the vendor payment information changed. As such, having internal control processes to prevent or detect unauthorized changes, as well as documentation to support changes, is essential to protecting EPA funds from possible misappropriation.

Our review disclosed that personnel with change authorization privileges to the Vendor Table could make changes to this critical vendor payment information. When personnel made these changes, the system did not notify the funds-certifying officer (the person approving the payment to a vendor) or the worker's supervisor that this information was updated. This can result in wrong or illegitimate changes being made. Upon bringing this matter to OCFO attention during our review, OCFO took immediate action to address this system control weakness. OCFO put into practice an automated system control and related standard operating procedures that automatically notify a worker's supervisor of the worker's changes to the IFMS Vendor Table. The standard operating procedures assign responsibility to supervisors to verify that changes made to the Vendor Table are valid and necessary. Because OCFO took appropriate actions during the course of our review, no recommendations are being made regarding this issue.

Regarding documentation, in our examination of 45 sample Vendor Table changes, we found that CFC had made changes for 13 vendors but did not have or maintain supporting documentation for the changes. The remaining 32 sample items, made by other finance centers, had proper supporting documentation. The 13 unsupported changes included changes in vendor names, addresses, and banking information. In some cases, the changes were made based on a phone call. We believe that CFC should have created or maintained documentation as an internal control to support the changes to the system. CFC stated that several sample items did not have hard copy documentation because the accountant typically made changes while in contact with a traveler/vendor to notify them that the bank rejected their payment. In addition, the accountant made changes at the time of a call with the traveler/vendor and no paperwork was involved. Some changes may have had supporting documentation, but since the documentation contained personal identifiable information the accountant destroyed it after input into IFMS.

We believe that even though OCFO's OFM implemented an automated system control and related Standard Operating Procedures to ensure all changes to the Vendor Table are legitimate, Finance Centers should maintain documentation for changes to the vendor table information.

Failure to document changes to the IFMS Vendor Table may raise questions about the validity and integrity of the related information contained in IFMS.

### **Recommendation**

10. We recommend that the Director, Cincinnati Finance Center, implement and maintain a process to ensure that changes to IFMS Vendor Table information have supporting documentation as an internal control and audit trail to ensure that vendor information is verifiable.

### **Agency Comments and OIG Evaluation**

The Agency agreed with our findings and has already implemented the recommendation. The Agency indicated the finance centers no longer accept changes to a vendor's information over the telephone, and now requires and maintains written documentation for all revisions. Regarding the Vendor Table being susceptible to unauthorized changes, OCFO indicated that it took further actions to review a sample of changes made to the vendor table between October 2007 and when OCFO put the new procedures in place, to ensure all Vendor Table changes are valid and necessary. We believe the automated system control and related standard operating procedures address the identified system control weakness. Because the Agency has already implemented our recommendation, no further action or response is required.

## **6 - Improvement Needed in Monitoring Superfund Special Account Balances**

CFC did not adequately monitor Superfund Special Account balances. EPA's OFM policy requires CFC to track all Special Account transactions and balances. Because CFC did not adequately monitor the financial condition of special accounts, we found \$1,370,087 in special account drawdowns recorded in excess of the balance of interest earned plus principal for some sites.

Superfund authorizes EPA to retain and use funds received from Potentially Responsible Parties in an agreement to carry out the response actions contemplated by those agreements. Interest earned on Special Account balances accrues directly to the Special Account and may be used for the response action at the site for which the Special Account was established. Interest earned by a Special Account is used after the principal has been fully expended.

Resources Management Directives System, Chapter 15, Financial Management of Special Accounts, requires CFC to monitor the cumulative status of special accounts receipts, accrued interest, disbursements, unliquidated obligations, and available balances. However, CFC did not adequately monitor the account balances in the Special Accounts Database. We identified \$1,370,087 in interest drawdowns recorded in IFMS that exceeded a site's balance of interest earned, receipts, and disbursements in the Special Accounts Database.

The Chief Financial Officers Act requires the Agency's Chief Financial Officer to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, that provides for complete, reliable, consistent, and timely information. EPA should have adequate internal controls to ensure the accuracy of the Special Account transactions and balances. Without verifying the accuracy of the Special Account balances and interest drawdowns, CFC could not ensure the accuracy of the Special Account Interest amount and could unintentionally use funds that were intended for use on other sites.

### **Recommendation**

11. We recommend that Office of the Chief Financial Officer implement controls to monitor and ensure the accuracy of Special Account balances and interest amounts recorded in IFMS.

### **Agency Comments and OIG Evaluation**

The Agency agreed with our findings and recommendation. The Agency corrected the \$1.3 million in overstated interest for the fiscal 2008 financial statements.

## 7 - Lack of System Implementation Process Contributed to Financial Applications Not Complying with Requirements

Ongoing instances of financial applications noncompliance with federal and EPA system requirements persist at EPA finance centers. Reviews at EPA's three main finance centers disclosed that financial applications were placed into operation without required security controls implemented, key security documents developed, or the systems assessed for compliance with Federal Financial Management System Requirements (FFMSR). OMB stresses the importance of these required security tasks and documents because they provide management with needed information to plan, budget, and put into service risk mitigation strategies. The deficiencies occurred because OCFO system owners and project managers had not completed an internal compliance review over this area and the senior information official had not put into place an ongoing oversight process to ensure implemented applications comply with prescribed systems requirements. Without such a process, EPA cannot reasonably assure that these same types of problems will not persist.

OCFO indicated that it relies on EPA System Development Life Cycle Management policies and procedures for ensuring an OCFO system complies with federal standards prior to putting the system into service. As noted in Table 1, noncompliance with prescribed system requirements continued to exist at each EPA finance center, even though a material weakness in this area was disclosed during the fiscal 2007 audit cycle and other significant deficiencies were disclosed previously.

**Table 1: Summary of Financial Application Weaknesses at EPA Finance Centers**

Finance Center	Reporting Period	Weakness Identified
Las Vegas	2008	Finance center internal review disclosed system lacked a current security plan. System was not assessed for compliance with FFMSR. The finance center created Plans of Action and Milestones to correct the weaknesses. <b>(Significant Deficiency)</b>
Cincinnati	2007	Systems lacked contingency and security plans, authorization to operate, continuous monitoring, and assessment for compliance with FFMSR. Server room lacked physical security and environmental controls. <b>(Material Weakness)</b>
Research Triangle Park	2004	Systems lacked contingency and security plans, authorization to operate, continuous monitoring, patch management processes, and assessment for compliance with FFMSR. <b>(Significant Deficiency)</b>

Source: OIG data analysis

Our research disclosed that within the past 5 years, OCFO only had one internal compliance review of this area, which OCFO started in March 2008 and plans to complete in December 2008. However, OCFO could not provide us with a formal approved plan that outlines how the review will be conducted, what tasks will be reviewed, or how the tasks will be reviewed. Further, discussions with OCFO representatives disclosed that OCFO does not have an ongoing oversight process to ensure that OCFO financial systems comply with all federal and EPA

system requirements prior to putting a system into production or that they maintain compliance throughout the system's product life cycle.

Subsequent to audit field work, OCFO indicated a planned reorganization would create the Office of Technology Solutions, a central accountable unit over most of OCFO's financial management systems. Management indicated that until the reorganization is finalized, the functions for the unit would be included within the Office of Enterprise, Technology, and Innovation. As such, we believe that OCFO should take additional steps to formally appoint system development responsibilities to the Office of Enterprise, Technology, and Innovation and limit which other OCFO organizational elements can perform system development duties. This would help OCFO start to place more structure and consistency of compliance over its system development activities.

## **Recommendations**

We recommend that the Office of the Chief Financial Officer:

12. Complete a review of OCFO financial systems compliance with prescribed federal and EPA system requirements and document the results.
13. Create and put into practice formal standard operating procedures to ensure that all current and future financial management systems meet all federal and EPA system requirements prior to being put into service and continue to meet these requirements throughout their lifecycle.
14. Develop and implement a formal oversight process to ensure that all current and future financial management systems meet all federal and EPA system requirements prior to being put into service and continue to meet these requirements throughout their lifecycle. The oversight process should be documented as a formal OCFO policy, assign responsibility to Office of Program Management staff for conducting oversight reviews at least annually, outline standards to be followed, and specify when the oversight process will be reviewed to ensure that it is effective and achieving the desired results.
15. Formally assign the Office of Enterprise, Technology, and Innovation the specific responsibilities for developing, implementing, and maintaining financial systems until the Office of Technology Solutions is formed.
16. Formally prohibit any other organizational element within the OCFO from developing, implementing, or maintaining OCFO financial or mixed financial systems.

## **Agency Comments and OIG Evaluation**

OCFO generally agreed with our findings and recommendations and indicated that management has approved a comprehensive list of areas to evaluate for compliance with systems requirements. OCFO did not agree that the underlying cause of this weakness is due to the lack of management reviews. We believe that compliance reviews are an integral part of a



management control system that (1) informs management of areas that require more emphasis and (2) creates a mechanism for holding personnel accountable for meeting prescribed requirements. Although OCFO was aware of system compliance issues during previous audit cycles, current audit work disclosed that OFCO did not complete a review to provide management the necessary information to hold OCFO personnel accountable for meeting requirements. Therefore, until management implements its review processes, OCFO will continue to experience difficulties in ensuring that developed financial systems comply with federal requirements.

## **8 - EPA Did Not Properly Account for Capitalized Software and Related Accumulated Depreciation**

EPA did not properly account for Capitalized Software and the related depreciation, resulting in misstatements of Capitalized Software (net of accumulated depreciation) and depreciation expense. EPA accumulates software development costs until the software is placed into service. For financial statement reporting purposes, accumulated software development costs are reported on the same line as Capitalized Software costs. EPA policy states that capitalized software is depreciated beginning when the software is placed into service. During fiscal 2008, EPA had accumulated software development costs of \$212 million, of which \$78 million was for software put into service in fiscal 2008. Of the \$78 million, \$61 million should have been placed in service in fiscal 2007 or earlier. We found that the Office of Environmental Information does not have effective controls to determine when capitalized software is moved from the development phase into service. As a result, depreciation expense for fiscal years 2007 and prior were understated by amounts ranging from less than \$1 million to over \$5 million a year. The impact for correcting the previous year's depreciation results in an overstatement of fiscal 2008 depreciation expense by \$26 million.

EPA amortizes capitalized software using the straight-line method over the asset's useful life. Depreciation of capitalized software begins the day the software is moved from the development stage to production. The Office of Environmental Information maintains information on Agency software in its Registry of EPA Applications and Databases (READ). Information technology system owners are responsible for updating READ. System owners updated READ in April 2008 and moved \$48 million of software development costs into service. OCFO inadvertently used the software acquisition date as the starting point for accumulating depreciation instead of the date the software was placed into services. We found that \$31 million of the \$48 million should have been placed in service prior to fiscal 2008. After bringing the misstatement to the OCFO's attention, OCFO examined the remaining software development costs and identified an additional \$30 million that should have been placed in service. Of the \$30 million identified by OCFO, \$26 million should have been placed in service prior to fiscal 2008. OCFO worked with individual system owners to determine the proper capitalized software in service dates. The OCFO properly adjusted the 2008 financial statements to reflect the net book value of Capitalized Software.

### **Recommendations**

We recommend that:

17. The Assistant Administrator, Office of Environmental Information, direct staff to develop and implement a control process that will accurately and timely update the program and regional records in READ.
18. The Office of the Chief Financial Officer use the READ production date as the date software was placed in service, correct the date placed in service in the fixed assets system, and implement internal controls to ensure the accuracy of its data entry.

## **Agency Comments and OIG Evaluation**

The Agency agreed with our findings and recommendations.

# Compliance with Laws and Regulations

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## **9 - EPA's Asbestos Loan Program Violated the Anti-Deficiency Act**

EPA violated the Anti-Deficiency Act when it recorded the upward subsidy re-estimate for the Asbestos Loan Program without an approved apportionment letter from OMB. According to the Anti-Deficiency Act, "an officer or employee of the United States Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation." OMB Circular A-11, Section 185.17, states that an upward reestimate needs to be apportioned immediately after the end of each fiscal year as long as any loans are outstanding, unless a different plan is approved by OMB. OCFO's Office of Budget authorized \$32,530 to be entered into IFMS by the Las Vegas Finance Center (LVFC) without the required apportionment letter. OCFO's Reporting and Analysis Staff notified LVFC prior to the fiscal year end that an apportionment letter would be needed. OCFO's Office of Budget did not get the apportionment letter or an exemption from OMB prior to recording the upward subsidy estimate in IFMS. As a result, the Agency incurred \$32,530 before the amount was authorized and available. By obligating funds in excess of appropriated amounts, the Agency created an anti-deficiency situation in violation of the Anti-Deficiency Act.

The Credit Reform Act of 1990 and federal accounting standards require that the subsidy cost allowance for direct loans be re-estimated each year as of the date of the financial statements. The subsidy cost allowance is the estimated long-term cost to the government of a loan calculated on a net present value basis, excluding administrative costs. Any increase or decrease in the subsidy cost allowance is recognized as a subsidy expense (or a reduction in subsidy expense). The amount of a re-estimate for a particular fiscal year is to be recognized in its succeeding fiscal year (e.g., the fiscal 2007 re-estimate is to be recognized in fiscal 2008). The LVFC starts the re-estimate process by computing the re-estimate and then notifying the Office of Budget of the amount needed for the apportionment. The Office of Budget prepares and sends the apportionment letter to OMB and, upon receipt of OMB's approval, enters program codes into IFMS that allow LVFC to enter the re-estimate. The Office of Budget stated that OMB needs at least 1 month to prepare the apportionment letter.

LVFC did not initiate the fiscal 2007 re-estimate recognition until September 29, 2008, one day before the end of the fiscal year. This did not leave enough time for OMB to prepare the required apportionment letter. LVFC asked the Office of Budget to enter the authorization codes even though OMB had not yet issued the apportionment letter. The Office of Budget then entered the authorization codes and LVFC entered the re-estimate recognition. According to OMB, "reestimates of the Asbestos Loan balance are not exempt from submitting an apportionment as per OMB Circular A-11, Section 120.38. OMB made a conscious decision that the Asbestos Loan Program would not be included under the automatic apportionment waiver. OMB believes EPA needs to submit a reapportionment request to authorize this reestimate and not back date it..."

According to OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, the incurring of obligations in excess of apportioned budgetary resources in a revolving fund is a violation of the Anti-Deficiency Act, whether or not a fund has unapportioned budgetary resources or non-budgetary assets greater than the amount apportioned. Further, once it is

determined that there has been a violation of Title 31, U.S. Code, Section 1341(a), 1342, or 1517(a), the agency head “shall report immediately to the President and Congress all relevant facts and a statement of actions taken.”

## **Recommendations**

We recommend that the EPA Administrator:

19. Report the Anti-Deficiency Act violation to the President through the OMB Director, and to Congress and the Comptroller General as required.

We recommend that the Office of the Chief Financial Officer:

20. Obtain an apportionment letter for the \$32,530 upward subsidy re-estimate from OMB.
21. Instruct the Program Offices and Office of Budget to develop operating procedures defining roles and responsibilities for completing the estimating process to ensure EPA has the proper authorization before entering information into IFMS.
22. Instruct the Office of Budget, LVFC, and Reporting and Analysis Staff to establish milestones to ensure the subsidy re-estimate is completed and apportionment requested from OMB at least 30 days prior to the end of the fiscal year.

## **Agency Comments and OIG Evaluation**

The Agency does not agree that an Anti-Deficiency Act violation took place. The Agency believes that the Federal Credit Reform Act of 1990 and OMB Circular A-11 allow for permanent indefinite authority and automatic apportionment of re-estimates in credit financing accounts.

The Agency is conducting an internal investigation and working with OMB to determine whether a violation has occurred. Feedback from these sources will influence the Agency’s future course of action. The Agency did agree that proper procedures were not followed and additional controls and training will be initiated.

We maintain that EPA violated the Anti-Deficiency Act when it recorded the upward subsidy re-estimate for the Asbestos Loan Program without an approved apportionment letter from OMB. In our opinion, re-estimates of the Asbestos Loan Program balance are not exempt from submitting an apportionment as per OMB Circular A-11, Section 120.38, and that the Asbestos Loan Program is not included in the automatic apportionment waiver.

## **10 - EPA Violated the Prompt Payment Act by Not Paying Telecommunications Invoices Promptly**

EPA violated the Prompt Payment Act by not paying 20 fiscal 2008 invoices timely. EPA's Contracts Management Manual requires that obligating documents be provided to the finance center timely. The Prompt Payment Act requires payment of a properly received invoice within the payment terms of the invoice and/or contract. If invoices are not paid by the due date, interest payments are to be paid starting on the day after the due date and calculated through the payment date. According to the RTP Finance Center and OTOP, several factors caused the late payments: (1) RTP Finance Center returned 3 invoices in April 2008 because OTOP did not process funding allocations; (2) OTOP did not allocate funds and timely forward obligating documents for the 20 invoices to the RTP Finance Center; (3) the Project Officer did not promptly approve and forward the 20 invoices for payment; and (4) RTP Finance Center did not follow up with OTOP after it returned the invoices to determine when they should be paid. The late payment of these 20 invoices, totaling \$2,469,147, resulted in an estimated interest charge of \$42,509 due to the vendor.

OTOP acknowledged that the invoices should have been paid timely. OTOP did not submit the obligating documents timely due to OTOP's allocation processes and priorities. OTOP allocates funds to Working Capital Fund contracts as revenues are earned. The EPA Contracts Management Manual requires obligating documents be provided to the finance center by the end of the month in which expenses are incurred. OTOP did not process the obligating documents for all 20 fiscal 2008 invoices according to policy. Our testing found that the RTP Finance Center did not pay 11 out of the 20 payments until fiscal 2009.

The Prompt Payment Act states, "For the purpose of determining a payment due date and the date on which interest will begin to accrue if a payment is late, an invoice shall be deemed to be received ... for invoices electronically transmitted, the date a readable transmission is received." RTP Finance Center did not pay these invoices for up to 8 months even though OTOP had them electronically available on the bill date. That was a violation of the Prompt Payment Act, and these invoices accrued interest penalties.

The RTP Finance Center does not consider invoices as being subject to the Prompt Payment Act until they have reviewed and processed the invoices. Because the invoices were sent to the Project Officer first and not the Finance Center, RTP Finance Center did not accrue or pay interest because it did not believe the invoices met this criteria and therefore were not late. A verbal agreement existed between the Working Capital Fund and the RTP Finance Center that the invoices would first be sent to the Project Officer. RTP Finance Center management acknowledged they made this agreement because the invoices could be up to 3,000 pages of detailed billing information.

While the RTP Finance Center did not originally receive the invoices, the Prompt Payment Act requires the Agency to calculate and pay interest on invoices paid late unless the invoices are returned for not being proper. The Prompt Payment Act states, "When an invoice is determined to be improper, the agency shall return the invoice as soon as practicable after receipt, but no later than 7 days after receipt." None of the invoices were returned to the vendor or in any way

marked as improper. In addition, there was no correspondence or documentation to the vendor that the invoices were not sent to the correct address. By entering into a verbal agreement that the invoice would be provided to the project officer, the Agency is causing harm to the contractor when payments are not made timely. There is added harm because the verbal agreement would also deprive the contractor of interest even though the contractor complied with the Agency's directions on to who to direct the invoice.

After the Agency paid the aforementioned invoices, we noted an \$18,000 overpayment on one invoice due to a transposition error. After bringing this to the Agency's attention, EPA set up a receivable for the difference.

## **Recommendations**

We recommend that the Director, Office of Technology Operations and Planning:

23. Develop a control process that will timely allocate funding for all OTOP contracts.
24. Direct all OTOP Project Officers to promptly approve each invoice when received or return the invoice to the vendor within 7 days of receipt through the finance center, documenting why the invoice was deemed improper.

We recommend that the Director, RTP Finance Center:

25. Calculate and pay the interest due resulting from the late payments.
26. Direct all finance center personnel to review and obtain an understanding of the Prompt Payment Act. RTP should establish a process to follow up on any invoices returned to program offices for whatever reason so that issues on nonpaid invoices can be resolved promptly.

## **Agency Comments and OIG Evaluation**

The Agency believes that only 3 invoices were late and agreed to pay interest on those invoices. The Agency does not agree that the other 17 invoices were late because the vendor did not submit the invoices to the address in the contract. The Agency agreed to forward the matter to the Office of General Counsel for its determination.

Our position is that the Agency violated the terms of the contract by instructing the contractors to provide the invoices directly to the Project Officer. By following those directions, payments to the contractors were significantly delayed. The Agency is further compounding the issue by denying interest when the delay was caused by the Agency's actions.



## 11 - EPA Should Continue Effort to Reconcile Intragovernmental Transactions

As of September 30, 2008, EPA reported \$192 million in unreconciled differences with 46 trading partners for intragovernmental transactions. Of that amount, \$55 million was reported by Treasury to be material differences. The remaining \$137 million represented amounts reported for non-verifying agencies, accruals, timing differences, and other agencies whose differences were not reported as material. According to the Treasury Financial Manual, verifying agencies are those that are required to report in the Governmentwide Financial Report System. These include the 24 major Chief Financial Officers Act agencies and 11 other agencies material to the *Financial Report of the United States Government*. Treasury policy requires verifying agencies to confirm and reconcile intragovernmental transactions with their trading partners. Based on our review of correspondence with other agencies, EPA had difficulty reconciling these differences primarily because of differing accounting treatments and accrual methodologies between federal agencies. EPA's inability to reconcile its intragovernmental transactions contributes to a long-standing government-wide problem that hinders the ability of GAO to render an opinion on the Consolidated Financial Statements of the Federal Government.

Treasury's fiscal 2008 fourth quarter Intragovernmental Activity Detail Report and Material Differences Report showed the following material differences for EPA:

**Table 2: Material Differences for Intragovernmental Transactions**

Federal Agency	Difference	Category of Difference
General Services Administration	\$9,237,753	Advances to/From Other Agencies
General Services Administration	\$26,340,506	Buy/Sell Costs/Revenue
Department of Homeland Security	\$12,216,493	Buy/Sell Costs/Revenue
Department of Energy	\$7,662,072	Advances to/From Other Agencies
<b>Total</b>	<b>\$55,456,824</b>	

Source: OIG analysis

While the Agency has actively worked with its trading partners to reduce differences, \$55,456,824 in material differences continued to exist. Many of the differences resulted from different accounting treatments and accrual methodologies used by EPA's trading partners. According to EPA, other situations that contributed to the differences included (1) timing differences in accruals with the General Services Administration, (2) difference in advances with the Department of Homeland Security, and (3) differences in advances accounting with the Department of Energy.

During fiscal 2008, EPA made significant efforts to reconcile its intragovernmental activity on a quarterly basis with its partners and has been able to identify the causes of several differences. However, unreconciled differences persist. According to GAO's *Report on the Fiscal Year 2007 U.S. Government Financial Statements*, the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal agencies is a major impediment preventing GAO from rendering an opinion on the federal government's accrual basis consolidated financial statements.

## **Recommendation**

We recommend that the Office of the Chief Financial Officer, through its Office of Financial Services, continue to:

27. Work with other federal trading partners to help reconcile the Agency's intragovernmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.

## **Agency Comments and OIG Evaluation**

The Agency agreed with our findings and recommendation.

## Status of Prior Audit Report Recommendations

EPA's position is that "audit follow-up is an integral part of good management," and "corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations." The Chief Financial Officer is the Agency Follow-up Official and is responsible for ensuring that corrective actions are implemented. Beginning in the fourth quarter 2006 and continuing in subsequent second and fourth quarters, OCFO includes a metric on audit follow-up actions in the Agency *EPAStat* report. OCFO management regularly reviews these measures during OCFO's monthly Budget and Performance Review meetings. In fiscal 2008, the Agency continued to strengthen its audit follow-up process by developing a quality assurance plan to improve data quality in EPA's Management Audit Tracking System.

The Agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits whose findings and recommendations could have a material effect on financial statements and have corrective actions in process are listed in the following tables.

<b>Table 3: Significant Deficiencies - Corrective Actions in Process</b>
<ul style="list-style-type: none"> <li> <p>• <b>Automated Application Processing Controls for IFMS</b> EPA has taken steps toward correcting this long-standing open issue. EPA awarded a new contract to replace IFMS. The proposal calls for two releases over the next two-and-a-half years, with the first release occurring in the last quarter of calendar 2009. However, until the new system is in place, a significant deficiency will exist concerning the lack of system documentation that inhibits our ability to audit IFMS application controls.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p>• <b>EPA Needs to Strengthen Financial Database Security Oversight and Monitor Compliance</b> EPA did not complete all of the corrective actions related to reviewing the effectiveness of its follow-up procedures. EPA plans to complete this recommendation by the second quarter of fiscal 2009. We will plan to conduct follow-up during next year's audit.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p>• <b>Key Applications Do Not Meet Federal and EPA Information Security Requirements</b> The Agency has made significant progress in completing the agreed-to corrective actions but it still needs to finalize the independent reviews and updated security plans. In addition, the Agency needs to test the approved contingency plans.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p>• <b>Access and Security Practices Over Critical Information Technology Assets Need Improvement</b> EPA established controls over visitor and general access to the server room and enhanced security and environmental monitoring with improved technology. Additionally, the Agency developed procedures to enhance its security practices. However, EPA needs to ensure these procedures are fully implemented. In addition, EPA needs to complete an annual review of these procedures to ensure they are effective and consistent with federal guidance.</p> </li> </ul>
<ul style="list-style-type: none"> <li> <p>• <b>EPA Needs to Improve Controls Over the IFMS Suspense Table</b> EPA completed all the recommendations made in the fiscal 2007 financial statement audit report. However, we will follow up during the next fiscal year's Financial Statement Audit to test that the new procedures enforce compliance with the established policy.</p> </li> </ul>

Source: OIG analysis

**Table 4: Compliance with Laws and Regulations - Corrective Actions in Process**

- **EPA Needs to Improve Reconciliation of Differences with Trading Partners:**  
During fiscal 2008, EPA made significant efforts to reconcile its intragovernmental activity on a quarterly basis with its partners and has been able to identify the causes of several differences. However, as described in Attachment 2, *Compliance with Laws and Regulations*, there remain significant amounts not reconciled with trading partners.

Source: OIG analysis

## Attachment 4

## Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	13	Establish better oversight for payroll support services by: <ul style="list-style-type: none"> <li>a. Performing quarterly Form 941 reconciliations of payroll amounts recorded in EPA's general ledger to wage and tax amounts reported by DFAS to ensure the payroll amounts are properly reported to Treasury and properly recorded in EPA's general ledger.</li> <li>b. Reconciling the annual Form W-3 and related Form 941s to ensure consistency of amounts with EPA's general ledger.</li> </ul>	U	Office of the Chief Financial Officer			
2	13	Reconcile EPA's 2007 and 2008 wage and tax liabilities to amounts reported by DFAS on the quarterly Form 941s and the 2007 Form W-3, and ensure that any differences have been resolved by corrected Forms 941s and W-3, including the posting of amounts in EPA's general ledger.	U	Office of the Chief Financial Officer			
3	15	Implement a review process to verify the accuracy and reasonableness of each quarterly unbilled accrual before it is entered into IFMS. Steps should include: <ul style="list-style-type: none"> <li>(a) Verifying that column amounts are properly calculated.</li> <li>(b) Ensuring that the unbilled accrual column totals properly.</li> <li>(c) Verifying that all data elements and fields are properly captured and aligned when converting data from one application (e.g., text) to another (e.g., Excel).</li> <li>(d) Researching those lines of accounting with unbilled accrual credit balances to determine if the credit amounts should be excluded from the overall unbilled accrual calculation.</li> <li>(e) Documenting evidence of the items reviewed.</li> </ul>	O	Office of the Chief Financial Officer			
4	17	Complete quarterly reconciliations of the SSC credits and unearned revenue to the general ledger according to OFM guidance.	O	Office of the Chief Financial Officer			
5	17	Research transactions in older funds, and eliminate invalid transactions.	O	Office of the Chief Financial Officer			
6	17	Confer with regions to verify the regions' manual entries to the SSC spreadsheet agree with the supporting documentation by site.	O	Office of the Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
7	19	Complete the review of inactive Interagency Agreements and Headquarters-funded regional grants that were not reviewed during the annual unliquidated obligations review, to determine whether they are valid and viable obligations that should remain open.	C	Director, Office of Grants and Debarment	11/12/08	\$1,110.5	\$1,110.5
8	19	Follow up with Project Officers on the status of the inactive Interagency Agreements that were not resolved during the annual unliquidated obligation review process to determine their validity.	C	Director, Office of Grants and Debarment	11/12/08		
9	20	Have OFM work with OGD to determine how to identify Headquarters-funded regional grants for assignment to the Regional Grant Management Offices as part of the annual unliquidated obligation review process.	C	Office of the Chief Financial Officer	11/12/08		
10	22	Implement and maintain a process to ensure that changes to IFMS Vendor Table information have supporting documentation as an internal control and audit trail to ensure that vendor information is verifiable.	C	Director, Cincinnati Finance Center	11/12/08		
11	23	Implement controls to monitor and ensure the accuracy of Special Account balances and interest amounts recorded in IFMS.	O	Office of the Chief Financial Officer			
12	25	Complete a review of OCFO financial systems compliance with prescribed federal and EPA system requirements and document the results.	O	Office of the Chief Financial Officer			
13	25	Create and put into practice formal standard operating procedures to ensure that all current and future financial management systems meet all federal and EPA system requirements prior to being put into service and continue to meet these requirements throughout their lifecycle.	O	Office of the Chief Financial Officer			
14	25	Develop and implement a formal oversight process to ensure that all current and future financial management systems meet all federal and EPA system requirements prior to being put into service and continue to meet these requirements throughout their lifecycle. The oversight process should be documented as a formal OCFO policy, assign responsibility to Office of Program Management staff for conducting oversight reviews at least annually, outline standards to be followed, and specify when the oversight process will be reviewed to ensure that it is effective and achieving the desired results.	O	Office of the Chief Financial Officer			
15	25	Formally assign the Office of Enterprise, Technology, and Innovation the specific responsibilities for developing, implementing, and maintaining financial systems until the Office of Technology Solutions is formed.	U	Office of the Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
16	25	Formally prohibit any other organizational element within the OCFO from developing, implementing, or maintaining OCFO financial or mixed financial systems.	U	Office of the Chief Financial Officer			
17	27	Direct staff to develop and implement a control process that will accurately and timely update the program and regional records in READ.	O	Assistant Administrator, Office of Environmental Information			
18	27	Use the READ production date as the date software was placed in service, correct the date placed in service in the fixed assets system, and implement internal controls to ensure the accuracy of their data entry.	O	Office of the Chief Financial Officer			
19	31	Report the Anti-Deficiency Act violation to the President through the OMB Director, and to Congress and the Comptroller General as required.	U	EPA Administrator			
20	31	Obtain an apportionment letter for the \$32,530 upward subsidy re-estimate from OMB.	U	Office of the Chief Financial Officer			
21	31	Instruct the Program Offices and Office of Budget to develop operating procedures defining roles and responsibilities for completing the estimating process to ensure EPA has the proper authorization before entering information into IFMS.	U	Office of the Chief Financial Officer			
22	31	Instruct the Office of Budget, LVFC, and Reporting and Analysis Staff to establish milestones to ensure the subsidy re-estimate is completed and apportionment requested from OMB at least 30 days prior to the end of the fiscal year.	U	Office of the Chief Financial Officer			
23	33	Develop a control process that will timely allocate funding for all OTOP contracts.	U	Director, Office of Technology Operations and Planning			
24	33	Direct all OTOP Project Officers to promptly approve each invoice when received or return the invoice to the vendor within 7 days of receipt through the finance center, documenting why the invoice was deemed improper.	U	Director, Office of Technology Operations and Planning			
25	33	Calculate and pay the interest due resulting from the late payments.	U	Director, RTP Finance Center			
26	33	Direct all finance center personnel to review and obtain an understanding of the Prompt Payment Act. RTP should establish a process to follow up on any invoices returned to program offices for whatever reason so that issues on nonpaid invoices can be resolved promptly.	U	Director, RTP Finance Center			
27	35	Through its Office of Financial Services, continue to work with other federal trading partners to help reconcile the Agency's intragovernmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.	O	Office of the Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
		Other potential monetary benefits achieved based on adjustments made as a result of our audit:					
		• Unrecorded Accounts Receivable				\$2,870.6	\$2,870.6
		• Reduction in Allocation Transfer Payable				\$19,877.7	\$19,877.7
		• Receivable Issued for Overpayment				\$18.0	\$18.0
		<b>Total Potential Monetary Benefits</b>					<b>\$23,876.8</b>

1 O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is undecided with resolution efforts in progress



**EPA's Fiscal 2008 and 2007  
Consolidated Financial Statements**

**SECTION III  
ANNUAL FINANCIAL  
STATEMENTS**

## Principal Financial Statements

### Financial Statements

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

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2. Supplemental Statement of Budgetary Resources

**Required Supplementary Stewardship Information (Unaudited)****Supplemental Information and Other Reporting Requirements (Unaudited)**

Superfund Financial Statements and Related Notes

**Environmental Protection Agency**  
**Consolidated Balance Sheet**  
**As of September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	FY 2008	FY 2007
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 9,605,356	\$ 10,466,600
Investments (Notes 4 and 18)	6,174,828	5,753,061
Accounts Receivable, Net (Note 5)	34,636	57,039
Other (Note 6)	107,433	81,069
Total Intragovernmental	\$ 15,922,253	\$ 16,357,769
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	349,739	359,302
Loans Receivable, Net - Non-Federal (Note 7)	17,088	23,161
Property, Plant & Equipment, Net (Note 9)	814,253	809,873
Other (Note 6)	3,655	4,574
<b>Total Assets</b>	<b>\$ 17,106,998</b>	<b>\$ 17,554,689</b>
Stewardship PP& E (Note 11 )		
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	80,655	122,207
Debt Due to Treasury (Note 10)	13,158	16,156
Custodial Liability (Note 12)	47,951	39,369
Other (Note 13)	109,377	98,360
Total Intragovernmental	\$ 251,141	\$ 276,092
Accounts Payable & Accrued Liabilities (Note 8)	\$ 713,595	\$ 912,000
Pensions & Other Actuarial Liabilities (Note 15)	44,615	39,786
Environmental Cleanup Costs (Note 24)	19,411	18,214
Cashout Advances, Superfund (Note 16)	286,630	190,269
Commitments & Contingencies (Notes 19 and 24)	44	-
Payroll & Benefits Payable (Note 35)	232,958	205,198
Other (Note 13)	115,648	113,739
<b>Total Liabilities</b>	<b>\$ 1,664,042</b>	<b>\$ 1,755,298</b>
<b>NET POSITION</b>		
Unexpended Appropriations - Other Funds (Note 17)	8,674,711	9,350,591
Cumulative Results of Operations - Earmarked Funds (Note 20)	6,212,479	5,886,227
Cumulative Results of Operation - Other Funds	555,766	562,573
Total Net Position	15,442,956	15,799,391
<b>Total Liabilities and Net Position</b>	<b>\$ 17,106,998</b>	<b>\$ 17,554,689</b>

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

**Environmental Protection Agency  
Consolidated Statement of Net Cost  
For the Periods Ending September 30, 2008 and 2007  
(Dollars in Thousands)**

	<b>FY 2008</b>	<b>FY 2007</b>
<b>COSTS</b>		
Gross Costs (Note 22)	\$ 8,675,411	\$ 9,263,304
Less:		
Earned Revenue (Notes 21, 22)	634,201	550,098
<b>NET COST OF OPERATIONS (Note 22)</b>	<b>\$ 8,041,210</b>	<b>\$ 8,713,206</b>

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

**Environmental Protection Agency**  
**Consolidated Statement of Net Cost by Goal**  
**For the Period Ending September 30, 2008**  
**(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean &amp; Safe Water</u>	<u>Land Preservation &amp; Restoration</u>	<u>Healthy Communities &amp; Ecosystems</u>	<u>Compliance &amp; Environmental Stewardship</u>
<b>Costs:</b>					
Intragovernmental	\$ 181,467	\$ 162,679	\$ 347,011	\$ 281,767	\$ 176,376
With the Public	<u>\$ 816,336</u>	<u>\$ 3,334,953</u>	<u>\$ 1,654,205</u>	<u>\$ 1,126,764</u>	<u>\$ 593,853</u>
Total Costs (Note 22)	<u>997,803</u>	<u>3,497,632</u>	<u>2,001,216</u>	<u>1,408,531</u>	<u>770,229</u>
<b>Less:</b>					
Earned Revenue, Federal	\$ 18,360	\$ 7,615	\$ 73,829	\$ 22,710	\$ 5,540
Earned Revenue, non-Federal	<u>\$ 2,043</u>	<u>\$ 2,841</u>	<u>\$ 460,055</u>	<u>\$ 39,407</u>	<u>\$ 1,801</u>
Total Earned Revenue (Notes 21 and 22)	<u>20,403</u>	<u>10,456</u>	<u>533,884</u>	<u>62,117</u>	<u>7,341</u>
<b>NET COST OF OPERATIONS (Note 22)</b>	<b><u>\$ 977,400</u></b>	<b><u>\$ 3,487,176</u></b>	<b><u>\$ 1,467,332</u></b>	<b><u>\$ 1,346,414</u></b>	<b><u>\$ 762,888</u></b>
<b>Consolidated Totals</b>					
<b>Costs:</b>					
Intragovernmental	\$ 1,149,300				
With the Public	<u>\$ 7,526,111</u>				
Total Costs (Note 22)	<u>8,675,411</u>				
<b>Less:</b>					
Earned Revenue, Federal	\$ 128,054				
Earned Revenue, non-Federal	<u>\$ 506,147</u>				
Total Earned Revenue (Notes 21 and 22)	<u>634,201</u>				
<b>NET COST OF OPERATIONS (Note 22)</b>	<b><u>\$ 8,041,210</u></b>				

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

**Environmental Protection Agency**  
**Consolidated Statement of Net Cost by Goal**  
**For the Period Ending September 30, 2007**  
**(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean &amp; Safe Water</u>	<u>Land Preservation &amp; Restoration</u>	<u>Healthy Communities &amp; Ecosystems</u>	<u>Compliance &amp; Environmental Stewardship</u>
<b>Costs:</b>					
Intragovernmental	\$ 185,389	\$ 180,571	\$ 396,786	\$ 275,068	\$ 182,101
With the Public	818,753	3,868,428	1,607,952	1,144,793	603,463
Total Costs (Note 22)	<u>1,004,142</u>	<u>4,048,999</u>	<u>2,004,738</u>	<u>1,419,861</u>	<u>785,564</u>
<b>Less:</b>					
Earned Revenue, Federal	15,594	11,016	101,036	18,450	5,613
Earned Revenue, non-Federal	2,997	2,262	352,963	38,902	1,265
Total Earned Revenue (Notes 21 and 22)	<u>18,591</u>	<u>13,278</u>	<u>453,999</u>	<u>57,352</u>	<u>6,878</u>
<b>NET COST OF OPERATIONS (Note 22)</b>	<b><u>\$ 985,551</u></b>	<b><u>\$ 4,035,721</u></b>	<b><u>\$ 1,550,739</u></b>	<b><u>\$ 1,362,509</u></b>	<b><u>\$ 778,686</u></b>

	<u>Consolidated Totals</u>
<b>Costs:</b>	
Intragovernmental	\$ 1,219,915
With the Public	\$ 8,043,389
Total Costs (Note 22)	<u>\$ 9,263,304</u>
<b>Less:</b>	
Earned Revenue, Federal	\$ 151,709
Earned Revenue, non-Federal	\$ 398,389
Total Earned Revenue (Notes 21 and 22)	<u>\$ 550,098</u>
<b>NET COST OF OPERATIONS (Note 22)</b>	<b><u>\$ 8,713,206</u></b>

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

**Environmental Protection Agency**  
**Consolidating Statement of Changes in Net Position**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008 Earmarked Funds</u>	<u>FY 2008 All Other Funds</u>	<u>FY 2008 Consolidated Total</u>
<b>Cumulative Results of Operations:</b>			
<b>Net Position - Beginning of Period</b>	5,886,227	562,573	6,448,800
Beginning Balances, as Adjusted	\$ 5,886,227	\$ 562,573	\$ 6,448,800
<b>Budgetary Financing Sources:</b>			
Appropriations Used	-	7,743,276	7,743,276
Nonexchange Revenue - Securities Investment (Note 37)	241,873	-	241,873
Nonexchange Revenue - Other (Note 37)	204,115	-	204,115
Transfers In/Out (Note 33)	(18,190)	37,151	18,961
Trust Fund Appropriations	984,974	(984,974)	-
Other (Note 40)	19,878	-	19,878
Total Budgetary Financing Sources	\$ 1,432,650	\$ 6,795,453	\$ 8,228,103
<b>Other Financing Sources (Non-Exchange)</b>			
Transfers In/Out (Note 33)	-	28	28
Imputed Financing Sources (Note 34)	20,933	111,591	132,524
Total Other Financing Sources	\$ 20,933	\$ 111,619	\$ 132,552
Net Cost of Operations	(1,127,331)	(6,913,879)	(8,041,210)
Net Change	326,252	(6,807)	319,445
<b>Cumulative Results of Operations</b>	<u>\$ 6,212,479</u>	<u>\$ 555,766</u>	<u>\$ 6,768,245</u>
<b>Unexpended Appropriations:</b>			
<b>Net Position - Beginning of Period</b>	-	9,350,591	9,350,591
Beginning Balances, as Adjusted	-	9,350,591	9,350,591
<b>Budgetary Financing Sources:</b>			
Appropriations Received	-	7,197,712	7,197,712
Appropriations Transferred In/Out (Note 33)	-	(7,875)	(7,875)
Other Adjustments (Note 36)	-	(122,441)	(122,441)
Appropriations Used	-	(7,743,276)	(7,743,276)
Total Budgetary Financing Sources	-	(675,880)	(675,880)
<b>Total Unexpended Appropriations</b>	-	8,674,711	8,674,711
<b>TOTAL NET POSITION</b>	<u>\$ 6,212,479</u>	<u>\$ 9,230,477</u>	<u>\$ 15,442,956</u>

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



**Environmental Protection Agency**  
**Consolidating Statement of Changes in Net Position**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2007 Earmarked Funds</u>	<u>FY 2007 All Other Funds</u>	<u>FY 2007 Consolidated Total</u>
<b>Cumulative Results of Operations:</b>			
<b>Net Position - Beginning of Period</b>	5,533,025	575,846	6,108,871
Adjustment:			
Change in Accounting Principle (Note 38)	20,900	-	20,900
Beginning Balances, as Adjusted	\$ 5,553,925	\$ 575,846	\$ 6,129,771
<b>Budgetary Financing Sources:</b>			
Appropriations Used	-	8,367,123	8,367,123
Nonexchange Revenue - Securities Investment (Note 37)	258,986	-	258,986
Nonexchange Revenue - Other (Note 37)	252,148	-	252,148
Transfers In/Out (Note 33)	(25,686)	43,491	17,805
Trust Fund Appropriations	1,040,371	(1,040,371)	-
Total Budgetary Financing Sources	\$ 1,525,819	\$ 7,370,243	\$ 8,896,062
<b>Other Financing Sources (Non-Exchange)</b>			
Transfers In/Out (Note 33)	39	525	564
Imputed Financing Sources (Note 34)	21,868	113,741	135,609
Total Other Financing Sources	\$ 21,907	\$ 114,266	\$ 136,173
Net Cost of Operations	(1,215,424)	(7,497,782)	(8,713,206)
Net Change	332,302	(13,273)	319,029
<b>Cumulative Results of Operations</b>	<b>\$ 5,886,227</b>	<b>\$ 562,573</b>	<b>\$ 6,448,800</b>
<b>Unexpended Appropriations:</b>			
<b>Net Position - Beginning of Period</b>	-	10,299,640	10,299,640
Beginning Balances, as Adjusted	-	10,299,640	10,299,640
<b>Budgetary Financing Sources:</b>			
Appropriations Received	-	7,422,635	7,422,635
Other Adjustments (Note 36)	-	(4,561)	(4,561)
Appropriations Used	-	(8,367,123)	(8,367,123)
Total Budgetary Financing Sources	-	(949,049)	(949,049)
<b>Total Unexpended Appropriations</b>	-	9,350,591	9,350,591
<b>TOTAL NET POSITION</b>	<b>\$ 5,886,227</b>	<b>\$ 9,913,164</b>	<b>\$ 15,799,391</b>

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

**Environmental Protection Agency**  
**Combined Statement of Budgetary Resources**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 3,541,387	\$ 3,247,087
Adjustment to Unobligated Balance (Alloc Transfer Agencies) (Note 38)	-	15,527
Adjusted Subtotal	<u>3,541,387</u>	<u>3,262,614</u>
Recoveries of Prior Year Unpaid Obligations (Note 29)	281,117	387,621
Budgetary Authority:		
Appropriation	7,268,236	7,495,028
Borrowing Authority	34	29
Spending Authority from Offsetting Collections		
Earned:		
Collected	708,430	640,354
Change in Receivables from Federal Sources	(22,170)	(72,546)
Change in Unfilled Customer Orders:		
Advance Received	77,880	(34,934)
Without Advance from Federal Sources	59,780	(625)
Expenditure Transfers from Trusts Funds	<u>37,151</u>	<u>43,491</u>
Total Spending Authority from Offsetting Collections	861,071	575,740
Nonexpenditure Transfers, Net, Anticipated and Actual (Note 33)	1,387,967	1,344,610
Temporarily Not Available Pursuant to Public Law (Note 29)	(6,366)	-
Permanently Not Available (Note 29)	<u>(125,526)</u>	<u>(7,333)</u>
<b>Total Budgetary Resources (Note 28)</b>	<u><u>\$ 13,207,920</u></u>	<u><u>\$ 13,058,309</u></u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	\$ 9,035,912	\$ 9,027,170
Reimbursable	<u>620,128</u>	<u>489,752</u>
Total Obligations Incurred (Note 28)	9,656,040	9,516,922
Unobligated Balances:		
Apportioned (Note 30)	<u>3,204,800</u>	<u>3,274,344</u>
Total Unobligated Balances	3,204,800	3,274,344
Unobligated Balances Not Available (Note 30)	<u>347,080</u>	<u>267,043</u>
<b>Total Status of Budgetary Resources</b>	<u><u>\$ 13,207,920</u></u>	<u><u>\$ 13,058,309</u></u>

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

**Environmental Protection Agency  
Combined Statement of Budgetary Resources  
For the Periods Ending September 30, 2008 and 2007  
(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 9,873,207	\$ 10,956,328
Adjustment to Unpaid Obligations (Alloc Transfer Agencies) (Note 38)	-	7,215
Adjusted Total	<u>9,873,207</u>	<u>10,963,543</u>
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	<u>(632,790)</u>	<u>(712,239)</u>
Total Unpaid Obligated Balance, Net	9,240,417	10,251,304
Obligations Incurred, Net (Note 28)	9,656,040	9,516,922
Less: Gross Outlays (Note 28)	(9,880,035)	(10,219,637)
Less: Recoveries of Prior Year Unpaid Obligations, Actual (Note 29)	(281,117)	(387,621)
Change in Uncollected Customer Payments from Federal Sources	<u>(33,457)</u>	<u>79,449</u>
Total, Change in Obligated Balance	8,701,848	9,240,417
 Obligated Balance, Net, End of Period:		
Unpaid Obligations	9,368,094	9,873,207
Less: Uncollected Customer Payments from Federal Sources	<u>(666,246)</u>	<u>(632,790)</u>
Total, Unpaid Obligated Balance, Net, End of Period	\$ 8,701,848	\$ 9,240,417
 <b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays (Note 28)	\$ 9,880,035	\$ 10,219,637
Less: Offsetting Collections (Note 28)	(827,616)	(655,188)
Less: Distributed Offsetting Receipts (Notes 28 and 32)	<u>(1,118,429)</u>	<u>(1,307,458)</u>
<b>Total, Net Outlays</b>	\$ 7,933,990	\$ 8,256,991

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

**Environmental Protection Agency**  
**Statement of Custodial Activity**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Fines and Penalties	\$ 126,283	\$ 86,409
Other	<u>(13,733)</u>	<u>(4,171)</u>
Total Cash Collections	\$ 112,550	\$ 82,238
Accrual Adjustment	<u>8,107</u>	<u>7,092</u>
Total Custodial Revenue (Note 27)	<u>\$ 120,657</u>	<u>\$ 89,330</u>
<b>Disposition of Collections:</b>		
Transferred to Others (General Fund)	\$ 112,695	\$ 90,774
Increases/Decreases in Amounts to be Transferred	<u>7,962</u>	<u>(1,444)</u>
Total Disposition of Collections	<u>\$ 120,657</u>	<u>\$ 89,330</u>
<b>Net Custodial Revenue Activity (Note 27)</b>	<u>\$ -</u>	<u>\$ -</u>

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

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

***Note 1. Summary of Significant Accounting Policies***

**A. Basis of Presentation**

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

**B. Reporting Entities**

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

For FY 2008, the accompanying financial statements are grouped and presented in a consolidated basis for the Balance Sheet, and Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

**General Fund Appropriations (Treasury Fund Groups 0000 – 3999)**

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

***b. Science and Technology (S&T) Appropriation:*** The S&T appropriation, Treasury fund group 0107, finances salaries, travel, science, technology, research and development activities

including laboratory supplies, certain operating expenses, grants, contracts, intergovernmental agreements, and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2008, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Environmental scientific and technological activities and programs include Clean Air; Clean and Safe Water; Americans Right to Know about Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food.

**c. *Environmental Programs and Management (EPM) Appropriation:*** The EPM appropriation, Treasury fund group 0108, includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the Agency's operating programs. Areas supported from this appropriation include: Clean Air, Clean and Safe Water, Land Preservation and Restoration, Healthy Communities and Ecosystems, and Compliance and Environmental Stewardship.

**d. *Buildings and Facilities Appropriation (B&F):*** The B&F appropriation, Treasury fund group 0110, provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA.

**e. *Office of Inspector General (OIG) Appropriation:*** The OIG appropriation, Treasury fund group 0112, provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund and the LUST Trust Funds are appropriated under those Trust Fund accounts and transferred to the Office of Inspector General account. The audit function provides contract, internal controls and performance, and financial and grant audit services. The appropriation includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury fund group 8145 and 8153.

**f. *Payments to the Hazardous Substance Superfund Appropriation:*** The Payment to the Hazardous Substance Superfund appropriation, Treasury fund group 0250, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program.

**g. *Payments to Leaking Underground Storage Tank Appropriation:*** The Payment to the Leaking Underground Storage Tank appropriation, Treasury fund group 0251, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Leaking Underground Storage Tank program.

**h. *Asbestos Loan Program:*** The Asbestos Loan Program is accounted for under Treasury fund group 0118, Program Account, for interest subsidy and administrative support; under Treasury fund group 4322, Financing Account, for loan disbursements, loans receivable and loan collections on post-FY 1991 loans; and under Treasury fund group 2917 for pre-FY 1992 loans receivable and loan collections.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program Account 0118 disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Account 4322 receives the subsidy payment, borrows from Treasury and collects the asbestos loans.

***i. Allocations and Appropriations Transferred to the Agency:*** The EPA receives allocations or appropriations transferred from other federal agencies.

***j. Treasury Clearing Accounts:*** The EPA Department of the Treasury Clearing Accounts include: (1) the Budgetary Suspense Account, (2) the Unavailable Check Cancellations and Overpayments Account, and (3) the Undistributed Intra-agency Payments and Collections (IPAC) Account. These are accounted for under Treasury fund groups 3875, 3880 and 3885, respectively.

***k. General Fund Receipt Accounts:*** General Fund Receipt Accounts include: Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Downward Re-estimates of Subsidies; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. These accounts are accounted for under Treasury fund groups 0895, 1099, 1435, 1499, 2753.3, 3200 and 3220, respectively.

***l. Allocation of Budget Authority:*** EPA is an allocation budget transfer parent to five federal agencies: Department of Interior, Department of Labor, Center for Disease Control, Department of Commerce, and Federal Emergency Management Agency. EPA has an Interagency Agreement or a Memorandum of Understanding (MOU) with each child agency to provide an annual work plan and quarterly progress report containing an accounting of funds obligated in each budget category within 15 days after the end of each quarter. This allows EPA to properly report the financial activity. The allocation transfers are reported in the net cost of operations, changes in net position, balance sheet and budgetary resources where activity is being performed by the receiving Federal entity. In addition, EPA receives allocation transfers, as a child, from the Bureau of Land Management.

#### **Revolving Funds (Treasury Fund Group 4000 – 4999)**

***a. Federal Insecticide, Fungicide and Rodenticide Act (FIFRA):*** The FIFRA Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA Act of 1972, as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide Maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

**b. Tolerance Revolving Fund:** The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund (see above).

**c. Asbestos Loan Program:** The Asbestos Loan Program is accounted for under Treasury fund group 4322, Financing Account for loan disbursements, loans receivable and loan collections on post-FY 1991 loans. Refer to General Fund Appropriations paragraph h. for details.

**d. Working Capital Fund (WCF):** The WCF, Treasury fund group, 4565, includes four activities: computer support services, financial system services, employee relocation services, and postage. The WCF derives revenue from these activities based upon a fee for services. The WCF's customers currently consist primarily of Agency program offices and a small portion from other federal agencies. Accordingly, those revenues generated by the WCF from services provided to Agency program offices and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation of the financial statements.

#### **Special Funds (Treasury Fund Group 5000 - 5999)**

**a. Environmental Services Receipt Account:** The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts as authorized by Congress in the agency's appropriations bill.

**b. Exxon Valdez Settlement Fund:** The Exxon Valdez Settlement Fund authorized by a 1992 act, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions corporations, and offices for the fiscal year ending September 30, 1993 (P.L. 102-389)," Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

**c. Pesticide Registration Fund:** The Pesticide Registration Fund authorized by a 2004 act, "Consolidated Appropriations Act (P.L. 108-199)," Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Act of 1988, are to be paid by industry and deposited into this fund group.



### **Deposit Funds (Treasury Fund Group 6000 – 6999)**

Deposits include: Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and Payroll Deposits for Savings Bonds, and State, City Income Taxes Withheld, and Other Federal Payroll Withholding Allotments. These funds are accounted for under Treasury fund groups 6264, 6265, 6266, 6500, 6050, 6275, and 6276, respectively.

### **Trust Funds (Treasury Fund Group 8000 – 8999)**

**a. *Superfund Trust Fund:*** In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections and investment activity.

**b. *Leaking Underground Storage Tank (LUST) Trust Fund:*** The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2011.

**c. *Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies.

**d. *Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended by

(P.L. 92-500, The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

### **C. Budgets and Budgetary Accounting**

#### **General Funds**

Congress adopts an annual appropriation for STAG, B&F, and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for S&T, EPM and for the OIG to be available for 2 fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a 1 year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur in subsequent years after the loans were disbursed.

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

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

#### **Revolving Funds**

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

Funding of the WCF is provided by fees collected from other Agency appropriations and other federal agencies to offset costs incurred for providing Agency administrative support for computer and telecommunication services, financial system services, employee relocation services, and postage.

### **Special Funds**

The Environmental Services Receipt Account obtains fees associated with environmental programs that will be appropriated to the S&T and EPM appropriations.

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

### **Deposit Funds**

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. These are not EPA's funds.

### **Trust Funds**

Congress adopts an annual appropriation amount for the Superfund, LUST and the Oil Spill Response Trust Funds to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the appropriation amount.

### **D. Basis of Accounting**

GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government.

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

## **E. Revenues and Other Financing Sources**

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

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

The majority of all other funds receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used within statutory limits. The Asbestos Direct Loan Financing fund 4322, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993.

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

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

## **F. Funds with the Treasury**

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

### **G. Investments in U.S. Government Securities**

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

### **H. Notes Receivable**

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

### **I. Marketable Securities**

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

### **J. Accounts Receivable and Interest Receivable**

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

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

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

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

## **K. Advances and Prepayments**

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

## **L. Loans Receivable**

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

## **M. Appropriated Amounts Held by Treasury**

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

## **N. Property, Plant, and Equipment**

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

A purchase of EPA-held or contract personal property is capitalized if it is valued at \$25 thousand or more and has an estimated useful life of at least 2 years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of 6 years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. This modified straight-line method is still used for contract property; detailed records are maintained and accounted for in contractor systems, not in FAS. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of 5 years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from 2 to 15 years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the minimum lease payments must be \$75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an \$85 thousand capitalization threshold. In addition, the lease must meet one of the following

criteria: transfers ownership to EPA, contains a bargain purchase option, the lease term is equal to 75 percent or more of the estimated service life, or the present value of the lease and other minimum lease payments equal or exceed 90 percent of the fair value.

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

An exception to the accounting of contract property includes equipment purchased by the Working Capital Fund (WCF). This property is retained in FAS and depreciated utilizing the straight-line method based upon the asset's acquisition date and useful life.

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

Software for the WCF, a revenue generating activity, is capitalized if the purchase price was \$100 thousand or more with an estimated useful life of 2 years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from 2 to 10 years.

## **O. Liabilities**

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

## **P. Borrowing Payable to the Treasury**

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

## **Q. Interest Payable to Treasury**

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt. At the end of FY 2007 and FY 2008, there was no outstanding interest payable to Treasury since payment was made through September 30.

## **R. Accrued Unfunded Annual Leave**

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 35 as a component of "Payroll and Benefits Payable."

## **S. Retirement Plan**

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

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



Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

## T. Prior Period Adjustments

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

### Note 2. Fund Balance with Treasury (FBWT)

Fund Balances with Treasury as of September 30, 2008 and 2007, consist of the following:

	FY 2008			FY 2007		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
<b>Trust Funds:</b>						
Superfund	\$ 45,596	\$ -	\$ 45,596	\$ 51,081	\$ -	\$ 51,081
LUST	12,712	-	12,712	32,406	-	32,406
Oil Spill & Misc.	3,637	-	3,637	4,576	-	4,576
<b>Revolving Funds:</b>						
FIFRA/Tolerance	2,371	-	2,371	9,313	-	9,313
Working Capital	65,080	-	65,080	70,460	-	70,460
Cr. Reform Finan.	399	-	399	429	-	429
<b>Appropriated</b>	9,237,455	-	9,237,455	10,084,002	-	10,084,002
<b>Other Fund Types</b>	229,038	9,068	238,106	205,693	8,640	214,333
<b>Total</b>	<b>\$ 9,596,288</b>	<b>\$ 9,068</b>	<b>\$ 9,605,356</b>	<b>\$ 10,457,960</b>	<b>\$ 8,640</b>	<b>\$ 10,466,600</b>

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

	<u>FY 2008</u>	<u>FY 2007</u>
Status of Fund Balances:		
Unobligated Amounts in Fund Balances		
Available for Obligation	\$3,204,800	\$3,274,338
Unavailable for Obligation	339,319	267,042
Net Receivables from Invested Balances	(2,861,933)	(2,527,186)
Balances in Treasury Trust Fund (Note 18)	397	14,394
Obligated Balance not yet Disbursed	8,701,838	9,240,417
Non-Budgetary FBWT	220,935	197,595
<b>Totals</b>	<b><u>\$9,605,356</u></b>	<b><u>\$10,466,600</u></b>

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2008 and FY 2007 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

### *Note 3. Cash and Other Monetary Assets*

For September 30, 2008 and September 30, 2007, cash consists of an imprest fund of \$10 thousand.

### *Note 4. Investments*

For September 30, 2008 and September 30, 2007 investments related to Superfund and LUST consist of the following:

	<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Interest Receivable</u>	<u>Investments, Net</u>	<u>Market Value</u>
<b>Intragovernmental</b>					
Non-Marketable FY 2008	\$ 6,057,258	\$ (77,301)	\$ 40,269	\$ 6,174,828	\$ 6,174,828
Non-Marketable FY 2007	\$ 5,680,321	\$ (29,481)	\$ 43,259	\$ 5,753,061	\$ 5,753,061

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable (see Note 6). All investments in Treasury securities are earmarked funds (see Note 20).

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

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

***Note 5. Accounts Receivable***

The Accounts Receivable for September 30, 2008 and September 30, 2007 consist of the following:

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Intragovernmental Assets:</b>		
Accounts & Interest Receivable	\$ 34,636	\$ 57,039
<b>Total</b>	<b>\$ 34,636</b>	<b>\$ 57,039</b>
<b>Non-Federal Assets:</b>		
Unbilled Accounts Receivable	\$ 113,359	\$ 136,779
Accounts & Interest Receivable	1,188,670	992,575
Less: Allowance for Uncollectibles	(952,290)	(770,052)
<b>Total</b>	<b>\$ 349,739</b>	<b>\$ 359,302</b>

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

***Note 6. Other Assets***

Other Assets for September 30, 2008 and 2007 consist of the following:

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Intragovernmental Assets:</b>		
Advances to Federal Agencies \$	107,327	\$ 80,940
Advances for Postage	106	129
<b>Total Intragovernmental Assets \$</b>	<b><u>107,433</u></b>	<b><u>\$ 81,069</u></b>
<b>Non-Federal Assets:</b>		
Travel Advances \$	135	\$ 106
Letter of Credit Advances	88	9
Grant Advances	-	116
Other Advances	2,934	3,699
Operating Materials and Supplies	159	160
Inventory for Sale	339	246
Securities Received in Settlement of Debt	-	238
<b>Total Non-Federal Assets \$</b>	<b><u>3,655</u></b>	<b><u>\$ 4,574</u></b>

**Note 7. Loans Receivable, Net - Non-Federal**

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2008 and 2007 are as follows:

	<u>FY 2008</u>			<u>FY 2007</u>		
	<u>Loans Receivable, Gross</u>	<u>Allowance*</u>	<u>Value of Assets Related to Direct Loans</u>	<u>Loans Receivable, Gross</u>	<u>Allowance*</u>	<u>Value of Assets Related to Direct Loans</u>
Direct Loans Obligated Prior to FY 1992	\$ 4,327	\$ -	\$ 4,327	\$ 7,435	\$ -	\$ 7,435
Direct Loans Obligated After FY 1991	14,513	(1,752)	12,761	18,440	(2,714)	15,726
<b>Total</b>	<b><u>\$ 18,840</u></b>	<b><u>\$ (1,752)</u></b>	<b><u>\$ 17,088</u></b>	<b><u>\$ 25,875</u></b>	<b><u>\$ (2,714)</u></b>	<b><u>\$ 23,161</u></b>

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

The Agency has permanent indefinite borrowing authority to replenish the Asbestos Loan account. During FY 2008, EPA calculated an Upward Subsidy Reestimate of \$33 thousand to utilize this replenishment. Budget authority was recorded and funds were expended for this. However, as of September 30, 2008 EPA had not received from OMB the apportionment authorizing this expenditure. The Agency is working with OMB and Legal Counsel to determine if this is an Anti-Deficiency situation since it has indefinite borrowing authority. During this review process, the EPA does not expect to receive the authorizing Apportionment Letter, and the Upward Subsidy Reestimate is unfunded as of September 30, 2008.

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

	<u>Interest Rate Re- estimate</u>	<u>Technical Re-estimate estimate</u>	<u>Total</u>
Upward Subsidy Reestimate - FY 2008	\$ 21	\$ 12	\$ 33
Downward Subsidy Reestimate - FY 2008	\$ <u>(22)</u>	\$ <u>(12)</u>	\$ <u>(34)</u>
<b>FY 2008 Totals</b>	<b>\$ <u>(1)</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>(1)</u></b>
Downward Subsidy Reestimate – FY 2007	\$ <u>(17)</u>	\$ <u>(12)</u>	\$ <u>(29)</u>
<b>FY 2007 Totals</b>	<b>\$ <u>(17)</u></b>	<b>\$ <u>(12)</u></b>	<b>\$ <u>(29)</u></b>

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

	<u>FY 2008</u>	<u>FY 2007</u>
Beginning balance of the subsidy cost allowance	(\$2,714)	(\$3,882)
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	0.00	0.00
(b) Default costs (net of recoveries)	0.00	0.00
(c) Fees and other collections	0.00	0.00
(d) Other subsidy costs	0.00	0.00
Total of the above subsidy expense components	<u>0.00</u>	<u>0.00</u>
Adjustments:		
(a) Loan Modification:	0.00	0.00
(b) Fees received	0.00	0.00
(c) Foreclosed property acquired	0.00	0.00
(d) Loans written off	0.00	1.00
(e) Subsidy allowance amortization	981.00	1,167.00
(f) Other	0.00	0.00
Ending balance of the subsidy cost allowance before reestimates	<u>981.00</u>	<u>1,168.00</u>
Add or subtract subsidy reestimates by component:		
(a) interest rate reestimate	(21.00)	0.00 1/
(b) Technical/default reestimate	2.00	0.00 1/
Total of the above reestimate components	<u>(19.00)</u>	<u>0.00</u>
<b>Ending Balance of the subsidy cost allowance</b>	<b><u>(\$1,752)</u></b>	<b><u>(\$2,714)</u></b>

1/ There is an immaterial difference that will be researched in FY 2009.  
EPA has not disbursed Direct Loans since 1993.

**Note 8. Accounts Payable and Accrued Liabilities**

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2008 and 2007.

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Intragovernmental:</b>		
Accounts Payable to other Federal Agencies	\$ 2,811	\$ 2,611
Liability for Allocation Transfers	-	19,878
Accrued Liabilities, Federal	77,844	99,718
<b>Total Intragovernmental</b>	<b>\$ 80,655</b>	<b>\$ 122,207</b>
<b>Non-Federal:</b>		
	<u>FY 2008</u>	<u>FY 2007</u>
Accounts Payable, Non-Federal	\$ 114,712	\$ 114,082
Advances Payable, Non-Federal	24	16
Interest Payable	7	7
Grant Liabilities	413,981	601,034
Other Accrued Liabilities, Non-Federal	184,871	196,861
<b>Total Non-Federal</b>	<b>\$ 713,595</b>	<b>\$ 912,000</b>

**Note 9. General Property, Plant, and Equipment (PP&E)**

General property, plant, and equipment consist of software, real property, EPA and Contractor-Held personal property, and capital leases.

As of September 30, 2008 and 2007, General Property, Plant, and Equipment consist of the following:

	<b>FY 2008</b>			<b>FY 2007</b>		
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
EPA-Held Equipment	\$ 238,051	\$ (130,045)	\$ 108,006	\$ 222,848	\$ (119,605)	\$ 103,243
Software	307,883	(93,925)	213,958	258,637	(49,407)	209,230
Contractor Held Equip.	63,132	(28,417)	34,715	64,641	(23,486)	41,155
Land and Buildings	595,597	(154,986)	440,611	579,880	(143,594)	436,286
Capital Leases	47,505	(30,542)	16,963	47,505	(27,546)	19,959
<b>Total</b>	<b>\$ 1,252,168</b>	<b>\$ (437,915)</b>	<b>\$ 814,253</b>	<b>\$ 1,173,511</b>	<b>\$ (363,638)</b>	<b>\$ 809,873</b>

**Note 10. Debt Due to Treasury**

The debt due to Treasury consists of borrowings to finance the asbestos loan program. The debt to Treasury as of September 30, 2008 and 2007 is as follows:

<b>All Other Funds</b>	<b>FY 2008</b>			<b>FY 2007</b>		
	<b>Beginning Balance</b>	<b>Net Borrowing</b>	<b>Ending Balance</b>	<b>Beginning Balance</b>	<b>Net Borrowing</b>	<b>Ending Balance</b>
<b>Intragovernmental:</b>						
Debt to Treasury	\$ 16,156	\$ (2,998)	\$ 13,158	\$ 18,896	\$ (2,740)	\$ 16,156

**Note 11. Stewardship Land**

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

As of September 30, 2008 and 2007, the Agency possesses the following land and land rights:

	<b>FY 2008</b>	<b>FY 2007</b>
<b>Superfund Sites with Easements</b>		
Beginning Balance	33	32
Additions	1	2
Withdrawals	2	1
Ending Balance	<b>32</b>	<b>33</b>
<b>Superfund Sites with Land Acquired</b>		
Beginning Balance	32	31
Additions	2	1
Withdrawals	3	-
Ending Balance	<b>31</b>	<b>32</b>



**Note 12. Custodial Liability**

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2008 and 2007, custodial liability is \$48 million and \$39 million, respectively.

**Note 13. Other Liabilities**

Other Liabilities consist of the following as of September 30, 2008:

	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Other Liabilities – Intragovernmental</b>			
<b>Current</b>			
Employer Contributions & Payroll Taxes \$	17,125	\$ -	\$ 17,125
WCF Advances	3,166	-	3,166
Other Advances	14,489	-	14,489
Advances, HRSTF Cashout	41,586	-	41,586
Deferred HRSTF Cashout	1,089	-	1,089
Resources Payable to Treasury	3	-	3
Subsidy Payable to Treasury	5	-	5
<b>Non-Current</b>			
Unfunded FECA Liability	-	9,914	9,914
Payable to Treasury Judgment Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b>\$ 77,463</b>	<b>\$ 31,914</b>	<b>\$ 109,377</b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances, Non-Federal \$	77,088	\$ -	\$ 77,088
Liability for Deposit Funds, Non-Federal	8,810	-	8,810
<b>Non-Current</b>			
Other Liabilities	-	230	230
Capital Lease Liability	-	29,520	29,520
<b>Total Non-Federal</b>	<b>\$ 85,898</b>	<b>\$ 29,750</b>	<b>\$ 115,648</b>

Other Liabilities consist of the following as of September 30, 2007:

<b>Other Liabilities – Intragovernmental</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Current</b>			
Employer Contributions & Payroll Taxes	\$ 13,632	\$ -	\$ 13,632
WCF Advances	1,779	-	1,779
Other Advances	11,040	-	11,040
Advances, HRSTF Cashout	40,063	-	40,063
Deferred HRSTF Cashout	609	-	609
Liability for Deposit Funds	(37)	-	(37)
Resources Payable to Treasury	138	-	138
Subsidy Payable to Treasury	34	-	34
<b>Non-Current</b>			
Unfunded FECA Liability	-	9,102	9,102
Payable to Treasury Judgment Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b>\$ 67,258</b>	<b>\$ 31,102</b>	<b>\$ 98,360</b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances, Non-Federal	\$ 72,671	\$ -	\$ 72,671
Liability for Deposit Funds, Non-Federal	8,453	-	8,453
<b>Non-Current</b>			
Other Liabilities	-	230	230
Capital Lease Liability	-	32,385	32,385
<b>Total Non-Federal</b>	<b>\$ 81,124</b>	<b>\$ 32,615</b>	<b>\$ 113,739</b>

*Note 14. Leases*

**Capital Leases:**

The Capital Leases:

	<b>FY 2008</b>	<b>FY 2007</b>
<b>Summary of Assets Under Capital Lease:</b>		
Real Property	\$ 40,913	\$ 40,913
Personal Property	155	155
Software License	6,437	6,437
<b>Total</b>	<b>\$ 47,505</b>	<b>\$ 47,505</b>
Accumulated Amortization	\$ 30,542	\$ 27,546

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. The real property leases terminate in FYs 2010, 2013, and 2025.

EPA has a capital lease expended out of the Working Capital Fund for a Microsoft Office Software Suite. This lease will terminate in FY 2009.

During FY 2005, EPA entered into a capital lease for a Storage Area Network. The lease terminates in FY 2009, and payments are expended from the EPM appropriation. The total future minimum capital lease payments are listed below.

<b><u>Future Payments Due:</u></b>	
<b>Fiscal Year</b>	<b>Capital Leases</b>
2009	\$ 6,295
2010	6,102
2011	5,714
2012	5,714
After 5 Years	53,487
<b>Total Future Minimum Lease Payments</b>	<b>\$ 77,312</b>
Less: Imputed Interest	(47,792)
<b>Net Capital Lease Liability</b>	<b>\$ 29,520</b>
<b>Liabilities not Covered by Budgetary Resources (See Note 13)</b>	<b>\$ 29,520</b>

#### **Operating Leases:**

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

EPA has four current direct operating leases for land and buildings housing scientific laboratories and/or computer facilities. The leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. The leases expire in FY 2009, FY2010, 2017, and 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below.

	<b>Operating Leases, Land and Buildings</b>	
<b><u>Fiscal Year</u></b>	<hr/>	
2009	\$	112
2010		97
2011		89
2012		89
Beyond 2012		600
	<hr/>	
<b>Payments</b>	<b>\$</b>	<b>987</b>
	<hr/> <hr/>	

***Note 15. Pensions and Other Actuarial Liabilities***

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

The FECA Actuarial Liability at September 30, 2008 and 2007, consists of the following:

	<b><u>FY 2008</u></b>	<b><u>FY 2007</u></b>
<b>FECA Actuarial Liability</b>	\$ 44,615	\$ 39,786

The FY 2008 present value of these estimated outflows is calculated using a discount rate of 4.368 percent in the first year, and 4.770 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

***Note 16. Cashout Advances, Superfund***

Cashouts are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2008 and 2007, cashouts are \$287 million and \$190 million, respectively.

**Note 17. Unexpended Appropriations – Other Funds**

As of September 30, 2008 and 2007, the Unexpended Appropriations consist of the following:

<b>Unexpended Appropriations:</b>	<b>FY 2008</b>	<b>FY 2007</b>
Unobligated		
Available	\$ 1,520,587	\$ 1,791,873
Unavailable	94,130	81,753
Undelivered Orders	<u>7,059,994</u>	<u>7,476,965</u>
<b>Total</b>	<b>\$ <u>8,674,711</u></b>	<b>\$ <u>9,350,591</u></b>

**Note 18. Amounts Held by Treasury**

Amounts Held by Treasury for Future Appropriations consist of amounts held in trusteeship by Treasury in the Superfund and LUST Trust Funds.

**Superfund (Unaudited)**

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2008 and 2007. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

<b>SUPERFUND FY 2008</b>	<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 2,894	\$ 2,894
Total Undisbursed Balance	-	2,894	2,894
Interest Receivable	-	11,533	11,533
Investments, Net	2,749,821	164,878	2,914,699
<b>Total Assets</b>	<b>\$ 2,749,821</b>	<b>\$ 179,305</b>	<b>\$ 2,929,126</b>
<b>Liabilities &amp; Equity</b>			
Receipts and Outlays	\$ -	\$ -	\$ -
Equity	\$ 2,749,821	\$ 179,305	\$ 2,929,126
<b>Total Liabilities and Equity</b>	<b>\$ 2,749,821</b>	<b>\$ 179,305</b>	<b>\$ 2,929,126</b>
<b>Receipts</b>			
Cost Recoveries	\$ -	\$ 89,975	\$ 89,975
Fines & Penalties	-	2,850	2,850
Total Revenue	-	92,825	92,825
Appropriations Received	-	984,974	984,974
Interest Income	-	114,340	114,340
<b>Total Receipts</b>	<b>\$ -</b>	<b>\$ 1,192,139</b>	<b>\$ 1,192,139</b>
<b>Outlays</b>			
Transfers to/from EPA, Net	\$ 1,301,315	\$ (1,301,315)	\$ -
Transfer from CDC (recovery)	-	1,905	1,905
<b>Total Outlays</b>	<b>1,301,315</b>	<b>(1,299,410)</b>	<b>1,905</b>
<b>Net Income</b>	<b>\$ 1,301,315</b>	<b>\$ (107,271)</b>	<b>\$ 1,194,044</b>

In FY 2008, the EPA received an appropriation of \$985 million for Superfund. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2008 and 2007, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of \$2,749.9 million and \$2,466.8 million, respectively.

<b>SUPERFUND FY 2007</b>	<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 1,538	\$ 1,538
Total Undisbursed Balance	-	1,538	1,538
Interest Receivable	-	12,795	12,795
Investments, Net	2,466,812	272,244	2,739,056
<b>Total Assets</b>	<b>\$ 2,466,812</b>	<b>\$ 286,577</b>	<b>\$ 2,753,389</b>
<b>Liabilities &amp; Equity</b>			
Receipts and Outlays	-	-	-
Equity	\$ 2,466,812	\$ 286,577	\$ 2,753,389
<b>Total Liabilities and Equity</b>	<b>\$ 2,466,812</b>	<b>\$ 286,577</b>	<b>\$ 2,753,389</b>
<b>Receipts</b>			
Corporate Environmental	\$ -	\$ 2,602	\$ 2,602
Cost Recoveries	-	234,050	234,050
Fines & Penalties	-	1,063	1,063
Total Revenue	-	237,715	237,715
Appropriations Received	-	1,040,371	1,040,371
Interest Income	-	141,407	141,407
<b>Total Receipts</b>	<b>\$ -</b>	<b>\$ 1,419,493</b>	<b>\$ 1,419,493</b>
<b>Outlays</b>			
Transfers to/from EPA, Net	\$ 1,316,114	\$ (1,316,114)	\$ -
Transfers from CDC (recovery)	\$ -	\$ 1,370	\$ 1,370
<b>Total Outlays</b>	<b>1,316,114</b>	<b>(1,314,744)</b>	<b>1,370</b>
<b>Net Income</b>	<b>\$ 1,316,114</b>	<b>\$ 104,749</b>	<b>\$ 1,420,863</b>

**LUST (Unaudited)**

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FYs 2008 and 2007 there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes have been provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2008	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ (2,497)	\$ (2,497)
Total Undisbursed Balance	-	(2,497)	(2,497)
Interest Receivable	-	28,735	28,735
Investments, Net	112,068	3,099,871	3,211,939
<b>Total Assets</b>	<b>\$ 112,068</b>	<b>\$ 3,126,109</b>	<b>\$ 3,238,177</b>
<b>Liabilities &amp; Equity</b>			
Equity	\$ 112,068	\$ 3,126,109	\$ 3,238,177
<b>Equity</b>	<b>\$ 112,068</b>	<b>\$ 3,126,109</b>	<b>\$ 3,238,177</b>
<b>Receipts</b>			
Highway TF Tax	\$ -	\$ 154,309	\$ 154,309
Airport TF Tax	-	16,240	16,240
Inland TF Tax	-	213	213
Total Revenue	-	170,762	170,762
Interest Income	-	127,346	127,346
<b>Total Receipts</b>	<b>\$ -</b>	<b>\$ 298,108</b>	<b>\$ 298,108</b>
<b>Outlays</b>			
Transfers to/from EPA, Net	\$ 105,816	\$ (105,816)	-
<b>Total Outlays</b>	<b>105,816</b>	<b>(105,816)</b>	<b>-</b>
<b>Net Income</b>	<b>\$ 105,816</b>	<b>\$ 192,292</b>	<b>\$ 298,108</b>



LUST FY 2007	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
<b>Undistributed Balances</b>			
Uninvested Fund Balance	\$ -	\$ 12,856	\$ 12,856
Total Undisbursed Balance	-	12,856	12,856
Interest Receivable	-	30,465	30,465
Investments, Net	80,252	2,890,497	2,970,749
<b>Total Assets</b>	<b>\$ 80,252</b>	<b>\$ 2,933,818</b>	<b>\$ 3,014,070</b>
<b>Liabilities &amp; Equity</b>			
Equity	\$ 80,252	\$ 2,933,818	\$ 3,014,070
<b>Equity</b>	<b>\$ 80,252</b>	<b>\$ 2,933,818</b>	<b>\$ 3,014,070</b>
<b>Receipts</b>			
Highway TF Tax	\$ -	\$ 204,272	\$ 204,272
Airport TF Tax	-	23,528	23,528
Inland TF Tax	-	457	457
Refund Gasoline Tax	-	(914)	(914)
Refund Diesel Tax	-	(934)	(934)
Refund Aviation Fuel	-	(197)	(197)
Refund Aviation Tax	-	(18)	(18)
Total Revenue	-	226,194	226,194
Interest Income	-	117,579	117,579
<b>Total Receipts</b>	<b>\$ -</b>	<b>\$ 343,773</b>	<b>\$ 343,773</b>
<b>Outlays</b>			
Transfers to/from EPA, Net	\$ 72,035	\$ (72,035)	\$ -
<b>Total Outlays</b>	<b>72,035</b>	<b>(72,035)</b>	<b>-</b>
<b>Net Income</b>	<b>\$ 72,035</b>	<b>\$ 271,738</b>	<b>\$ 343,773</b>

**Note 19. Commitments and Contingencies**

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

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

**Superfund:**

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

As of September 30, 2008, there are currently two CERCLA Section 106(b) administrative claims. If the claimants are successful, the total losses on the claims could amount to approximately \$3.3 million. The Environmental Appeals Board has not yet issued final decisions on any of the administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. One claimant's chance of success is characterized as reasonably possible and one (\$2.5 million) is characterized as remote chance of success.

**Judgment Fund:**

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

As of September 30, 2008, there are no material claims pending in the Treasury's Judgment Fund. However, EPA has a \$22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

**Other Commitments:**

EPA has a legal commitment under a non-cancellable agreement with the United Nations Environment Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. Future payments totaling \$9.5 million are scheduled to be processed in FY 2009 and FY 2010.

**Note 20. Earmarked Funds**

	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2008</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$ 211,282	\$ 12,711	\$ 45,596	\$ 23,765	\$ 293,354
Investments	-	3,240,674	2,926,233	7,921	6,174,828
Accounts Receivable, Net	-	27	317,773	4,404	322,204
Other Assets	-	72	89,409	2,487	91,968
Total Assets	<u>\$ 211,282</u>	<u>\$ 3,253,484</u>	<u>\$ 3,379,011</u>	<u>\$ 38,577</u>	<u>\$ 6,882,354</u>
Other Liabilities	\$ -	\$ 8,988	\$ 624,299	\$ 36,588	\$ 669,875
Total Liabilities	<u>\$ -</u>	<u>\$ 8,988</u>	<u>\$ 624,299</u>	<u>\$ 36,588</u>	<u>\$ 669,875</u>
Cumulative Results of Operations	\$ 211,282	\$ 3,244,496	\$ 2,754,712	\$ 1,989	\$ 6,212,479
Total Liabilities and Net Position	<u>\$ 211,282</u>	<u>\$ 3,253,484</u>	<u>\$ 3,379,011</u>	<u>\$ 38,577</u>	<u>\$ 6,882,354</u>
<b>Statement of Changes in Net Cost For the Period Ended September 30, 2008</b>					
Gross Program Costs	\$ -	\$ 77,702	\$ 1,530,979	\$ 73,284	\$ 1,681,965
Less: Earned Revenues	<u>-</u>	<u>32</u>	<u>502,177</u>	<u>52,425</u>	<u>554,634</u>
Net Cost of Operations	<u>\$ -</u>	<u>\$ 77,670</u>	<u>\$ 1,028,802</u>	<u>\$ 20,859</u>	<u>\$ 1,127,331</u>
<b>Statement of Changes in Net Position for the Period Ended September 30, 2008</b>					
Net Position, Beginning of Period	\$ 188,371	\$ 3,023,769	\$ 2,670,425	\$ 3,662	\$ 5,886,227
Nonexchange Revenue - Securities Investment	-	127,346	114,340	187	241,873
Nonexchange Revenue	22,911	170,762	10,442	-	204,115
Other Budgetary Financing Sources	-	-	969,606	17,056	986,662
Other Financing Sources	-	289	18,701	1,943	20,933
Net Cost of Operations	-	(77,670)	(1,028,802)	(20,859)	(1,127,331)
Change in Net Position	<u>\$ 22,911</u>	<u>\$ 220,727</u>	<u>\$ 84,287</u>	<u>\$ (1,673)</u>	<u>\$ 326,252</u>
Net Position End of Period	<u>\$ 211,282</u>	<u>\$ 3,244,496</u>	<u>\$ 2,754,712</u>	<u>\$ 1,989</u>	<u>\$ 6,212,479</u>

	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
<b>Balance Sheet as of September 30, 2007</b>					
ASSETS					
Fund Balance with Treasury	\$ 188,370	\$ 32,405	\$ 51,081	\$ 31,213	\$ 303,069
Investments	-	3,001,214	2,751,850	(3)	5,753,061
Accounts Receivable, Net	-	-	329,829	3,724	333,553
Other Assets	-	180	86,558	757	87,495
Total Assets	<u>\$ 188,370</u>	<u>\$ 3,033,799</u>	<u>\$ 3,219,318</u>	<u>\$ 35,691</u>	<u>\$ 6,477,178</u>
Other Liabilities					
Total Liabilities	<u>\$ -</u>	<u>\$ 10,030</u>	<u>\$ 548,893</u>	<u>\$ 32,028</u>	<u>\$ 590,951</u>
Cumulative Results of Operations	\$ 188,370	\$ 3,023,769	\$ 2,670,425	\$ 3,663	\$ 5,886,227
Total Liabilities and Net Position	<u>\$ 188,370</u>	<u>\$ 3,033,799</u>	<u>\$ 3,219,318</u>	<u>\$ 35,691</u>	<u>\$ 6,477,178</u>
<b>Statement of Changes in Net Cost For the Period Ended September 30, 2007</b>					
Gross Programs Costs	\$ -	\$ 76,242	\$ 1,497,010	\$ 72,308	\$ 1,645,560
Less: Earned Revenues	<u>-</u>	<u>(1,414)</u>	<u>377,904</u>	<u>53,646</u>	<u>430,136</u>
Net Cost of Operations	<u>\$ -</u>	<u>\$ 77,656</u>	<u>\$ 1,119,106</u>	<u>\$ 18,662</u>	<u>\$ 1,215,424</u>
<b>Statement of Changes in Net Position for the Period Ended September 30, 2007</b>					
Net Position, Beginning of Period	\$ 165,723	\$ 2,757,325	\$ 2,606,400	\$ 3,577	\$ 5,533,025
Changes in Accounting Principle (Alloc Trans Agency) (Note 38)	-	-	20,900	-	20,900
Beginning Balance as Adjusted	165,723	2,757,325	2,627,300	3,577	5,553,925
Nonexchange Revenue - Securities Investment	-	117,579	141,407	-	258,986
Nonexchange Revenue - Other	22,648	226,194	2,721	585	252,148
Other Budgetary Financing Sources	-	-	998,952	15,733	1,014,685
Other Financing Sources	-	327	19,151	2,429	21,907
Net Cost of Operations	-	(77,656)	(1,119,106)	(18,662)	(1,215,424)
Change in Net Position	<u>\$ 22,648</u>	<u>\$ 266,444</u>	<u>\$ 43,125</u>	<u>\$ 85</u>	<u>\$ 332,302</u>
Net Position End of Period	<u>\$ 188,371</u>	<u>\$ 3,023,769</u>	<u>\$ 2,670,425</u>	<u>\$ 3,662</u>	<u>\$ 5,886,227</u>

Earmarked funds are as follows:

***Environmental Services Receipt Account:*** The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts as authorized by Congress in the Agency's appropriations bill.

***Leaking Underground Storage Tank (LUST) Trust Fund:*** The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery

Act. The program is financed by a one cent per gallon tax on motor fuels which will expire in 2011.

***Superfund Trust Fund:*** In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other Federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other Federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

#### **Other Earmarked Funds:**

***Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies.

***Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended P.L. 92-500 (The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

***Pesticide Registration Fund:*** The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Act of 1988, are to be paid by industry and deposited into this fund group.

***Federal Insecticide, Fungicide and Rodenticide Act (FIFRA):*** The FIFRA Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA Act of 1972, as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide reregistration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

***Tolerance Revolving Fund:*** The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund.

***Exxon Valdez Settlement Fund:*** The Exxon Valdez Settlement Fund authorized by a 1992 Act, “Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993 (P.L. 102-389),” Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

***Note 21. Exchange Revenues, Statement of Net Cost***

Exchange revenues on the Statement of Net Cost include income from services provided, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue. As of September 30, 2008 and 2007, exchange revenues are \$634 million and \$550 million, respectively.

**Note 22. Intragovernmental Costs and Exchange Revenue**

	FY 2008			FY 2007		
	Intragovernmental	With the Public	TOTAL	Intragovernmental	With the Public	TOTAL
<b>Clean Air</b>						
Program Costs	\$ 181,467	\$ 816,336	\$ 997,803	\$ 185,389	\$ 818,753	\$ 1,004,142
Earned Revenue	18,360	2,043	20,403	15,594	2,997	18,591
NET COST	\$ 163,107	\$ 814,293	\$ 977,400	\$ 169,795	\$ 815,756	\$ 985,551
<b>Clean &amp; Safe Water</b>						
Program Costs	\$ 162,679	3,334,953	\$ 3,497,632	\$ 180,571	\$ 3,868,428	\$ 4,048,999
Earned Revenue	7,615	2,841	10,456	11,016	2,262	13,278
NET COST	\$ 155,064	\$ 3,332,112	\$ 3,487,176	\$ 169,555	\$ 3,866,166	\$ 4,035,721
<b>Land Preservation &amp; Restoration</b>						
Program Costs	\$ 347,011	\$ 1,654,205	\$ 2,001,216	\$ 396,786	\$ 1,607,952	\$ 2,004,738
Earned Revenue	73,829	460,055	533,884	101,036	352,963	453,999
NET COST	\$ 273,182	\$ 1,194,150	\$ 1,467,332	\$ 295,750	\$ 1,254,989	\$ 1,550,739
<b>Healthy Communities &amp; Ecosystems</b>						
Program Costs	\$ 281,767	\$ 1,126,764	\$ 1,408,531	\$ 275,068	\$ 1,144,793	\$ 1,419,861
Earned Revenue	22,710	39,407	62,117	18,450	38,902	57,352
NET COST	\$ 259,057	\$ 1,087,357	\$ 1,346,414	\$ 256,618	\$ 1,105,891	\$ 1,362,509
<b>Compliance &amp; Environmental Stewardship</b>						
Program Costs	\$ 176,376	\$ 593,853	\$ 770,229	\$ 182,101	\$ 603,463	\$ 785,564
Earned Revenue	5,540	1,801	7,341	5,613	1,265	6,878
NET COST	\$ 170,836	\$ 592,052	\$ 762,888	\$ 176,488	\$ 602,198	\$ 778,686
<b>Total</b>						
Program Costs	\$ 1,149,300	\$ 7,526,111	\$ 8,675,411	\$ 1,219,915	\$ 8,043,389	\$ 9,263,304
Earned Revenue	128,054	506,147	634,201	151,709	398,389	550,098
NET COST	\$ 1,021,246	\$ 7,019,964	\$ 8,041,210	\$ 1,068,206	\$ 7,645,000	\$ 8,713,206

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

**Note 23. Cost of Stewardship Land**

The costs related to the acquisition of stewardship land was approximately \$2 million in FY 2008 and less than \$150 thousand in FY 2007. These costs are included in the Statement of Net Cost.

**Note 24. Environmental Cleanup Costs**

As of September 30, 2008, EPA has six sites that require clean up stemming from its activities. Costs amounting to \$269 thousand may be paid out of the Treasury Judgment Fund. Two claimants' chance of success are characterized as probable and three as reasonably possible. Additionally, EPA has one site (\$80 thousand) characterized as having a remote chance of success. EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion

of the cleanup costs. However, it is expected that the Department of Defense and General Services Administration will bear all or most of the cost of remediation. In addition, EPA has two sites that have an unfunded environmental liability of \$230 thousand.

**Accrued Cleanup Cost:**

The EPA has 16 sites that will require future clean up associated with permanent closure. The estimated costs will be approximately \$19 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

The FY 2008 estimate for unfunded cleanup costs increased by \$1.2 million from the FY 2007 estimate.

***Note 25. State Credits***

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2008, the total remaining state credits have been estimated at \$15.3 million. The estimated ending credit balance on September 30, 2007 was \$14.5 million.

***Note 26. Preauthorized Mixed Funding Agreements***

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2008, EPA had 14 outstanding preauthorized mixed funding agreements with obligations totaling \$25 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment.



Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

**Note 27. Custodial Revenues and Accounts Receivable**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Fines, Penalties and Other Miscellaneous Receipts</b>	<b>\$ 120,657</b>	<b>\$ 89,330</b>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:</b>		
Accounts Receivable	\$ 220,123	\$ 196,590
Less: Allowance for Uncollectible Accounts	(171,966)	(156,401)
<b>Total</b>	<b>\$ 48,157</b>	<b>\$ 40,189</b>

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

**Note 28. Statement of Budgetary Resources**

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2008 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2009 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2008 has not yet been published. We expect it will be published by March 2009, and it will be available on the OMB website at <http://www.whitehouse.gov/>. The actual amounts published for the year ended September 30, 2007 are included in EPA's FY 2008 financial statement disclosures.

<u>FY 2007</u>	<u>Budgetary Resources</u>	<u>Obligations</u>	<u>Offsetting Receipts</u>	<u>Net Outlays</u>
<b>Statement of Budgetary Resources</b>	<b>\$ 13,058,309</b>	<b>9,516,922</b>	<b>1,307,458</b>	<b>9,564,449</b>
Adjustments to Undelivered Orders and Other	3,780	1,679	-	-
Expired and Immaterial Funds*	(264,384)	(1,520)	-	-
Rounding Differences**	(1,705)	(1,081)	(458)	(1,449)
<b>Reported in Budget of the U. S. Government</b>	<b>\$ 12,796,000</b>	<b>\$ 9,516,000</b>	<b>\$ 1,307,000</b>	<b>\$ 9,563,000</b>

\* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

\*\* Balances are rounded to millions in the Budget Appendix.

**Note 29. Recoveries and Resources Not Available, Statement of Budgetary Resources**

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

	<u>FY 2008</u>	<u>FY 2007</u>
Recoveries of Prior Year Obligations- downward adjustments of prior years' obligations	\$ <u>281,117</u>	\$ <u>387,621</u>
Temporarily Not Available-rescinded authority	<u>(6,366)</u>	<u>-</u>
Permanently Not Available:		
Payments to Treasury	(3,032)	(2,769)
Rescinded authority	(117,284)	-
Canceled authority	<u>(5,210)</u>	<u>(4,564)</u>
<b>Total Permanently Not Available</b>	<b>\$ <u>(125,526)</u></b>	<b>\$ <u>(7,333)</u></b>

**Note 30. Unobligated Balances Available**

The unobligated balances available consist of the following as of September 30, 2008 and 2007. Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, Unobligated Balances and Unobligated Balances Not Available. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

	<u>FY 2008</u>	<u>FY 2007</u>
Unexpired Unobligated Balance	\$ 3,205,306	\$ 3,279,240
Expired Unobligated Balance	346,574	262,147
<b>Total</b>	<b>\$ <u>3,551,880</u></b>	<b>\$ <u>3,541,387</u></b>

**Note 31. Undelivered Orders at the End of the Period**

Budgetary resources obligated for undelivered orders at the end of the September 30, 2008 and 2007 are as follows:

	<u>FY 2008</u>	<u>FY 2007</u>
Undelivered Orders	\$ 8,427,344	\$ 8,714,675

**Note 32. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FYs 2008 and 2007, the following receipts were generated from these activities:

	<b>FY 2008</b>	<b>FY 2007</b>
Trust Fund Recoveries	\$ 89,995	\$ 234,171
Special Fund Environmental Service	22,911	22,648
Downward Re-estimates of Subsidies	-	29
Trust Fund Appropriation	984,974	1,040,372
Special Fund Receipt Account and Treasury Miscellaneous Receipts and Clearing Accounts	20,549	10,238
<b>Total</b>	<b>\$ 1,118,429</b>	<b>\$ 1,307,458</b>

**Note 33. Transfers-In and Out, Statement of Changes in Net Position****Appropriation Transfers, In/Out:**

For FYs 2008 and 2007, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follow:

**Transfers In/Out Without Reimbursement, Budgetary:**

<b>Fund/Type of Account</b>	<b>FY 2008</b>	<b>FY 2007</b>
U.S. Navy	\$ (7,875)	\$ -
Total Appropriation Transfers (Other Funds)	\$ (7,875)	-
Net Transfers from Invested Funds	1,389,902	1,344,610
Transfer to Another Agency	(7,875)	-
Allocations Rescinded	5,940	-
Total of Net Transfers on Statement of Budgetary Resources	<b>\$ 1,387,967</b>	<b>\$ 1,344,610</b>

For FYs 2008 and 2007, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. Detail of the transfers-in and transfers-out, expenditure and nonexpenditure, follows:

Type of Transfer/Funds	FY 2008		FY 2007	
	<u>Earmark</u>	<u>Other Funds</u>	<u>Earmark</u>	<u>Other Funds</u>
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	\$ (37,204)	\$ 37,204	\$ (43,491)	\$ 43,491
Transfer-in nonexpenditure recovery from CDC	1,905	-	1,370	-
Transfers-in, nonexpenditure, Oil Spill	17,056	-	15,734	-
Transfer-in (out) cancelled funds	53	(53)		
Adjustment from Prior Year	-	-	701	-
Total Transfers in (out) without Reimbursement, Budgetary	<u>\$ (18,190)</u>	<u>\$ 37,151</u>	<u>\$ (25,686)</u>	<u>\$ 43,491</u>

#### Transfers In/Out without Reimbursement, Other Financing Sources:

For FYs 2008 and 2007, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of negative subsidy to a special receipt fund for the credit reform funds. The amounts reported on the Statement of Changes in Net Position are as follows:

Type of Transfer/Funds	FY 2008		FY 2007	
	<u>Earmark</u>	<u>Other Funds</u>	<u>Earmark</u>	<u>Other Funds</u>
Transfers-in by allocation transfer agency	\$ -	\$ -	\$ 39	\$ -
Transfers-in property	-	-	-	530
Transfers (out) of prior year negative subsidy to be paid following year	-	28	-	(5)
Total Transfers in (out) without Reimbursement, Budgetary	<u>\$ -</u>	<u>\$ 28</u>	<u>\$ 39</u>	<u>\$ 525</u>

#### Note 34. Imputed Financing Sources

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost

factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2008 were \$130.1 million (\$20.9 million from Earmark funds, and \$109.2 million from Other Funds). For FY 2007, the estimates were \$133.3 million (\$21.9 million from Earmark Funds, and \$111.4 million from Other Funds).

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2008 entries for Judgment Fund payments totaled \$2.4 million (Other Funds). For FY 2007, entries for Judgment Fund payments totaled \$2.3 million (Other Funds).

The combined total of imputed financing costs for FY 2008 is \$132.5 million and in FY 2007 was \$135.6 million.

**Note 35. Payroll and Benefits Payable**

Payroll and benefits payable to EPA employees for the years ending September 30, 2008 and 2007, consist of the following:

<b>FY 2008 Payroll &amp; Benefits Payable</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
Accrued Funded Payroll & Benefits	\$ 46,966	\$ -	\$ 46,966
Withholdings Payable	30,659	-	30,659
Employer Contributions Payable-TSP	2,670	-	2,670
Accrued Unfunded Annual Leave	-	152,663	152,663
<b>Total - Current</b>	<b>\$ 80,295</b>	<b>\$ 152,663</b>	<b>\$ 232,958</b>
<b>FY 2007 Payroll &amp; Benefits Payable</b>			
Accrued Funded Payroll & Benefits	\$ 30,957	\$ -	\$ 30,957
Withholdings Payable	29,297	-	29,297
Employer Contributions Payable-TSP	2,101	-	2,101
Accrued Unfunded Annual Leave	-	142,843	142,843
<b>Total - Current</b>	<b>\$ 62,355</b>	<b>\$ 142,843</b>	<b>\$ 205,198</b>

**Note 36. Other Adjustments, Statement of Changes in Net Position**

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 5 years earlier. These amounts affect Unexpended Appropriations.

	<b>Other Funds FY 2008</b>	<b>Other Funds FY 2007</b>
Rescissions to General Appropriations	\$ 117,284	\$ -
Canceled General Authority	5,157	4,561
<b>Total Other Adjustments</b>	<b>\$ 122,441</b>	<b>\$ 4,561</b>

**Note 37. Nonexchange Revenue, Statement of Changes in Net Position**

The Nonexchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for FYs 2008 and 2007 consists of the following items:

	<b>Earmark Funds FY 2008</b>	<b>Earmark Funds FY 2007</b>
Investments	\$ 241,873	\$ 258,986
Tax Revenue, Net of Refunds	170,762	228,796
Fines and Penalties Revenue	10,442	704
Special Receipt Fund Revenue	22,911	22,648
<b>Revenue</b>	<b>\$ 445,988</b>	<b>\$ 511,134</b>

**Note 38. Adjustment for Allocation Transfers**

Beginning in FY 2007, the agency that transfers budget authority to another Federal entity must report all budgetary and proprietary activity related to these transfers in its financial statements. The cumulative effect of this activity is reported as a "Change in Accounting Principle" on the Statement of Net Position (\$20.9 million - Earmark Funds) and as an "Adjustment to Unobligated Balance, Brought Forward" and an "Adjustment to Unpaid Obligations, Brought Forward" on the Statement of Budgetary Resources. There was no adjustment necessary for FY 2008.

**Statement of Budgetary Resources**

	<u>FY 2007</u>
Beginning Balance:	
Unobligated Balance, Brought Forward October 1	\$ 3,247,087
Adjustment of Unobligated Balance (Allocation Transfer Agencies)	15,527
Adjusted Total Beginning Balance	<u>\$ 3,262,614</u>

**Note 39. Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 9,656,040	\$ 9,516,922
Less: Spending Authority from Offsetting Collections and Recoveries	(1,142,189)	(963,361)
Obligations, Net of Offsetting Collections	\$ 8,513,851	\$ 8,553,561
Less: Offsetting Receipts	(1,118,429)	(1,307,458)
Net Obligations	\$ 7,395,422	\$ 7,246,103
Other Resources		
Transfers In/Out Without Reimbursement, Property	\$ -	\$ 530
Imputed Financing Sources	132,524	135,609
Net Other Resources Used to Finance Activities	\$ 132,524	\$ 136,139
Total Resources Used To Finance Activities	\$ 7,527,946	\$ 7,382,242
<b>RESOURCES USED TO FINANCE ITEMS</b>		
<b>NOT PART OF THE NET COST OF OPERATIONS:</b>		
Change in Budgetary Resources Obligated	\$ 415,809	\$ 1,229,438
Resources that Fund Prior Periods Expenses	(22)	-
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances	3,985	3,979
Offsetting Receipts Not Affecting Net Cost	133,455	267,087
Resources that Finance Asset Acquisition	(98,715)	(113,393)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 454,512	\$ 1,387,111
Total Resources Used to Finance the Net Cost of Operations	\$ 7,982,458	\$ 8,769,353

	<u>FY 2008</u>	<u>FY 2007</u>
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	\$ 9,807	\$ 7,771
Increase in Environmental and Disposal Liability	1,197	8,073
Increase in Unfunded Contingencies	44	-
Upward/Downward Reestimates of Credit Subsidy Expense	-	33
Increase in Public Exchange Revenue Receivables	(132,904)	(168,330)
Increase in Workers Compensation Costs	5,641	986
Other	<u>59</u>	<u>420</u>
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	\$ (116,156)	\$ (151,047)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	\$ 88,586	\$ 52,248
Expenses Not Requiring Budgetary Resources	<u>86,322</u>	<u>42,652</u>
Total Components of Net Cost that Will Not Require or Generate Resources	\$ 174,908	\$ 94,900
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>\$ 58,752</u>	<u>\$ (56,147)</u>
<b>Net Cost of Operations</b>	<b><u>\$ 8,041,210</u></b>	<b><u>\$ 8,713,206</u></b>

***Note 40. Other – Statement of Net Position***

In FY 2008, EPA identified an error of \$20 million in the *Payable for Transfers of Currently Invested Balances* account. This balance was related to activity prior to FY 2001 involving the allocation of budgetary authority to other federal agencies (parent/child relationship). This error resulted in an overstatement of payables on the Balance Sheet and an understatement of Cumulative Results of Operations. In addition, the budgetary resources were increased by this amount. Since this amount is immaterial to the financial statements a prior period adjustment was not recorded. To adjust the Cumulative Results of Operations, the \$20 million was recorded on the “Other” line on the Statement of Net Position.



**1.**  
**Environmental Protection Agency**  
**Required Supplementary Information**  
**As of September 30, 2008**  
**(Dollars in Thousands)**  
**(Unaudited)**

**Deferred Maintenance**

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

**Stewardship Land**

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

**2.**  
**Environmental Protection Agency**  
**Required Supplementary Information**  
**Supplemental Statement of Budgetary Resources (Unaudited)**  
**As of September 30, 2008**  
**(Dollars in Thousands)**

	<u>EPM</u>	<u>FIFRA</u>	<u>LUST</u>	<u>S&amp;T</u>	<u>STAG</u>	<u>OTHER</u>	<u>TOTAL</u>
<b>BUDGETARY RESOURCE</b>							
Unobligated Balance Brought Forward, October 1	\$ 672,087	\$ 7,015	\$ 6,272	\$ 221,937	\$ 1,330,730	\$ 1,303,346	\$ 3,541,387
Recoveries of prior year unpaid obligations	28,536	985	3,424	6,047	66,165	175,960	281,117
Budgetary Authority:							
Appropriation	2,364,854	-	-	772,129	2,983,595	1,147,658	7,268,236
Borrowing Authority	-	-	-	-	-	34	34
Spending Authority from Offsetting Collections:							
Collected	80,512	20,730	39	4,844	5,840	596,465	708,430
Change in receivables from Federal sources	(24,331)	-	-	(129)	-	2,290	(22,170)
Advance received	(3,311)	1,429	12	3,890	-	75,860	77,880
Without advance from Federal source	23,661	-	-	7,838	-	28,281	59,780
Expenditure Transfers from trust funds	-	-	-	25,718	-	11,433	37,151
Nonexpenditure transfers, net anticipated and actual	-	-	107,492	-	(7,875)	1,288,350	1,387,967
Temporarily not available pursuant to Public Law	-	-	(1,677)	-	-	(4,689)	(6,366)
Permanently not available	(41,098)	-	-	(12,935)	(51,544)	(19,949)	(125,526)
<b>Total Budgetary Resources</b>	<b>\$ 3,100,910</b>	<b>\$ 30,159</b>	<b>\$ 115,562</b>	<b>\$ 1,029,339</b>	<b>\$ 4,326,911</b>	<b>\$ 4,605,039</b>	<b>\$ 13,207,920</b>
<b>STATUS OF BUDGETARY RESOURCES</b>							
Obligations Incurred:							
Direct	\$ 2,361,866	\$ -	\$ 108,231	\$ 793,930	\$ 3,236,228	\$ 2,535,657	\$ 9,035,912
Reimbursable	112,631	23,529	32	8,908	-	475,028	620,128
Total Obligations Incurred	2,474,497	23,529	108,263	802,838	3,236,228	3,010,685	9,656,040
Unobligated Balances:							
Unobligated funds apportioned	320,214	6,630	7,299	191,973	1,090,683	1,588,001	3,204,800
Unobligated balance not available	306,199	-	-	34,528	-	6,353	347,080
<b>Total Status of Budgetary Resources</b>	<b>\$ 3,100,910</b>	<b>\$ 30,159</b>	<b>\$ 115,562</b>	<b>\$ 1,029,339</b>	<b>\$ 4,326,911</b>	<b>\$ 4,605,039</b>	<b>\$ 13,207,920</b>
<b>CHANGE IN OBLIGATED BALANCE</b>							
Obligated Balance, Net							
Unpaid obligations brought forward, October 1	\$ 830,336	\$ 2,295	\$ 93,531	\$ 506,362	\$ 6,930,438	\$ 1,510,245	\$ 9,873,207
Less: Uncollected customer payments from Federal sources brought forward, October 1	(447,386)	-	-	(33,960)	-	(151,444)	(632,790)
Total unpaid obligation balance, net	382,950	2,295	93,531	472,402	6,930,438	1,358,801	9,240,417
Obligations incurred, net	2,474,498	23,529	108,263	802,838	3,236,228	3,010,684	9,656,040
Less: Gross outlays	(2,382,395)	(21,181)	(78,392)	(829,852)	(3,767,034)	(2,801,181)	(9,880,035)
Less: Recoveries of prior year unpaid obligations, actual	(28,536)	(985)	(3,424)	(6,047)	(66,165)	(175,960)	(281,117)
Change in uncollected customer payments from Federal sources	669	-	-	(2,539)	-	(31,587)	(33,457)
Total	447,186	3,658	119,978	436,802	6,333,467	1,360,757	8,701,848
Obligated balance, net, end of period:							
Unpaid obligations	893,903	3,658	119,978	473,301	6,333,467	1,543,787	9,368,094
Less: Uncollected customer payments from Federal sources	(446,717)	-	-	(36,499)	-	(183,030)	(666,246)
Total, unpaid obligated balance, net, end of period	\$ 447,186	\$ 3,658	\$ 119,978	\$ 436,802	\$ 6,333,467	\$ 1,360,757	\$ 8,701,848
<b>NET OUTLAYS</b>							
Gross outlays	\$ 2,382,395	\$ 21,181	\$ 78,392	\$ 829,852	\$ 3,767,034	\$ 2,801,181	\$ 9,880,035
Less: Offsetting collections	(77,200)	(22,159)	(53)	(39,621)	(5,840)	(682,743)	(827,616)
Less: Distributed Offsetting Receipts	-	-	-	-	-	(1,118,429)	(1,118,429)
<b>Total, Net Outlays</b>	<b>\$ 2,305,195</b>	<b>\$ (978)</b>	<b>\$ 78,339</b>	<b>\$ 790,231</b>	<b>\$ 3,761,194</b>	<b>\$ 1,000,009</b>	<b>\$ 7,933,990</b>

**Environmental Protection Agency  
Required Supplementary Stewardship Information (Unaudited)  
For the Year Ended September 30, 2008  
(Dollars in Thousands)**

***INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:***

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

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

For FY 2008, the full cost of the Agency's Research and Development activities totaled approximately \$701 million. Below is a breakout of the expenses (dollars in thousands):

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY2007</u>	<u>FY2008</u>
Programmatic Expenses	581,323	628,467	630,438	624,088	597,080
Allocated Expenses	91,675	112,558	104,167	100,553	103,773

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development. Each of EPA's strategic goals has a Science and Research Objective.

***INVESTMENT IN THE NATION'S INFRASTRUCTURE (Non-Federal Physical Property):***

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

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

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

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

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

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

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Construction Grants	48,948	21,148	39,193	9,975	11,517
Clean Water SRF	1,407,345	1,127,883	1,339,702	1,399,616	1,063,825
Safe Drinking Water SRF	802,629	715,060	910,032	962,903	816,038
Other Infrastructure Grants	341,767	385,226	411,023	381,481	388,555
Allocated Expenses	410,129	402,853	446,113	443,716	396,253

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

***HUMAN CAPITAL***

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

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

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Training and Awareness Grants	48,416	46,750	43,765	32,845	30,768
Fellowships	7,553	10,195	12,639	12,185	9,650
Allocated Expenses	8,826	10,199	9,320	7,255	7,025

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements (Unaudited)**  
**Balance Sheet for Superfund Trust Fund**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note S1)	\$ 45,596	\$ 51,081
Investments	2,926,233	2,751,850
Accounts Receivable, Net	17,832	16,955
Other	21,116	14,927
Total Intragovernmental	<u>\$ 3,010,777</u>	<u>\$ 2,834,813</u>
Accounts Receivable, Net	299,941	312,874
Property, Plant & Equipment, Net	67,542	70,601
Other	751	1,030
<b>Total Assets</b>	<b><u>\$ 3,379,011</u></b>	<b><u>\$ 3,219,318</u></b>
<b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	52,639	89,239
Other	50,448	46,182
Total Intragovernmental	<u>\$ 103,087</u>	<u>\$ 135,421</u>
Accounts Payable & Accrued Liabilities	\$ 141,049	\$ 139,607
Pensions & Other Actuarial Liabilities	7,921	6,889
Cashout Advances, Superfund (Note S2)	286,630	190,269
Payroll & Benefits Payable	40,902	35,914
Other	44,710	40,793
Total Liabilities	<u>\$ 624,299</u>	<u>\$ 548,893</u>
<b>NET POSITION</b>		
Cumulative Results of Operations	<u>2,754,712</u>	<u>2,670,425</u>
Total Net Position	<u>2,754,712</u>	<u>2,670,425</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 3,379,011</u></b>	<b><u>\$ 3,219,318</u></b>

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements (Unaudited)**  
**Statement of Net Cost for Superfund Trust Fund**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>COSTS</b>		
Gross Costs	\$ 1,530,979	\$ 1,497,010
Expenses from Other Appropriations (Note S5)	<u>69,769</u>	<u>76,452</u>
Total Costs	1,600,748	1,573,462
Less:		
Earned Revenue	<u>502,177</u>	<u>377,904</u>
<b>NET COST OF OPERATIONS</b>	<b><u>\$ 1,098,571</u></b>	<b><u>\$ 1,195,558</u></b>

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements (Unaudited)**  
**Statement of Changes in Net Position for Superfund Trust Fund**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY2008</u> <u>Cumulative</u> <u>Results of</u> <u>Operations</u>	<u>FY 2007</u> <u>Cumulative</u> <u>Results of</u> <u>Operations</u>
<b>Net Position - Beginning of Period</b>	\$ 2,670,425	\$ 2,606,400
Adjustment:		
Adjustment to Unobligated Balance (Alloc Transfer Agencies) (Note 38)	-	20,900
Beginning Balances, as Adjusted	\$ 2,670,425	\$ 2,627,300
<b>Budgetary Financing Sources:</b>		
Nonexchange Revenue -Securities Investment	114,340	141,407
Nonexchange Revenue -Other	10,442	2,721
Transfers In/Out	(35,246)	(41,419)
Trust Fund Appropriations	984,974	1,040,371
Other (Note 40)	19,878	-
Income from Other Appropriations (Note S5)	69,769	76,452
Total Budgetary Financing Sources	\$ 1,164,157	\$ 1,219,532
<b>Other Financing Sources (Non-Exchange)</b>		
Transfers in/Out	-	39
Imputed Financing Sources	18,701	19,112
Total Other Financing Sources	\$ 18,701	\$ 19,151
Net Cost of Operations	(1,098,571)	(1,195,558)
Net Change	84,287	43,125
<b>Cumulative Results of Operations</b>	<u>\$ 2,754,712</u>	<u>\$ 2,670,425</u>



**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements (Unaudited)**  
**Statement of Budgetary Resources for Superfund Trust Fund**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1	\$ 1,245,311	\$ 1,088,388
Adjustment to Unobligated Balance (Alloc Transfer Agcy) (Note 38)	-	15,527
Adjusted Subtotal	<u>1,245,311</u>	<u>1,103,915</u>
Recoveries of Prior Year Unpaid Obligations	168,480	127,261
Budgetary Authority:		
Appropriation	37,205	43,493
Spending Authority from Offsetting Collections		
Earned:		
Collected	390,753	227,367
Change in Receivables from Federal Sources	(1,725)	(1,811)
Change in Unfilled Customer Orders:		
Advance Received	74,038	(33,969)
Without Advance from Federal Sources	4,476	29,999
Total Spending Authority from Offsetting Collections	<u>467,542</u>	<u>221,586</u>
Nonexpenditure Transfers, Net, Anticipated and Actual	1,288,349	1,272,575
Temporarily Not Available Pursuant to Public Law	(4,263)	-
Permanently Not Available	(54)	(2)
<b>Total Budgetary Resources</b>	<u>\$ 3,202,570</u>	<u>\$ 2,768,828</u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	\$ 1,425,282	\$ 1,367,588
Reimbursable	<u>264,112</u>	<u>155,929</u>
Total Obligations Incurred	1,689,394	1,523,517
Unobligated Balances:		
Apportioned	<u>1,512,670</u>	<u>1,240,416</u>
Total Unobligated Balances	1,512,670	1,240,416
Unobligated Balances Not Available	506	4,895
<b>Total Status of Budgetary Resources (\$6)</b>	<u>\$ 3,202,570</u>	<u>\$ 2,768,828</u>

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements (Unaudited)**  
**Statement of Budgetary Resources for Superfund Trust Fund**  
**For the Periods Ending September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 1,361,335	\$ 1,454,495
Adjustment to Unpaid Obligations (Alloc Transfer Agencies) (Note 38)	-	7,215
Adjusted Total	<u>1,361,335</u>	<u>1,461,710</u>
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	<u>(110,170)</u>	<u>(81,983)</u>
Total Unpaid Obligated Balance, Net	1,251,165	1,379,727
Obligations Incurred	1,689,394	1,523,517
Less: Gross Outlays	(1,489,936)	(1,496,631)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(168,480)	(127,261)
Change in Uncollected Customer Payments from Federal Sources	<u>(2,752)</u>	<u>(28,187)</u>
Total, Change in Obligated Balance	1,279,391	1,251,165
 Obligated Balance, Net, End of Period:		
Unpaid Obligations	1,392,312	1,361,335
Less: Uncollected Customer Payments from Federal Sources	<u>(112,921)</u>	<u>(110,170)</u>
Total, Unpaid Obligated Balance, Net, End of Period	\$ 1,279,391	\$ 1,251,165
 <b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays (Note S6)	\$ 1,489,936	\$ 1,496,631
Less: Offsetting Collections (Note S6)	(464,790)	(193,398)
Distributed Offsetting Receipts *(Note S6)	<u>(1,074,969)</u>	<u>(1,274,542)</u>
<b>Total, Net Outlays</b>	(49,823)	28,691

\*Offsetting receipts line includes the amount in 68X0250 (payment to trust fund) from Treasury.  
The payment cannot be made directly through the trust fund but must go through a "pass-through" fund.

**Environmental Protection Agency  
Supplemental Information and Other Reporting Requirements (Unaudited)  
Related Notes to Superfund Trust Financial Statements**

***Note S1. Fund Balance with Treasury for Superfund Trust***

Fund Balances with Treasury as of September 30, 2008 and 2007 consist of the following:

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Fund Balance</b>	\$ 45,596	\$ 51,081

Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

<b>Status of Fund Balances:</b>	<u>FY 2008</u>	<u>FY 2007</u>
Unobligated Amounts in Fund Balances:		
Available for Obligation	\$ 1,512,670	\$ 1,240,417
Unavailable for Obligations	506	4,895
Net Receivables from Invested Balances	(2,749,864)	(2,446,934)
Balances in Treasury Trust Fund	2,894	1,539
Obligated Balance not yet Disbursed	<u>1,279,390</u>	<u>1,251,164</u>
Totals	<u>\$ 45,596</u>	<u>\$ 51,081</u>

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations.

***Note S2. Cashout Advances, Superfund***

Cashouts are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2008 and 2007, cashouts are \$287 million and \$190 million, respectively.

***Note S3. Superfund State Credits***

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2008, the total remaining state credits have been estimated at \$15.3 million. The estimated ending credit balance on September 30, 2007 was \$14.5 million.

***Note S4. Superfund Preauthorized Mixed Funding Agreements***

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2008, EPA had 14 outstanding preauthorized mixed funding agreements with obligations totaling \$25 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

***Note S5. Income and Expenses from other Appropriations; General Support Services Charged to Superfund***

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

During FYs 2008 and 2007, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. This distribution is calculated using a combination of specific identification

of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2008			FY 2007		
	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
Superfund	\$ 69,769	(69,769)	\$ -	\$ 76,452	\$(76,452)	\$ -
All Others	(69,769)	69,769	-	(76,452)	76,452	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are \$0.5 million for FY 2008 and \$2.3 million for FY 2007.

***Note S6. Statement of Budgetary Resources, Superfund***

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2007 Statement of Budgetary Resources, will be reconciled to the amounts included in the Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2008 has not yet been published. We expect it will be published by March 2009, and it will be available on the OMB website at <http://www.whitehouse.gov/omb/budget/fy2010>. The actual amounts published for the year ended September 30, 2007 are included in EPA's FY 2008 financial statement disclosures.

FY 2007	Budgetary Resources	Obligations	Offsetting Receipts	Outlays
Statement of Budgetary Resources	\$ 2,768,828	1,523,517	1,274,542	\$ 1,303,233
Rounding Differences*	(828)	483	(542)	(1,233)
<b>Reported in Budget of the U. S. Government</b>	<b>\$ 2,768,000</b>	<b>\$ 1,524,000</b>	<b>\$ 1,274,000</b>	<b>\$ 1,302,000</b>

\*

Balances are rounded to millions in the Budget Appendix.

***Note S7. Superfund Eliminations***

The Superfund Trust Fund has intra-agency activities with other EPA funds which are eliminated on the consolidated Balance Sheet and the Statement of Net Cost. These are listed below:

	<b><u>FY 2008</u></b>	<b><u>FY 2007</u></b>
Advances	\$9,716	\$5,817
Expenditure Transfers Payable	\$26,794	\$30,948
Accrued Liabilities	\$3,704	\$6,001
Expenses	\$28,718	\$21,418
Transfers	\$37,151	\$43,491

## Agency's Response to Draft Report

11/12/2008

### MEMORANDUM

**SUBJECT:** EPA's Response to the Office of Inspector General's Draft Audit Report, Audit of EPA's Fiscal 2007 and 2008 Financial Statements

**FROM:** Lyons Gray (2710A) /s/  
Chief Financial Officer

**TO:** Bill A. Roderick (2410T)  
Deputy Inspector General

Fiscal Year 2008 marks another successful financial statements audit cycle for the U.S. Environmental Protection Agency. This year, we broadened Agency partnerships with a focus on strengthening fiscal integrity, enhancing core business operations, and contributing to Agency-wide performance management systems. We are proud of the many accomplishments and thank you for identifying additional areas for improvement in the Inspector General's Report. The audit work performed will help guide EPA's work in these areas as well as shape future financial management initiatives.

Our offices worked together to expand stakeholder engagement in fiscal stewardship yielding significant results. Some of the achievements are presented in Attachment 1 along with commitments and responses from responsible management officials. In addition, suggested changes to the report are included in Attachment 2. Detailed corrective action plans will be provided to you and your staff within 90-days of the final audit report. Please let me know if you have any questions, or your staff can contact Lorna McAllister, Director of the Office of Financial Management regarding the audit.

#### Attachments

cc: Luis Luna, Assistant Administrator, Office of Administration and Resource Management  
Molly O'Neil, Assistant Administrator, Office of Environmental Information  
Susan Hazen, Deputy Assistant Administrator, Office of Administration and Resource Management  
Linda Travers, Deputy Assistant Administrator, Office of Environmental Information  
Maryann Froehlich, Deputy Chief Financial Officer  
James Newsom, Assistant Regional Administrator, Region 3  
Melissa Heist, Assistant Inspector General  
Paul Curtis, Director, Financial Statements Audits

**EPA's Response to the Office of Inspector General's  
Draft Fiscal 2007 and 2008 Financial Statements Audit Report**

As demonstrated by the accomplishments listed below, the Agency maintains a strong and robust financial management program.

- By streamlining its business processes, EPA successfully converted to the Department of the Treasury's (Treasury's) new accounting system. One-third of business processes were eliminated and a legacy server terminated. In addition to these operational efficiencies, EPA helped the Federal government move one step closer to unified financial reporting.
- The Agency strengthened its financial data security by developing an event-driven control that flags changes made to personal vendor information (170,000 changes made in FY 2008) in the finance system. EPA also reduced user access to personally identifiable information by 75 percent, re-certified users, and realigned security rights in the Agency's core financial management system.
- EPA invested Superfund, Leaking Underground Storage Tank, and Federal Insecticide, Fungicide, and Rodenticide Act Funds monies, and earned nearly \$242 million in interest.
- Through its data integration effort, EPA linked the FEMA/EPA national response framework with resource utilization, so that real-time costs are now available on-line to Agency managers and decision makers on the front lines during an emergency event.
- The Agency freed up \$32 million in funds unnecessarily tied up in expired grants and contracts for other high priority work in the Agency.
- EPA paid 99.95 percent of its invoices on time - over 32,000 payments totaling \$1.1 billion.
- EPA contributed to a government-wide initiative by doing its part in managing and reporting business transactions with other agencies. In FY 2008, EPA reduced its balances on Treasury's material differences report from \$84.9 million to \$55.4 million.

These actions demonstrate that EPA adheres to the highest standards for financial management.

We are confident that focused attention on some of the areas noted during the audit, in conjunction with the launch of EPA's new accounting system, will advance the Agency's goals of improving fiscal integrity and operational efficiency and result in better information for decision making. Specific recommendations and corrective actions, unless indicated otherwise in Attachment 2, will be provided within 90-days of the final audit report.

EPA concurs with the Inspector General's assessment in the following areas:



- Improve the timeliness in paying for telecommunications services; calculate and disburse any interest resulting from previous late payments (Office of Technology Operations, Office of Environmental Information; Office of Financial Services, Office of the Chief Financial Officer)
- Improve the quarterly matching of revenues and expenses for State contributions provided toward the clean-up of Superfund sites with the costs incurred (Office of Financial Services, Office of the Chief Financial Officer)
- Establish a more effective accrual process for unbilled receivables (Office of Financial Services, Office of the Chief Financial Officer)
- Maintain evidence that validates the need to change a vendor's information in the accounting system (Office of Financial Services, Office of the Chief Financial Officer)
- Improve the calculation and review process of Superfund Special Accounts interest (Office of Financial Services, Office of the Chief Financial Officer)
- Continue the progress made completing the open actions related to the new e-Relocation program and associated physical and security requirements carried forward from a previous audit (Office of Financial Services, Office of the Chief Financial Officer)
- Realize the tangible benefits of consolidating most current financial management systems within one organizational unit, which includes standardizing documentation and compliance with relevant requirements and controls (Office of Enterprise, Technology, and Innovation, and the Office of Program Management in the Office of the Chief Financial Officer)
- Enhance the process for identifying and liquidating excess monies on grants and interagency agreements (Office of Grants and Debarment, Office of Administration and Resources Management)
- Review the software capitalization cycle and make improvements as necessary to ensure the integrity of the capitalized balance and related depreciation (Office of Information Collection, Office of Environmental Information; Office of Financial Services, Office of the Chief Financial Officer)
- Evaluate other payroll reconciliation opportunities associated with the Agency's partnership with the Defense Finance and Accounting Service, Internal Revenue Service, and Treasury (Office of Financial Services, Office of the Chief Financial Officer)
- Continue successful measures in reconciling transactions with other Federal agencies (Office of Financial Services, Office of the Chief Financial Officer)

The following areas may require more discussions between Agency leaders and the Inspector General's staff to resolve differing opinions:

***Asbestos Loan Program Violated the Anti-Deficiency Act:*** The Agency is conducting an internal review and working with the Office of Management and Budget to determine if a technical violation has occurred, since permanent budget authority and the option for automatic apportionment exist under statute and Federal guidelines. Feedback from these sources will influence the Agency's future course of action. In the meantime, the Agency is working to strengthen training and controls to ensure proper procedures and timelines are followed. (Office of Budget and Office of Financial Services in the Office of the Chief Financial Officer)

***Reimbursable Expenditures Exceeded Funds Collected from Non-Federal Entities:*** The Agency followed the FY 2008 Reimbursable Authority Guidance to ensure that collections were received before proper authority was issued to spend these funds. In addition, spending under these accounts is controlled by both the account and the overarching appropriation. Both had more than adequate apportioned resources. Subsequent obligations were within the apportioned levels, and charging corrections have been made. (Office of Budget, Office of the Chief Financial Officer; and the Region 3 Assistant Regional Administrator's Office)

## Attachment 2

**EPA's Response to the Office of Inspector General's  
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Clarifying Details for Consideration in the Final Report**

**1. EPA's Oversight of Payroll Reconciliation Needs Improvements**

The Agency performs reasonable and adequate oversight for payroll support services and meets the Internal Revenue Service requirements under Circular E. The reconciliation is comprehensive and also includes amounts paid by the Defense Finance and Accounting Service. However, the Office of Financial Services will work with DFAS and the Inspector General's staff to jointly develop a quarterly taxable wage reconciliation report instead of the prescribed recommendations.

In addition, information obtained from Defense Finance and Accounting Service staff by the Inspector General's staff regarding FY 2007 W-2 data was incorrect, and, as a result the \$337,000 difference in the audit report was in error. The correct difference was \$2,800 for one employee, which has since been resolved.

**2. Accruals Were not Properly Calculated for Federal Unbilled Receivables**

General Observation: There is a slight wording difference between the "At a Glance" introduction and the report text.

As of the FY 2008 4<sup>th</sup> quarter, additional reviews were incorporated in the process.

**3. EPA Needs to Improve Reconciliation of General Ledger Accounts to Detail**

General Observation: Consider modifying the title of this issue to "EPA needs to better reconcile Superfund State Contract dollars to the subsidiary account." The current presentation suggests that there are reconciliation issues with all of EPA's general ledger accounts, instead of this particular subset.

Incidentally, the Office of Financial Services evaluated the accrual amounts for the past four years and compared the results to FY 2008. This assessment yielded no significant fluctuations as comparable estimates averaging \$36.1 million for the four previous years and \$35.9 million in FY 2008 provided a level of accounting confidence. In the future, those transactions between 13 and 23 years old will also be evaluated to determine validity.

#### **4. EPA's Review of Unliquidated Obligations Was Incomplete**

The language states that the Office of Grants and Debarment's review of unliquidated obligations for inactive Interagency Agreements (IA) and grants was incomplete. While it should have been done sooner, the Agency did review all of the Headquarters-funded grants and IAs; there is no further review to be conducted/completed. The reviews confirmed that the unliquidated obligation balances for all IAs and grants are accurate and represent valid and viable obligations. The reviews further ensured that appropriate actions were taken to deobligate unneeded funds.

In addition, the report does not take into account EPA's noteworthy accomplishments liquidating dollars on those grants where the period of performance had expired. EPA established stretch goals and a performance metric in FY 2006 designed to track progress each year through FY 2009. To date, more than \$83 million has been redeployed within the Agency, including \$13 million liquidated during FY 2008. Success in this area enabled EPA to reduce the unliquidated obligation baseline from \$85 million to \$26 million. By the end of FY 2008, EPA reduced the baseline to \$13M, or 7.2% of total obligations. In addition, EPA recovered \$17 million of the \$24 million lingering at agencies tasked many years ago through IAs to do work on the Agency's behalf. This initiative was launched to limit audit exposure associated with the new "parent/child" reporting requirements.

#### **5. IFMS Vendor Table Susceptible to Unauthorized Changes and Changes Were Not Adequately Documented**

The Inspector General's staff identified a systems capability which allowed changes to a vendor's information without formal detection or notification. Within weeks of the discovery, the Office of Financial Management implemented a real-time auto-generated email notification process to the users, their supervisor, and other appropriate officials. Since then, there have been 2,832 notifications describing 162,070 changes to records for those vendors supporting EPA. As an assurance covering any activity before launching the new process in July 2008, a statistical random sample of 10,500 transactions, a 90 percent confidence level (10.5 percent of the population) was reviewed, and the vendor table changes were determined to be necessary and appropriate. This assurance was based on local attestations by program offices, regions, and finance centers. Only one finance center provided an attestation inconsistent with the guidance provided. As a result, the Inspector General's verification yielded 13 of 45 unsupported transactions. The finance centers under the direction of the Office of Financial Services no longer accept changes to a vendor's information over the telephone and now require and maintain written documentation for all revisions.

#### **6. Improvement Needed in Monitoring Superfund Special Account Balances**

EPA concurs with the finding and has corrected the \$1.3 million in overstated interest. The interest is presented accurately in the FY 2008 financial statements. Future interest year-end draw downs will be monitored closely.

## **7. Lack of Systems Implementation Process Contributed to Financial Applications not Complying with Requirements**

The CFO's Office acknowledges the need for improvements in this area. However, the deficiencies identified were driven by issues unrelated to compliance reviews. For this reason, please consider deleting any language that implies that compliance reviews impeded following prescribed systems requirements. In addition, the Deputy CFO has approved a comprehensive list of areas to evaluate for compliance with systems requirements.

A planned reorganization is intended to provide a central accountable unit over most CFO financial management systems, applications, reporting capabilities, and overall lifecycle. Until the reorganization is finalized, the organizational title for the CFO's systems group remains as the Office of Enterprise, Technology, and Innovation.

## **8. EPA did not Properly Account for Capitalized Software and Related Accumulated Depreciation**

EPA suggests modifying the existing recommendation to "The Assistant Administrator, Office of Environmental Information, will direct staff to develop and implement a control process for Information Management Officers that will require them to ensure accurate and timely updates to their program and regional records in the Registry of EPA Applications and Databases."

In addition, please incorporate the following clarifications: 1) the Office of Financial Services populates the Agency's accounting system for the software lifecycles changes, not the Office of Financial Management; and 2) the cumulative adjusted depreciation is properly reflected in the FY 2008 financial statements along with the accompanying footnote.

## **9. EPA's Asbestos Loan Program Violated the Anti-Deficiency Act**

EPA does not agree that an Anti-Deficiency Act violation took place. The Federal Credit Reform Act of 1990, section 504(f), authorizes increased re-estimated subsidy cost of direct loans as permanent indefinite authority. The Office of Management and Budget, by Circular A-11, Section 120.83, permits automatic apportionment of such re-estimates in credit financing accounts. Since there is a difference of opinion about the character of this transaction, we have notified the Office of Management and Budget of this issue and are currently conducting an internal review with EPA's Office of General Counsel. We await the responses. Depending upon the findings of the review, we will take an appropriate course of action.

Whatever the determination on the status of the Anti-deficiency Act issue, proper procedures were not followed and additional controls and training are being initiated. To strengthen our internal controls, routine briefings with staff within the Office of Budget will be conducted to acquaint them with not just Anti-deficiency Act guidelines but also the more complex requirements that they may encounter in day-to-day operations. The Asbestos Loan Program

will be added to the Agency's annual close-out guidance, normally issued in February, to ensure processing timelines are met before the end of each fiscal year.

The language in the report suggests that the Office of Management and Budget provided comments on this issue. However, the Office of Budget staff has not received any comments from them and request that the reference be edited accordingly.

#### **10. Reimbursable Expenditures Exceeded Funds Collected from Non-Federal Entities**

EPA does not agree that an Anti-Deficiency violation took place. Control of spending under the Anti-Deficiency Act is at the (a) appropriation or (b) fund level [OMB Circular A-11, Section 145.2]. Some of the Agency's spending involves reimbursable work, where apportionment authority for both appropriated and reimbursable funds can apply and under OMB Circular A-11, Section 20.13(b). This means EPA can use relevant appropriated resources or the reimbursable collections. Both had more than adequate apportioned resources, and subsequent obligations were within the apportioned levels, as allowable under the Intergovernmental Cooperation Act (31 U.S.C. 6505). In addition, the Government Accountability Office guidance (71 Comp. Gen. 224 (1992)) states that collections (e.g., such as from states for services requested) are considered as part of the direct appropriation, which means any spending in excess of advanced collections are funded by the original appropriation.

Region 3 followed the agency guidance for requesting reimbursable authority. Funds were collected on October 10, 2006, and recorded in the accounting system prior to requesting reimbursable authority for FY 2007. However payroll charging exceeded the original estimates. Region 3 has corrected the payroll charges to not exceed the amount collected. Note that payroll charging would not be stopped under EPA policy - rather corrections are made after the fact - to ensure that salary is paid timely to employees.

#### **11. EPA Violated the Prompt Payment Act by Not Paying Invoices Promptly**

General Observation: Consider modifying the title of this issue to "EPA Violated the Prompt Payment Act by Not Paying Telecommunication Invoices Promptly." The current presentation suggests that the issue exists with all of EPA's payments, instead of this particular subset.

All 20 invoices have been paid. EPA's records indicate that only 3 of these invoices are subject to interest payments. EPA paid the remaining 17 invoices within the 30 day Prompt Pay requirements based on the date received by the servicing finance center. Since the IG questioned whether interest payments are due for the remaining 17 invoices, the Office of Financial Services will consult with the Office of General Counsel to determine if future actions are required.

#### **12. EPA should Continue Effort to Reconcile Intra-governmental Transactions**

EPA concurs and appreciates the OIG's acknowledgement of the Agency's progress to date.

**Responsible Managers:**

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 Lorna M. McAllister, Director, Office of Financial Management, OCFO

*Raffael Stein* /s/ 11/12/2008 \_\_\_\_\_ Signature/Date  
 Raffael Stein, Deputy Director, Office of Financial Services, OCFO

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 James Newsom, Assistant Regional Administrator, Region 3

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