



FY 1999 AUDITED FINANCIAL STATEMENTS



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MESSAGE FROM THE ADMINISTRATOR

I am pleased to present the U.S. Environmental Protection Agency's Annual Financial Statements for Fiscal Year 1999. These statements summarize EPA's financial activities and highlight the successes achieved by EPA's programs during this time.

Over the past seven years of unprecedented economic expansion, this Administration, working with the Congress, and our state and tribal partners, has distinguished itself through unprecedented environmental progress. On a range of issues in 1999 EPA continued to build on its record of achievements.

- The 1996 amendments to the Safe Drinking Water Act, a fine example of what we can achieve when the Congress and the Agency work together, coupled with the President's Clean Water Action Plan, have contributed greatly to improving the quality of tap water and cleaning up the Nation's waters. More recently, under a new cooperative, intergovernmental process, we recently completed a comprehensive, nationwide assessment of watersheds to help achieve our Clean and Safe Water goal.
- We have placed special emphasis on protecting our Nation's greatest resource - our children - through actions like implementing the Food Quality Protection Act, that for the first time puts emphasis on protecting the health of infants and children from pesticide risks. For example, EPA announced the cancellation of certain uses and risk reduction strategies for the highly toxic organophosphate pesticides methyl parathion and azinphos methyl. Residues from these pesticides are often found on foods children commonly eat. This is the first time the Agency has set standards because of the specific effects a pesticide has on children's health.
- Accelerated cleanups of our Nation's worst Superfund hazardous waste sites have helped ensure that neighborhoods are free from toxic waste sites. EPA and its partners met the FY 1999 goal of construction completion at 85 Superfund sites. Under this administration, more than three times as many toxic waste site cleanups have been completed than were completed in the previous 12 years of the Superfund program.
- Under our Brownfields Assessment Demonstration Pilot Program, we continued to forge stronger partnerships with states, cities, and communities by providing funding and technical support to 307 communities to help them redevelop abandoned or underutilized industrial properties.

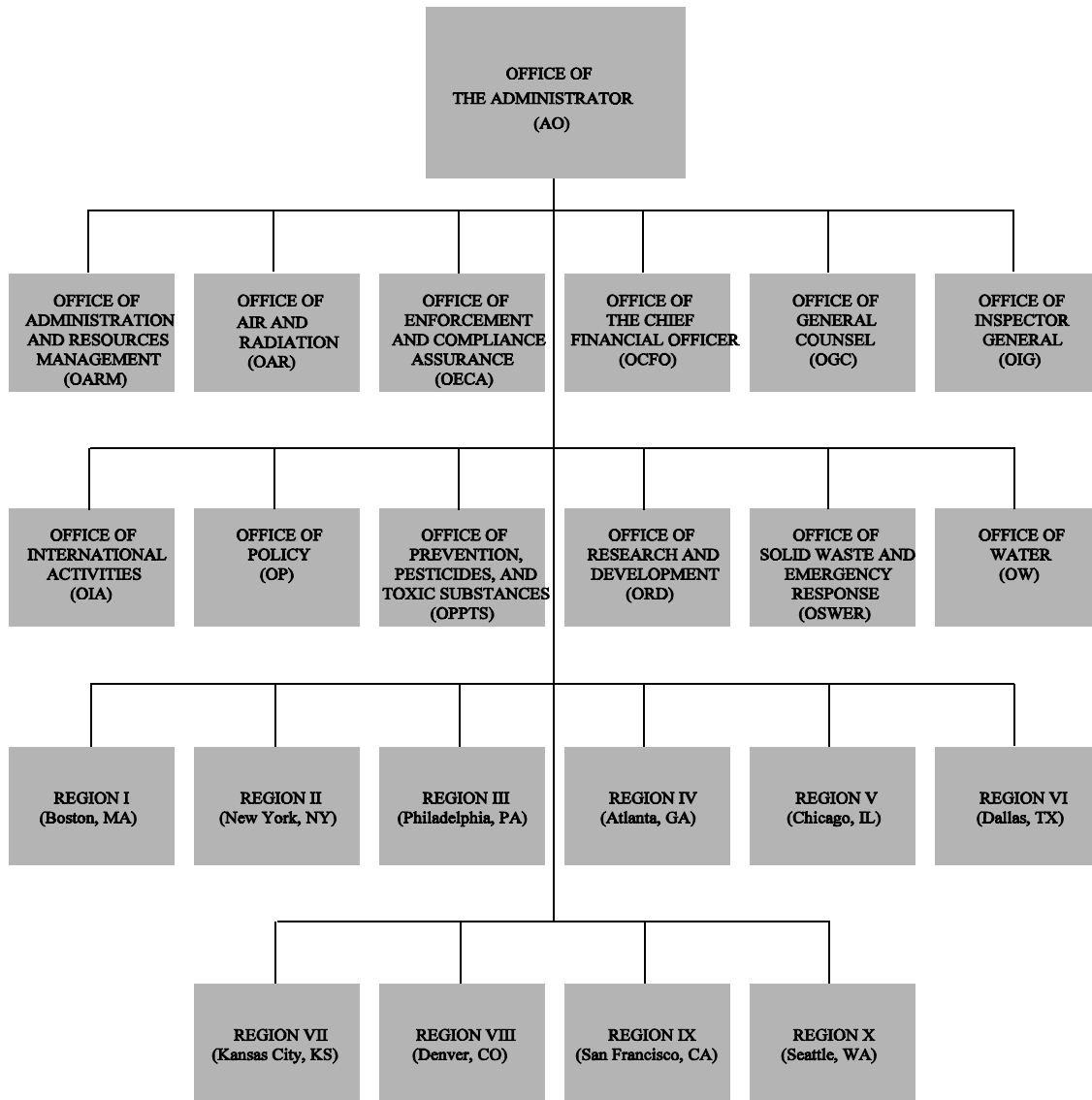
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- Our Nation's air quality continues to improve through cleaner cars and fuels. The President announced a final rule that will give Americans substantially cleaner-burning vehicles and cleaner fuels. For the first time ever, SUVs, vans and light trucks will be held to the same tough standard as cars. By the end of the decade, every single vehicle rolling off the assembly line will be 77 to 98 percent cleaner than the vehicles we drive today. These reductions will be the equivalent of taking 164 million cars off the road, and will prevent thousands of premature deaths and respiratory illnesses. But this action will not limit a consumer's choice in vehicles.
 - EPA's Office of Environmental Information was created to be an innovative center of excellence for the creation, management, and use of information as a strategic resource. Having quality environmental information will enable EPA to make informed decisions, improve information management, reduce reporting burdens, improve public access, and measure success in support of the Agency's mission to protect the environment and human health.
 - Working cooperatively with industry, the public, and local leaders we continued to find innovative, cost-effective, and common sense solutions to environmental and public health challenges. Our Project XL (eXcellence and Leadership) initiative enables companies, states, and localities to redesign current EPA rules if they can formulate alternative systems that are both cheaper and cleaner for the environment.

When I began my service as Administrator, I stated that the Agency would fulfill its mission while adhering to sound management principles designed to ensure prudent and effective stewardship of the taxpayer funds entrusted to us. These financial statements are one major indicator of our commitment to fiscal accountability. I look forward to continued management improvements enabling EPA to link its resources with results, measure its successes, meet the long-term goals and objectives established in its Strategic Plan, and address the critical environmental challenges that will emerge during the new millennium.

Carol M. Browner
Administrator

**MANAGEMENT'S DISCUSSION
AND ANALYSIS (MD&A)**

**U.S. ENVIRONMENTAL PROTECTION AGENCY
(EPA)**



Note: This FY 1999 Organization Chart does not reflect the Office of Environmental Information (OEI) which was established in FY 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Environmental Protection Agency (EPA) was established to lead the nation's efforts to protect human health and safeguard the environment. EPA continues to work in partnership with local, state, tribal, federal and global communities to protect the air, water, land, and public health for all generations. This section contains an overview of the initiatives taken to ensure that all citizens have a clean environment and presents the key financial management highlights of the Agency. [For more detailed information on environmental initiatives, see EPA's FY 1999 Annual Performance Report (APR), to be issued in March 2000.]

EPA's Mission and Strategic Goals

The Agency's mission statement encompasses all of the legislative mandates of its programs and serves as a guidepost for all activities. Our strategic planning framework comprises ten strategic long-term goals that support the Agency's mission. We have articulated a set of objectives for each strategic goal, as well as performance goals to identify the progress we aim to make each year towards longer-term commitments.

Mission

"The mission of the U.S. Environmental Protection Agency is to protect human health and to safeguard the natural environment – air, water, and land – upon which life depends."

Strategic Goals

EPA has ten strategic goals to fulfill this mission. The Agency's Strategic Goals are:

1. Clean Air
2. Clean and Safe Water
3. Safe Food
4. Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems
5. Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response
6. Reduction of Global and Cross-Border Environmental Risks
7. Expansion of Americans' Right to Know About Their Environment
8. Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems
9. A Credible Deterrent to Pollution and Greater Compliance with the Law
10. Effective Management.

Overview of FY 1999 Results

EPA is proud of its FY 1999 contributions to establishing a cleaner, healthier environment. The results presented in this report demonstrate continued progress and reveal a mix of tools and approaches used to protect public health and promote environmental protection. Throughout the year, the Agency maintained close contact with its primary partners—states, tribes, and other federal agencies—whose involvement contributed significantly to the annual accomplishments discussed in this report and progress toward the longer-term environmental results.

For FY 1999, EPA can report significant accomplishments that contributed to cleaner air and land and safer food and water, meeting the majority of the 69 annual performance goals (APGs) to which the Agency committed in its FY 1999 Annual Plan. The Agency is also on track to achieve several APGs with targets that fall beyond FY 1999. Final results are not yet available for a number of APGs due to differences in reporting schedules. Owing to a variety of factors, EPA did not achieve some of the accomplishments it had planned for FY 1999. A table showing detailed results for EPA's 69 APGs is included in the Appendix of the FY 1999 APR.

Selected Accomplishments

Innovative Approaches to Environmental Problems

EPA is taking a fresh look at environmental problems and their solutions. We are devising more efficient and effective regulatory programs, expanding cooperative partnerships, and building simpler and more flexible processes for rule-making and permitting. We have some exciting results to report.

A 25-Percent Reduction in Acid Rain. In the Northeast and Mid-Atlantic regions of the United States, where ecosystems are most prone to acidification, acid deposition has declined by up to 25 percent through the efforts of the acid rain program, which implements a system of emissions trading known as “cap and trade.” This successful, market-based program was established by the Clean Air Act to control emissions of sulfur dioxide (SO₂) from electric power plants that cause acid rain and other environmental and public health problems. The “cap and trade” system is innovative in its use of the market to achieve greater environmental results for a given cost than are possible through traditional approaches. The program places a mandatory ceiling, or cap, on emissions nationwide from electric utilities, and allocates emissions to these pollution sources in the form of allowances. At the end of the year, sources must hold one allowance for each ton of SO₂ they emitted. Extra allowances may be banked (or carried over) for future use, or sold to other companies. This flexibility gives utilities the opportunity to find cost efficiencies while ensuring that overall emission reductions are achieved. Estimates by Edison Electric Institute in 1989 of estimated costs under traditional approaches were \$7.4 billion by 2010, versus EPA's initial estimate of \$4.6 billion under “cap and trade.” Based on recent compliance cost information, a 1998 Resources for the Future report estimated costs of SO₂ emissions reductions to be less than \$1 billion by 2010.

Early Progress in Food Safety. EPA is piloting a new approach to broaden public participation in decision-making on older agricultural pesticides. We are confronted with a large number of pesticides that were registered, or licensed for use, before tough standards for food safety were enacted into law. EPA is required by statute to evaluate these pesticides to set safe limits for their residues on foods, also called “food tolerances.” Our new approach to reassessment makes the process more transparent to the agricultural community, whose members are most directly affected by Agency findings. We are pleased to report that, as of September 30, 1999, EPA exceeded the statutory requirement of evaluating 33 percent of the 9,721 existing pesticide food tolerances, completing a net total of 3,430 reassessments (over 35%).

Regulations that Produce Better Environmental Results. One of EPA’s boldest innovations, Project XL (“eXcellence and Leadership”) was created through the President’s Reinventing Environmental Regulation Initiative. In FY 1999, EPA approved five more regulatory pilot projects through Project XL, bringing the number of pilot experiments in the implementation stage to 15. An additional 36 XL proposals were either under development or in negotiation, bringing the total number of projects to 51, meeting the Agency’s goal for FY 1999. To date, these pilots have revealed over 40 opportunities for improving environmental regulations, and eight innovations have already been incorporated into EPA regulations, permitting, and stakeholder involvement approaches. Project XL gives approved regulated sources the flexibility to develop alternative strategies to replace or modify specific regulatory requirements, contingent upon the production of greater environmental benefits.

Innovative Partnerships for Environmental Results

EPA could not have achieved the results described in this document during FY 1999 without forging innovative partnerships with many different governments, groups, and agencies. The Agency operates with the active participation of state and local agencies, tribes, community leaders, businesses, and private citizens to develop the most effective standards for public health and environmental protection.

Targeting Clean Water Efforts, from Coast to Coast. EPA’s Strategic Plan includes a commitment to expand our focus on watersheds in pursuit of our goal for Clean and Safe Water. FY 1999 brought to fruition a cooperative, intergovernmental process to assess the condition of the nation’s watersheds. For the first time, all 50 states, the District of Columbia, five territories, and numerous tribes each completed a comprehensive, nationwide assessment of watersheds within their boundaries, with guidance from EPA, the U.S. Department of Agriculture, and other federal agencies. The results incorporate water quality data, habitat conditions, endangered species listings, and other environmental factors. Taken together, this information helps all agencies identify the aquatic resources in greatest need of restoration and/or protection under the Clean Water Action Plan.

A Cleaner Environment, a Stronger Economy. During FY 1999, EPA’s government/industry partnership programs contributed to the reduction of annual greenhouse gas emissions in total by 35 metric tons in carbon equivalent. The Agency’s climate change efforts are part of the President’s

five-year Climate Change Technology Initiative included in the 1999 Budget and are designed to overcome barriers to investments in more efficient technologies by consumers, businesses, and others. EPA promotes energy-efficient technologies through programs such as the Energy Star Labeling Program and the Voluntary Aluminum Industry Partnership. Our support for innovation enables industries to limit greenhouse gas emissions and at the same time improve local air quality, save money for consumers and businesses, and enhance overall economic productivity.

Making the Most of our Land. In FY 1999, EPA demonstrated its commitment to Brownfields redevelopment by meeting its goal to provide funding and technical support to 80 communities, bringing the total communities served to 307. The Brownfields Assessment and Development Program supports the assessment, cleanup, and redevelopment of industrial and commercial properties that have been abandoned or underutilized due to real or perceived environmental contamination. Redevelopment efforts are designed to empower states, communities, and other stakeholders to work together on Brownfields projects. EPA and its partners also met the Agency's goal to complete construction at 85 Superfund sites in FY 1999. Major administrative reforms in the Superfund program have enabled us in the past seven years to complete construction at over three times the number of sites achieved during the first twelve years of the program.

Managing and Improving Environmental Information

EPA is working to assemble and manage more precise information about the environment to present a more complete picture to the public and to enhance Agency decision-making. During FY 1999, EPA made notable advances in the quality of data being produced and the availability of environmental information to all partners and stakeholders. When all of us—state and tribal governments, non-governmental and private organizations, communities, and individual citizens—have access to valid, consistent, and comprehensible data about environmental conditions, we can work together more effectively to address environmental problems and reduce exposure to harmful substances.

Establishing Common Data Standards. The State/EPA Information Management Workgroup, founded to promote compatible data standards and systems designs, has negotiated a common vision and operating principles for managing environmental information. Although EPA and state agencies are committed to sharing environmental data, the variety of data standards currently in use makes it difficult to integrate information or create accurate composites of environmental conditions. The workgroup has established multi-party action teams to identify and promulgate joint environmental data standards. In FY 1999, the teams completed standards for facility identification and standard date, and work is currently underway on standards for latitude/longitude, industrial classification, chemical identity, and biological classification.

Putting Information into the Hands of the Public. The Agency recognizes that making environmental and public health information available to local residents is one of the most effective ways to reduce local pollution and prevent it from happening in the future. EPA, the Environmental Defense Fund, and the Chemical Manufacturers Association achieved considerable success in FY

1999 during the first phase of the Chemical Right-to-Know Initiative. The focus was on 2,800 chemicals produced and imported at volumes exceeding one million pounds per year which, therefore, present significant chance of public and environmental exposure. The Right-to-Know initiative aims to identify and make public basic screening-level information on these chemicals, including some that may present particular concerns for children's health. Over 200 companies committed voluntarily to provide screening level toxicity information on over 1,150 of the chemicals in question.

New Information about Human Health and the Environment. Research and development programs at EPA seek out more innovative, effective ways to gather and distribute information about environmental health risks. The endocrine disruptors research program is producing important results by expanding our knowledge of how exposure to certain chemicals can affect human endocrine systems. In FY 1999, the Agency initiated a study to examine children for the effects of two endocrine-disrupting chemicals (EDCs). This study will help to characterize the key factors that influence human exposures to these chemicals and other persistent pesticides, toxics, and metals. It will also help produce a field exposure study protocol to support a follow-on larger-scale study to begin in FY 2000. The data from these studies will teach us more about where, when, and how children and other sensitive sub-populations are exposed to these kinds of environmental contaminants.

Transforming Information Management for the Next Century. During FY 1999, EPA laid the groundwork for a new office dedicated to information and information access issues. Formally established in FY 2000, EPA's Office of Environmental Information (OEI) will play a significant role to advance the creation, management, and use of data as a strategic resource. OEI will work closely with EPA's external partners to meet their data needs, develop appropriate policies regarding data protection and information security, create and oversee information standards and records management policies, and enhance the security and reliability of EPA's information infrastructure. The office supports the Agency's mission by integrating quality environmental information to maximize its usefulness for decision-makers.

Year 2000 (Y2K) Activities

In FY 1999, EPA positioned the Agency's information technology assets to successfully transition to the upcoming calendar year change. All 50 EPA mission critical systems were assessed, renovated, and certified through an independent certification program. In addition, the Agency's major computing platforms (mainframe, client/server, supercomputer) and wide area telecommunications networks were 100 percent compliant. EPA also completed assessment and renovation of its 1,475 non-mission critical systems, as well as renovations to 28 data exchanges, which are a combination of mission critical and non-mission critical systems. Currently, the Agency is monitoring the post Y2K transition testing process for mission critical and non-mission critical systems. This will enable EPA to determine whether or not the moratorium on modifications to information technology assets is needed through March 15, 2000.

EPA assessed all leased and owned buildings for Y2K compliance. The Agency received written confirmation from the General Services Administration (GSA) on March 1, 1999, that all EPA space was successfully evaluated and compliant. To address any adverse impact of the century change on EPA facilities, the Agency prepared guidance for all facility managers and coordinated the preparation of facility contingency plans specifically addressing building systems. The Agency completed testing facility contingency procedures and identified corrective actions.

To address worst case scenarios of the Y2K transition and ensure continuity of the core business processes, the Agency developed procedures to respond to threats and risks of the calendar year change. Through careful business process analysis, the Agency's Business Continuity and Contingency Planning (BCCP) methodology includes state and local interfaces, where appropriate. The Agency's BCCP also includes cross-cutting programmatic threats that may affect the continuity of business operations.

Within the Agency's BCCP methodology, EPA formed business resumption teams (BRTs) for each of the following nine core business processes:

- Protection of Air Quality
- Protection of Water Quality
- Safe Disposal of Waste Products
- Regulation of Pesticides and Toxic Substances
- Emergency Response to Environmental Emergencies
- Research and Development to Improve the Understanding of Environmental Risks
- A Credible Deterrent to Pollution and Greater Compliance with the Law
- Expansion of Americans' Right-to-Know About Their Environment
- Financial/Administrative Management of Agency Operations

The overall goals of the BRTs are to: 1) identify threats/risks and business priorities for its own core business process; 2) develop and embellish a set of contingency procedures; 3) review and rehearse procedures; and 4) enhance and implement procedures. EPA's BCCP Life Cycle includes milestones for corrective actions for identified contingencies and procedures through a series of workshops, rehearsals, and follow-up meetings.

The following table represents the historical and estimated future costs for Agency Y2K activities:

Fiscal Year	1996	1997	1998	1999	2000	Total
Cost (in Millions)	\$0.8	\$5.3	\$11.5	\$22.3	\$1.0	\$40.9

Building on Lessons Learned

As a learning year, FY 1999 provided EPA many opportunities to identify and develop the capabilities essential for results-based management. The Agency knows that future successes will

depend in large measure on its ability to set quantifiable, attainable goals and targets; to forecast external factors that may have an impact on program planning; to measure performance and results more precisely; and to analyze more accurately the relationships among costs, activities, and results.

For a variety of reasons that affected the Agency's ability to accomplish what it had planned, EPA achieved less than full performance for several of its 69 FY 1999 APGs discussed in the Agency's FY 1999 APR. The Agency does not expect the shortfall in meeting these annual performance targets, however, to compromise its progress toward the long-range goals to which they contribute. For example, the Agency met the statutory and cumulative goal of reassessing existing tolerances for pesticide food uses, but missed its annual target due to efforts to strengthen involvement of the agricultural community in the reassessment process. In another case, the Agency added only four states (out of the eight that were planned) to the One Stop Reporting program in FY 1999. However, EPA did develop a technology transfer activity to support states' efforts to increase their level of information integration. While they may not have resulted in the performance planned for FY 1999, these and other such efforts build a strong foundation for longer-term progress towards the Agency's goals.

In some cases, external factors affected the Agency's ability to achieve planned APGs. For example, due to difficulties reaching agreements with developing nations, EPA delivered 16 international training modules instead of the 30 originally planned. Similarly, the Agency's decision to relinquish interest in the Wilson Building so that the District of Columbia Government could return to its historic home delayed the consolidation of EPA Headquarters offices at the Federal Triangle.

Looking Ahead

In addition to the missed APGs, other program issues will need careful attention by the Agency and our partners if we are to maintain progress towards the achievement of long-term performance results. The Agency is working to address these challenges as we continue to strive for environmental outcomes.

Air Court Case: Implications for Future of EPA's Regulations. In May 1999, in a split decision (2 to 1), a panel of judges on the U.S. Court of Appeals for the D.C. Circuit held that the Clean Air Act, as applied in setting the new public health air quality standards for ozone and particulate matter, represents an unconstitutional delegation of legislative authority. The Court's decision calls into question these important new health air standards for ozone and particulate matter, which would protect the health of 125 million Americans, including 35 million children. Ozone and particulate matter are harmful pollutants that together contribute to acute health effects ranging from premature death to asthma and other respiratory problems. The Court's decision stands in the way of EPA's public health protection efforts and carries with it long-term implications not only for these new air quality standards, but also for many other federal regulations containing broad grants of authority to executive branch agencies. In January 2000, the Administrator filed a certiorari petition seeking Supreme Court review of key aspects of the Court's opinion.

Nonpoint Source Pollution. Nonpoint source (NPS) pollution is the nation's largest contributor to water quality problems. There are literally millions of diffuse sources of polluted runoff from agricultural lands, residential areas, city streets, and forests, and from pollutants settling out of the air. A key challenge for the future is to foster a national commitment to preventing nonpoint source pollution, assuring adequate investments by federal, state, tribal and local governments to fund projects to address these problems.

Performance Information: Need for Improved Data Quality and Availability. EPA gathers much of its data on the environment from sources outside the Agency, whose reporting cycles and data standards vary widely. For this reason, EPA has concerns about data quality, availability, and measurability. In a few instances, data relevant to FY 1999 performance are either lacking or of poor quality. We need accurate baseline data to measure performance effectively. EPA goal teams—bringing together representatives from all Agency offices whose work contributes to progress on our strategic goals—are working to determine what data are needed to set the baselines so that we can assess results over the long term. We are also working to develop performance measures that focus more on the outcomes of our work than on our programmatic outputs.

Need for Improved and More Accessible Information. EPA, in cooperation with the states and tribes, must advance efforts to reinvent environmental information by adopting formal data standards, providing universal access to electronic reporting, and re-engineering the Agency's national data systems. EPA must use efforts such as joint EPA/state/tribal information activities, Environmental Monitoring for Public Access and Community Tracking (EMPACT), Environmental Justice grants, and drinking water Consumer Confidence Reports (CCRs) to help provide communities and individuals with the information and tools they need to address environmental problems. EPA is striving to provide information in simpler, clearer terms and make it more accessible to states and local governments, the regulated community, and the public.

Future Trends

A number of current trends, which are likely to continue into the future, will have implications for the success of EPA's programs. The increasing likelihood of climate-change-driven weather extremes, such as more frequent hot, dry summers, may make it increasingly difficult to reach attainment with air quality standards, despite the full implementation of emission control plans. Similarly, droughts and floods, such as those that occurred in 1999, can significantly impact the success of the Agency's water and waste programs. As evidenced by the nation's recent experience, flood waters can disrupt hazardous waste sites and spread animal and other wastes. Drought conditions can preclude reliance on dilution to improve water quality. The Agency and its partners have established some pollution control strategies predicated upon fairly typical temperature and precipitation regimes; however, these control strategies may be less likely to succeed, as we are exposed to increasing climate and weather extremes.

Population growth, and the attendant development of suburban and urban areas, pose further implications for environmental protection programs. Sprawl places increased demands on

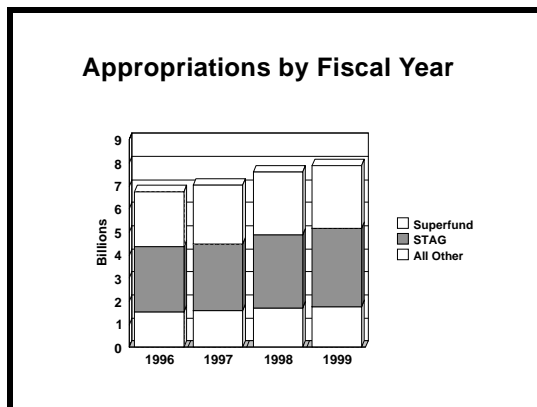
transportation, and can result in more people relying heavily on private vehicles. The need to drive more, coupled with the trend towards larger vehicles such as sports utility vehicles, can contribute to increased emissions of conventional pollutants and greenhouse gases such as carbon dioxide. In addition to air quality concerns, population growth places increased pressure on the nation's infrastructure for providing clean and safe water. This concern is especially apparent as the U.S. population grows in southern and southwestern states with fewer water resources and often less highly-developed water and wastewater treatment infrastructures.

The current trend of general economic growth and increased consumer demands will also bear upon the success of EPA's programs across all media. If domestic manufacturing and production rise to meet the demands of wealthier, more prosperous consumers, waste streams and air and greenhouse gas emissions are likely to increase.

Financial Analysis Highlights

Financial Trends

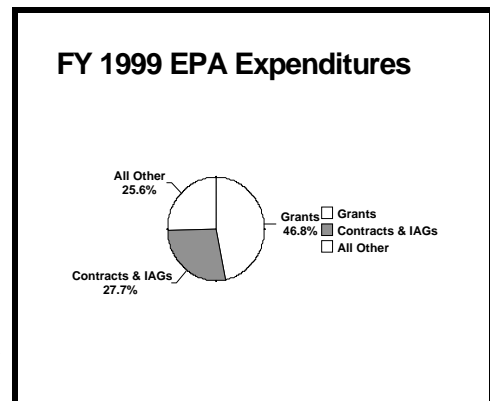
Appropriation Levels for FY 1996-1999. For Fiscal Year 1999, Congress appropriated a total of \$7.9 billion to the Agency. A comparison of total Agency appropriations for Fiscal Years 1996 through 1999 is provided in the following chart:



The chart is categorized by Superfund, State and Tribal Assistance Grants (STAG), and All Other. The Superfund appropriation category is net of transfers to the Science and Technology (S&T) and Office of Inspector General (OIG) appropriations. The All Other category includes appropriations for OIG, Oil, Leaking Underground Storage Tank (LUST), Buildings and Facility, Environmental Program and Management (EPM), and S&T.

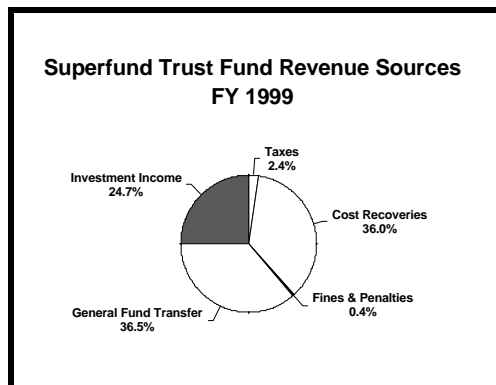
FY 1999 Expenses. In Fiscal Year 1999, EPA expended \$7.7 billion using current and prior year appropriation authority. Of this amount, as depicted, 74.9 percent was expended for contracts, inter-agency agreements, and grants.

Superfund Financial Trends. The U.S. Congress passed the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) (P.L. 96-510), which formally established the Superfund program and the Hazardous Substance Response Trust Fund, now known as the Hazardous Substance Superfund (Trust Fund). Although CERCLA has not been reauthorized



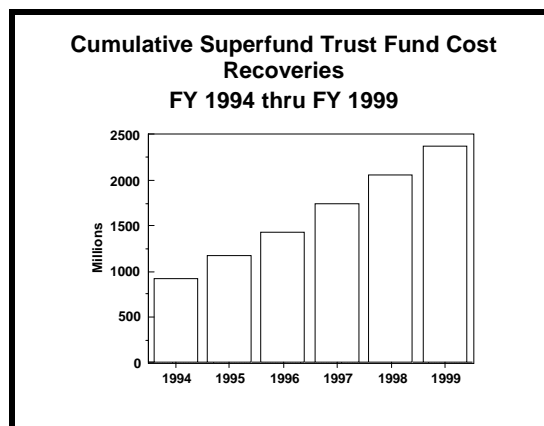
since 1995, the Superfund program continues to operate each year by way of annual Congressional appropriations.

The Trust Fund, which is administered by the Bureau of Public Debt, U.S. Department of the Treasury (Treasury), is the primary financing source for the Superfund program. For FY 1999, Treasury reports that the Trust Fund received \$889.5 million in receipts from the revenue sources shown in the following chart:



The Superfund program's authority to tax expired on December 31, 1995. Consequently, tax revenues have diminished and the remaining revenue sources for the Trust Fund are: cost recoveries; interest, fines, and penalties; interest from Trust Fund investments; and general revenues. Due to diminishing revenues, EPA has increased its efforts to conserve existing Trust Fund balances and replenish the Trust Fund with all eligible revenues. Specifically, EPA has done the following to accomplish these goals:

- ◆ Reemphasized its “enforcement first” philosophy to compel Potentially Responsible Parties (PRPs) to clean up their sites. By having PRPs perform clean-ups, EPA can reduce related response and legal enforcement costs which result in cost savings to both the taxpayer and the Trust Fund.
- ◆ Accelerated efforts to pursue cost recovery (see chart). During FY 1999, EPA recovered \$319.7 million -- the largest cost recovery amount for a one year period to date.
- ◆ Placed increased emphasis on debt collection activities to pursue unpaid debts owed EPA.
- ◆ Diversified the Trust Fund's investment portfolio, with direction from Treasury, to return a higher rate of interest to the Fund.



Office of the Chief Financial Officer's (OCFO's) Accomplishments

Financial Performance Measures. OCFO tracks nine Core Financial Management Performance Measures for monitoring the key functions in EPA's 14 finance offices. The measures cover the timeliness of processing of payments (commercial, grant, travel, payroll), recording of contract obligations and accounts receivable, and reconciling cash as well as the use of electronic payments for travel and payroll. The Agency improved its performance compared to FY 1998 and exceeded the performance goals for all the measures during FY 1999.

Benchmarking. EPA, as a CFO Council member agency, participated in a Benchmarking project sponsored by The Hackett Group, an organization that conducts benchmarking studies for the private sector. EPA's business processes were compared to other government agencies and to private sector companies in areas such as transaction processing, control and risk management, decision support and finance function management. EPA compared very favorably against both government and private sector averages in the number of finance FTEs per billion dollars of appropriations (equated to revenues for private sector comparison) and the FTE staff time allocated to processing financial transactions (lowest among both government and private sector).

One area of concern that the study revealed was the overall cost of EPA's financial systems. OCFO is evaluating replacement systems and other measures to bring these costs in line with government and private sector averages.

Integration of Planning, Budgeting, and Accounting. EPA prepared its FY 1999 Annual Plan and Budget by linking resources to the Goals and Objectives in the Agency's Strategic Plan in accordance with the requirements of the Government Performance and Results Act (GPRA) and other related management reform initiatives. The General Accounting Office (GAO) commended EPA for being the first Agency to succeed at full integration of budget requests and annual performance plans. During the year, substantial enhancements were made to the Agency's Budget Automation System (BAS) to allow the resource community greater flexibility in formulating their budgets. The GPRA structure is used to account for the costs of our programs and meets the requirements of the Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, that requires Agencies to account for the "full costs" of their outputs.

Working Capital Fund. In 1999, the Working Capital Fund (Fund) completed its third year of providing administrative support services to Agency offices on a fee-for-service basis and ended its protected status as a mandatory source for services provided to internal Agency customers. The Fund is expected to demonstrate additional savings through increased efficiencies driven by market forces.

In 1999, the Fund operated two successful business activities, providing customers postage services and an array of telecommunications and data processing services. As expected, the Fund has promoted effective resource utilization Agency-wide by more clearly identifying to Agency managers, who must now account for the cost of administrative services in their budget planning, both the resources their organizations consume and the cost of those resources. EPA has experienced a 20 percent reduction in its postage costs, a savings of approximately \$1 million annually, simply through reduced internal demand. Similarly, EPA experienced significant savings in its telecommunications and data processing operations. For FY 1996, the year before the Fund commenced operations, these activities consumed approximately \$114 million of the Agency's appropriated budget. Actual costs for these operations dropped to approximately \$102 million in FY 1997 (first year of Fund's operations). Costs were \$114.1 million and \$127.8 million in Fiscal Years 1998 and 1999, respectively. Fund administrators are currently examining a business case

analysis for including certain payroll services within the Fund, and additional expansions are contemplated within the next several years.

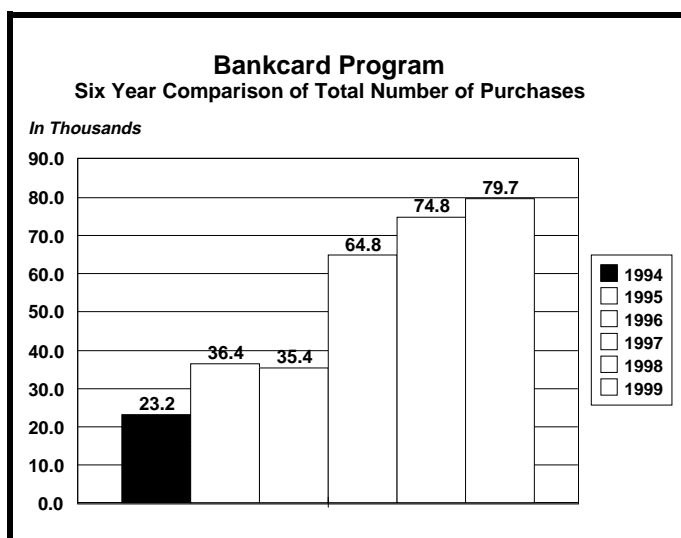
FY 1999 Biennial Review of EPA User Fee Systems. The Chief Financial Officers Act of 1990 (CFO Act), Section 902(a)(8), directs EPA’s Chief Financial Officer to: “review on a biennial basis, the fees, royalties, rents and other charges imposed for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.”

The Agency’s FY 1999 review was conducted in accordance with the CFO Act and provisions set forth in Office of Management and Budget Circular A-25, “User Charges.” During this review process, the Agency assessed its existing fee systems, made necessary revisions and identified potential new fee systems. EPA has six existing fee systems: Motor Vehicle and Engine Compliance Fee, National Radon Proficiency Program Fee, Maintenance Fee, Tolerance Fee, Premanufacture Notice Fee, and Lead Accreditation and Certification Fee. The Agency is also proposing several new fees: Outside User Fee, Tolerance Fee, Registration “Fee for Service,” Registration Review, and Registration Fee.

The preliminary results of the review reveal that the Agency is taking reasonable and appropriate actions to ensure that fees reflect costs where it would not adversely affect the service provided and where EPA has the statutory authority to do so. A formal report is being prepared and is expected to be completed by March 2000.

Re-engineered and Streamlined Payment Processes. In 1999, the Agency successfully re-engineered and/or streamlined several payment processes to ease the burden on external and internal customers, reduce the reliance on paper documents, and help the Agency take advantage of rebates and discounts for prompt payment. The benefits from these efficiencies flow back to EPA’s program offices and are used to further the Agency’s mission.

For small purchase payments, the Agency worked closely with its new credit card issuer to streamline invoicing and recording of accounting data. The Agency also developed new intranet-based reporting tools to facilitate cost allocation and expanded the use of automated tools to reduce duplicate data entry. The bank card effort alone allowed EPA to earn about \$365 thousand in rebates in 1999.



For travel and transportation payments, EPA implemented a new credit card to offer over 16,000 Agency employees a way to better manage their accounts and to provide the Agency with rebates and new administrative tools.

For contractor payments, the Agency moved aggressively to use electronic imaging of contracts to make information more accessible while reducing the use of paper. EPA introduced a new release of the Electronic Approval System (EASY) and expanded the use of the system to 94 project officers, up from 20 in 1998. EASY provides project officers a streamlined on-line invoice approval process. This re-engineering enabled EPA to pay 99.9 percent of invoices on time and earn over \$344 thousand in discounts in 1999.

Payment Related Initiatives Under Way. Three initiatives are under way to re-engineer and automate payment processes. First, by the end of September 2000, all EPA grant payment offices will have implemented Treasury's Automated Standard Application for Payments (ASAP) which standardizes federal payment request procedures for grant recipients. Second, a dedicated team thoroughly analyzed alternatives for replacing the aging EPA Integrated Payroll and Personnel System (EPAYS) and recommended a product that will interface easily with other agency software, automate a number of tasks, and provide high quality information to employees. Third, in 1999, the Agency obtained a new intranet-based release of Travel Manager Plus (TM+) software that allows travel documents to be prepared, processed, and approved on-line. TM+ will interface with the Agency's Integrated Financial Management System (IFMS) to allow the automatic obligation and disbursement of funds from fully approved documents.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the FY 1999 financial statements of the Environmental Protection Agency (EPA). Identifying strengths and weaknesses is a key component in the continuous improvement of financial management at EPA. This document reflects the progress the Agency has made and signals our commitment to addressing the challenges we still face.

EPA's financial statements have a slightly different look this year with the inclusion of Management's Discussion and Analysis (MD&A) in place of the Overview found in the FY 1998 Audited Financial Statements. The MD&A highlights EPA's financial and programmatic accomplishments in FY 1999, as well as current and future challenges.

In FY 1999, EPA furthered its commitment to strong program performance and financial management through activities such as the following:

- Laid the ground work for a new Office of Environmental Information that will help Agency programs use information as a strategic resource.
- Successfully converted the Agency's financial management systems to comply with Year 2000 (Y2K) requirements.
- Integrated planning, budgeting, and accounting by linking resources with the ten strategic goals and related objectives in the Agency's Strategic Plan.
- Achieved the majority of the 69 annual performance goals included in the Agency's FY 1999 Annual Plan, and remained on track to achieve several goals with targets falling beyond the FY 1999 time frame.
- Improved performance relative to FY 1998, and exceeded FY 1999 performance targets, for timely payment processing (commercial, grant, travel, and payroll), recording of contract obligations and accounts receivable, and using electronic payments for travel and payroll.
- Implemented a new bank card program for travel and small purchases, increasing EPA's use of electronic mechanisms for financial transactions.

These actions are just a few of the many activities that comprise the Agency's overall strategy for strengthening financial management and programmatic functions at EPA. We will continue to identify other ways to improve financial management functions and ensure that dollars spent will be used as efficiently as possible to carry out our mission.

The preparation of the financial statements has been a collaborative effort among OCFO, the OIG, and the Agency's program offices. I want to acknowledge the hard work and commitment of all the employees throughout the Agency who contributed to this effort.

Michael W. S. Ryan
Acting Chief Financial Officer

**CFO
ANALYSIS**

Chief Financial Officer's Analysis of the FY 1999 Audited Financial Statements

The *Chief Financial Officers Act of 1990* (CFO Act), as amended by the *Government Management Reform Act of 1994* (GMRA), requires EPA to prepare agency-wide financial statements. The Agency has categorized its appropriations for presentation in the FY 1999 financial statements as follows:

- Hazardous Substance Superfund Trust Fund (Superfund), and
- All Other Appropriations (All Others).

Summary of Auditors Report and Opinions

The Agency prepared the following FY 1999 Financial Statements: Statement of Financial Position (Balance Sheet), Statement of Changes in Net Position, Statement of Net Cost, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity. The Office of Inspector General (OIG) did not identify any material inconsistencies between the information presented in EPA's Management's Discussion and Analysis (MD&A) and in the principal financial statements. However, the OIG did identify exceptions in rendering its opinion that the Agency's financial statements are fairly presented.

In its February 10, 2000, draft audit report, the OIG raised for the first time an opinion level question regarding support for an amount identified in a footnote to the Statement of Changes in Net Position that related to the Superfund equity line titled "Other." OCFO provided the OIG with an explanation and backup documentation for this amount on February 24, 2000. OIG in its final report has indicated that the support was not provided in time for them to apply audit procedures.

In addition, on February 28, 2000, the OIG raised another issue affecting the Statement of Financing. The OIG stated that the Agency was unable to provide support for the composition of the "Other" line item in the Statement of Financing for All Other Appropriations Funds. In fact, the line item consisted mostly of prior period and other adjustments that could have been audited. The OIG did not request an explanation nor supporting documentation for this amount.

Report on Internal Controls

In evaluating the Agency's internal controls the OIG stated that the Agency made some improvements in its financial statement preparation process but they also stated that the financial statements provided to them were incomplete and contained significant errors. The OIG proposed the financial statement preparation process as a material weakness.

We disagree with the categorization of the OCFO financial statement preparation process as a material weakness. The Agency took aggressive action to meet the milestone dates for the FY 1999 statements and to ensure quality data. We cooperated fully on a time line jointly developed by the CFO and the OIG. While we agreed to some of the presentation enhancements proposed by the OIG, in some instances, the issues raised by the auditors were not errors in the underlying accounting data in the system. In other instances the auditors' findings of error related to differences in professional judgement on the application of accounting standards and presentation on the financial statements. While we agree that the financial statement process can be significantly improved, we do not believe the process constitutes a material weakness that places the agency at risk in preparing reliable financial statements.

Compliance with Laws and Regulations

Compliance with the Federal Financial Management Improvement Act (FFMIA)

The OIG identified the following as instances of substantial noncompliance with FFMIA requirements:

- The OIG stated that our revised security plans for EPA's core financial systems continued to be substantially noncompliant with federal financial management system requirements. The OIG stated that they believed the security plans did not adequately address the system's operational security controls and still lack significant detail to document critical operational controls.
- The OIG stated that EPA's methodology for accumulating and reporting costs by the Agency's ten strategic goals could not be relied upon to fairly state the Agency's cost to achieve each goal. Therefore, they believed EPA managers did not have adequate cost accounting data to manage their programs.
- The OIG stated that the Agency was able to report "trading partner" information on only a portion of its intragovernmental transactions.

Regarding the security plan, OCFO is developing a Remediation Plan to address the security issues raised and will incorporate them in FY 2000 security plan actions.

On cost accounting, we agree that improvements can be made. However, we believe the Agency's current policy and practices substantially comply with federal Managerial Cost Accounting Standards (SFFAS 4). Further, the OIG's primary issue relates to year-end audited financial statement presentation. This concern does not necessarily reflect upon the reliability of the Agency's underlying accounting data. OCFO provides Agency managers a variety of management reports and ad-hoc reporting tools which enables officials to manage their programs on an on-going basis. OCFO will continue to work with the OIG, however, to improve EPA's cost accounting capabilities.

OCFO also acknowledges that the Agency's FY 1999 Financial Statement reporting did not fully meet the most recent OMB and Treasury requirements for "trading partner" information. Those requirements were not issued until late FY 1999 and FY 2000. We have taken steps since then to ensure that Agency intergovernmental transaction data will be correctly identified for the FY 2000 statements and that we will meet the overall reporting requirements for FY 2000.

Other Noncompliance Issues

The OIG did not identify any instances of noncompliance with laws and regulations that would result in material misstatements to the audited financial statements. However, the OIG did report two issues under the category of compliance with laws and regulations that, while not material, they still considered to be significant. OCFO has worked with the Agency's Office of General Counsel in resolving both issues.

The first concerned finding reported in past years about the Agency's practices for recording disbursements against grants funded with more than one appropriation. The Agency has since issued a revised policy "Accounting for Resources under the Government Performance and Results Act (GPRA)," which changes the way that grant disbursements, as well as other Agency transactions, are charged.

The second issue concerned Agency compliance with Office of Management and Budget (OMB) Circular A-25, "User Charges." OCFO recently completed a Biennial Review of the Agency's user fee systems. The review was performed in accordance with the CFO Act and provisions set forth in OMB Circular A-25. We expect to issue the final report on the 1999 Biennial Review of the Agency's user fee systems by March 15, 2000.

Impediments to Correcting Problems

Gathering information on grant accruals has been a major challenge for the Agency in the preparation of its financial statements. For the preparation of the FY 2000 statements, we plan to work with the OIG in streamlining this process.

Progress in Correcting Previously Identified Problems

The financial statement preparation process was identified as a material weakness last year. As we noted above, under our "Report on Internal Controls," we addressed the problems identified in the development of the FY 1998 financial statements in the preparation of EPA's FY 1999 financial statements and are committed to further improvements in FY 2000.

In last year's audit report, the OIG recommended two improvements in the accounts receivable area. In response, we clarified our policies and provided training and guidance to resolve these issues.

**PRINCIPAL
FINANCIAL
STATEMENTS**

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**Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 1999
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	\$ 20,069	\$ 10,794,978	\$ 10,815,047	\$ —	\$ 10,815,047
Investments (Note 4)	4,417,886	1,398,005	5,815,891	—	5,815,891
Accounts Receivable, Net (Note 5)	48,982	55,194	104,176	(2,513)	101,663
Other	<u>3,037</u>	<u>7,801</u>	<u>10,838</u>	<u>(2,638)</u>	<u>8,200</u>
Total Intragovernmental	4,489,974	12,255,978	16,745,952	(5,151)	16,740,801
Accounts Receivable, Net (Note 5)	643,255	88,565	731,820	—	731,820
Loans Receivables, Net - Non Federal (Note 6)	—	101,312	101,312	—	101,312
Cash (Note 3)	—	55	55	—	55
Inventory and Related Property, Net (Note 7)	—	237	237	—	237
Marketable Securities Equity (Note 4)	5,146	—	5,146	—	5,146
General Property, Plant and Equipment, Net (Note 8)	13,407	385,968	399,375	—	399,375
Other	<u>835</u>	<u>2,668</u>	<u>3,503</u>	<u>—</u>	<u>3,503</u>
Total Assets	<u>\$ 5,152,617</u>	<u>\$ 12,834,783</u>	<u>\$ 17,987,400</u>	<u>\$ (5,151)</u>	<u>\$ 17,982,249</u>
LIABILITIES					
Intragovernmental:					
Accounts Payable	\$ 89,594	\$ 2,737	\$ 92,331	\$ —	\$ 92,331
Debt (Note 9)	—	37,922	37,922	—	37,922
Environmental and Disposal Costs (Note 17)	—	14,321	14,321	—	14,321
Other (Note 10)	<u>96,746</u>	<u>174,372</u>	<u>271,118</u>	<u>(5,151)</u>	<u>265,967</u>
Total Intragovernmental	186,340	229,352	415,692	(5,151)	410,541
Accounts Payable	47,945	75,241	123,186	—	123,186
Pensions and Other Actuarial Liabilities (Note 12)	5,826	23,987	29,813	—	29,813
Other (Note 10)	<u>611,256</u>	<u>752,651</u>	<u>1,363,907</u>	<u>—</u>	<u>1,363,907</u>
Total Liabilities	<u>851,367</u>	<u>1,081,231</u>	<u>1,932,598</u>	<u>(5,151)</u>	<u>1,927,447</u>
Commitments and Contingencies (Note 15)					
NET POSITION					
Unexpended Appropriations (Note 13)	2,656,831	10,076,964	12,733,795	—	12,733,795
Cumulative Results of Operations	<u>1,644,419</u>	<u>1,676,588</u>	<u>3,321,007</u>	<u>—</u>	<u>3,321,007</u>
Total Net Position	<u>4,301,250</u>	<u>11,753,552</u>	<u>16,054,802</u>	<u>—</u>	<u>16,054,802</u>
Total Liabilities and Net Position	<u>\$ 5,152,617</u>	<u>\$ 12,834,783</u>	<u>\$ 17,987,400</u>	<u>\$ (5,151)</u>	<u>\$ 17,982,249</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Consolidating Statement of Net Cost
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
COSTS:					
Intragovernmental	\$ 454,791	\$ 607,490	\$ 1,062,281	\$ (344,375)	\$ 717,906
With the Public	1,254,104	5,764,882	7,018,986	—	7,018,986
Expenses from Other Appropriations (Note 20)	<u>35,664</u>	<u>(35,664)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Costs	<u>1,744,559</u>	<u>6,336,708</u>	<u>8,081,267</u>	<u>(344,375)</u>	<u>7,736,892</u>
Less:					
Earned Revenues	<u>707,674</u>	<u>212,904</u>	<u>920,578</u>	<u>(19,375)</u>	<u>901,203</u>
Total Revenue	<u>707,674</u>	<u>212,904</u>	<u>920,578</u>	<u>(19,375)</u>	<u>901,203</u>
NET COST OF OPERATIONS	<u>\$ 1,036,885</u>	<u>\$ 6,123,804</u>	<u>\$ 7,160,689</u>	<u>\$ (325,000)</u>	<u>\$ 6,835,689</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 1999
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Net Cost of Operations	\$ 1,036,885	\$ 6,123,804	\$ 7,160,689	\$ (325,000)	\$ 6,835,689
Financing Sources (Other Than Exchange Revenues):					
Appropriations Used	1,549,960	6,150,746	7,700,706	—	7,700,706
Taxes (and Other Non-Exchange Revenues)	25,169	225,275	250,444	—	250,444
Trust Fund Appropriations Received (Note 14)	325,000	—	325,000	(325,000)	—
Imputed Financing	31,437	165,232	196,669	—	196,669
Income from Other Appropriations (Note 20)	35,664	(35,664)	—	—	—
Transfers-In/Out	—	206	206	—	206
Other Financing Sources (Note 28)	<u>(1,524,112)</u>	<u>(75,179)</u>	<u>(1,599,291)</u>	<u>—</u>	<u>(1,599,291)</u>
Net Results of Operations	(593,767)	306,812	(286,955)	—	(286,955)
Prior Period Adjustments	<u>(20,122)</u>	<u>12,481</u>	<u>(7,641)</u>	<u>—</u>	<u>(7,641)</u>
Net Changes in Cumulative Results of Operations	(613,889)	319,293	(294,596)	—	(294,596)
Increase (Decrease) in Unexpended Appropriations	<u>(149,129)</u>	<u>249,165</u>	<u>100,036</u>	<u>—</u>	<u>100,036</u>
Change in Net Position	(763,018)	568,458	(194,560)	—	(194,560)
Net Position - Beginning of Period	<u>5,064,268</u>	<u>11,185,094</u>	<u>16,249,362</u>	<u>—</u>	<u>16,249,362</u>
Net Position - End of Period	<u>\$ 4,301,250</u>	<u>\$ 11,753,552</u>	<u>\$ 16,054,802</u>	<u>\$ —</u>	<u>\$ 16,054,802</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Year Ended September 30, 1999
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals
Budgetary Resources:			
Budget Authority	\$ 1,410,708	\$ 6,447,893	\$ 7,858,601
Unobligated Balances - Beginning of Period	701,468	1,717,941	2,419,409
Spending Authority from Offsetting Collections	139,421	276,342	415,763
Adjustments (Note 23)	<u>(59,368)</u>	<u>(81,848)</u>	<u>(141,216)</u>
Total Budgetary Resources	<u>\$ 2,192,229</u>	<u>\$ 8,360,328</u>	<u>\$ 10,552,557</u>
Status of Budgetary Resources:			
Obligations Incurred	\$ 1,709,357	\$ 6,685,653	\$ 8,395,010
Unobligated Balances - Available (Note 24)	482,872	1,567,142	2,050,014
Unobligated Balances - Not Available	<u>—</u>	<u>107,533</u>	<u>107,533</u>
Total, Status of Budgetary Resources	<u>\$ 2,192,229</u>	<u>\$ 8,360,328</u>	<u>\$ 10,552,557</u>
Outlays:			
Obligations Incurred	\$ 1,709,357	\$ 6,685,653	\$ 8,395,010
Less: Spending Authority from Offsetting Collections and Adjustments	326,851	427,091	753,942
Obligated Balance, Net - Beginning of Period	2,550,841	8,750,289	11,301,130
Less: Obligated Balance, Net - End of Period (Note 25)	<u>2,433,861</u>	<u>9,153,233</u>	<u>11,587,094</u>
Total Outlays	<u>\$ 1,499,486</u>	<u>\$ 5,855,618</u>	<u>\$ 7,355,104</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Combined Statement of Financing
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals
Obligations and Nonbudgetary Resources			
Obligations Incurred	\$ 1,709,357	\$ 6,685,653	\$ 8,395,010
Less: Spending Authority for Offsetting Collections and Adjustments	(139,421)	(276,342)	(415,763)
Recoveries	(205,200)	—	(205,200)
Financing Imputed for Cost Subsidies	31,437	165,232	196,669
Income from Other Appropriations (Note 20)	35,664	(35,664)	—
Transfers-In/Out	—	206	206
Exchange Revenue Not in the Budget	(612,898)	(73,735)	(686,633)
Nonexchange Revenue Not in the Budget	(4,150)	—	(4,150)
Other	241	40,351	40,592
Total Obligations as Adjusted and Nonbudgetary Resources	<u>815,030</u>	<u>6,505,701</u>	<u>7,320,731</u>
Resources that Do Not Fund Net Cost of Operations			
Change in Amount of Goods, Services, and And Benefits Ordered but Not Yet Received or Provided	156,635	(280,131)	(123,496)
Change in Unfilled Customers Orders	49,033	19,440	68,473
Costs Capitalized on the Balance Sheet	(9,510)	(162,028)	(171,538)
Financing Sources that Fund Costs of Prior Periods	—	9,628	9,628
Trust Fund Outlays Not Affecting Net Cost	74	—	74
Total Resources that Do Not Fund Net Costs of Operations	<u>196,232</u>	<u>(413,091)</u>	<u>(216,859)</u>
Costs that Do Not Require Resources			
Depreciation and Amortization	2,595	13,481	16,076
Bad Debt Expense from Non-Credit Reform Receivables	18,316	894	19,210
Loss on Disposition of Assets	477	884	1,361
Total Costs That Do Not Require Resources	<u>21,388</u>	<u>15,259</u>	<u>36,647</u>
Financing Sources Yet to be Provided (Note 27)	<u>4,235</u>	<u>15,935</u>	<u>20,170</u>
Net Costs of Operations	<u>\$ 1,036,885</u>	<u>\$ 6,123,804</u>	<u>\$ 7,160,689</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Statement of Custodial Activity
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	<u>All Others</u>
Revenue Activity:	
Sources of Collections:	
Fines and Penalties	\$ <u>126,996</u>
Total Cash Collections	126,996
Accrual Adjustment	<u>4,679</u>
Total Custodial Revenue	<u>131,675</u>
Disposition of Collections:	
Transferred to Others (by Recipient)	116,151
Increase (Decrease) in Amounts To Be Transferred	<u>15,524</u>
Total Disposition of Revenue	<u>131,675</u>
Net Custodial Revenue Activity	\$ <u>-----</u>

The accompanying notes are an integral part of these statements.

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

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the Agency in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 97-01, and the Agency's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency's use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate Federal pollution control efforts. The Agency is generally organized around the media and substances it regulates -- air, water, land, hazardous waste, pesticides and toxic substances. For FY 1999 the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by Federal and state governments as well as industry. The Agency allocates funds from its appropriation to other Federal agencies to carry out the Act. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis, and the design and implementation of cleanup remedies. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other Federal agencies. Through 1999, construction of cleanup remedies were completed at a total of 670 NPL sites (includes Federal and non-Federal sites). Superfund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

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

The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and environment. Funds are used for grants to non-state entities including Indian tribes under section 8001 of the Resource Conservation and Recovery Act. The program is financed by a 0.1 cent a gallon tax on motor fuels which will expire in 2005, and is accounted for under Treasury symbol number 8153.

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

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

Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 1999, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The Science and Technology appropriation is accounted for under Treasury symbol 0107.

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

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

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

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

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program fund disbursed the subsidy to the Financing fund as loans were made, and

disbursed administrative expenses to the providers. The Financing fund received the subsidy payment, borrowed from Treasury and disbursed loans and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 0118 for the subsidy and administrative support, under Treasury symbol 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans, and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The Program and Research Operations appropriation provides salaries and travel associated with administering the operating programs within the Environmental Protection Agency. It incorporated personnel, compensation and benefit costs and travel, exclusive of the Hazardous Substance Response Trust Fund, the Leaking Underground Storage Tank Trust Fund, the Office of Inspector General and the Oil Spill Response Trust Fund. In fiscal year 1996, Congress restructured the Agency's accounts. The Program and Research Operations appropriation was eliminated. Activity remaining from prior fiscal year appropriations is accounted for under Treasury symbols 0200 and 0201.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act Amendments of 1998, as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services of pesticide chemicals in or on food and animal feed. Effective January 2, 1997, fees collected are now being collected and deposited in the Reregistration and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

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

The Exxon Valdez Settlement Fund has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Appropriations transferred to the Agency from other Federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce which provide economic assistance to state and local developmental activities, the Agency for International Development which provides assistance on environmental matters at international levels, and from the General Services Administration which provides funds for rental of buildings, and operations, repairs, and maintenance of rental space. The transfers appropriations are accounted for under Treasury symbols 0200, 1010, 1021, 2050, and 4542.

Clearing Accounts include the Budgetary suspense account, Deposit in Transit differences, Unavailable Check Cancellations and Overpayments, and Undistributed and Letter of Credit differences. Clearing accounts are accounted for under Treasury symbols 3875, 3878, 3879, and 3880.

Deposit funds include Fees for Ocean Dumping, Nonconformance Penalties, Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6275, and 6875.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 2410, 3200, and 3220.

The Environmental Services Receipt account was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T appropriation and to the EPM appropriation to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

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

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds was \$48.3 million for FY 1999.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriation for S&T, EPM and for the Office of the Inspector General to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress annually adopts a one year appropriation, available for obligation in the fiscal year for which it is 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 does not represent long term cost is financed under a permanent indefinite borrowing authority established with the Treasury. The annual appropriation bill limits the amount of obligations that can be made for direct loans. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan is disbursed. No appropriation was adopted by Congress for FY 1999; therefore, there was no new financing available to the Asbestos Loan Program for FY 1999.

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

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

Funds transferred from other Federal agencies is 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 transfer appropriation is reduced at Treasury.

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

D. Basis of Accounting*Superfund and All Other Funds*

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

E. Revenues and Other Financing Sources*Superfund*

The Superfund receives most funding needed to support the program through appropriations that may be used within statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund Trust Fund is obtained through reimbursements from other Federal agencies, from States for State Cost Share, and from potentially responsible parties (PRPs) for future costs. Revenues collected through cost recovery are deposited with the Trust fund at Treasury.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the loan disbursements through collections from the Program fund for the subsidized portion of the loan and through borrowing from Treasury for the non-subsidized portion. The last year Congress provided appropriations for this fund was 1993, accordingly no new funding has been available for this program. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

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

F. Funds with the Treasury*Superfund and All Other Funds*

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and

Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments.

G. Investments in U.S. Government Securities

All Other Funds

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. The FIFRA Revolving Fund, which is included in All Other Funds, holds the investments to maturity, unless they are needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. Marketable Equity Securities

Superfund

During FY 1993 and FY 1996, the Agency received marketable equity securities, valued at a total \$5.1 million, which are still held, from a company in settlement of Superfund cost recovery actions. 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.

I. Accounts Receivable and Interest Receivable

Superfund

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

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

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under Superfund State Contracts (SSCs), cost sharing arrangements under SSCs may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10% or 50% of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

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

J. Loans Receivable

All Other Funds

Loans are accounted for as receivables after funds have been disbursed. The amount of Asbestos Loan Program loans obligated but not disbursed are disclosed in Note 6. 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.

K. Appropriated Amounts Held by Treasury

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. At the end of FY 1999 approximately \$2.9 billion remained in the Treasury managed Superfund Trust Fund and approximately \$82.6 million remained in the LUST Trust Fund to meet the Agency's disbursement needs.

L. Advances and Prepayments

Superfund and All Other Funds

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

M. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS) implemented in FY 1997 maintains EPA-held personal and real property records. The FAS automatically generates depreciation entries monthly based upon the acquisition date. Purchases of EPA-held and contractor-held personal equipment are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth year, and 20% in years two through five. All EPA-held personal equipment purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal equipment are depreciated using the straight-line method over the specific assets' useful lives, ranging from two to 15 years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is \$75 thousand or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. In addition to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

N. Liabilities

Superfund and All Other Funds

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

O. Borrowing Payable to the Treasury

All Other Funds

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

P. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 1999, there was no outstanding interest payable to Treasury since payment was made through September 30.

Q. Accrued Unfunded Annual Leave

Superfund and All Other Funds

Annual, sick and other leave is expensed as taken during the fiscal year. Sick and other leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Statement of Financial Position as a component of "Other Liabilities-Governmental". As of September 30, 1999, the unfunded annual leave liability for the Superfund Trust Fund was \$18.4 million and for All Other Funds was \$86.4 million.

R. Retirement Plan***Superfund and All Other Funds***

The majority of the Agency's employees participate in the Civil Service Retirement System (CSRS), to which the Agency contributes 8.51% and employees contribute 7.25% of base pay.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to the Agency employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS-5), which was effective for the FY 1997 financial statements, accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS-5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the 'Cost Factors' to compute EPA's liability for each program.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 1999, consists of the following (in thousands):

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>
Trust Funds:			
Superfund	\$ 20,069	\$ ___	\$ 20,069
Lust	30	___	30
Oil Spill	(9,320)	___	(9,320)
Revolving Funds:			
FIFRA	7,319	___	7,319
Tolerance	22	___	22
Working Capital Fund	37,066	___	37,066
Appropriated Funds	10,694,125	___	10,694,125
Other Fund Types	<u>63,480</u>	<u>2,256</u>	<u>65,736</u>
Total	<u>\$ 10,812,791</u>	<u>\$ 2,256</u>	<u>\$ 10,815,047</u>

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

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

Note 3. Cash

In All Others, as of September 30, 1999, Cash consisted of imprest funds totaling \$55 thousand.

Note 4. Investments

As of September 30, 1999, investments consisted of the following:

-----Amounts for Balance Sheet Reporting-----				
	Cost	Unamortized (Premium) Discount	Investments, Net	Market Value
<u>Superfund</u>				
Intragovernmental Securities:				
Non-Marketable	\$ <u>4,593,183</u>	\$ <u>175,297</u>	\$ <u>4,417,886</u>	\$ <u>4,417,886</u>
Other Securities:				
Marketable	\$ <u>5,146</u>	\$ <u>----</u>	\$ <u>5,146</u>	\$ <u>11,525</u>
<u>All Others</u>				
Intragovernmental Securities:				
Non-Marketable	\$ <u>1,461,697</u>	\$ <u>63,692</u>	\$ <u>1,398,005</u>	\$ <u>1,398,005</u>

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RP's 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 marketable securities in the reorganized company. The Agency does not intend to exercise ownership rights related to these securities, and instead will convert these securities to cash as soon as practicable.

The other securities represent assets received during a bankruptcy proceeding.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 1999, consist of the following:

	1999	
	<u>Superfund</u>	<u>All Others</u>
Intragovernmental Assets:		
Accounts & Interest Receivable	\$ <u>48,982</u>	\$ <u>55,194</u>
Total	\$ <u>48,982</u>	\$ <u>55,194</u>
Governmental Assets:		
Unbilled Accounts Receivable	\$ 75,721	\$ _____
Accounts & Interest Receivable	927,758	149,250
Less: Allowance for Doubtful Accounts	<u>(360,224)</u>	<u>(60,685)</u>
Total	\$ <u>643,255</u>	\$ <u>88,565</u>

Accounts receivable due from other Federal agencies are considered fully collectible.

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

Note 6. Loans Receivable, Net - Non-Federal

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

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 1999, is provided in the following sections.

	1999		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$ 67,441	\$ —	\$ 67,441
Direct Loans Obligated After FY 1991	<u>51,960</u>	<u>(18,089)</u>	<u>33,871</u>
Total	<u>\$ 119,401</u>	<u>\$ (18,089)</u>	<u>\$ 101,312</u>

* Allowance for Pre-Credit Reform loans (Prior to FY 1992) is the Allowance for Estimated Uncollectible Loan and the Allowance for Post Credit Reform loans (After FY 1991) is the Allowance for Subsidy Cost (present value).

Subsidy Expenses for Post Credit Reform Loans:

	Interest Differential	Expected Defaults	Fee Offsets	Total
Current Year's Direct Loan	\$ <u>109</u>	\$ <u>----</u>	\$ <u>----</u>	\$ <u>109</u>
Direct Loan Subsidy Expense				\$ <u>2,507</u>

Note 7. Inventory and Related Property

The Inventory and Related Property at September 30, 1999, consisted of the following:

	1999	
	Superfund	All Others
Operating Materials and Supplies Held for Use in Normal Operations	\$ <u>—</u>	\$ <u>237</u>
Total	<u>\$ —</u>	<u>\$ 237</u>

Note 8. General Plant Property and Equipment

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

Purchases of EPA-Held and Contractor-Held personal property are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. The Agency depreciates EPA-Held personal property using a straight-line method over the asset's useful life ranging from two to 15 years.

Contractor-Held personal property is depreciated over five years using a modified straight-line method. Real property, other than land, is capitalized when the value is \$75 thousand or more and is depreciated 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 lives or the unexpired lease term.

As of September 30, 1999, Plant, Property and Equipment consisted of the following:

	<u>Superfund</u>			<u>All Others</u>		
	<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	\$ 22,983	\$ (15,734)	\$ 7,249	\$ 129,555	\$ (85,676)	\$ 43,879
Contractor-Held Equipment	8,271	(2,113)	6,158	86,504	(75,090)	11,414
Land and Buildings	—	—	—	370,102	(70,643)	299,459
Capital Leases	—	—	—	40,992	(9,776)	31,216
Total	<u>\$ 31,254</u>	<u>\$ (17,847)</u>	<u>\$ 13,407</u>	<u>\$ 627,153</u>	<u>\$ (241,185)</u>	<u>\$ 385,968</u>

Note 9. Debt

The Debt consisted of the following as of September 30, 1999:

<u>All Others</u>	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Other Debt:			
Debt to Treasury	\$ <u>37,922</u>	\$ <u>----</u>	\$ <u>37,922</u>
Classification of Debt:			
Intra-governmental Debt			\$ <u>37,922</u>
Total			\$ <u>37,922</u>

Note 10. Other Liabilities

The Other Liabilities Covered by Budgetary Resources and Not Covered by Budgetary Resources for September 30, 1999, are as follows:

Other Liabilities Covered by Budgetary Resources:

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<u>Intra-governmental - Superfund</u>			
Accrued Liabilities	\$ _____	\$ 91,389	\$ 91,389
FECA Accrued Liability	731	485	1,216
Other	<u>1,256</u>	<u>2,885</u>	<u>4,141</u>
Total Intra-governmental	\$ <u>1,987</u>	\$ <u>94,759</u>	\$ <u>96,746</u>
<u>Intra-governmental - All Other</u>			
Accrued Liabilities	\$ _____	\$ 55,214	\$ 55,214
FECA Accrued Liability	1,048	4,496	5,544
WCF Advances	_____	2,637	2,637
Other	<u>64</u>	<u>(104)</u>	<u>(40)</u>
Total Intra-governmental	\$ <u>1,112</u>	\$ <u>62,243</u>	\$ <u>63,355</u>
<u>Superfund</u>			
Cash Out - Non Federal	\$ 90	\$ 457,706	\$ 457,796
Accrued Liabilities	_____	97,477	97,477
Accrued Funded Payroll and Benefits	_____	15,243	15,243
Other	<u>3</u>	<u>21,647</u>	<u>21,650</u>
Total	\$ <u>93</u>	\$ <u>592,073</u>	\$ <u>592,166</u>
<u>All Other</u>			
Accrued Funded Payroll & Benefits	\$ _____	\$ 65,974	\$ 65,974
Accrued Liabilities	_____	553,443	553,443
Other Liabilities	<u>335</u>	<u>8,291</u>	<u>8,626</u>
Total	\$ <u>335</u>	\$ <u>627,708</u>	\$ <u>628,043</u>

Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<u>Intra-governmental - All Other</u>			
Custodial Liability	\$ ----	\$ <u>111,017</u>	\$ <u>111,017</u>
Total Intra-governmental	\$ ----	\$ <u>111,017</u>	\$ <u>111,017</u>
 <u>Superfund</u>			
Accrued Unfunded Annual Leave	\$ ----	\$ 18,415	\$ 18,415
Contingent Liabilities - Unfunded	----	<u>675</u>	<u>675</u>
Total	\$ ----	\$ <u>19,090</u>	\$ <u>19,090</u>
 <u>All Others</u>			
Accrued Unfunded Annual Leave	\$ ----	\$ 86,430	\$ 86,430
Capital Lease Liability	<u>38,178</u>	----	<u>38,178</u>
Total	\$ <u>38,178</u>	\$ <u>86,430</u>	\$ <u>124,608</u>

Note 11. Leases

The Capital Leases as of September 30, 1999, consist of the following:

Capital Leases:

<u>Summary of Assets Under Capital Lease:</u>	<u>All Others</u>
Land, Buildings and Personal Property	\$ <u>40,992</u>
Accumulated Amortization	\$ <u>9,776</u>

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). These leases terminate in fiscal years 2010, 2013 and 2025. The charges are expended out of the Environmental Programs and Management appropriation. EPA has one capital lease for a xerox copier that expires in FY 2002. The total future minimum lease payments of the capital leases are listed below.

<u>Future Payments Due:</u>	<u>All Others</u>
Fiscal Year	
2000	\$ 6,314
2001	6,314
2002	6,303
2003	6,295
2004	6,295
After 5 Years	<u>102,489</u>
Total Future Minimum Lease Payments	134,010
Less: Imputed Interest	<u>(95,832)</u>
Net Capital Lease Liability	<u>\$ 38,178</u>
Liabilities not Covered by Budgetary Resources	<u>\$ 38,178</u>

Operating Leases:

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

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). Three leases terminate in fiscal year 2000. In fiscal 1997 and 1998, EPA entered into two leases, which terminate in fiscal 2017 and 2003 respectively. The charges are expended out of the EPM appropriation. The total minimum future costs of the operating leases are listed below.

<u>Fiscal Year</u>	<u>Superfund</u>	<u>All Others</u>	<u>Total Land & Buildings</u>
2000	\$ ----	\$ 6,109	\$ 6,109
2001	----	36	36
2002	----	34	34
2003	----	34	34
2004	----	24	24
Beyond 2004	<u>----</u>	<u>310</u>	<u>310</u>
Total Future Minimum Lease Payments	<u>\$ ----</u>	<u>\$ 6,547</u>	<u>\$ 6,547</u>

Note 12. Pensions and Other Actuarial Benefits

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 DOL.

The FECA Actuarial Liability at September 30, 1999, consisted of the following:

	<u>Superfund</u>	<u>All Other</u>
FECA Actuarial Liability	\$ <u>5,826</u>	\$ <u>23,987</u>

The FY 1999 present value of these estimates was calculated using a discount rate of 5.5 percent in years 1 and 2, 5.55 percent in year 3 and 5.6 percent in year 4 and thereafter. The estimated future costs are recorded as an unfunded liability.

Note 13. Unexpended Appropriations

As of September 30, 1999, the Unexpended Appropriations consisted of the following:

<u>Unexpended Appropriations:</u>	<u>Superfund</u>	<u>All Others</u>	<u>Total</u>
Unobligated			
Available	\$ 473,194	\$ 1,277,839	\$ 1,751,033
Unavailable	—	88,054	88,054
Undelivered Orders	<u>2,183,637</u>	<u>8,711,071</u>	<u>10,894,708</u>
Total	<u>\$ 2,656,831</u>	<u>\$ 10,076,964</u>	<u>\$ 12,733,795</u>

Note 14. Amounts Held by Treasury

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

Superfund (Audited)

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

The following reflects the Superfund Trust Fund as maintained by the U.S. Department of Treasury as of September 30, 1999. The amounts contained in these statements have been provided by the Treasury and are unaudited. Outlays represent appropriations received by EPA's Superfund Trust Fund, such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Available for Investment	\$ ----	\$ 1,262	\$ 1,262
Unavailable for Investment	<u>----</u>	<u>----</u>	<u>----</u>
Total Undisbursed Balance	----	1,262	1,262
Investments, Net of Discounts	<u>2,894,095</u>	<u>1,523,791</u>	<u>4,417,886</u>
Total Assets	<u>\$ 2,894,095</u>	<u>\$ 1,525,053</u>	<u>\$ 4,419,148</u>
Liabilities & Equity			
Debt	\$ ----	\$ ----	\$ ----
Equity	<u>2,894,095</u>	<u>1,525,053</u>	<u>4,419,148</u>
Total Liability and Equity	<u>\$ 2,894,095</u>	<u>\$ 1,525,053</u>	<u>\$ 4,419,148</u>
Receipts			
Crude and Petroleum	\$ ----	\$ (2,060)	\$ (2,060)
Certain Chemicals	----	12,830	12,830
Corporate Environmental	----	10,249	10,249
Cost Recoveries	----	319,746	319,746
Fines & Penalties	<u>----</u>	<u>3,648</u>	<u>3,648</u>
Total Revenue	----	344,413	344,413
Appropriations Received	----	325,000	325,000
Interest Income	<u>----</u>	<u>220,086</u>	<u>220,086</u>
Total Receipts	<u>----</u>	<u>889,499</u>	<u>889,499</u>
Outlays			
Transfers to EPA	<u>(1,545,851)</u>	<u>1,545,851</u>	<u>----</u>
Total Outlays	<u>(1,545,851)</u>	<u>1,545,851</u>	<u>----</u>
Net Income	<u>\$ 1,545,851</u>	<u>\$ (656,352)</u>	<u>\$ 889,499</u>

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in

these statements have been provided by Treasury and are unaudited. Outlays represent appropriations received by EPA's LUST Trust Fund, such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undisbursed Balances			
Available for Investment	\$ ----	\$ 10	\$ 10
Unavailable for Investment	<u>----</u>	<u>----</u>	<u>----</u>
Total Undisbursed Balance	----	10	10
Investments, Net of Discounts	<u>82,594</u>	<u>1,312,103</u>	<u>1,394,697</u>
Total Assets	<u>\$ 82,594</u>	<u>\$ 1,312,113</u>	<u>\$ 1,394,707</u>
Liabilities & Equity			
Debt	\$ ----	\$ ----	\$ ----
Equity	<u>82,594</u>	<u>1,312,113</u>	<u>1,394,707</u>
Total Liability and Equity	<u>\$ 82,594</u>	<u>\$ 1,312,113</u>	<u>1,394,707</u>
Receipts			
Highway TF Tax	\$ ----	\$ 199,333	\$ 199,333
Airport TF Tax	----	18,270	18,270
Inland TF Tax	<u>----</u>	<u>1,024</u>	<u>1,024</u>
Gross Revenue	----	218,627	218,627
Less: Reimbursement to G/F	<u>----</u>	<u>(3,091)</u>	<u>(3,091)</u>
Net Revenue	----	215,536	215,536
Interest Income	<u>----</u>	<u>57,789</u>	<u>57,789</u>
Net Receipts	<u>----</u>	<u>273,325</u>	<u>273,325</u>
Outlays			
Transfers to EPA	<u>\$ (60,783)</u>	<u>\$ 60,783</u>	<u>\$ ----</u>
Total Outlays	<u>(60,783)</u>	<u>60,783</u>	<u>----</u>
Net Income	<u>\$ 60,783</u>	<u>\$ 212,542</u>	<u>\$ 273,325</u>

Note 15. Commitments and Contingencies

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

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

Superfund

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

There are currently nine CERCLA § 106(b) administrative claims and four pending lawsuits. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately \$32.4 million and \$13.7 million, respectively. The Environmental Appeals Board has not yet issued final decisions on the administrative claims; therefore a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success in eight of these outstanding claims is characterized as reasonably possible. The outcome of the remaining claim is considered probable and the expected liability is \$50 thousand. The claimants' chance of success in three of the four pending lawsuits is also reasonably possible. The outcome of the remaining lawsuit is considered remote.

There are a number of outstanding CERCLA § 106(a) cleanup orders where the recipients of the orders have not yet completed the ordered response actions. Each such recipient could potentially file a claim with EPA for reimbursements under CERCLA § 106(b) of its costs of responding to the order once it has completed the ordered actions.

EPA is responsible to indemnify response action contractors (CERCLA § 119) for legal costs that will eventually exceed or have exceeded the deductible specified in the current indemnification agreements. Such payments by the United States would be recoverable government response costs. EPA has only one claim which is considered remote.

EPA contractors have submitted response action contractor claims. No claims were material.

All Other

There were no material litigation, asserted or unasserted claims or assessments involving all other appropriated funds of the Agency.

Judgement Fund

In cases which are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. The Agency is involved in various other actions that in the aggregate do not exceed \$3.4 million.

In addition, EPA is party to certain pending litigation upon which EPA believes it has a reasonable legal position. No estimate has been provided for a loss.

In the opinion of EPA's management and General Counsel, the ultimate resolution of any legal actions still pending will not materially affect EPA's operations or financial position.

Note 16. Grant Accrual

Grant accruals represent Grantee expenses that were not reported to EPA for reimbursement as of September 30, 1999.

EPA selected a statistical sample of grant recipients from our grantee universe to use as our basis to calculate our accrual. EPA sent confirmation letters to the sample grantees, asking them to provide the amount of unbilled grant expense at September 30, 1999. We then aggregated up the unbilled grant expense rates. Finally, we used these two weighted-average rates to compute the overall unbilled grant expense accruals.

	1999
	<hr/>
Superfund Trust Fund	\$ <u>13,981</u>
All Others	\$ <u>430,299</u>

Note 17. Environmental Cleanup Costs

EPA has three sites that require clean up stemming from its activities. Two of these sites will be paid from the Treasury Judgement Fund amounting to \$105 thousand. EPA estimates that clean up on the other site will be approximately \$1 thousand. 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 clean up costs. However, it is expected that the Department of Defense and the General Services Administration will bear all or most of the cost of remediation.

Accrued Clean-up Cost

EPA has sixteen sites that will require future clean up associated with permanent closure. The estimated cost will be approximately \$14.3 million. Since the clean up 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 upon implementation and record changes in estimate in subsequent years. The FY 1999 estimate decreased by approximately \$.2 million for unfunded clean-up costs over FY 1998. There was an increase of \$20 thousand for funded clean-up costs for FY 1999. EPA could also be potentially liable for cleanup costs at a GSA-leased sites; however, the amounts are not known.

Of the nearly \$14.3 million in estimated clean up costs, approximately \$11.3 million represents the estimated expense to close the current RTP research facility. These costs will be incurred within the next three years. The remaining amount represents the future decontamination and decommissioning costs of EPA's research facilities.

Note 18. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (SSCs) when EPA assumes the lead for a remedial action in their State. The SSC defines the State's role in the remedial action and obtains the State's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, States will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, States may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be paid 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, 1999, total outstanding State credits has been estimated at \$7.3 million.

Note 19. Superfund Preauthorized Mixed Funding Agreements

Under Superfund Preauthorized Mixed Funding Agreements, settling Potentially Responsible Parties (PRPs) agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and Reauthorization Act (SARA) of 1986, a PRP may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action as agreed to under a mixed funding agreement. As of September 30, 1999, EPA had 13 outstanding preauthorized mixed funding agreements with obligations totaling \$50 million. A liability is not recognized for these amounts until the PRP's work has been performed and has been approved by EPA for payment. EPA will not disburse any funds under these agreements, however, until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 20. Income and Expenses from other Appropriations

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

During Fiscal Year 1999, EPA had three appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The Environmental Programs and Management (EPM) appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Two prior year appropriations, Program and Research Operations

(PRO) and Abatement Control and Compliance (AC&C) generated expenses. PRO funded travel, personnel compensation and benefits. AC&C funded procurement and contract activities.

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

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

	1999		
	<u>Income From</u>	<u>Expenses From</u>	<u>Net Effect</u>
	<u>Other Appropriations</u>	<u>Other Appropriations</u>	
Superfund	\$ 35,664	\$ (35,664)	\$ ____
All Others	<u>(35,664)</u>	<u>35,664</u>	<u>_____</u>
Total	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

Note 21. Custodial Non-Exchange Revenues

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

	<u>1999</u>
Fines, Penalties & Misc Revenue (EPA)	<u>\$ 128,176</u>
Accounts Receivable for Fines, Penalties & Miscellaneous Receipts	<u>1999</u>
Accounts Receivable	\$ 66,750
Less: Allowance for Doubtful Accounts	<u>36,265</u>
Total	<u>\$ 30,485</u>

Note 22. Statement of Budgetary Resources

A reconciliation of budgetary resources, obligations incurred, and outlays, as presented in the audited Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 1999, is as follows:

	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
<u>Superfund</u>			
Statement of Budgetary Resources	\$ 2,192,229	\$ 1,709,357	\$ 1,499,486
Allocated to Other Agencies	97,741	80,789	77,029
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>(31,240)</u>	<u>(26,489)</u>	<u>----</u>
Budget of the United States Government	<u>\$ 2,258,730</u>	<u>\$ 1,763,657</u>	<u>\$ 1,576,515</u>
 <u>All Other</u>			
Statement of Budgetary Resources	\$ 8,360,328	\$ 6,685,653	\$ 5,855,618
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>77,806</u>	<u>9,411</u>	<u>(1,260)</u>
Budget of the United States Government	<u>\$ 8,438,134</u>	<u>\$ 6,695,064</u>	<u>\$ 5,854,358</u>

Note 23. Adjustments

During FY 1999, there is a reduction in the Superfund Trust Fund authority available of \$262.9 million between the beginning available and ending available authority. This amount represents amounts that were overstated in the beginning FY 1999 authority available resulting from anticipated reimbursable funding that was not decreased prior to the close of FY 1998. This amount is reflected as part of the \$59.3 million Adjustments on the Statement of Budgetary Resources. The remaining amount of the Adjustments is for Recoveries of prior year obligations of \$205.2 million and the Canceled Authority of \$1.6 million.

Note 24. Unobligated Balances Available

The Superfund Trust Fund has an unobligated balance of \$483 million in unexpired authority. All Others has an unobligated balance of \$1,675 million which includes \$1,567 million in unexpired authority and \$108 million in expired authority. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2000. Unobligated balances of expired authority is not available for new obligations. However, the expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

Note 25. Obligated Balance, Net - End of Period

Undelivered Orders at the end of the period are \$2.4 million for the Superfund Trust Fund and \$9.2 million for All Others.

Note 26. Difference in Outlays Between Statement of Budgetary Resources and SF-133

Outlays between the Statement of Budgetary Resources and the SF-133 differ by an unidentified \$1 million for All Others.

Note 27. Statement of Financing

Increases in Unfunded Liabilities relate to unfunded annual leave, environmental liabilities, contingent liabilities and the Federal Employees Compensation Act (FECA) special benefit fund. For Superfund and All Others, the amounts totaled \$4.2 million and \$15.9 million, respectively and is reflected in Financing Sources Yet to Be Provided.

Note 28. Other Financing Sources

Consists primarily of Appropriations to EPA from the Superfund and LUST Trust Funds held at Treasury (Treasury Trust Funds). Such appropriations are reported as non expenditure transfers on the financial statements of the respective Treasury Trust Funds. Upon consolidation with Trust funds held by EPA, the Treasury Trust Fund Appropriation non expenditure transfers are reported as Other Financing Sources to offset Appropriations Used and Trust Fund revenues.

Trust Funds	1999	
	Superfund	LUST
Treasury Trust Fund Transfers	\$ (1,545,851)	\$ (60,783)
Custodial Liability Reclassification	22,718	—
Other	<u>(979)</u>	<u>(14,396)</u>
Total	\$ <u>(1,524,112)</u>	\$ <u>(75,179)</u>

**Environmental Protection Agency
Required Supplemental Information
As of September 30, 1999
(Dollars in Thousands)
(Unaudited)**

Deferred Maintenance

The EPA classifies 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.

One deferred maintenance project was identified in the Land and Buildings category, with an estimated total cost of \$325,000. This project included repairing and resurfacing weathered and cracked parking lots and driveways. No deferred maintenance was reported for the other three categories.

Intra-governmental Assets

Intra-governmental assets represent transactions between all federal departments and agencies.

<u>Agency</u>	<u>Accounts Receivable</u>	
	<u>Superfund</u>	<u>All Others</u>
Dept. of the Army	\$ 34	\$ —
Dept. of Interior	—	143
Dept. of Energy	—	24
Dept. of the Air Force	—	5
Unassigned	<u>48,948</u>	<u>55,022</u>
Total	<u>\$ 48,982</u>	<u>\$ 55,194</u>

Intra-governmental Liabilities

Intra-governmental liabilities represent transactions between all federal departments and agencies.

<u>Agency</u>	<u>Accounts Payable</u>		<u>Other Liabilities</u>		<u>Debt</u>
	<u>Superfund</u>	<u>All Other</u>	<u>Superfund</u>	<u>All Other</u>	<u>All Other</u>
Dept. of Agriculture	\$ —	\$ (3)	\$ —	\$ (759)	\$ —
Library of Congress	—	—	—	66	—
US Postal Service	11	—	—	—	—

Intra-governmental Liabilities - continued

<u>Agency</u>	<u>Accounts Payable</u>		<u>Other Liabilities</u>		<u>Debt</u>
	<u>Superfund</u>	<u>All Other</u>	<u>Superfund</u>	<u>All Other</u>	<u>All Other</u>
Government Printing Office	—	—	—	82	—
Dept. of the Army	—	1	34	26	—
Government Accounting Office	—	—	—	(1)	—
OPM	1	2	—	98	—
Executive Office of the President	—	—	—	46	—
Dept. of the Treasury	—	(12)	—	(8)	37,922
Dept. of Commerce	—	—	—	(994)	—
Dept. of Justice	—	—	498	(203)	—
Dept. of the Interior	—	—	—	(5,043)	—
Secretary of Defense	—	—	425	—	—
Dept. of Air Force	—	—	—	5	—
Dept. of Labor	—	—	1,216	4,649	—
Tennessee Valley Authority	—	—	—	1	—
Small Business Administration	—	—	—	(185)	—
Dept. of Health and Human Services	—	—	—	6,073	—
NASA	—	—	—	67	—
Housing and Urban Development	—	—	—	100	—
Dept. of Energy	—	—	—	(1,282)	—
National Labor Relations Board	—	—	—	(2)	—
Dept. of Transportation	—	—	—	(1,049)	—
Agency for International Development	—	—	—	431	—
Government Services Administration	—	—	—	(10,248)	—
National Science Foundation	—	—	—	38	—

Intra-governmental Liabilities - continued

<u>Agency</u>	<u>Accounts Payable</u>		<u>Other Liabilities</u>		<u>Debt</u>
	<u>Superfund</u>	<u>All Other</u>	<u>Superfund</u>	<u>All Other</u>	<u>All Other</u>
Dept. of State	----	----	----	(11)	----
Unassigned	<u>89,582</u>	<u>2,749</u>	<u>94,573</u>	<u>182,475</u>	<u>----</u>
Total	\$ <u>89,594</u>	\$ <u>2,737</u>	\$ <u>96,746</u>	\$ <u>174,372</u>	\$ <u>37,922</u>

**Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources
As of September 30, 1999
(Dollars in Thousands)**

Unaudited

	STAG	Environmental Programs & Management	Science & Technology	FIFRA	LUST Trust Fund	Miscellaneous All Others	Consolidated All Others
Budgetary Resources:							
Budget Authority	\$ 3,408,050	\$ 1,853,150	\$ 660,672	\$ ---	\$ 72,500	\$ 453,521	\$ 6,447,893
Unobligated Balances - Beginning of the Period	1,159,696	202,100	143,627	15,342	2,733	194,443	1,717,941
Spending Authority from Offsetting Collections	6,595	48,159	50,802	18,400	1	152,385	276,342
Adjustments	120,791	(11,035)	(908)	35	(434)	(190,297)	(81,848)
Total Budgetary Resources	<u>\$ 4,695,132</u>	<u>\$ 2,092,374</u>	<u>\$ 854,193</u>	<u>\$ 33,777</u>	<u>\$ 74,800</u>	<u>\$ 610,052</u>	<u>\$ 8,360,328</u>
Status of Budgetary Resources:							
Obligations Incurred	\$ 3,430,652	\$ 1,858,653	\$ 692,256	\$ 22,225	\$ 71,230	\$ 610,637	\$ 6,685,653
Unobligated Balances - Available	1,264,480	146,973	139,411	11,552	3,570	1,156	1,567,142
Unobligated Balances-Not Available	---	86,748	22,526	---	---	(1,741)	107,533
Total Status of Budgetary Resources	<u>\$ 4,695,132</u>	<u>\$ 2,092,374</u>	<u>\$ 854,193</u>	<u>\$ 33,777</u>	<u>\$ 74,800</u>	<u>\$ 610,052</u>	<u>\$ 8,360,328</u>
Outlays:							
Obligations Incurred	\$ 3,430,652	\$ 1,858,653	\$ 692,256	\$ 22,225	\$ 71,230	\$ 610,637	\$ 6,685,653
Less: Spending Authority from Offsetting Collections and Adjustments	127,386	64,263	55,514	18,435	1,898	159,595	427,091
Obligated Balance, Net - Beginning of Period	7,012,337	873,197	481,875	(627)	74,552	308,955	8,750,289
Less: Obligated Balance, Net - End of the Period	7,570,173	794,380	511,824	(926)	79,306	198,476	9,153,233
Total Outlays	<u>\$ 2,745,430</u>	<u>\$ 1,873,207</u>	<u>\$ 606,793</u>	<u>\$ 4,089</u>	<u>\$ 64,578</u>	<u>\$ 561,521</u>	<u>\$ 5,855,618</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Balance Sheet
As of September 30, 1999
(Dollars in Thousands)**

ASSETS	<u>Unaudited</u>
Intragovernmental	
Fund Balance With Treasury	\$ 37,066
Advances and Prepayments	<u>443</u>
Total Intragovernmental	37,509
Advances and Prepayments	5
Operating Materials and Supplies, Net	13
General Property Plant and Equipment	17,184
Other	<u>15,559</u>
Total Assets	\$ <u>70,270</u>
LIABILITIES	
Intragovernmental	
Accounts Payable	\$ 1,500
Other	<u>23,293</u>
Total Intragovernmental	24,793
Accounts Payable	13,165
Other	<u>1,171</u>
Total Liabilities	<u>39,129</u>
NET POSITION	
Cumulative Results of Operations	<u>31,141</u>
Total Net Position	<u>31,141</u>
Total Liabilities and Net Position	\$ <u>70,270</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Net Cost
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	<u>Unaudited</u>
COSTS:	
Intragovernmental	\$ 15,177
With the Public	<u>112,629</u>
Total	127,806
Less: Earned Revenues	<u>119,972</u>
Net Cost of Operations	<u><u>\$ 7,834</u></u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Changes in Net Position
For the Year Ended September 30, 1999
(Dollars in Thousands)**

	<u>Unaudited</u>
Net Cost of Operations	\$ 7,834
Financing Sources (Other Than Exchange Revenues)	
Imputed Financing	5,937
Transfers-In	4,160
Transfers-Out	(4,160)
Other	<u>(952)</u>
Net Results of Operations	(2,849)
Prior Period Adjustments	<u>(5,535)</u>
Net Changes in Cumulative Results of Operations	2,686
Net Position-Beginning of Period	<u>28,455</u>
Net Position-End of Period	<u>\$ 31,141</u>

**Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 1999
(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 both risk assessment and risk management. Science enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, more efficient, and more effective approaches to reducing environmental risks.

Among the Agency's highest research priorities is a program to expand the understanding of near- and long-term effects of the environment on children. Another priority is the Particulate Matter (PM) research program, which focuses on review, implementation, and eventual attainment of the National Ambient Air Quality Standards (NAAQS). For FY 1999, the full cost of the Agency's Research and Development activities totaled \$603 million. A breakout of the expenses is below (Dollars in thousands):

FY 99 Programmatic Expenses:	\$543,777
Allocated Expenses:	\$ 58,728

FY 98 Programmatic Expenses:	\$507,828
Allocated Expenses:	\$ 53,322

***INVESTMENT IN THE NATION'S
INFRASTRUCTURE:***

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

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

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

State Revolving Funds: The Environmental Protection Agency 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 is also 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:

FY 99	
Construction Grants:	\$ 414,528
Clean Water SRF:	\$ 925,744
Safe Drinking Water SRF:	\$ 387,429
Other Infrastructure Grants:	\$ 245,606
Allocated Expenses:	\$ 213,117

FY 98	
Construction Grants:	\$ 444,817
Clean Water SRF:	\$1,109,017
Safe Drinking Water SRF:	\$ 94,936
Other Infrastructure Grants:	\$ 138,363
Allocated Expenses:	\$ 187,649

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.

As of 9/30/99, the Agency possesses the following

land and land rights:

Superfund Sites with Easements

Beginning Balance	22
Additions	2
Withdrawals	<u>0</u>
Ending Balance	<u>24</u>

Superfund Sites with Land

Beginning Balance	18
Additions	2
Withdrawals	<u>0</u>
Ending Balance	<u>20</u>

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.

FY 99	
Training and Awareness Grants	\$46,630
Fellowships	\$10,239
Allocated Expenses	\$ 6,142

FY 98	
Training and Awareness Grants	\$39,131
Fellowships	\$11,084
Allocated Expenses	\$ 5,273

**OIG'S REPORT
ON EPA'S FY 1999
FINANCIAL STATEMENTS**

Audit Report 00100231

Note: This summary is part of Audit Report Number 00100231 issued by the EPA Office of Inspector General on February 29, 2000. Therefore, it contains references to other sections of the report (e.g., attachments) which are not included. For a complete copy of the report, please contact:

**Environmental Protection Agency
Office of the Inspector General
Financial Audit Division
Mail Code 2422
401 M Street, S.W.
Washington, D.C.**

**Telephone: 202-260-1397
FAX: 202-260-1398**

INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 1999 FINANCIAL STATEMENTS

The Administrator
U.S. Environmental Protection Agency:

In accordance with the requirements of the Government Management Reform Act (GMRA), we performed an audit of EPA's fiscal 1999 financial statements. Following are our opinions on the Agency's financial statements, and the results of our evaluation of internal controls and tests of compliance.

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 undeterminable amount at this time.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to its operations that are presented in the financial statements. The amounts included for the 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.

OPINIONS ON EPA'S FISCAL 1999 FINANCIAL STATEMENTS

Superfund Trust Fund Financial Statements

The Agency was unable to provide support in a timely manner for the composition of Other Financing Sources for the Superfund Trust Fund, so we were unable to apply audit procedures to satisfy ourselves as to the fair presentation of this line item. In addition, Note 28 to the financial statements discloses these differences as Custodial Liability Reclassifications and Other which in our opinion does not adequately address the source or composition of these amounts. Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as Other Financing Sources in the Statement of Changes in Net Position and the related effects on Equity and Net Costs of Operations, the financial statements for the Superfund Trust Fund fairly present the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the fund as of and for the year ended September 30, 1999, in accordance with generally accepted accounting principles, as described in Note 1 to the financial statements.

All Other Appropriated Funds Financial Statements

The Agency was unable to provide support for the composition of “Other” in the Statement of Financing for All Other Appropriated Funds, and we were unable to apply audit procedures to satisfy ourselves as to the fair presentation of this line item. Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as “Other” in the Statement of Financing, the financial statements for All Other Appropriated Funds fairly present the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and custodial activity for All Other Appropriated Funds as of and for the year ended September 30, 1999, in accordance with generally accepted accounting principles, as described in Note 1 to the financial statements.

Agency-wide Financial Statements

The Agency was unable to provide support in a timely manner for the composition of Other Financing Sources for the Agency as a whole. In addition, Note 28 to the financial statements discloses these differences as Custodial Liability Reclassifications and Other which in our opinion does not adequately address the source or composition of these amounts. In addition, the Agency was unable to provide support for the composition of “Other” in the Statement of Financing for the Agency as a whole. We were unable to apply audit procedures to satisfy ourselves as to the fair presentation of these line items. Except for the effects, if any, of adjustments that may have been necessary to correct the amounts reported as Other Financing Sources in the Statement of Changes in Net Position and the related effects on Equity and Net Costs of Operations, and the amounts reported as “Other” in the Statement of Financing the Agency-wide financial statements fairly present the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations for the Agency as of and for the year ended September 30, 1999, in accordance with generally accepted accounting principles, as described in Note 1 to the financial statements.

Other Significant Matters

Although we were able to render opinions on EPA’s financial statements, weaknesses existed in the Agency’s process for preparing the fiscal 1999 financial statements that resulted in the Agency being unable to provide us with complete, accurate and reliable statements, footnotes and supplemental information by the agreed upon dates. Significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000.

In addition, GRPA requires EPA to develop plans on intended accomplishments, measure how well it is doing, make appropriate decisions based on the information gathered, and communicate information about performance to Congress and the public. To do this, EPA developed a strategic plan with ten goals and during fiscal 1999 began tracking the cost to achieve each of its

goals. We found that the Agency's methodology for accumulating costs by goal could not be relied upon to fairly state costs by goal. The Agency had originally planned to present its Statement of Net Cost by goal. After we expressed concern about the Agency's ability to fairly present its costs by goal, Agency management decided to present EPA's costs for the Superfund Trust Fund and All Other Appropriated Funds rather than present the information by goal. Weaknesses in this area also affect the quality of cost accounting data Agency managers have available for decision making.

REVIEW OF EPA'S REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION, REQUIRED SUPPLEMENTAL INFORMATION, AND MANAGEMENT DISCUSSION AND ANALYSIS

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

We did not identify any material inconsistencies between the information presented in EPA's principal financial statements and the information presented in EPA's: (1) Required Supplemental Stewardship Information, (2) Required Supplemental Information, and (3) Management Discussion and Analysis. We did find that EPA was unable, in most cases, to provide Required Supplemental Information about its trading partners. The January 7, 2000, technical amendments to OMB Bulletin 97-01 require agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by federal trading partner (see Attachment 3 for additional details on this issue).

EPA's Management Discussion and Analysis presents performance information about various EPA programs. Our audits of EPA's programmatic areas have identified weaknesses in the environmental data information systems used to generate data used for managing the Agency's environmental programs. The Agency has several initiatives underway to address data quality and ensure that environmental data systems contain timely and accurate data. Although these initiatives move the Agency in the right direction, EPA has not developed an overall strategy to address the completeness of its environmental data. As a result, EPA's ability to evaluate the outcomes of its programs in terms of environmental changes will continue to be limited by gaps and inconsistencies in the quality of its data.

EPA's Management Discussion and Analysis states that the Agency is in compliance with Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government." We do not believe the Agency is in

compliance with this standard because EPA was not able to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs (see Attachment 3 for additional details on this issue).

EPA's Management Discussion and Analysis also states that, during fiscal 1999, the Agency conducted a review of its user fees in accordance with the requirements of the CFO Act and provisions of OMB Circular A-25, "User Charges." Our audit work showed, however, that the Acting CFO still needs to follow through and either institute, revise, or update its user fees or obtain exceptions from OMB for the user fees identified during the 1997 review, as updated by the 1999 review (see Attachment 3 for additional details on this issue).

EVALUATION OF INTERNAL CONTROLS

We evaluated the Agency's internal controls over financial reporting: (1) to determine the audit procedures necessary to express an opinion on the financial statements, and (2) to determine whether the internal controls provide reasonable assurance that:

- transactions are properly recorded, processed, and summarized to permit the preparation of reliable principal financial statements in accordance with generally accepted accounting standards;
- financial transactions are executed in compliance with applicable laws and regulations; and
- assets are safeguarded against loss from unauthorized acquisition, use or disposition.

Recognizing on-going work by the General Accounting Office (GAO) on computer security controls, we supplemented our review of these controls by relying on the GAO review. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. Our objective in evaluating controls was not to express an opinion on controls. Consequently, we are not expressing an opinion on EPA's internal controls. Our evaluation would not necessarily disclose all matters in the internal control structure that might be reportable conditions or material weaknesses. Because of inherent limitations in any system of internal controls, losses, noncompliance, or misstatements could occur and not be detected. Also, projecting our evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with such controls may deteriorate.

Material Weaknesses

OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements," defines a material weakness as a situation where internal controls do not reduce to a relatively low level, the risk that errors, fraud or noncompliance in amounts material to the audited financial statements, Required Supplemental Stewardship Information, or reported performance measures may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. In evaluating the Agency's internal control structure, we identified the following material weaknesses.

Although the Agency made some improvements in its financial statement preparation processes, the financial statements provided to us for the purpose of expressing an opinion were incomplete and contained significant errors. The financial statements that we used as a basis for rendering our opinions were not received until late February 2000. Further, significant audit effort was needed to assist the Agency in improving the presentation of the financial statements and to resolve preparation issues in order for the Agency to obtain the best possible opinions by March 1, 2000. The Agency needs to make further improvements in its financial statement preparation process. These improvements should be designed to improve the accuracy and reliability of financial information used to prepare financial statements after the end of the year, as well as the data that is available on an ongoing basis throughout the year to manage EPA's environmental programs. Attachment 1 describes weaknesses in the Agency's financial statement preparation process in more detail.

The Office of Inspector General previously reported concerns that security plans for EPA's core financial systems were not compliant with Federal financial management system requirements. Our work continues to show significant deficiencies for fiscal 1999. As a result, we continue to report the issue as a noncompliance with the Federal Financial Management Improvement Act (FFMIA). (See Attachment 3 for details.) Additional developments for fiscal 1999 support the listing of computer security controls as a material weakness.

EPA's Acting CFO (in his Management Representation letter to us) listed potential vulnerabilities in the Agency's mainframe computer and network servers as an exception to Agency FFMIA compliance. In addition, the Acting CFO cited the lack of sufficient detail in security plans, and security training programs that were under development but not yet completed and implemented, as further exceptions to complying with system requirements.

In addition, a current, more comprehensive, on-going review by the GAO indicates that computer security weaknesses "pose a serious threat to the integrity of EPA's information systems; and if uncorrected could allow unauthorized users to take control of EPA's network operations." The problems are of such magnitude that the security program was rendered ineffective. There have been numerous computer incidents identified, but the system to document and manage the incidents is inadequate. The operating computer and network controls were vulnerable to

tampering and disruption of services. EPA is vulnerable to serious disruptions, disclosure of data and destruction of data. A Congressional Committee, citing the seriousness of the vulnerability, plans a March 2000 hearing on the issue.

Relying on the work of GAO and our efforts, and noting the concern of the Acting CFO, we consider the lack of adequate computer security controls a material weakness.

Reportable Conditions

We also identified the following reportable conditions. OMB Bulletin 98-08 defines a reportable condition as an internal control weakness that could adversely affect EPA's ability to ensure: (1) transactions are executed in accordance with applicable laws; (2) assets are safeguarded against unauthorized acquisition, use, or disposition; (3) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements and Required Supplemental Stewardship Information in accordance with generally accepted accounting principles; and (4) transactions are properly recorded, processed and summarized to permit the preparation of reliable performance information.

- The Agency did not timely identify and deobligate unnecessary funds during its annual review of inactive obligations. Therefore, the Agency had to conduct a "special review" of its open obligations to ensure an accurate reporting of its open obligations in the Agency's financial statements. The special review identified \$14.6 million of open obligations which should have been deobligated by September 30, 1999 in addition to the \$10 million which should have been deobligated based on the fiscal 1998 special review. In addition, our fiscal 1999 audit work identified another \$6.3 million which should have been deobligated by September 30, 1999.

- During fiscal 1999, the Agency continued its efforts to improve controls in the accounts receivable area. However, we continued to find: (1) accounts receivable that were not recorded and billed timely, (2) accounts receivable balances in the Agency's Integrated Financial Management System (IFMS) were not reconciled to subsidiary records, (3) outstanding receivables were not timely followed up on and written off, and (4) collection transactions were not properly recorded. Consequently, some accounts receivable may not be correctly valued and timely collected. These problems were primarily caused by Offices of Regional Counsel and program offices not timely forwarding documentation needed to manage accounts receivable to the financial management offices.

- Some Agency project officers were not fulfilling one of their program oversight duties, that of timely reviewing and approving interagency agreement invoices. In addition, some project officers were not obtaining and reviewing supporting cost documentation for amounts billed by other agencies. The Agency needs to continue making improvements in this area, so that it can be assured that payments are only made for costs billed that are valid and allowable under the terms of its interagency agreements.

- For a number of years, we have reported that EPA needs to make improvements in accounting for its property. The Agency has been addressing weaknesses in its accounting for property; however, our fiscal 1999 audit work disclosed the need for further corrective actions. We again found property that was not recorded or not recorded timely or accurately. In addition, we found weaknesses in the reconciliation of property information in the Agency's accounting system with information contained in the property subsystem. When property is not accurately accounted for it impacts the quality of data available to manage EPA's resources and increases the risk of theft, loss or misuse of the property.

- We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing and output controls for the accounting transactions contained in the Agency's IFMS. We recognize the Agency has initiated a work group to replace the Agency payroll system, and the Agency's budget request indicated a desire to replace IFMS in the near future. An active data dictionary would simplify conversion of data in implementing future financial systems.

Attachment 2 describes each of these reportable conditions in more detail. We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

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

As required by OMB Bulletin 98-08, we compared EPA's Federal Managers' Financial Integrity Act (FMFIA or the Integrity Act) Report with our evaluation of the Agency's internal control systems. For reporting under FMFIA, material weaknesses are defined differently than they are defined for financial statement audit purposes. OMB Circular A-123, "Management Accountability and Control" defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency. OMB Bulletin 98-08 defines a material weakness as a weakness in controls that creates a risk that errors, fraud or noncompliance in amounts material to the financial statements could occur and not be timely detected.

As a part of the fiscal 1999 Integrity Act process, the Agency reported the following two material weaknesses that relate to the Agency's financial statements.

- **Construction Grants Close Out.** In 1992, EPA designated this area as an Agency weakness and in 1996 reclassified it as a material weakness due to the concern that lack of Agency-wide attention might result in the loss of resources to properly complete the program. In addition, there were concerns that millions of dollars in potentially ineligible program costs might not be available for reuse on other high priority state clean water projects. The Agency is in the process of implementing its corrective action strategy and expects to close out all construction grants by 2006.

● **Information Systems Security Plans.** Our audits have identified deficiencies in the Agency's information security planning. Security plans serve as a management control mechanism to assist officials in the implementation of Agency security policies and in protecting valuable information technology resources. Organizational security programs are to include the development, maintenance, and management reviews of information security plans; to date, the Agency's program and regional offices are not fully compliant. At risk is the possible unauthorized access, use, modification, or destruction of EPA information resources that could result from exploitation of these vulnerabilities. As previously noted, we also consider this weakness a material weakness, as well as a FFMIA noncompliance.

As a part of the Agency's Integrity Act process, the Agency did not identify and report the financial statement preparation process as a material weakness. Rather the Agency elected to track the Agency's corrective actions in the financial statement preparation process as an Agency-level weakness. We believe the Agency should report weaknesses in its financial statement preparation process as an Integrity Act material weakness.

TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS

We tested compliance with provisions of those laws and regulations that could either materially affect the financial statements or RSSI, or that OMB or we considered significant to the audit. Our compliance testing did not disclose any material misstatements to the financial statements as a result of noncompliance with laws and regulations. However, the objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Consequently, we do not express such an opinion. There are a number of ongoing investigations involving EPA's grantees and contractors which could reveal violations of laws and regulations, but a determination about these cases has not been made.

Federal Financial Management Improvement Act Compliance

As required by FFMIA, as a part of our audit, we assessed whether EPA's financial management systems substantially complied with Federal financial management systems requirements, applicable accounting standards, and the Standard General Ledger at the transaction level. In planning, performing and reporting on our tests of compliance, we followed OMB Bulletin 98-08, "Audit Requirements For Federal Financial Statements."

We found EPA was not in substantial compliance with the FFMIA requirements because of weaknesses in: (1) the Agency's process for preparing financial statements, and (2) its computer security controls. We also identified the following instances of substantial noncompliance with FFMIA requirements. Attachment 3 describes the following two noncompliance issues in more

detail and provides our recommendations on actions that should be taken to correct these noncompliances.

- EPA's methodology for accumulating and reporting costs by the Agency's ten strategic goals could not be relied upon to fairly state the Agency's costs to achieve each goal. Weaknesses in this area affected the quality of cost accounting data EPA managers had available during fiscal 1999 to manage their programs. In addition, the Agency was not in compliance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 that requires EPA to: (1) determine the full costs of its activities, (2) accumulate and report cost of activities on a regular basis for management information purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs.
- EPA was unable, in most cases, to report its intra-governmental assets and liabilities by trading partner because finance offices were not coding transactions to show this information. The Treasury Financial Manual requires agencies to report trading partner information, so Treasury can eliminate intra-governmental transactions when it prepares the Financial Report of the United States Government. Agencies also need this information, so they can manage their assets and liabilities.

Other Noncompliance Issues

We also identified the following noncompliance issues that did not cause a material misstatement to the financial statements, but are nonetheless significant.

Disbursements for Multiple Appropriation Grants. EPA is not complying with appropriation law when making disbursements for grants funded with more than one appropriation. Disbursements for these grants are made using the oldest available funding (appropriation) first which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA to match disbursements to the benefitting appropriation. A January 13, 2000, Office of General Counsel decision concluded that making disbursements for multiple appropriation grants using the oldest available funding first violates 31 U.S.C. 1301 and is an inappropriate method of charging, except in limited situations.

User Fees. In response to our prior audit report findings, EPA's OCFO conducted biennial reviews of user fees required by OMB Circular A-25, "User Charges" and the CFO Act. The November 1997 review showed five current fees, four proposed fees, and eight exceptions. To be in complete compliance with OMB Circular A-25, the Acting CFO needs to follow through and either institute, revise, or update its user fees or obtain exceptions from OMB for the user fees updated in 1997, as updated by the 1999 review. See Attachment 3 for a further discussion of this issue, including the Agency's comments on this issue and our recommended corrective action.

PRIOR AUDIT COVERAGE

During previous financial audits, weaknesses that impacted our audit objectives were reported in the areas of:

- the Agency's process for preparing financial statements, including the Statements of Budgetary Resources and Financing;
- recording unbilled Superfund oversight costs;
- accounting for and managing Superfund accounts receivable;
- accounting for and controlling property;
- recording accrued liabilities for grants;
- approving payments for interagency agreements;
- identifying, tracking and reporting EPA's environmental liabilities;
- recording revenue for Superfund state contracts;
- documenting EPA's Integrated Financial Management System;
- complying with federal financial management system security requirements;
- accounting for payments for grants funded from multiple appropriations;
- reconciling the components of Superfund net position;
- identifying and allocating indirect costs;
- reviewing Agency fees; and
- allocating costs to the Superfund Trust Fund.

Attachment 4 summarizes the status of the prior audit report recommendations in each of these areas. Other sections of this report on internal controls and compliance with laws and regulations provide additional details on the current status of the Agency's corrective actions.

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

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the CFO with various Assistant Administrators, Regional Administrators and Office Directors before they can be completely resolved. A number of issues have been unresolved for a number of years.

On January 13, 2000, the OCFO and the OIG jointly sponsored a meeting with a number of senior managers and representatives from the OCFO, the Office of General Counsel and the Office of Administration and Resources Management to discuss our concerns about the audit management process and the length of time management was taking to complete corrective

action on some of our older audit recommendations. The intended outcome of this meeting was to ensure a clear understanding of the roles, responsibilities and processes needed to implement a quality audit management program.

We acknowledge that EPA updated its policy in fiscal 1999 to enhance the audit management process (EPA Order 2750, *Audit Management Process*, revised December 3, 1998). Nevertheless, the Agency's Audit Follow-up Official, OCFO, agreed on a number of additional actions to ensure appropriate resources and priority attention by senior management is devoted to our prior audit issues and that progress and status on these issues is appropriately discussed in management's semiannual reports to Congress. Because efforts are underway by the OCFO to further strengthen and enhance the audit management process, we will monitor the progress during fiscal 2000 to determine if we need to make any audit recommendations concerning the audit follow-up process and management's reporting of progress made on corrective action plans to Congress. Our office will continue to work with the OCFO in helping them to resolve all audit issues resulting from our financial statement audits.

RECOMMENDATIONS

We are not making any new recommendations concerning the Agency's financial statement preparation process. The recommendations we made as a part of the fiscal 1998 audit, when fully implemented, should correct weaknesses in the Agency's financial statement preparation process.

To correct the other FFMIA noncompliances we noted during this audit, we are recommending the Acting Chief Financial Officer (CFO):

- incorporate planned fiscal 2000 security plan actions for financial systems into a formal remediation plan,¹
- establish procedures to identify actual costs by goal, objective and subobjective at the time the costs are recorded,
- develop timely, reliable, accurate cost reports to enable managers to monitor the total cost of their programs,
- develop a Statement of Net Cost with accurate and reliable cost information by goal which can be used for external reporting, and

¹ We expect the General Accounting Office will also make recommendations designed to improve the Agency's computer security.

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- issue policies to require all finance offices to expedite the review and input of trading partner information for the Agency's intra-governmental assets and liabilities.

Our report also contains recommendations related to the other internal control and compliance issues we identified during this audit.

AGENCY COMMENTS AND OIG EVALUATION

In a memorandum dated February 24, 2000, the Acting CFO responded to our draft report. In the response, he indicated that his office agrees that further improvements need to be made to the process for preparing financial statements. However, the weaknesses we identified in the financial statement preparation process do not warrant categorization as a material weakness, nor are they indicative of the Agency's inability to provide managers with information that is accurate and reliable for use on a day-to-day basis to manage Agency programs. The Acting CFO also disagreed with our conclusion that the Agency is in noncompliance with the requirements of SFFAS No. 4, "Managerial Cost Accounting Concepts and Standard for the Federal Government." The Acting CFO agreed with many of the recommendations and indicated corrective actions are planned or ongoing to implement these recommendations. Finally, the Acting CFO expressed appreciation for our cooperation in resolving outstanding financial statement issues. The Agency's complete response is included as Appendix II to this report.

We will continue to support the Agency's efforts to improve its processes for preparing timely, reliable financial statements. In particular, we look forward to working with the Agency to make improvements in the cost accounting information available to Agency managers to use in carrying out their environmental programs. We have not changed our classification of the reported material weakness and noncompliance issue. The rationale for our conclusions is included in the appropriate sections of this report.

RESPONSIBILITIES AND METHODOLOGY

EPA MANAGEMENT RESPONSIBILITIES

EPA's management is responsible for:

- preparing annual financial statements and Required Supplemental Stewardship Information;

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- establishing and maintaining a system of internal controls; and
 - complying with applicable laws and regulations.

OIG RESPONSIBILITIES

We are responsible for:

- auditing the financial statements to determine if they are free of material misstatements and presented fairly in accordance with generally accepted accounting principles, and
- evaluating related internal controls and testing compliance with applicable provisions of laws and regulations.

AUDIT METHODOLOGY

In order to fulfill our responsibilities, except as described in our opinions, we:

- examined on a test basis, evidence supporting the amounts and disclosures in the principal financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the significant internal controls over financial reporting, determined whether they had been placed in operation, assessed control risk, and tested the effectiveness of significant manual controls relevant to the following significant cycles, classes of transactions, and account balances:
 - Receivables and Collections
 - Disbursements and Operating Expenses
 - Payroll
 - Investments
 - Property
 - Budget and Obligations
 - Accounts Payable and Accrued Liabilities
 - Fund Balances
 - General Accounting and Financial Reporting
- gained an understanding of the significant internal controls related to the RSSI;

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- inquired of EPA's management as to their methods of preparing EPA's Required Supplemental Information;
 - compared EPA's RSSI and Required Supplemental Information with the Agency's principal financial statements;
 - obtained an understanding of the automated internal control structure of the subsystem interfaces with IFMS;
 - completed a separate audit addressing the adequacy of critical mainframe operating systems libraries, program property tables and supervisory call programs;
 - reviewed the work of the GAO relative to computer security controls at EPA to determine their findings and that we could rely on their work;
 - documented the status of corrective actions in the Agency's FFMIA remediation plan, dated March 31, 1999;
 - followed-up on findings and recommendations from previous audits that could materially affect the financial statements;
 - obtained an understanding of management's process for evaluating and reporting on internal controls and accounting systems as required by FMFIA;
 - compared the material weaknesses reported in the Agency's FMFIA report to the material weaknesses we found;
 - tested compliance with applicable sections of laws and regulations that either materially affect the financial statements or RSSI, or that OMB or our office considered significant to the audit; and
 - performed sufficient tests to report whether EPA's financial management systems substantially comply with Federal financial management systems requirements,² applicable accounting standards, and the Standard General Ledger at the transaction level as required by the FFMIA.

Detailed system documentation was not available that would have allowed us to develop an understanding of the IFMS automated transaction level control structure and to test those

² We evaluated whether EPA was in substantial compliance with OMB Circular A-127; OMB Circular A-130, Appendix 3; and Joint Financial Management Improvement Program system requirements, as identified in OMB Bulletin 98-08. We also evaluated systems budgetary reporting requirements, as stated in OMB Circular A-11.

automated controls. Our systems compliance work also was limited to evaluating the scope and methodology of three reviews performed by the Treasury Financial Management Service: (1) EPA Financial Systems' Compliance with OMB Circular A-127, dated November 4, 1999; (2) IFMS Documentation Evaluation, dated September 1999; and (3) EPA Financial Systems' Compliance with OMB Circular A-130, dated August 25, 1999. In addition, we performed field work to evaluate the adequacy of Agency actions to revise core financial systems security plans, which were identified in the Agency FFMIA remediation plan, dated March 31, 1999.

We met with GAO and discussed the results of their computer security control review of EPA and attended the GAO exit conference with EPA on February 2, 2000. This allowed us to develop an understanding of the issues. We reviewed a GAO summary of the issues and reviewed supporting work papers. We further reviewed the qualifications of the GAO staff and obtained assurance of their independence to satisfy ourselves that we could rely on their work.

The information presented in EPA's Management Discussion and Analysis is supplemental information required by OMB Bulletin 97-01, entitled "Form and Content of Agency Financial Statements." OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements," requires that we obtain an understanding of the internal controls designed to ensure that data supporting the measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information. Our audit work related to EPA's Management Discussion and Analysis was limited to comparing the financial information included in the document with information contained in the principal financial statements.

Details of Audit Field Work

We selected statistical and non-statistical samples from EPA's detailed accounting records supporting various financial statement amounts. We tested these sample transactions to determine if they were adequately supported by documentation and were recorded in accordance with internal control policies and procedures and applicable laws and regulations. We also reviewed other supporting documentation, such as worksheets and schedules, that the Agency used in preparing its financial statements. In addition, we applied certain analytical review procedures to account balances.

The financial management records and supporting documentation we reviewed were maintained by Financial Management Centers in Washington, D.C., Research Triangle Park, Cincinnati and Las Vegas; Financial Management Offices in EPA's regional offices; the Office of the Chief Financial Officer; various offices within the Office of Administration and Resources Management; the Office of Enforcement and Compliance Assurance (OCEA); and by Headquarters and regional program offices. To gain an understanding of established internal control procedures, and to evaluate these controls, we also interviewed personnel in these offices and reviewed applicable policies and procedures. In addition, we conducted a physical inventory of a sample of property items, and we observed the Agency's physical inventory of its property.

Our fieldwork for the audit was performed from June 9, 1999 through February 24, 2000. Except as previously discussed in this report, we conducted our audit work in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform our audits to obtain reasonable assurance that the financial statements are free of material misstatement. We believe that our audit provides a reasonable basis for our opinions.

This report is intended solely for the information and use of the management of EPA, OMB and Congress, and it is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses and noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

James O. Rauch
Assistant Inspector General for Audit
U.S. Environmental Protection Agency
February 24, 2000

ACRONYMS

ACRONYMS

AC&C	Abatement Control and Compliance
APGs	Annual Performance Goals
APR	Annual Performance Report
ASAP	Automated Standard Application for Payments
B&F	Buildings and Facilities
BAS	Budget Automation System
BCCP	Business Continuity and Contingency Planning
BRTs	Business Resumption Teams
CCRs	Consumer Confidence Reports
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CSRS	Civil Service Retirement System
EASY	Electronic Approval System
EDCs	Endocrine-disrupting Chemicals
EMPACT	Environmental Monitoring for Public Access and Community Tracking
EPA	Environmental Protection Agency
EPM	Environmental Program and Management
EPAYS	EPA Integrated Payroll and Personnel System
FAS	Fixed Assets Subsystem
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FTE	Full-time Equivalents
FY	Fiscal Year
GAO	General Accounting Office
GMRA	Government Management and Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
IFMS	Integrated Financial Management System
LUST	Leaking Underground Storage TankFebruary 27, 200044
MD&A	Management's Discussion and Analysis

NAAQS	National Ambient Air Quality Standards
NPL	National Priorities List
NPS	Nonpoint Source
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPA	Oil Pollution Act
PM	Particulate Matter
PRO	Program and Research Operations
PRPs	Potentially Responsible Parties
RP	Responsible Parties
S&T	Science and Technology
SARA	Superfund Amendments and Reauthorization Act of 1986
SO ₂	Sulfur Dioxide
SRF	State Revolving Fund
SSCs	Superfund State Contracts
SFFAS	Statement of Federal Financial Accounting Standards
STAG	State and Tribal Assistance Grants
TM+	Travel Manager Plus
UAOs	Unilateral Administrative Orders
WCF	Working Capital Fund
XL	eXcellence and Leadership
Y2K	Year 2000

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