

Section I.

Management's Discussion *and* Analysis



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Management's Discussion and Analysis

The U.S. Environmental Protection Agency (EPA) and its state and local partners are making great progress in improving air quality; ensuring clean, safe water; and restoring and protecting the land. For example:

- Today, the air is the cleanest it has been in 30 years: total emissions of the six principal air pollutants—lead, ozone, particulate matter, carbon monoxide, sulfur dioxide, and nitrogen dioxide—decreased by more than 48 percent.
- More than 90 percent of the nation's population served by community water systems receives drinking water that meets all health-based standards—up from 79 percent a decade ago.
- Two percent of America's children have blood lead levels above 10 micrograms per deciliter, compared to 90 percent in the 1970s.

- In the last decade, more than 1,000 contaminated sites began cleanup operations, and recycling and composting of municipal solid waste has increased more than ten-fold.

EPA's Long-Term Strategic Goals

Clean Air and Global Climate Change
Clean and Safe Water
Land Preservation and Restoration
Healthy Communities and Ecosystems
Compliance and Environmental Stewardship

- Industrial releases of 332 chemicals tracked since 1988 are down by nearly 50 percent, a reduction of 1.55 billion pounds.
- Pesticides that pose the greatest risks to human health and the environment have been regulated to meet tough new health standards.

The nation's environment is steadily improving; however, there is more to do and much of it is very complex and costly. This report reviews progress EPA made toward its goals during FY 2005. It fulfills the requirements of the Government Performance and Results Act and other management legislation¹ for reporting on performance and demonstrating results.

To help measure EPA's annual progress, Agency leaders established 84 annual performance goals at the beginning of FY 2005. The chapters that follow describe EPA's progress toward meeting these annual goals. This report also presents a picture of the Agency's financial activities and achievements during the year, because managing taxpayer dollars efficiently and effectively is critical to delivering the greatest results to the American people.

Mission and Organization

EPA's mission is: "To protect human health and the environment." To achieve its mission, the

Agency assesses environmental conditions and works with its partners and stakeholders to identify, under-

stand, and solve current and future environmental problems. EPA develops and enforces regulations that

implement environmental laws to protect America's air, water, and land. It works with the regulated community to provide assistance and incentives for complying with environmental laws.

EPA employs approximately 18,000 people across the country,

including its headquarters offices in Washington, DC, 10 regional offices, and more than a dozen laboratories. The Agency's staff is highly educated and technically trained; more than half are engineers, scientists, and policy analysts. In addition, EPA

employs legal, public affairs, financial, information management, and computer specialists. EPA Administrator, Stephen L. Johnson, who was appointed by the President of the United States, is the first career scientist to lead the Agency.

U.S. Environmental Protection Agency

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



EPA Offices

Office of the Administrator

Provides overall supervision of the Agency and is responsible directly to the President of the United States.

Office of Administration and Resources Management

Manages EPA's human, financial, and physical resources.

Office of Air and Radiation

Oversees the air and radiation protection activities, including national programs, technical policies, and regulations.

Office of the Chief Financial Officer

Manages and coordinates EPA's planning, budgeting, and accountability processes and provides financial management services.

Office of Enforcement & Compliance Assurance

Delivers compliance with U.S. environmental laws and promotes pollution prevention.

Office of Environmental Information

Advances the creation, management, and use of information as a strategic resource at EPA.

Office of General Counsel

Provides legal service to all organizational elements of the Agency.

Office of Inspector General

Conducts audits, evaluations, and investigations of Agency programs and operations.

Office of International Affairs

Manages Agency involvement in international policies and programs that cut across Agency offices and regions and acts as the focal point on international environmental matters.

Office of Prevention, Pesticides and Toxic Substances

Regulates pesticides and chemicals to protect public health and the environment, and promotes innovative programs to prevent pollution.

Office of Research and Development

Meets programs' research and development needs and conducts an integrated research and development program for the Agency.

Office of Solid Waste and Emergency Response

Provides policy, guidance, and direction for safely managing waste; preparing for and preventing chemical and oil spills, accidents, and emergencies; and cleaning up and reusing contaminated property. Provides technical assistance to all levels of government to safeguard the air, water, and land from the uncontrolled spread of waste.

Office of Water

Develops national programs, technical policies, and regulations relating to drinking water, water quality, ground water, pollution source standards, and the protection of wetlands, marine, and estuarine areas.

Research Triangle Park (RTP), North Carolina

The Agency's center for research on how humans and ecosystems are exposed to various pollutants, the extent of that exposure, and the health and ecological effects which result from such exposure. RTP is also the hub of EPA's air pollution programs under the Clean Air Act and home of the EPA National Computer Center.

Regional Offices

EPA has 10 regional offices, each responsible for several states and territories.

Highlights of FY 2005 Performance

In FY 2005, with resource obligations of \$10.13 billion and 17,486 full-time-equivalent employees, EPA achieved significant results under each of the five long-term environmental goals established in its 2003-2008 *Strategic Plan*. This section highlights the Agency's accomplishments and continuing challenges under each of its strategic goals. It also discusses progress under the Agency's homeland security programs and the President's Management Agenda. Detailed performance information is presented in Section II of this report.

SIGNIFICANT ENVIRONMENTAL ACCOMPLISHMENTS AND CHALLENGES

Goal 1: Clean Air and Global Climate Change. In FY 2005, EPA issued the Clean Air Interstate Rule (CAIR), which when fully implemented is expected to dramatically reduce pollution in the eastern United States by cutting power plant emissions of sulfur dioxide by more than 70 percent and nitrogen oxides by more than 60 percent. EPA estimates that CAIR could result in annually preventing approximately 17,000 premature deaths, 1.7 million lost workdays, 500,000 lost school days, 22,000 nonfatal heart attacks, and 12,300 hospital



admissions at full implementation in 2015.²

EPA also released a rule designed to reduce mercury emissions from power plants. This rule, known as the Clean Air Mercury Rule (CAMR), is intended to provide a flexible multi-pollutant approach to reducing mercury emissions from power plants. Like CAIR, the CAMR limits emissions by using a market-based, cap and trade program that will permanently cap utility mercury emissions in two phases. The first phase is expected to reduce emissions from 48 tons to 31 tons by 2010, and the second phase is expected to achieve a reduction of 70 percent from current levels. As a result of this action, the United States is now the only country in the world to regulate mercury emissions from coal-burning power plants.³

EPA launched a "Clean Diesel Campaign" in FY 2005 as well. The Clean Diesel Campaign consists of both regulatory and voluntary efforts to reduce emissions from new and existing diesel engines by 2014. Many geographic areas in the country have not met the national standards for particulate matter and/or ozone. The campaign contains components to help those areas reduce emissions of these pollutants from diesel engines used in construction, agriculture and port equipment, waste haulers, locomotives, fire trucks, and ambulances. EPA's campaign is expected to help reduce the impacts of pollution on populations that are especially susceptible to the effects of diesel exhaust, including children, the elderly, and the chronically ill.

EPA issued the Clean Air Interstate Rule, which will result in the greatest health benefits of any rule EPA issued since the phase-out of lead in gasoline.

EPA Responds to Hurricanes Katrina and Rita

In August and September of 2005 EPA emergency response personnel partnered with the Federal Emergency Management Agency and state and local agencies to assess damages, test health and environmental conditions, and coordinate cleanup from Hurricanes Katrina and Rita. EPA served as the lead agency for cleaning up hazardous materials, including oil and gasoline. National and regional Emergency Operations Centers were activated 24 hours a day. Additional information about EPA's hurricane response activities can be found at www.epa.gov/katrina/index.html.

Environmental Health Needs & Habitability Assessment.

EPA and the Centers for Disease Control and Prevention (CDC) formed a joint task force to advise local and state officials of the potential health and environmental risks associated with returning to the city of New Orleans. The initial Environmental Health Needs & Habitability Assessment was issued September 17, 2005.

Air Sampling. Soon after Hurricane Katrina, EPA began collecting air quality data to assess possible health risks to clean-up workers and inhabitants of New Orleans.

Water Sampling. EPA and local agencies sampled and performed a variety of biological and chemical tests on floodwaters. EPA made the results of these tests available to the public.

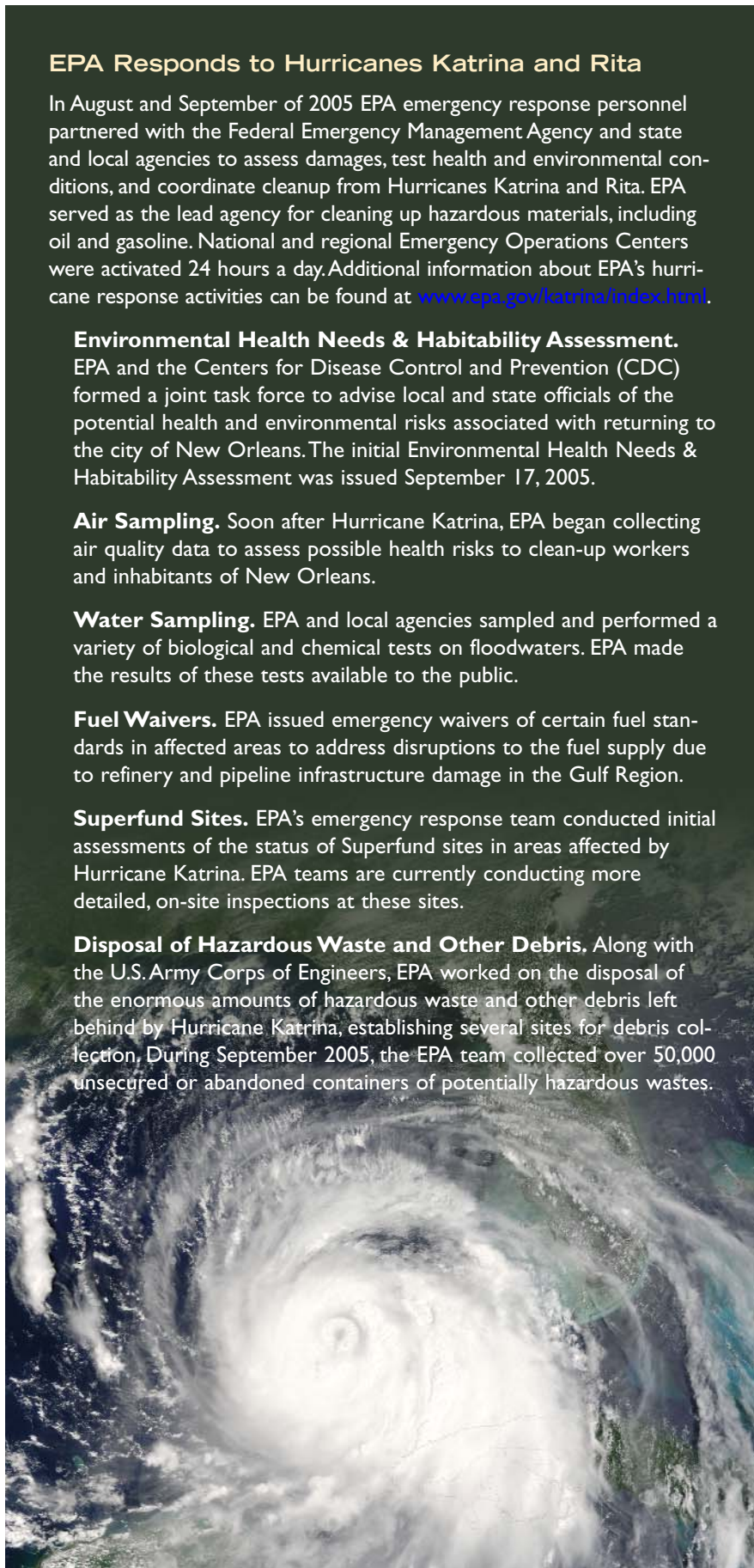
Fuel Waivers. EPA issued emergency waivers of certain fuel standards in affected areas to address disruptions to the fuel supply due to refinery and pipeline infrastructure damage in the Gulf Region.

Superfund Sites. EPA's emergency response team conducted initial assessments of the status of Superfund sites in areas affected by Hurricane Katrina. EPA teams are currently conducting more detailed, on-site inspections at these sites.

Disposal of Hazardous Waste and Other Debris. Along with the U.S. Army Corps of Engineers, EPA worked on the disposal of the enormous amounts of hazardous waste and other debris left behind by Hurricane Katrina, establishing several sites for debris collection. During September 2005, the EPA team collected over 50,000 unsecured or abandoned containers of potentially hazardous wastes.

EPA's CAIR and CAMR rules are critical components of the Agency's strategy to achieve the greatest reductions in air toxics emissions. The Agency's Air Toxics Program is also working to address requirements of the Clean Air Act Amendments (e.g., issuance of final standards for 70 stationary area source categories of toxic air pollution). EPA has completed 15 area source standards and is working to develop standards for an additional 25 area source categories, projected for completion in 2008. These 40 standards will address more than 90 percent of the 1990 baseline of toxic air pollutant emissions from area sources. The Agency has been and will continue to monitor progress in this area through its management integrity process, which tracks important management challenges.⁴

In FY 2005, EPA helped owners and managers of office buildings understand and achieve the benefits of good indoor air quality, thereby improving the health and productivity of office workers. The national cost of poor indoor air quality, including lost worker productivity, direct medical costs for those whose health is adversely affected, and damage to equipment and materials, runs to tens of billions of dollars per year.⁵ EPA estimates that approximately 150,000 office workers experienced improved air quality in their workplaces, meeting the Agency's FY 2005 annual performance goal.



Goal 2: Clean and Safe Water.

The importance of safe drinking water supplies for protecting public health has never been more evident than in the aftermath of Hurricane Katrina, which occurred late in FY 2005. In early September, EPA, state and local officials, systems operators, and volunteers worked around the clock to assist more than 895 drinking water systems in repairing their infrastructure and restoring sources of safe drinking water for all people in the affected region. In FY 2006, EPA will assess the impact of Hurricane Katrina on the Agency's progress towards achieving its 2008 drinking water protection goal.

EPA and its state partners attained water quality standards in eight percent of waters previously identified by the states as impaired, exceeding the Agency's FY 2005 annual performance goal of two percent. Also in 2005, permits implementing effluent guidelines under EPA's National Pollution Discharge Elimination System (NPDES) prevented the discharge of 26 billion pounds of pollutants, nearly double the amount removed in 2002 before new storm water and

The NPDES Program prevented the discharge of 26 billion pounds of pollutants.

Concentrated Animal Feeding Operations regulations as well as new effluent guidelines took effect.

EPA issued the National Coastal Condition Report II (NCCR II) in January 2005.⁶ The second in a series of environmental assessments of U.S. coastal waters and the Great Lakes, the report assesses 100 percent of the nation's estuaries in the contigu-



ous 48 states and Puerto Rico. The NCCR II is based on data gathered by a variety of federal, state, and local sources, including more than 50,000 samples taken between 1997 and 2000 in all continental seacoasts and Puerto Rico. The NCCR II's data for FY 2005 indicate that the overall ecological health of coastal waters improved, meeting the Agency's FY 2005 annual performance goal.

The overall ecological health of coastal waters improved.

Finally, in addition to improving the quality of drinking and surface water data and information (see Section III of this report for more information on these

data improvements), EPA completed data collection for the first wadeable streams assessment. This is the first time a national assessment of ecological conditions in small streams has been conducted using a random sampling, statistically valid approach. States worked with EPA to conduct monitoring using the same methods at each sampling site so that the results can be compared across the country. A report on small stream conditions, scheduled to be released in March 2006, will establish baseline conditions for tracking ecological trends over time in small streams nationwide. EPA intends to follow this report with nationwide assessments of lakes, large rivers, wetlands, and other water types.

Goal 3: Land Preservation and Restoration. In FY 2005, EPA completed the cleanup ("construction completes") of 40 sites on the Superfund National Priorities List (NPL), for a cumulative total of 966 sites—more than 64 percent of the sites on the NPL. At sites with groundwater contamination,



migration of contamination was brought under control at an additional 23 sites in FY 2005, for a cumulative total of 898, or 70 percent, of such sites on the NPL.⁷ Among the challenges facing the Agency in FY 2006 is the need to balance limited resources between beginning construction at an increasing number of Superfund projects, and continuing long-term remedial actions at several ongoing, large and complex sites.

Under the Resource Conservation and Recovery Act (RCRA) Program, the Agency met its FY 2005 goal for increasing the number of RCRA hazardous waste management facilities with permits or other approved controls in place, and EPA expects to bring 95 percent of facilities under approved controls by FY 2008. Under the RCRA corrective action program, more than 96 percent of high-priority RCRA hazardous waste facilities have met Agency goals for having controls in place to prevent any human exposures from occurring under current land and groundwater use, and more than 78 percent have met goals for having controls in place to

prevent groundwater migration. Under the Agency's Leaking Underground Storage Tank Program, 6,181 cleanups were

The Agency's state partners completed 14,583 underground storage tank cleanups.

completed by the end of March 2005.⁸ Data for the end of the year, which were undergoing a quality assurance/quality control check at the time this report was published, indicate that the Agency's state partners completed 14,583 underground storage tank cleanups, meeting the Agency's FY 2005 goal of 14,500.⁹

While recycling has increased in this country in general, recycling of specific materials has grown even more: 42 percent of all paper, 40 percent of all plastic soft drink bottles, 55 percent of all aluminum beer and soft drink cans, 57 percent of all steel packaging, and 52 percent of all major appliances are now recycled.¹⁰ To achieve national recycling goals, the Agency continued to develop alliances

with manufacturers, communities, and governments to: (1) foster a new recycling infrastructure, which will reclaim valuable materials, and (2) address the increasing variety and volume of obsolete electronic products entering the waste stream. Although recycling rates were lower than expected in FY 2003 (the last year for which the Agency has data), EPA expects that these collaborative efforts will encourage higher recycling rates in future years. In FY 2006, EPA will be initiating a challenge to major industries to encourage the "early retirement" of devices containing mercury.

Goal 4: Healthy Communities and Ecosystems. To protect human health and the environment from pesticide use, EPA reassessed risks posed by older chemicals and established new risk mitigation measures where needed. By the end of FY 2005, the Agency had reassessed 80 percent of the 9,721 pesticide tolerance levels requiring reassessment under the Food Quality and Protection Act.¹¹ In addition, EPA registered 14 new reduced risk pesticides, increasing the number of safer alternatives to older, more dangerous pesticides to 143.¹²

EPA identifies and addresses risks posed by chemicals already in commerce through its High Production Volume (HPV) Challenge Program. Under this program, the Agency will complete work by the end of

calendar year 2005 to provide the public with critical health and environmental effects data on more than 2,200 chemicals encountered in communities every day. In FY 2005, more than 360 chemical companies and 100 industry consortia volunteered to provide data for 1,397 HPV chemicals directly to EPA, and to provide data for 854 chemicals to the European component of the program—the International Council of Chemical Associations HPV Initiative¹³. Data for 300 of those chemicals will be publicly available by the end of 2005. EPA continues to encourage companies to sponsor additional HPV chemicals, and is obtaining data on un-sponsored “orphan” chemicals by issuing Test Rules under the Toxic Substances Control Act.

In FY 2005, EPA led a collaborative effort to develop guidelines on the potential health effects from various levels of exposure to hazardous chemicals during an accidental spill or a terrorist incident. The Agency partnered with nine federal agencies, numerous state agencies, private industry, academia, emergency medical associations, unions, and other organizations in the private sector as well as international participants on this project. In FY 2005, Acute Exposure Guideline Levels (AEGs) were proposed for

32 highly hazardous chemicals, bringing the cumulative total to 165 chemicals. These guideline levels are meant to address the millions of pounds of highly toxic chemicals used in industry and routinely stored at fixed sites or shipped over road or rail in single containers of 50,000 to 300,000 pounds or more. AEGs values, including those proposed in 2005, were used in responding to the environmental devastation caused by Hurricane Katrina.



In 2005, the Centers for Disease Control released data demonstrating major reductions in the incidence of childhood lead poisoning—from approximately 900,000 children with elevated blood lead levels in the early 1990s to 310,000 children from

EPA and its partners protected and restored 103,959 acres of estuarine habitat.

1999 to 2002.¹⁴ To virtually eliminate childhood lead poisoning by 2010, EPA focused its FY 2005 outreach and education efforts on remaining “hot spots,” often disadvantaged urban areas where the incidence of childhood lead poisoning remains high. In FY 2006, the Agency will be revamping its strategies and expanding its regulatory and voluntary tools to address the remaining population of children at risk for lead poisoning.

EPA continues to make progress on improving and protecting the health of ecosystems in the Great Lakes. The Great Lakes Index, indicating overall ecosystem condition in the Great Lakes, improved in FY 2005. Long-term concentrations of PCBs in predator fish and trends of toxic chemicals in the air are declining faster than targeted. Cumulatively, 3.7 million cubic yards of contaminated sediments have been remediated, including 345,000 cubic yards in 2004. However, phosphorus concentrations in the Lake Erie Basin increased slightly. Although EPA has not met the target of delisting three Areas of Concern (AOC), significant progress has been made towards delisting of two AOCs for FY 2006.

EPA increased the number of registered safer pesticides to 143.

EPA and its partners also protected and restored 103,959 acres of estuarine habitat within the 28 estuaries of the National Estuary Program in FY 2005. This acreage includes critical estuarine, riparian, and coastal wetlands, which help support many commercially valuable fisheries and the economic, environmental, and aesthetic functions on which coastal populations depend for their livelihood. EPA faces significant challenges in continuing to restore and protect estuaries as more difficult projects remain.

Goal 5: Compliance and Environmental Stewardship. In FY 2005, more than 1.1 billion pounds of pollutants were reduced, treated, or eliminated as a result of Agency enforcement actions. For example, EPA settled a Clean Air Act enforcement case against the Ohio Edison Company that will reduce more than 212,000 tons per year of emissions of harmful sulfur dioxide and nitrogen oxides from several of its plants. The company is required to install pollution controls and

carry out other measures expected to cost approximately \$1.1 billion. In addition, three enforcement actions taken in FY 2005 under the Clean Water Act will significantly reduce pollutants entering the Chesapeake Bay. One of the actions was taken with the

More than 1.1 billion pounds of pollutants were reduced, treated, or eliminated as a result of Agency enforcement actions.

District of Columbia Water and Sewer Authority and will lead to the elimination of 3.2 billion gallons a year of untreated sewage to the Anacostia and Potomac Rivers and cost the company an estimated \$1.5 billion.¹⁵

In an example of one of the Agency's criminal enforcement actions, criminal prosecution was taken against the owners of AAR Contractors, Inc. for conducting illegal asbestos operations at more than 1,500 sites, including schools, hospitals, and churches, in upstate

New York. More than 500 workers were exposed to potentially deadly asbestos-related diseases. The company owners received the two longest jail sentences in environmental crimes history, 25 and 19½ years, along with almost \$23 million in restitution.¹⁶

Finally, EPA has been working to replace the Agency's Permit Compliance System (PCS), which tracks Clean Water Act results for use in permitting, compliance and enforcement programs¹⁷. This project has been a top management challenge for a number of years and the Agency is now close to resolving it. Actions taken include working with states on interim solutions during development of the new system and adding capabilities to better track pollutant loadings, capture information on storm water sources of pollution, and assess the health of individual watersheds. In September 2005, EPA completed development of the replacement system (ICIS-NPDES) and officially moved into the testing phase. The first states are scheduled to begin accessing the system by March 2006.

HOMELAND SECURITY

Three years ago EPA assumed significant new responsibilities in homeland security work needed to protect human health and the environment from intentional



EPA's FY 2005 Progress in Homeland Security

Developed a Web-based system to quickly identify hazards and characterize risks in emergencies.

Completed vulnerability assessments for nearly all of nation's drinking water systems.

Worked with other federal agencies to establish a National Decontamination Team and Strategy.

Trained EPA field responders in detecting, analyzing, and responding to chemical, biological, and radiological agents.

Established health effects guidelines for 32 highly hazardous chemicals.

harm. EPA now plays a lead role in supporting the protection of critical water infrastructure and coordinating development of national capabilities and strategies to address chemical, biological and radiological contamination from a terrorist event. In FY 2005, the Agency conducted the following key work to understand and communicate the potential health effects of exposure to hazardous chemicals during an accidental spill or terrorist incident; to help water systems understand and address their vulnerability to intentional attacks; and, to enhance the nation's decontamination and emergency response capabilities:

- **Developing a Web-Based System to Identify Hazards and Characterize Risks in Emergencies:** In 2005, EPA began developing a Web-based system to quickly

identify hazards, assess exposure to humans, and characterize risks during an emergency response. This Emergency Consequence Assessment Tool (ECAT) will help in preparing for and rapidly responding to terrorist incidents by integrating a variety of relevant information on the hazards and exposures for a specific situation. ECAT will be expanded to include a variety of scenarios and contaminants and will eventually be used to inform the general public and scientific community.

- **Protecting Critical Water Infrastructure from Terrorist Acts:** EPA continued to assist the nation's drinking water systems in protecting their infrastructure from terrorist and other intentional attacks. By the end of FY 2005, all of

the 467 publicly and privately owned drinking water systems serving at least 100,000 people, and 100 percent of the nation's 444 medium-sized drinking water systems (those that serve 50,000 to 99,999 people) had completed vulnerability assessments. Furthermore, approximately 95 percent of the nation's small-sized community drinking water systems that serve populations of 3,301 to 49,999 people had completed vulnerability assessments. The Agency will continue to work with the small drinking water systems and its partners to ensure 100 percent of these systems have completed vulnerability assessments.

- **Enhancing the Nation's Decontamination Capabilities:** During FY 2005, EPA worked with other federal agencies, including the

Department of Homeland Security, to enhance the nation's decontamination capabilities by establishing a National Decontamination Team and by developing and implementing a National Decontamination Strategy. Additionally, EPA improved

hazardous chemicals. Some of these guideline levels are critical for responding to terrorist incidents when making decisions on evacuation, shelter-in-place, worker entry, decontamination, protective equipment, and monitoring and detection efforts.

and Performance Integration, Eliminating Improper Payments, and Research and Development.

Each quarter, the Office of Management and Budget (OMB) releases an executive scorecard that rates progress and overall status under each of the PMA initiatives using a color-coded "stop-light" system. As of September 2005, the EPA achieved three green scores for progress on implementation and one green score on the status of Improved Financial Performance initiatives. In addition to tracking PMA progress on a quarterly basis, each federal agency establishes yearly goals for where they would be "Proud to Be" on the status of PMA initiative implementation. The Proud to Be milestones and goals are set every July and assessed during the third quarter PMA Scorecard process. More information about the Agency's work under the PMA is available at www.epa.gov/pmaresults.

EPA has attained the highest rating possible for financial management.

capabilities for characterizing chemical components that might be intentionally released during incidents of national significance by standardizing analytical method validation and determining laboratory training requirements.







- Training EPA Field Responders:** In 2005, EPA improved the Agency's capability to respond to multiple chemical, biological, and radiological incidents. EPA field responders and National Response System personnel received extensive response-related training: scientific and technical training for detecting, analyzing and responding to chemical, biological, and radiological agents and training in managing incident command system responses.
- Establishing Health Effects Guidelines for Exposure to Hazardous Chemicals:** In FY 2005, Acute Exposure Guideline Levels (AEGs) were proposed for 32 highly

THE PRESIDENT'S MANAGEMENT AGENDA









Since 2001, the President's Management Agenda (PMA) has challenged federal agencies to improve performance, manage for results, and better serve the American people (see www.whitehouse.gov/results). During FY 2005, EPA made progress under each of the seven PMA initiatives: Human Capital, Competitive Sourcing, Expanded EGovernment, Improved Financial Performance, Budget



EPA’s FY 2005 PROGRESS UNDER THE PRESIDENT’S MANAGEMENT AGENDA
 (SCORECARD RATINGS CURRENT AS OF THE 4TH QUARTER OF FY 2005)

INITIATIVE	STATUS ¹⁸	PROGRESS	PROUD TO BE II (07/05) RESULTS	HIGHLIGHTS
Human Capital	 Yellow	 Yellow	“Yellow” EPA did not meet its goal of “Green” for P2B2 EPA has set a goal of “Green” for P2B3	<ul style="list-style-type: none"> —In FY 2005, EPA transitioned its employees to a new five-level Performance Appraisal and Recognition System (PARS). During Q4, EPA trained all Agency leaders on the new system, and assessed the system against OPM required elements to identify areas in need of improvement. —EPA revised and updated the HC Accountability plan to integrate assessments of office level HC activities and compliance with the Merit System Principles. —EPA analyzed the results of the FY 2004 Federal Human Capital Survey and developed and began implementing a plan of action for disseminating results and targeting areas for improvement to leadership Agency-wide. —As of the end of the Q4 FY 2005, EPA demonstrated that 100 percent of Agency employees are covered by the PARS.
<p>EPA’s Challenges in Human Capital—A cultural change is needed to strengthen EPA executives’, managers’, and employees’ understanding of the connection between personal “on the job” performance and the Agency’s ability to meet its strategic environmental goals. Additionally, the Agency must clearly differentiate levels of performance among employees and reward employees appropriately, based on the results they deliver and the way those results contribute the Agency’s overall mission</p>				
Competitive Sourcing	 Yellow	 Yellow	“Yellow” EPA met its goal for P2B2 EPA has set a goal of “Green” for P2B3	<ul style="list-style-type: none"> —The Agency completed six “streamlined” competitions for small activities that covered about 26 Full Time Equivalent (FTE) positions in the areas of information technology and clerical services. The Agency retained the work in all six competitions. —EPA also announced an additional seven “streamlined” competitions encompassing the work of about 39 FTE performing information technology services. —The Agency completed a standard competition for vendor payments, which involved 26 FTE. As a result, the work will continue to be performed by EPA employees at the Finance Center in NC and achieve about \$3.5 million in savings over the next five years. —EPA completed creation of a Competitive Sourcing Plan identifying and scheduling approximately 800 FTE for competition between 2005 and 2008.
<p>EPA’s Challenges in Competitive Sourcing—EPA must overcome cultural reluctance to consider competitive sourcing as a means of more efficiently and effectively delivering government services. Once decisions are made to compete a particular organizational function, managers involved in the competitions must be held accountable for timely follow-through on their commitments.</p>				
Expanded E-Government	 Yellow	 Yellow	“Green” EPA met its goal of “Green” for P2B2” EPA has set a goal of “Green” for P2B3	<ul style="list-style-type: none"> —Cost, schedule and performance for adherence with earned value management for major IT investments are less than 10%. —EPA’s E-Gov Implementation Plan is approved and accepted. —100% of EPA’s IT systems are secure. —EPA’s IT systems are installed in accordance with security configurations. —E-Rulemaking deployed four agencies in the Federal Docket Management System. Late deployment of the fifth agency is the sole reason for the yellow score in progress and status. —To date E-Payroll completed scheduled modifications and testing of all necessary interfaces to ensure a migration to the Defense Finance and Accounting Service by March 2006.
<p>EPA’s Challenges in E-Gov—Successful performance in Human Capital, Competitive Sourcing, Budget and Performance Integration, Financial Performance, and Research and Development Investment will require development and integration of government-wide solutions embedded in numerous E-Gov projects. These interdependencies create special challenges for ensuring that EPA adopts E-Gov solutions as part of its strategic plan for success in each PMA area.</p>				

EPA's FY 2005 PROGRESS UNDER THE PRESIDENT'S MANAGEMENT AGENDA (CONTINUED)
 (SCORECARD RATINGS CURRENT AS OF THE 4TH QUARTER OF FY 2005)

INITIATIVE	STATUS ¹⁸	PROGRESS	PROUD TO BE II (07/05) RESULTS	HIGHLIGHTS
Improved Financial Performance	 Green	 Green	"Green" EPA met its goal of "Green" for P2B2" EPA has set a goal of "Green" for P2B3	<ul style="list-style-type: none"> —EPA maintained a green rating for both progress and status for all four quarters of FY 2005. EPA is one of only three federal agencies to maintain a green rating for 10 or more successive quarters (since FY 2003). —The Agency delivered its FY 2005 Performance and Accountability Report with audited financial statements by the required November 15, 2005, deadline and met all required deadlines for its quarterly financial statements. —EPA is expanding the use of financial information by integrating additional financial information into EPA's decisionmaking processes, with an initial focus on grants.
EPA's Challenges in Improved Financial Performance —No challenges at this time				
Budget and Performance Integration	 Yellow	 Green	"Yellow" EPA did not meet its goal of "Green" for P2B2. EPA has set a goal of "Green" for P2B3.	<ul style="list-style-type: none"> —The Agency received green progress scores for all four quarters in FY 2004. —EPA worked cooperatively with OMB on the FY 2005 Program Assessment Rating Tool (PART) process, completing 43 PART assessments to date. —At the conclusion of the FY2005 PART Appeals process, EPA has developed efficiency measures for 35 of 43 completed PART programs. —Held meetings with EPA's senior leadership throughout the year to discuss the integration of budget, performance, and in particular the PART as a means to better manage the Agency's resources and deliver environmental results. —EPA has developed a process in alignment with the Enacted Budget identifying impacts of Congressional action on planned performance; specifically related to the targets associated with EPA's GPRA/PART annual and long-term performance measures. EPA senior leaders assess these impacts as part of their decisionmaking.
EPA's Challenges in Budget and Performance Integration (BPI) —EPA must continue to develop appropriate OMB-approved measures that gauge the efficiency of an environmental program's administration. Each program evaluated by the PART is required to have at least one OMB-approved efficiency measure. Currently 35 of 43 PARTed programs have OMB-approved efficiency measures.				
Eliminating Improper Payments	 Yellow	 Green	EPA did not have a goal for P2B2. EPA has set a goal of "Green" for P2B3.	<ul style="list-style-type: none"> —EPA successfully demonstrated that it has a low incidence of erroneous payments and was upgraded to a "yellow" status and "green" progress score during FY 2005. —EPA's FY 2005 error rate for its two State Revolving Funds was 0.16 percent, which surpassed the target error rate of 0.45 percent. —EPA documented its approach for conducting a statistical sample of sub-recipient payments in two states in FY 2006.
EPA's Challenges in Eliminating Improper Payments: No challenges at this time.				
Research and Development Investment Criteria	 Red	 Yellow	"Red" EPA did not meet its goal of "Yellow" for P2B2 EPA has set a goal of "Yellow" for P2B3	<ul style="list-style-type: none"> —EPA held four independent, external reviews of the following research programs: Drinking Water; Human Health, Ecological and Particulate Matter. —The Agency participated in the FY 2005 (formerly known as the FY 2007) PART process with two new PART assessments for Human Health Research and Drinking Water Research, and two PART reassessments for PM Research and Ecological Research. —EPA's FY 2007 Annual Research Planning process expanded to include regular discussions about resources and performance in the context of the R&D Investment Criteria.
EPA's Challenges in Research and Development —EPA's research and development programs do not yet have acceptable performance and efficiency measures for research programs. This has resulted in less than successful performance on the PMA Scorecard for the Research and Development Investment Criteria Initiative and a negative impact on EPA's performance on the Budget and Performance Integration Initiative. EPA continues to work with its research community and OMB to develop measures that are meaningful to environmental program managers and clearly illustrate performance over time.				

SUMMARY OF PERFORMANCE DATA



Goals Met. In its FY 2005 *Annual Plan*, EPA committed to 84 annual performance goals (APGs). In FY 2005, the Agency met 34 of these APGs, 67 percent of the APGs for which data were available at the time this report was published. FY 2005 results to date reflect a decrease in the number of APGs met from FY 2004 results; last year, EPA met 76 percent of its APGs for which data were available. EPA has significantly exceeded its targets for a number of its FY 2005 APGs. For example, the Agency restored eight percent of the nation's impaired waterbodies in accordance with Water Quality Standards, significantly exceeding its FY 2005 goal of two percent (APG 2.13). This achievement is partly due to the work EPA and states have done to refine water quality assessments, which now more accurately reflect improvements in impaired waterbodies. In another case, EPA greatly exceeded its cumulative goal of reducing by 11 percent the households on tribal lands lacking access to basic sanitation. By increasing coordination with other federal agencies to more effectively fund and implement infrastructure programs, the Agency and its partners have achieved a cumulative 34 percent reduction in the number of households lacking access to wastewater sanitation (APG 2.15).



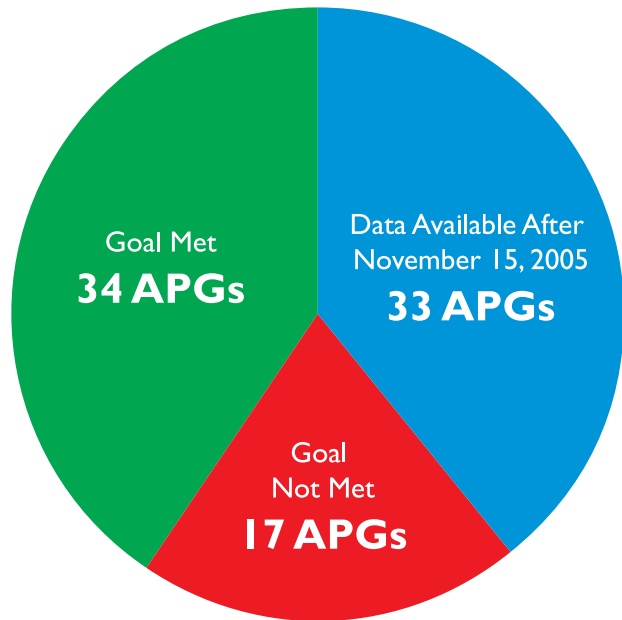
Goals Not Met. Despite their best efforts, however, EPA and its

partners were not able to meet all planned targets for FY 2005. EPA did not meet 17 of the 51 FY 2005 APGs for which performance data were available. The Agency is considering the various causes of these shortfalls as it adjusts its annual goals and program strategies for FY 2006 and beyond.

There are a number of reasons for these missed goals. In some cases the APGs were new in FY 2005—a part of EPA's effort to develop more meaningful goals and measures—and the Agency overestimated its ability to achieve annual results. For example, EPA anticipated improvements in water quality to reduce the levels of contaminants in fish, leading to a one percent decrease in waterbodies with fish consumption advisories (APG 2.8). EPA fell short of achieving this APG, and the Agency is assessing the information it has received to determine a more realistic future target.

External factors also contributed to missing APGs. For example, the Agency had anticipated reducing nitrogen, phosphorus, and sediment loadings from entering the Chesapeake Bay (APG 4.18). However, such external factors as continued growth in human and

EPA's FY 2005 Performance Results



farm animal populations in the region and rainfall levels affect the Agency's success in reducing existing nutrient loading levels. In other cases, EPA relies on the efforts of its federal, state and local partners to help achieve annual goals, and the actions of the Agency's partners are a significant factor in performance results. For example, the Agency and its partners did not meet the goal for improving water and sanitation systems in the US-Mexico border region; funding for this effort was delayed pending development of a new system for setting project priorities in the region (APG 4.12). EPA recognizes that, as a result of missing several such APGs, the Agency may not be on track for reaching its longer term objective for protecting ecosystems. Despite these difficulties, EPA and its partners continue to work together to ensure progress in meeting these goals and achieving the objective.

Summary of FY 2005 Performance Results by Goal

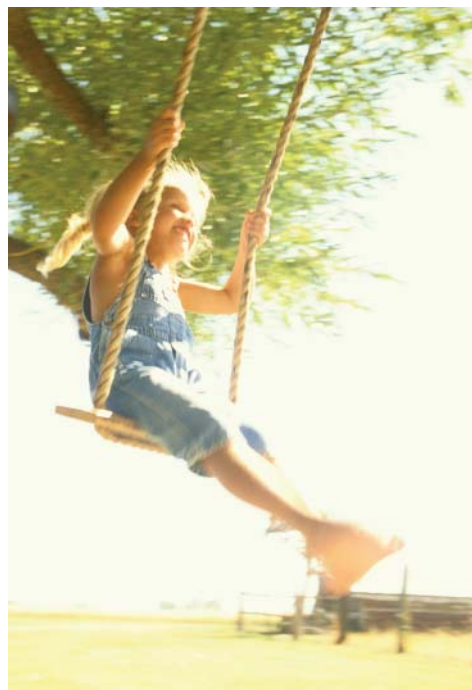
Result	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	ESP	Total
Met	5	6	2	13	2	6	34
Not Met	0	2	3	7	4	1	17
Data Available After November 15, 2005	14	10	2	6	1	0	33
Total	19	18	7	26	7	7	84

Improved data can also contribute to missed goals. For example, EPA set a cumulative goal that by FY 2005 water quality assessed in 80 percent of the water segments in each of 462 watersheds across the nation would meet water quality standards (APG 2.12). In fact, however, the number of watersheds meeting these standards has decreased slightly since FY 2002. EPA attributes this regression to new data that more accurately reflect watershed condition, including adjustments for fish consumption advisories and increased environmental stresses on watersheds that not only impair waters that were once clean, but also further degrade waters already impaired. As its data improve, EPA is gaining a more accurate picture of environmental baseline conditions and progress achieved. Based on this information, the Agency expects to continue adjusting its performance goals and targets to achieve results.



Data Unavailable. Because final end-of-year data were not available when this report went to press, EPA is not yet

able to report on 33 of its 84 APGs, an increase over the 25 APGs for which data were not available in EPA's FY 2004 report. This difference is largely due to the Agency's increased focus on achieving longer-term environmental and human health outcomes, rather than activity-based outputs. Environmental outcome results may not become apparent within a federal fiscal year, and assessing environmental improvement often requires multiyear information. As a result, EPA may not yet have the data required to determine whether an FY 2005 APG such as improving water quality to reduce contaminants in fish, leading to higher consumption of safe fish (APG 2.8), has been met. Many variables are involved in evaluating progress toward this



goal, including the bioaccumulative nature of mercury, which affects the time it takes fish to rid their bodies of this contaminant.

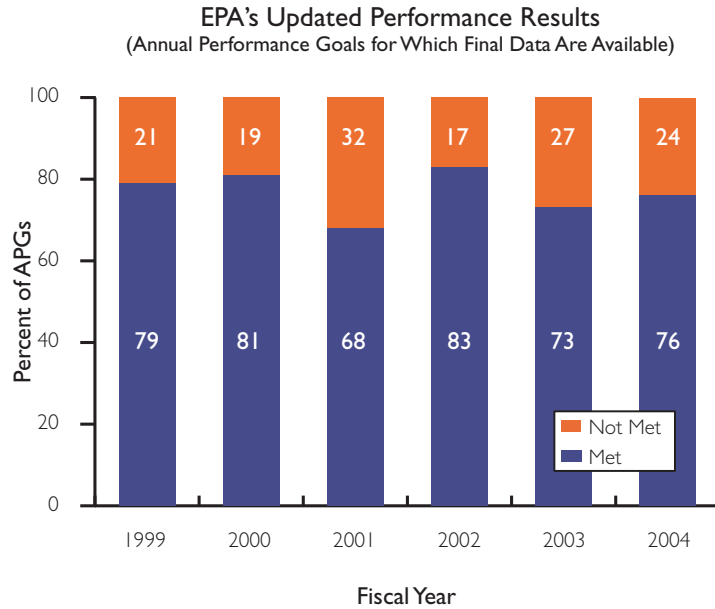
In many cases, reporting cycles—including some which are legislatively mandated—do not correspond with the federal fiscal year on which this report is based. Data reported biennially or on a calendar year basis, for example, are not yet available for this report. In some cases, such as for certain compliance and enforcement information, the Agency has adjusted data collection and QA/QC processes to meet the

November 15 date for submitting this report. To provide as much information as possible on its progress toward achieving its goals, however, EPA continues to present the most current data available.

Furthermore, EPA obtains performance data from local, state, and tribal agencies, all of which require time to collect the information and review it for quality.

Often, EPA is unable to obtain complete end-of-year information from all sources in time to meet the deadline for this report. The Agency is working to reduce such delays in reporting, however, by capitalizing on new information technologies to exchange and integrate electronic data and information, improve data quality and reliability, and reduce the burden on its partners.

Data Now Available. The Agency is now able, however, to report data from previous years that became available in FY 2005. Final performance results data became available for 20 of the 25 FY 2004 APGs on which the Agency did not report in its *FY 2004 Annual Report*. Of these 20 FY 2004 APGs, EPA met 14. For example, the Agency met its FY 2004 goals for reducing greenhouse gas emissions and SO₂ emissions, as well as sulfur and nitrogen deposition and ambient concentrations. EPA can now report achieving 56 (76 percent) of the 79 FY 2004 APGs for which it has data. For FY 2003, EPA can now report achieving 45 (79 percent) of the 64 APGs for



Note: During FY 2005, final performance results data became available for a number of APGs from prior years: 20 for FY 2004, three for FY 2003, one for FY 2002, one for FY 2001, two for FY 2000, and one for FY 1999.

which it has performance data. Delays in reporting cycles and targets set beyond the fiscal year continue to affect one APG in FY 2003, FY 2002, and FY 1999.

Improving Measures and Adjusting Targets. EPA is continuing to develop better and more meaningful measures of its performance. In FY 2005, for example, the Agency introduced more than 30 new or improved

performance measures. Equipped with better data, EPA is also adjusting performance targets to reflect an improved understanding of current conditions and the outcomes to be achieved. For example, the Agency is adjusting its target for the improvement in air quality over time for the fine particle (PM_{2.5}) standard (APG 1.3). This goal was established in FY 2004 using initial targets while the Agency collected baseline data. Based on the FY 2004 results which significantly exceed the target, however, the Agency will adjust its target for FY 2006. Similarly, in FY 2006 EPA will be adjusting targets for reducing exposure to unhealthy levels of ozone (APG 1.6). EPA will continue to benefit from improved data, revising annual performance measures and adjusting targets to provide a more useful assessment of its progress.



Improving Results

EPA is continuing its efforts to focus more clearly on the results it wants to achieve, orient its programs around environmental outcomes, and develop better measures for assessing performance. Building on previous years' work, the Agency strengthened its collaboration with states and tribes to improve joint planning and priority-setting; develop innovative, effective approaches to environmental problems; and track and assess progress. In addition, EPA is working to expand its use of program evaluation; address data gaps and other information issues; strengthen its strategic planning; and resolve its management challenges reported by the Office of Inspector General (OIG) and Government Accountability Office.

STRENGTHENING COLLABORATION WITH PARTNERS

Protecting human health and the environment is a shared responsibility. In FY 2005, EPA continued important work with its partners in environmental protection—states, tribes, and other federal agencies—to ensure a national focus on the most important problems and the most efficient and effective use of scarce resources.

- In FY 2005, EPA and the Environmental Council of the States (ECOS) established a “Partnership and Performance Workgroup” to continue the Agency’s work to improve joint state-EPA planning and priority-setting. The workgroup explored ways to support state

strategic planning, expand the use of Performance Partnership Grants as a planning and management tool, and improve states’ and EPA regional offices’ dialogue on regional planning and priority-setting.

- EPA also funded a second Cooperative Agreement with ECOS for conducting pilot projects in 15 states to strengthen states’ capabilities to manage for results and improve joint regional-state planning. For example, an Illinois pilot project is developing a stakeholder consultation process for considering innovative environmental programs.
- The Agency enhanced its Annual Commitment System (ACS), launched in FY 2004 to assist EPA managers in engaging states and tribes in setting annual regional performance goals. In FY 2005, the Agency improved the system to track

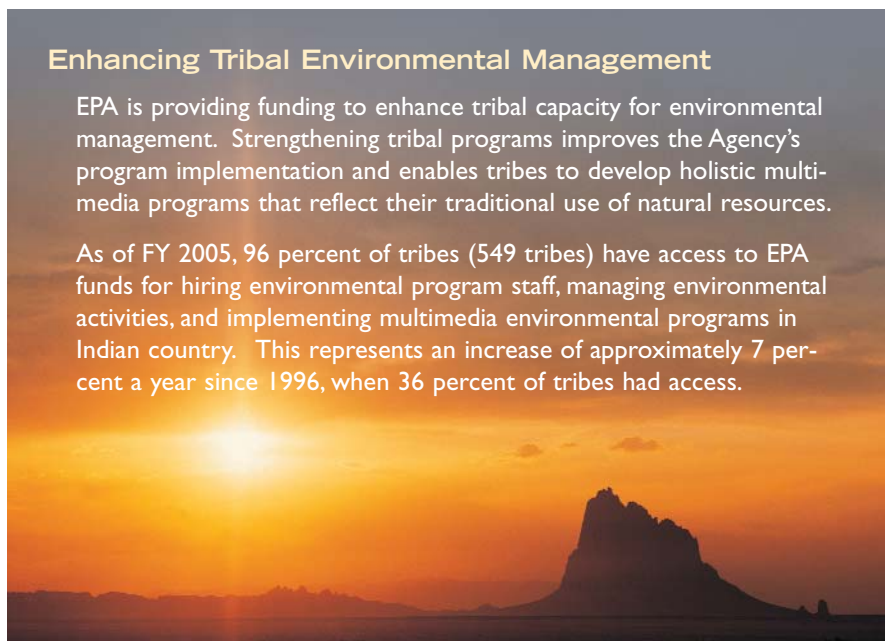
actual regional performance against agreed-upon program measures and commitments. EPA’s regional offices are also able to use the ACS to track state and tribal contributions to regional performance.

- On September 26, 2005, EPA Administrator Steven Johnson reaffirmed the Agency’s formal Indian Policy, established in 1984. By this action, EPA recognized that the United States has a unique legal relationship with tribal governments based on the Constitution, treaties, statutes, Executive Orders, and court decisions. This relationship includes recognition of the right of tribes as sovereign governments to self-determination, and an acknowledgment of the federal government’s trust responsibility to tribes.
- In FY 2005 EPA continued to work with tribes on a

Enhancing Tribal Environmental Management

EPA is providing funding to enhance tribal capacity for environmental management. Strengthening tribal programs improves the Agency’s program implementation and enables tribes to develop holistic multimedia programs that reflect their traditional use of natural resources.

As of FY 2005, 96 percent of tribes (549 tribes) have access to EPA funds for hiring environmental program staff, managing environmental activities, and implementing multimedia environmental programs in Indian country. This represents an increase of approximately 7 percent a year since 1996, when 36 percent of tribes had access.



government-to-government basis to protect the land, air, and water in Indian country. In June, the Grand Traverse Band of Chippewa Indians hosted the seventh National Tribal Environmental Conference for Environmental Management, attended by more than 750 tribal, federal,

the indoor air, lead, oceans, surface water protection, oil spill and other programs, and reassessments from previous years.

The PART assessment was first used in 2002 in developing EPA's FY 2004 budget. During that year, only 1 of EPA's 11 assessed programs was rated able to demonstrate results. In EPA's third year of

program evaluations and audits completed in FY 2005). For example, working with the Compliance Committee of ECOS and

EPA senior managers used the results of PART assessments to identify opportunities for program improvement and guide decisionmaking.

and state officials to share solutions on ongoing environmental and public health problems in Indian country.

USING PROGRAM EVALUATION AND THE PART

EPA uses the results of program assessments, audits, and evaluations to adjust approaches, improve results, allocate resources, and ensure the most effective and efficient use of taxpayer dollars. In recent budget processes, for example, EPA senior managers used the results of Program Assessment Rating Tool (PART) assessments to identify opportunities for program improvement, justify resource requests, and guide decisionmaking.

The PART is a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management and results. To date, EPA and OMB have conducted PART reviews for 43 of the Agency's programs. PART reviews in 2005 included both new assessments of

PART assessments (2004 for the FY 2006 budget) 24 of 32 programs were rated "adequate or "moderately effective." This improvement in PART ratings shows EPA's commitment to designing and implementing programs that maximize resource efficiency and deliver environmental results. Section II of this report lists PART assessments conducted under each of the Agency's five strategic goals, identifies performance measures associated with the PART, and reports FY 2005 results for the measures where data are currently available. Future PART measures are listed in a separate table in Section II, along with the year EPA expects to begin reporting data against them. Ratings for programs assessed during 2005 for the FY 2007 budget will be available in February 2006. Additional information on PART assessments and EPA's progress in making program improvements will be available in February 2006 at www.whitehouse.gov/omb/part.

EPA and its OIG also conducted other types of program evaluations and audits (Appendix B contains a list by strategic goal of

Achieving Results Through Grant Programs

Grants are a key tool for achieving EPA's mission. Each year EPA awards approximately one-half of its budget in grants to state, tribal, and local governments; educational institutions; and nonprofit organizations. The Agency has been working to ensure the grants EPA awards support its strategic goals, and that results achieved through grants are closely tracked and monitored.

In FY 2005, EPA issued a policy for awarding grants (EPA Order No.: 5700.7) that requires EPA offices to:

- Link results to EPA's Strategic Plan.
- Describe expected outputs and outcomes in grant announcements, work plans, and performance reports.
- Consider how the results from completed grant projects contribute to the Agency's programmatic goals and objectives.

In addition, for the first time, this report lists specific grants that contributed to the achievement of EPA's FY 2005 annual performance goals (see Section II).



representatives from state agencies, EPA completed an evaluation of an enforcement tool—the State Review Framework—which the Agency developed to assess state enforcement performance. The evaluation found that, overall, the framework is effective as a tool for evaluating state enforcement and compliance assurance programs on a nationwide basis. The evaluation also recommended ways to improve data collection and state performance interpretation under the framework. EPA intends to make the recommended improvements and apply the framework across all 50 states to: (1) evaluate whether state enforcement and compliance assurance programs are providing a consistent level of environmental and public health protection across states; and, (2) work collaboratively with states to ensure that authorized state agencies meet agreed-upon enforcement performance goals.

The Agency's OIG contributes to EPA's mission to improve human health and environmental protection by assessing the effectiveness of EPA's program management and results, developing recommendations for improvement, and ensuring that Agency resources are used as intended. In FY 2005, an OIG report found that air toxic monitoring was conducted in only ten percent of areas with the estimated highest health risks from exposure to toxic air pollutants. EPA has since begun using the National Air Toxics Assessment to identify and prioritize high-risk areas to be monitored. The Agency also modified its air toxics grant criteria to better address high-risk areas and emphasize methods for analyzing ambient air toxics conditions.

IMPROVING ENVIRONMENTAL INDICATORS, PERFORMANCE MEASUREMENT, AND DATA QUALITY

In June 2003, EPA's *Draft Report on the Environment* established baseline information on environmental conditions in the United States and their potential effects on human health. Since then, the Agency has been working to improve the indicator information, fill key gaps in environmental data, and make the information more accessible to the public.

In FY 2005, EPA issued for public comment a set of indicators for the Agency's next *Report on the Environment*, to be released in 2006. A scientific peer-review conducted in July elicited expert opinion on whether the indicators are supported by data that are technically sound, meet the established indicator definition and criteria, and help answer key questions on the current state of the environment. Over the next year, EPA plans to use these indicators in developing the Agency's long-term measures of success for its 2006-2011 *Strategic Plan*. More information on the Agency's "Indicators Initiative" is available at www.epa.gov/indicators.

EPA also continued to focus annual performance goals and measures on environmental outcomes and program efficiencies, instead of on activity-based outputs. In EPA's FY 2006 Annual Performance Plan, approximately 65 percent of the annual performance goals track environmental or intermediate outcomes.

In addition, the Agency worked to align its annual performance

measures with new performance and efficiency measures developed during OMB's 2005 PART process. In FY 2005, EPA developed a strategy for implementing new PART measures while reporting on the goals and measures in the Agency's FY 2005 Annual Plan. This process is another step in EPA's ongoing efforts to establish a set of measures that clearly defines environmental outcomes and achieves EPA's Budget and Performance Integration goals under the PMA.

In FY 2005, EPA continued to improve its ability to collect and use reliable and complete performance and financial data. EPA worked to detect and correct errors in environmental data, standardize reporting, and exchange and integrate electronic data and data quality information among its federal, state, and local data-sharing partners. Over the past year, the Agency completed all corrective actions for an Agency-level weakness in data management practices. Recent efforts include ensuring that

Data in FY 2005 Performance and Accountability Report Are Complete and Reliable

EPA determined that the performance information in this report is complete and reliable and no material inadequacies are present, as defined by OMB Circular A-11.²⁰ For more information on the data sources used in FY 2005 performance measures, see Section II of this report. Appendix C contains additional information on the quality of the data in this report.

Improved Performance Measures Developed in FY 2005

These new measures will help EPA describe trends over time, and demonstrate the results of specific environmental programs.

Tribal Access to Safe Drinking Water: EPA will measure the number of households on tribal lands lacking access to safe drinking water.

Water Pollutant Loadings Per Program Dollar Spent: EPA will estimate loadings of water pollutants removed per program dollar spent, including discharges to surface water such as municipal storm water and combined sewer overflows.

Contamination Levels at Superfund Sites: EPA will determine whether contamination levels at a Superfund site fall within the levels specified by EPA as safe, or if they do not, whether adequate controls are in place to prevent unacceptable human exposure to contamination.



data management policies and procedures are planned, maintained, and revised as appropriate. For example, the Agency changed the structure and operating procedures of its Quality Information Council to better fulfill its role as the information policymaking body.

CONSIDERING FUTURE TRENDS AND LOOKING AHEAD

As EPA looks to the future, Agency managers are focusing on several priorities. First, the Agency is striving to accelerate the pace of environmental progress by looking beyond rules and regulations to consider other solutions. Effective legislation, such as Clear Skies, puts mechanisms in place to achieve large-scale national protections. The Agency is committed to working cooperatively with its partners to support legislation over regulation, results over methods, and partnerships over conflicts to accelerate progress and usher in a new area of environmental protection.

EPA is also working to foster a culture of environmental stewardship through partnerships and innovative approaches to environmental issues. In the coming years, the Agency will promote collaboration, voluntary programs, and outreach as tools for strengthening stewardship. EPA will also focus on opportunities to leverage environmental protection actions to create opportunities for economic growth. Efforts such as Brownfields, for example, not only reduce pollution, but revitalize valuable land and strengthen local economies. In the coming years, while the Agency will maintain its vigilance in enforcing existing laws and regulations, it will also strive to approach new challenges with flexibility and enthusiasm.

EPA continued to identify significant environmental and industrial trends, demographic issues, and transformative technologies that have implications for environmental protection.

To meet these challenges and make informed decisions in a rapidly changing, complex world, EPA leaders need to be aware of the environmental consequences of future social, economic, and technological change. Several years ago, the Agency began conducting “futures analysis” to help its leaders anticipate future environmental challenges and plan strategically to avoid problems.

In FY 2005, EPA continued to identify significant environmental and industrial trends, demographic issues, and transformative technologies that have implications for environmental protection. EPA senior managers and staff identified areas for increased focus under each of the Agency’s five strategic goals—for example: (1) international increases in transboundary pollution, especially particulate matter; (2) water scarcity and its impact on water quality; (3) increased levels of pharmaceuticals in the waste stream due to the nation’s aging population; and, (4) the environmental implications of genomics. In the spring of 2005, the Agency sought input on future issues from state environmental commissioners at an ECOS meeting and from tribal environmental professionals at the Seventh National Tribal Conference on Environmental Management. All of this input will be vital as the Agency considers the most significant future issues and develops its 2006-2011 Strategic Plan.

Internal Controls, Financial Management Systems, and Compliance with Laws and Regulations

This section discusses EPA's progress in strengthening its management practices and the internal controls the Agency relies on to assure the integrity of its programs and operations. It includes the Administrator's unqualified Statement of Assurance for FY 2005.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish and maintain management controls and financial systems that provide reasonable assurance that federal programs and operations are protected from fraud, waste, abuse, and misappropriation of federal funds. FMFIA holds agency heads accountable for correcting

For the fourth year, EPA had no material weaknesses to report under the Federal Managers' Financial Integrity Act.

deficiencies and requires them annually to identify and report internal control and accounting systems problems and planned remedies.

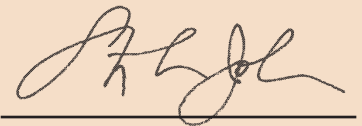
Based on EPA's self-assessment of its internal controls and financial systems, Agency managers have determined that the Agency's controls are achieving their intended objectives. The Administrator's unqualified Statement of Assurance for FY 2005 is to the right.

To identify management issues and monitor progress in addressing them, EPA's senior leaders use a system of internal program evaluations and independent audit reviews conducted by the Government Accountability Office, EPA's OIG, and other oversight organizations to assess program effectiveness. In FY 2005, for the 4th year, EPA has no material weaknesses to report under FMFIA. Material weaknesses are reportable conditions that

could significantly impair or threaten fulfillment of the Agency's mission and must be reported to the President and Congress. While the Agency reported no new material

FISCAL YEAR 2005 ANNUAL ASSURANCE STATEMENT

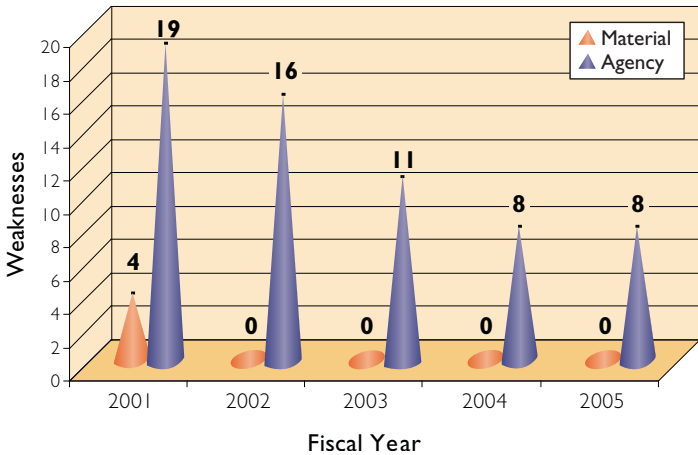
I am pleased to give an unqualified statement of assurance that the Environmental Protection Agency's (EPA) programs and resources are protected from fraud, waste, abuse, and mismanagement. Based on EPA's annual self-assessment of its internal controls, I can reasonably assure that there are no material weaknesses in the Agency's control.



Stephen L. Johnson
Administrator
October 28, 2005

weaknesses, EPA currently has a number of less severe, internal Agency-level weaknesses for which it is tracking progress. During the year, EPA added two new Agency-level weaknesses to its list and closed two of its existing Agency-level weaknesses in

5-Year Trend of Material and Agency Weaknesses



the areas of data management and water permitting. Half of the Key Management Challenges identified by OIG are also current Agency-level weaknesses. The Reports Consolidation Act of 2000 requires the Inspector General to identify, briefly assess, and report annually the most serious management and performance challenges facing the Agency (see Section III of this report).

OMB has recognized EPA's efforts to maintain effective and efficient internal controls. Since September 2003, EPA has maintained a green status score for Improved Financial Performance under the President's Management Agenda. EPA has also received a progress score of green for Budget and Performance Integration for all but one consecutive quarter since June 2002.

INSPECTOR GENERAL ACT AMENDMENTS OF 1988

The Inspector General (IG) Act Amendments require federal agencies to report to Congress on their progress in carrying out audit recommendations.

EPA's Audit Follow-up Activities:

In FY 2005, EPA was responsible for addressing OIG recommendations and tracking follow-up activities on 396 audits. The Agency achieved final action (com-

pleting all corrective actions associated with an audit) on 248 audits, including Program Evaluation/Program Performance, Assistance Agreement, Contracts, and Single audits. EPA's FY 2005 audit management activities are summarized below.

- **Final Corrective Action Taken.** EPA completed final corrective actions on 55 audits with disallowed and better use

dollars. Of these 55 audits, OIG questioned costs of more than \$14.8 million. After careful review, OIG and the Agency agreed to disallow approximately \$7.9 million of these questioned costs. In addition, the Agency also completed final corrective action on 193 audits.

- **Final Corrective Action Not Taken.** At the end of FY 2005, 148 audits were without final action and not yet fully resolved. (This total excludes audits with management decisions under administrative appeal by the grantee.)
- **Final Corrective Action Not Taken Beyond One Year.** Of the 148 audits, EPA officials had not completed final action on 30 audits within 1 year after the management decision (the point at which OIG and the Action Official reach agreement on the

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

1. Linking Mission and Management
2. Agency Efforts in Support of Homeland Security
3. Superfund Evaluation and Policy Identification
4. Information Resources Management and Data Quality
5. EPA's Use of Assistance Agreements to Accomplish Its Mission
6. Challenges in Addressing Air Toxics Programs
7. Human Capital Management
8. Information Systems Security

Section III of this report provides more detailed information on OIG's Key Management Challenges and EPA's response.

corrective action plan). Because the issues to be addressed may be complex, Agency managers often require more than 1 year after management decisions are reached with OIG to complete the agreed-upon corrective actions.

- **Audits Awaiting Decision on Appeal.** EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take

action to collect the account receivable until the Agency issues a decision on the appeal. In FY 2005, 33 audits were in administrative appeal.

EPA Audits Involving Disallowed Costs and Funds Put to Better Use: As required by the IG Act Amendments, the following table presents information on audits that involve disallowed costs and funds put to better use.

EPA uses audit management as a tool in assessing its progress and its ability to meet its strategic objectives. The Agency is continuing to

strengthen its audit management practices and is working to address issues and complete corrective actions in a timely manner.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies' financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger. In response to the

DISALLOWED COSTS & FUNDS PUT TO BETTER USE				
October 1, 2004 – September 30, 2005				
Category	Disallowed Costs		Funds Put to Better Use	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of FY 2005.	67	\$74,329,390	0	\$0
B. Audits for which management decisions were made during FY 2005:	237	\$ 4,488,195	4	\$2,868,844
(i) Management decisions with disallowed costs. (43)				
(ii) Management decisions with no disallowed costs. (192)				
C. Total audits pending final action during FY 2005. (A+B)	304	\$78,817,585	4	\$2,868,844
D. Final action taken during FY 2005:	245	\$ 7,560,083	3	\$ 866,548
(i) Recoveries				
a) Offsets		\$ 939,846		
b) Collections		\$ 3,849,707		
c) Value of Property		\$0		
d) Other		\$ 1,526,025		
(ii) Write-offs.		\$ 388,228		
(iii) Reinstated through grantee appeal.		\$ 856,277		
(iv) Value of recommendations completed.				\$0
(v) Value of recommendations management decided should/could not be completed.				\$0
E. Audit reports needing final action at the end of FY 2005. (C - D)	59	\$71,257,502	1	\$2,002,296

FY 1999 financial statement audit, EPA implemented an FFMIA remediation plan to improve the Agency's financial management systems in order to comply with federal financial system requirements. Currently, EPA has completed all but two corrective actions: security certification policy for contractor personnel, and security certification policy for grantee personnel. EPA anticipates completing these actions by the first quarter of FY 2007. The Agency continues to improve cost accounting and reconciliation of intragovernmental transactions. EPA has no substantial noncompliance findings.

The Agency is in the process of developing a modern financial system infrastructure to help EPA better manage the resources that support our environmental mission, more accurately measure the true costs of environmental programs, and better inform the public. The new system will be



provides a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets. Agencies must report annually to OMB on the effectiveness of their information security programs, which includes an independent evaluation by the Inspector General. Agencies also report quarterly to OMB on the status of remediation of weaknesses found.

For six consecutive years, the Agency submitted timely financial statements with a clean audit opinion.

implemented in FY 2008. Detailed plans for this project are available at www.epa.gov/ocfo/modernization/index.htm.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

Federal Information Security Management Act (FISMA) directs federal agencies to conduct annual evaluations of information security programs and practices. It

EPA's FISMA Report for FY 2005, dated October 7, 2005, highlights the results of the Agency's annual security program reviews and was completed by EPA's Chief Information Officer, senior agency program officials, and Inspector General. The report reflects EPA's continued efforts to ensure that information assets are protected and secured in a manner consistent with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized

access to or modification of information. In FY 2005, EPA reported no significant deficiencies in its information security systems under FISMA.

GOVERNMENT MANAGEMENT REFORM ACT—AUDITED FINANCIAL STATEMENTS

The Government Management Reform Act (GMRA) of 1994 amended the requirements of the Chief Financial Officers (CFO) Act of 1990 by requiring the annual preparation and audit of agency-wide financial statements. EPA's statements are audited by the Inspector General, who issues an audit report on the principal financial statements, internal controls, and compliance with laws and regulations.

For six consecutive years, the Agency submitted timely financial statements with a clean audit opinion—another important aspect of accountability. These statements (presented in Section IV of this report) provide a snapshot of the Agency's financial position at the end of fiscal year.

Financial Analysis

EPA's financial management strategy focuses on running environmental programs in a fiscally responsible manner to assure that resources are used wisely and effectively to protect human health and the environment. In FY 2005, the Agency continued its efforts to improve its financial management systems and processes, data quality and accessibility, and accountability. These improvements strengthen EPA managers' ability to use financial analyses as well as performance information to make priority-setting decisions that influence resource planning and environmental results. (See Section IV for more detailed information on financial strategies and initiatives.)

MEASURING FINANCIAL MANAGEMENT RESULTS

The Agency measures its financial management effectiveness against external and internal standards. External standards include the President's Management Agenda (PMA) initiatives, the Program Assessment Rating Tool (PART), audited

financial statements, and Government-wide Financial Performance Metrics. Internally, the Agency tracks its performance in key financial management areas: processing payments and reconciling cash, as well as managing accounts receivable, obligations, budgets, contracts, Superfund billings, and property.

EPA has maintained its green score for the PMA Improved Financial Performance initiative by continuously setting and meeting higher performance goals. In FY 2005, EPA produced accurate and timely accelerated interim quarterly financial statements, completed Quality Assurance Reviews to ensure the accuracy of Agency financial data, and automated preparation of the Statement of Net Costs by Goal.

The PMA initiative on Eliminating Improper Payments is focused on identifying, preventing, and eliminating erroneous payments. As required by the Improper Payments Information Act (IPIA) of 2002 and the Office of Management and Budget (OMB) Memorandum M-03-07,

Financial Highlights

Maintained green status score for Improved Financial Performance PMA initiative.

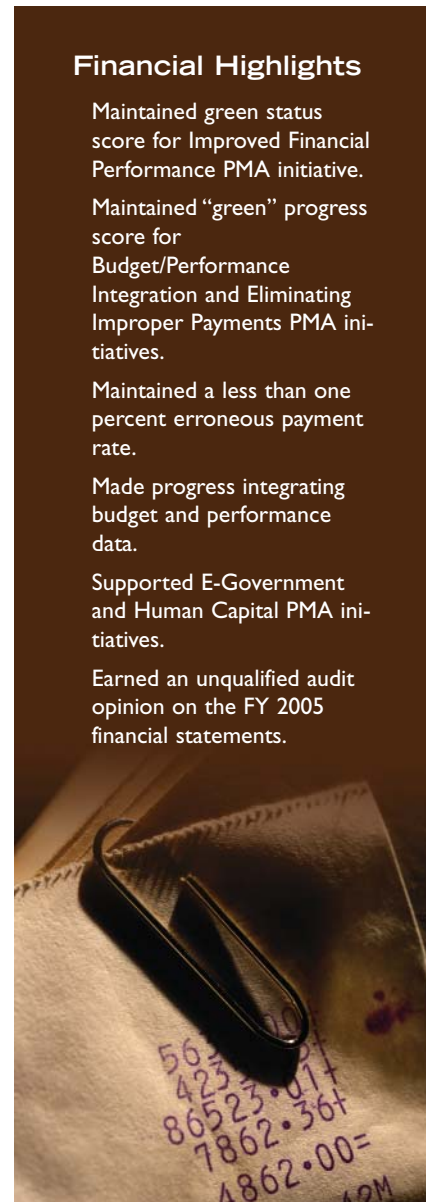
Maintained "green" progress score for Budget/Performance Integration and Eliminating Improper Payments PMA initiatives.

Maintained a less than one percent erroneous payment rate.

Made progress integrating budget and performance data.

Supported E-Government and Human Capital PMA initiatives.

Earned an unqualified audit opinion on the FY 2005 financial statements.



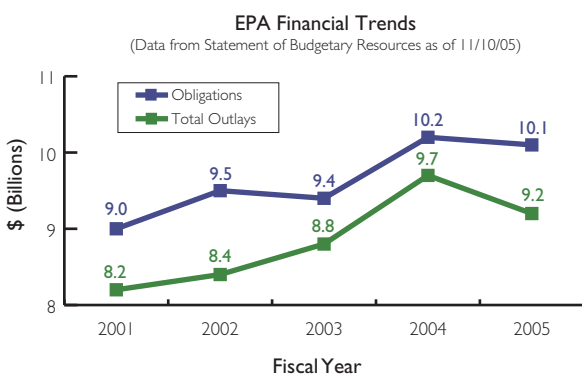
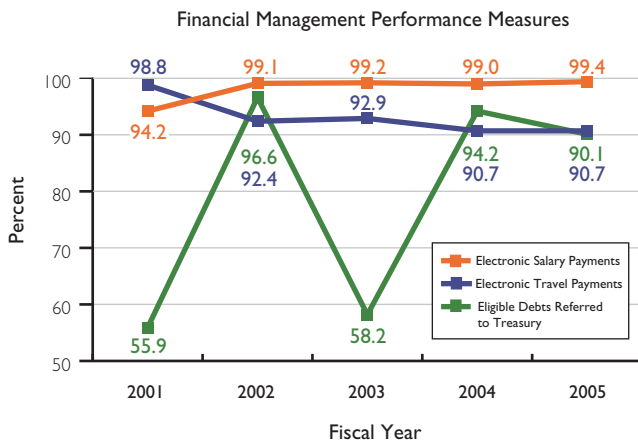
Improper Payment Reduction Outlook for FY 2004–FY 2007
(dollars in millions)

PROGRAM	FY 2004 OUTLAYS	FY 2004 Improper Payments %	FY 2004 Improper Payments	FY 2005 OUTLAYS	FY 2005 Improper Payments %	FY 2005 Improper Payments	FY 2006 Improper Payments %	FY 2007 Improper Payments %	FY 2008 Improper Payments %
Clean Water and Drinking Water SRFs	\$2,182	.47%	\$10.3*	\$1,928	Actual 0.16% Target .45%	\$3.1	.40%	.35%	.30%

*Approximately \$10 million of the \$10.3 million identified as erroneous payments was attributable to states prematurely drawing down funds for allowable expenses.

EPA samples and annually reports on improper payments in the two State Revolving Funds (SRFs) previously covered under OMB Circular A-11, Section 57. For FY 2005, the Agency assessed a statistical sample of direct state payments and judgemental sub-recipient payments. EPA's samples identified a less than 1 percent error rate in payments. The chart below provides 2 years of actual performance as well as planned reduction targets.

In FY 2005, the Agency met or exceeded the standard for four of the government-wide performance metrics and has an action plan to improve performance for the other five metrics. Additionally, EPA generally met or exceeded internal performance goals. Over 99.9 percent of the Agency's contracts were paid on time and EPA received \$330 thousand in purchase card rebates from the purchase card contractor. The chart immediately below presents results for three internal Agency performance measures that support the EPA's E-government and improved financial performance priorities. To further improve efficiency and consistency, EPA is realigning major accounting functions and customer service responsibilities from 14 locations to four Finance Centers of Excellence. The Agency reached the 50 percent mark in the consolidation this year and plans to complete it by December 2006.



RESOURCES AND OUTLAYS

In FY 2005 EPA received \$8.03 billion in Congressional appropriations.²¹ EPA Financial Trends²² (shown at bottom left) shows a 5-year snapshot of the Agency's used resources. The Statement of Budgetary Resources, included in Section IV, presents additional information on the Agency's resources. The table below shows EPA's FY 2005 obligations by Congressional appropriation.

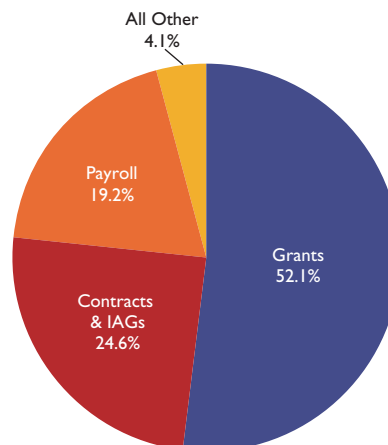
FY 2005 Obligations by Appropriation (Dollars in Millions)
(Data from Statement of Budgetary Resources as of 11/10/05)

State & Tribal Assistant Grants	\$3,608.5 (35.6%)
Superfund	\$1,544.9 (15.3%)
All Other	\$4,971.0 (49.1%)
Total	\$10,124.4 (100%)

EPA works with its partners in the public and private sectors to accomplish its mission and uses a variety of funding mechanisms—including grants, contracts, innovative financing, and collaborative networks—to protect human health and the environment. The pie chart below depicts EPA's costs (expenses for services rendered or activities performed) by spending category.²³

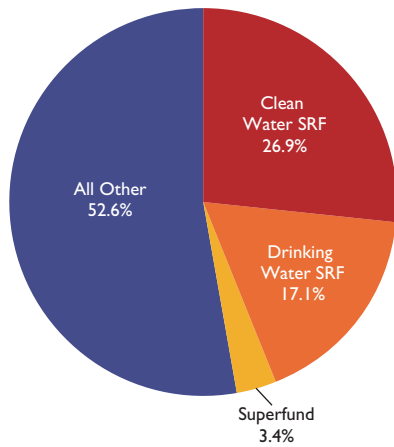
The majority of EPA's costs are for grant programs (see pie chart on next page). The Clean Water and Drinking Water SRF grants supporting the Agency's Clean and Safe Water goal account for 43 percent of EPA's grant awards. Other major environmental grant programs include assistance to states and tribes,

FY 2005 Cost Categories
(Data as of 11/10/05—Reconciles to Statement of Net Cost)



FY 2005 Major Grant Categories

(Data as of 11/10/05—reconciles to Statement of Net Cost & Stewardship Report)



consistent with EPA’s authorizing statutes, and research grants to universities and nonprofit institutions. (See pie chart above.)

INNOVATIVE FINANCING: PARTNERSHIPS AND THE ENVIRONMENTAL FINANCE PROGRAM

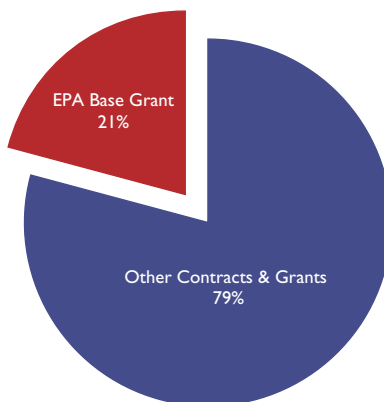
EPA leverages federal funds through several innovative environmental financing efforts, mutually beneficial public–private partnerships, such as SRFs and the Environmental Finance Program, and Superfund program cost recoveries.

EPA uses collaboration and partnerships with the states to wisely manage its resources for keeping the nation’s water clean and safe. As of early FY 2006, the Clean Water SRF had leveraged nearly \$23 billion in federal capitalization grants into more than \$52 billion in assistance to municipalities and other entities for wastewater projects. As of early FY 2006, the Drinking Water SRF had leveraged \$6.5 billion in federal capitalization

grants into more than \$11 billion in assistance for drinking water infrastructure. (Note: The current FY 2005 Drinking Water SRF data includes information from 50 DWSRF Programs, including partial data from New York. The remaining data for New York is expected at the end of November 2005).

The Environmental Finance Program helps regulated parties find ways to pay for environmental activities. The program works to lower costs, increase investments, and build financial capacity. It provides leveraged financial outreach to governments and the private sector via an Environmental Financial Advisory Board, an online database, and a network of nine university-based Environmental Finance Centers (EFCs). To date, this network has provided educational, technical, and analytic support in 48 states. For every dollar that EPA has invested in it, the network has invested 3.67 dollars in project work (see pie chart below). Additional information on the program is available at www.epa.gov/efinpage.

EFCN Funding Sources



One of the Agency’s compliance and enforcement success stories is its Superfund program, which leverages funding to increase cleanup of contaminated sites. Under Superfund, EPA may recover the cost of cleanups. Since 1980, EPA has collected \$3.34 billion in cost recoveries (\$63 million collected in FY 2005). EPA also retains and uses the proceeds received under settlement agreements to conduct cleanup activities, placing these funds in interest-bearing, site-specific special accounts. With careful management, EPA uses and leverages these resources to the fullest extent possible. As of September 30, 2005, EPA had established 540 special accounts with \$1.5 billion in receipts. These accounts have earned \$206 million in cumulative interest.²⁴

NEW FINANCIAL MANAGEMENT INITIATIVES

Committed to providing managers with timely, accurate information critical for managing resources wisely, the Agency leverages technology and updates its systems to produce the information needed to make sound decisions. In the near term, the enhanced internal control requirements in OMB Circular A-123 will strengthen EPA’s existing management integrity efforts and provide a platform to broaden our scope and expand our focus on programmatic efficiency and effectiveness. This activity will complement efforts planned or underway to achieve economies of scale and develop and enhance

financial information tools to meet the decisionmaking needs of EPA managers.

Additionally, the Agency is expanding the use of financial information by integrating additional financial information into EPA's decisionmaking processes, with an initial focus on grants data. EPA also successfully conducted the first Competitive Sourcing "Standard Competition" for vendor payment services. The Agency's Research Triangle Park Finance Center bested the private sector contractors' bids for providing these services, resulting in savings to the Agency of \$3.5 million over 5 years.

Leveraging Technology

E-government—leveraging technology to gain efficiencies across government.

Financial accountability—integrating budget and performance data, providing more precise information about program costs, and identifying areas for improvement.

Modern resource management systems—implementing 21st century tools to manage Agency resources.

Data warehousing and reporting—searching data for latent correlations and providing easy access to useful data.

Security—protecting data against today's threats.

NOTES

- 1 The Federal Managers Financial Integrity Act, the Inspector General Act Amendments, the Government Management Reform Act, the Chief Financial Officers Act, and the Reports Consolidation Act.
- 2 EPA Announces Landmark Clean Air Interstate Rule (Agency Press Release, 3/10/05).
- 3 EPA Announces First-Ever Rule to Reduce Mercury Emissions from Power Plants (3/15/05).
- 4 For more information on the toxics program see www.epa.gov/ttn/atw/urban/urbanpg.html.
- 5 Clearing the Air: Asthma and Indoor Air Exposures. ISBN 0-309-06496. January 2000.
- 6 A copy of the report can be found at www.epa.gov/owow/oceans/nccr2.
- 7 More information on EPA's Superfund Program can be found at www.epa.gov/superfund/index.htm.
- 8 Memorandum from Cliff Rothenstein, Director, EPA Office of Underground Storage Tanks to Underground Storage Tanks/Leaking Underground Storage Tanks Division Directors in EPA Regions 1-10, June 2, 2005, "FY 2005 Semi Annual Mid-Year Activity Report."
- 9 Preliminary end-of-year data provided by EPA's Office of Underground Storage Tanks, November 9, 2005.
- 10 Additional information about EPA's recycling programs can be found at www.epa.gov/epaoswer/non-hw/munclpl/recycle.htm.
- 11 For additional information on EPA authorities for conducting work under the Food Quality Protection Act go to www.epa.gov/pesticides/regulating/tolerances.htm.
- 12 For additional information on pesticide registration and assessment go to www.epa.gov/pesticides/index.htm.
- 13 For additional information on the high production chemical program go to www.epa.gov/chemrtk/volchall.htm.
- 14 Centers for Disease Control, National Center for Health Statistics. National Health and Nutrition Examination Survey: 1999-2002: May 2005. More information is available at www.cdc.gov/mmwr/preview/mmwrhtml/mm5420a5.htm.
- 15 More information can be found at www.epa.gov/compliance/resources/cases/civil.
- 16 More information can be found at www.epa.gov/compliance/resources/cases/criminal.
- 17 More information on PCS is available at www.epa.gov/compliance/data/systems/water/pcssys.html.
- 18 The Office of Management and Budget (OMB) regularly releases an executive scorecard which rates each federal agency's overall status and progress in implementing the PMA initiatives. The scorecard ratings use a color-coded system based on criteria determined by OMB.
- 19 US EPA, American Indian Environmental Office. "Target 1 Program Performance Report." Goal 5, Objective 5.3 Reporting System.
- 20 It is important to note that the Safe Drinking Water Information System (SDWIS) has been identified as an Agency-level Weakness under the Federal Managers Financial Integrity Act, with corrective action to be completed in 2007. The data are not considered materially inadequate, however, per OMB's definition. The Verification and Validation section of the Annual Performance Plan and Congressional Justification has details on data limitations associated with SDWIS.
- 21 Public Law 108-447 H.R. 4818.
- 22 Section IV, FY 2005 Statement of Budgetary Resources.
- 23 Section IV, FY 2005 Statement of Net Costs.
- 24 EPA's Integrated Financial Management System.