

March 1997

***FY 1996
AUDITED FINANCIAL
STATEMENTS***



***Produced by the U.S. Environmental Protection Agency
Office of the Chief Financial Officer
Financial Management Division***

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MESSAGE FROM THE ADMINISTRATOR

I am pleased to present the *Fiscal Year 1996 Annual Financial Statements for the U.S. Environmental Protection Agency*. These statements, which were prepared in accordance with the Chief Financial Officers Act of 1990, provide a snapshot of the financial condition of the Agency.


The President has challenged the Nation to make our environment cleaner and safer for the next generation. For over 25 years, the American people have united to protect our health by making sure the air we breathe, the water we drink, and the soil our children play in is free of toxic substances. As Administrator, I am proud of our accomplishments over the past several years.

We have made tremendous progress, but there is still much work to be done. In order for the Agency to ensure our children have a safe environment into the next century, we have targeted the highest risk environmental problems and built a strong partnership with states, tribes, communities, and the public. EPA and state leaders have established the National Environmental Performance Partnership system which allows states to operate their programs with less review by the Federal government, in return for increased emphasis on measuring and reporting results. We are attempting to find the most efficient way to invest our resources while, at the same time, protecting the Nation's health -- the health of our families, the health of our communities, and the health of our economy.

In order to meet our ambitious agenda, it is essential that our management structure and systems provide the information necessary to make the crucial decisions facing us. Accordingly, in 1996, I initiated a new Planning, Budgeting, Analysis and Accountability (PBAA) system for the Agency. This new PBAA initiative will improve the link between long-term environmental planning and resource management; make better use of scientific information in setting environmental priorities; and implement a new accountability system to assess accomplishments and provide feedback for future decisions. This initiative includes an organizational change whereby EPA's Chief Financial Officer assumes responsibility for PBAA. I believe these changes will better position the Agency to implement mandated management reform initiatives, particularly the Government Performance and Results Act.

Sound stewardship of the Agency's (i.e. taxpayer's) financial resources remains a high priority for me. Preparing the annual financial statements will continue to be a critical function under the newly organized Office of the Chief Financial Officer. Along with the Office of the Inspector General's audit report, the statements provide fundamental information for evaluating

the strength and effectiveness of the Agency's financial systems, processes and operations. As the first audited financial statements for *all* Agency programs and operations, the 1996 statements are an important first step in providing accountability for EPA resources and program results.



Carol M. Browner
Administrator

OVERVIEW OF EPA

The U.S. Environmental Protection Agency (EPA) was established in 1970 to guide the Nation's efforts to protect and preserve the public health and the vitality of natural ecosystems. EPA is committed to achieving these goals by reducing risks to human health and the environment, preventing pollution, and fostering environmentally sound, sustainable economic development in the most cost-effective, efficient ways.

EPA envisions a world in which all individuals and institutions value the environment and choose to act in a manner that ensures achievement of sustainable environmental and economic goals, and the natural balance of all living things is no longer threatened. In accomplishing these goals, EPA continues to implement provisions from seventeen major environmental statutes.

The Agency's overall mission is to perform the work of protecting the health of our land,

communities. In FY 1996, Congress provided the Agency with an enacted level of \$6.5 billion and 17,416 workyears to perform this work. Despite significant gains over the last 25 plus years, the Nation continues to face significant environmental challenges. There are Americans still living in areas where contamination has resulted in soil that is unsafe to live, work and play on, water that is unfit to drink, and air that is dangerous to breathe. Providing our Nation with a healthy environment for generations to come continues to be a high priority for EPA. To make this dream come true, the Agency continues to target the highest risk environmental problems and strengthen our partnerships with states, tribes, communities, businesses, and the public. Sound science continues to provide a basis for our decisions, and a vigorous enforcement program ensures compliance and provides a foundation for regulatory and voluntary activities.

Environmental Laws

- The Clean Air Act
- The Clean Water Act
- The Safe Drinking Water Act
- The Comprehensive Environmental Response, Compensation and Liability Act
- The Emergency Planning and Community Right-to-Know Act
- The Resource Conservation and Recovery Act
- The Federal Insecticide, Fungicide, and Rodenticide Act
- The Food Quality Protection Act
- The Toxic Substances Control Act
- The Marine Protection, Research, and Sanctuaries Act
- The Uranium Mill Tailings Radiation Control Act
- The Indoor Radon Abatement Act
- The Ocean Dumping Ban Act
- The Coastal Zone Management Act
- The Pollution Prevention Act
- The Federal Facilities Compliance Act
- The Oil Pollution Act

Implementing New Environmental Laws

In FY 1996, Congress authorized two new environmental laws -- the Safe Drinking Water Act Amendments and the Food Quality Protection Act. These two laws establish new approaches to improve the safety of America's drinking water and food supply.

our drinking water, our air, and our

Strengthening Partnership

The Agency continues to expand its efforts in providing stronger state and tribal programs more leeway to manage their programs, while concentrating EPA technical assistance on developing the programs that are still evolving. EPA and state leaders have established a National Environmental Performance Partnership System which allows states to operate their programs with less review by the Federal government, in return for increased emphasis on measuring and reporting environmental results. The Agency is working on eliminating barriers in the regulatory and permitting processes which inhibit the private sector from developing new technologies and fostering cleaner and cheaper solutions to environmental problems.

Through the Brownfields initiative, the Agency is forging partnerships with communities to redevelop urban contaminated and industrial properties. This initiative will provide communities with an increased tax base, additional jobs, and improved urban environment.

Preventing Pollution

Pollution prevention is a guiding principle at EPA and is the Agency's option of first choice in environmental protection. The Pollution Prevention Act of 1990 requires EPA to develop and implement a strategy to promote source reduction. Pollution prevention, also referred to as source reduction, aims both to conserve finite natural resources and to prevent waste and harmful substances from entering the environment.

The Agency uses a program called "Design for the Environment" (DfE) to encourage voluntary partnerships with industry, professional organizations, state and local governments, other Federal agencies, and the public to promote safer substitutes, technologies, and chemical processes. The DfE program includes broad institutional projects aimed at changing general business practices, as well as more targeted joint projects with trade associations and businesses in specific industry segments.

EPA is working to create an environment that is conducive for small and mid-sized businesses to obtain needed assistance to develop and implement pollution prevention technologies, processes, procedures or products. The Agency has been working with the dry-cleaning industry to develop and test toxic free alternative cleaning processes to limit exposure to perchloroethylene solvent. In conjunction with the Printing Wiring Board and industry, EPA is evaluating alternative technologies in order to minimize risks and production costs. Recognizing environmental liability is a major concern for the industrial companies, EPA is working with insurance and underwriting industries to promote pollution prevention as an effective method for companies to reduce their environmental liabilities.

As required by the Pollution Prevention Act, the Agency establishes and manages the Pollution Prevention Information Clearinghouse and provides other information sources to interested parties.

Section 6605 of the Pollution Prevention

Act directs EPA to support and help state environmental programs carry out pollution prevention strategies developed by the Agency. In FY 1996, EPA's Regional offices awarded approximately \$6 million to the states for this program.

Reaching out to the Community

Regional prevention programs support innovative approaches to pollution prevention, including education and outreach, technical assistance, regulatory integration, demonstration projects, legislation and infrastructure activities. The Regions encourage the practice of pollution prevention through public awareness activities and provide advice and assistance to businesses, state and local governments.

In FY 1996, EPA's Regional offices awarded 11 environmental justice grants (about \$2 million) to community groups and

local government organizations in economically disadvantaged and minority communities. The grants fund initiatives in public education, training, demonstration projects, research, surveys, studies, public-private partnerships, technologies, revolving funds and efforts to utilize non-regulatory strategies.

Summary

Over the years, EPA has implemented major programs to address the Nation's environmental problems. Accomplishments in such programs as Drinking Water, Air, Hazardous Waste, Superfund, and Oil Spills, just to name a few, have made it possible for Americans to have cleaner water, air, and soil. While EPA has experienced many successes to date, both existing and emerging issues present new challenges which the Agency must meet to assure a clean and safe environment into the twenty-first century.



EPA
PROGRAMS

NOTE: The analysis in this Section includes dollar amounts associated with selected Agency programs. These dollar amounts are derived from internal reports of budgetary data from the Agency's accounting system and are *not* presented on the same basis of accounting as the Principal Financial Statements.

AIR

The overall mission of the Office of Air is to protect and enhance the quality of the Nation's air resources and protect human health and the environment from airborne pollutants. This mission is accomplished through: implementation of the 1990 Clean Air Act (CAA) Amendments; a nationwide program to prevent and reduce air pollution through air quality planning, regulation, compliance, enforcement, and research; the 1993 Climate Change Action Plan; and development and implementation of programs to reduce risk from indoor air pollution.

Program Description

The Air Program helps carry out three major national environmental goals: Clean Air, Reducing Global Environmental Risks, and Safe Homes and Work Places. Under the Clean Air goal, the Agency protects public health and the environment through programs to attain Federal clean air standards, reduce air toxics emissions, and control acid rain. Under the Reducing Global Environmental Risks goal, the Agency seeks to reduce greenhouse gas emissions to 1990 levels by the year 2000 and return the stratospheric ozone layer to levels found prior to the discovery of the Antarctic ozone hole. Lastly, under the Safe Homes and Work Places goal, the Agency attempts to ensure that the air inside buildings is as healthy as outdoor air that meets Federal clean air standards.

EPA is required to set National Ambient Air Quality Standards (NAAQS) for air pollutants that endanger public health and welfare. EPA has set NAAQS for six air pollutants (particulate matter, sulfur dioxide, ozone, carbon monoxide, lead, and nitrogen

dioxide). EPA strives to reduce these air pollutants in all areas of the country as well as to maintain clean air in areas that comply with the NAAQS. The NAAQS are attained and maintained primarily through state and local air pollution control programs aimed at the control of stationary and mobile sources of emissions. EPA directly provides emission controls for many of these sources, primarily through Federal standards for motor vehicles, fuels, and new stationary sources.

EPA is also required to review the NAAQS every five years and revise them as necessary. The review process includes economic, risk, health and benefits analyses. Over the past three and a half years, EPA has conducted an extensive review of the science relating to ozone and particulate matter. As a result of this extensive scientific review, EPA proposed new standards in November 1996. EPA will take comments on the proposed new standards through spring of 1997 and expects to issue a final regulation in June 1997. Using a Federal Advisory Committee Act process involving stakeholders from all sectors, EPA is currently developing an implementation strategy for a potential revised ozone standard (in conjunction with particulate matter and regional haze). After a NAAQS is set, states are responsible for developing State implementation plans (SIPs) to reduce pollution and bring areas into NAAQS attainment. This program provides policy, guidance and technical assistance for modeling and monitoring air quality and devising strategies available to states to include in their SIPs. EPA plays a major role in helping achieve the NAAQS through setting standards for vehicles, non-road engines, and fuels and through an outreach and

communication program.

To reduce emissions of hazardous air pollutants, EPA develops technology-based standards known as Maximum Achievable Control Technology (MACT) standards for 189 hazardous air pollutants from 174 industries. The standards are being developed on a phased schedule through the year 2000, at which point EPA will determine whether the residual public health risk warrants additional regulation. EPA is developing other air toxic rules for combustion sources and developing and implementing strategies to reduce public health risk in urban areas, as well as reducing atmospheric deposition of toxic compounds to the Nation's water bodies, including the Great Lakes.

Title V of the Clean Air Act establishes an operating permit program in which a single permit will contain all the applicable requirements for a major source of air pollution. Major industrial sources must file periodic reports identifying how they have complied with the requirements. These sources pay fees to the states; and the fee revenues cover the cost of the program. EPA provides guidance and assistance to those states developing and implementing permit programs. If a state does not submit an operating permit program for EPA approval, EPA is required under Part 71 of 40 CFR to develop and implement a Federal operating permit program for that state. The Federal Operating Permit Program became effective in ten states and four local areas upon promulgation of the Part 71 rules in July 1996. The Federal program serves as a deterrent to permitting authorities which might otherwise default on their responsibilities. EPA is working with these states to facilitate approval

of their programs. When states complete approvable programs, the Federal program is removed from that state.

The Acid Rain Program is a market-based incentive program for reducing annual sulfur dioxide (SO₂) emissions by 10 million tons from 1980 levels (a 40 percent reduction). Additionally, the program will reduce nitrogen oxide (NO_x) emissions by at least 1.5 million tons. The Agency will achieve the SO₂ emission reductions through an innovative market-based program that will provide affected sources with flexibility in meeting required emission reductions at least cost (both to industry and government). The program features tradeable units called allowances (1 allowance = 1 ton of SO₂), accurate and verifiable measurement of emissions, and a cap on total emissions. The Acid Rain Program is seen as a model for regulatory reform efforts here and abroad.

To restore the stratospheric ozone layer, EPA focuses on four areas: domestic and international phase-out of three ozone depleting chemicals (chlorofluorocarbons (CFCs), halons, and methyl chloroform); implementation of limitations on two other ozone depleters (hydrofluorocarbons (HCFCs) and methyl bromide); more intensive recycling programs in the U.S. and abroad; and earlier voluntary phase-out of CFCs and HCFCs in developing countries.

To stabilize greenhouse gases, EPA promotes voluntary, partnership programs to prevent and reduce emissions of air pollution. By demonstrating the pollution prevention benefits of energy efficiency, the program educates manufacturers, designers and consumers on the purchase, installation and

use of energy efficient products in a manner that benefits the environment while not imposing net costs on participating organizations. The Climate Change Action Plan also expands cooperative, non-regulatory programs to profitably capture and use methane and emissions of other potent greenhouse gases. The Program provides technical assistance in removing institutional barriers such as property rights issues and fair pricing from utilities. Furthermore, EPA is working with the U.S. automobile industry to develop a “clean car”, an affordable vehicle that would have three times the fuel efficiency of today’s cars (representing a 67 percent reduction in carbon dioxide emissions), while preserving utility and comfort features and emitting very low levels of all other air pollutants.

The Agency’s primary strategy to reduce exposure to indoor air pollutants is to use voluntary partnerships to educate audiences from consumers to building managers about indoor air problems and solutions. The Agency develops guidance about ways to reduce the risk of indoor contaminants (such as radon, environmental tobacco smoke and emissions from building and consumer products) and works through partner organizations to create awareness and change consumer and institutional behavior.

Program Results

The Air Program regularly tracks real world accomplishments. FY 1996 highlights include:

Environmental Results/Reduced Health Risks

- C Through the combined efforts of OAR and the Regions, 35 of the original 99 ozone (smog) areas have been redesignated to attainment ensuring an additional 33 million people now breath clean air. Additionally, 16 of the 43 carbon monoxide non-attainment areas have been redesignated, providing healthier air for 12 million people.
- C All of the MACT standards required to be completed two and four years after the CAA Amendments are now complete. These standards are expected to reduce air toxic emissions by over 800,000 tons per year and other pollutants by over 1,600,000 tons per year.
- C Under the Acid Rain Program, SO₂ emissions from the 445 Phase I units have been reduced dramatically to 5.3 million tons, or 39 percent below the 1995 allowable emission limit of 8.7 million tons. The SO₂ reduction by these sources from their 1980 baseline level (10.9 million tons) is even more dramatic -- emissions were reduced by more than 5.6 million tons, or 51 percent.
- C As a result of the Radon Program, 73 percent of the public is aware of the health risks from radon and 10.2 million homes have been tested. About 1.2 million homes have reduced radon levels either through mitigation efforts or use of radon-resistant construction techniques.
- C Eighty-six percent of Americans now know that Environmental Tobacco Smoke

(ETS) is harmful. We have reached millions of people with the message of preventing involuntary exposure to ETS.

- C The number of households where young children are exposed to ETS is now 29 percent, a decline of 10 percent since 1986.
- C The 3,000 partners that have joined EPA's Energy Star and Green Lights programs are already eliminating over 8 million tons of carbon dioxide from utilities in FY 1996, which is equivalent to taking one million cars off the road. Program partners also saved over \$750 million on their energy bills during FY 1996.

New Approaches

- C The Federal Advisory Committee Act process was used and will continue to be used extensively to gain stakeholder input and acceptance of rulemakings and implementation processes.
- C Other programs developed to gain stakeholder input include the "one industry-one rule" project with the Chemical Manufacturers Association. The goal of this project is to consolidate 13 separate Federal rules affecting the organic chemical industry into one consolidated rule, thus eliminating redundant and time-consuming reporting and record keeping requirements. EPA expects to propose this rule in the spring of 1997 and promulgate it by the end of 1997.
- C The Ozone Transport Assessment Group (OTAG) has made significant progress in assessing regional ozone transport. The

group agreed on a modeling system (UAM-V), developed a modeling protocol, identified four modeling centers and the episodes to be modeled, and established a Data Clearinghouse.

Rulemakings/Standard Setting

- C EPA proposed revised Ozone and Particulate Matter NAAQS Standards in November 1996. After reviewing public comment, EPA expects to issue a final regulation in July 1997.
- C EPA has completed all of the MACT standards required to be completed two and four years after the CAA Amendments.
- C EPA proposed the National Low Emission Vehicle regulations which would result in more stringent tailpipe emission standards applicable to new cars and light trucks.
- C EPA revised the test procedures that are used to measure emissions from cars in order to make the procedures more representative of how cars are operated in urban areas.

Education/Outreach/Information Sharing

- C This year, more than 12,000 students enrolled for courses offered through the Air Pollution Distance Learning Network (APDLN). More than 5,000 small businesses have attended broadcast viewings.
- C The Technology Transfer Network (TTN) provided for 500,000 information downloads from 23 topical bulletin boards.

C Worldwide Web Internet Home Pages effectively provide environmental information to a broad and diverse audience. Home Pages were created for the Aerometric Information and Retrieval System (AIRS) and the TTN Bulletin Board System.

Research Program

Program Description

The Air Research Program provides scientific data and information for regulatory, policy, and public information needs of the Air Program. The program provides a wide variety of research information on air pollution health and ecological effects, monitoring methods, models, assessments, emission reduction technology, and quality control. Research focuses on: 1) developing the scientific bases for both NAAQS and vehicle emission standards, evaluating potential changes to, and benefits of, such standards, and assessing the effectiveness of these programs; 2) investigating and assessing the risks presented by particulate matter, tropospheric ozone, toxic air pollutants, as well as assessing the extent to which toxic air pollutants can be mitigated by control technology methods; 3) identifying, characterizing, and comparing the health risks associated with exposures to indoor air pollutants so that risk assessors and risk managers can make informed decisions to protect the public health; 4) providing the scientific basis to assess, evaluate, and predict the ecological, environmental, and human-health consequences of global change, including the feedback these systems have on climate change and 5) quantifying the ultra-violet rays (UV-B) increases and under-

standing the responses of humans and sensitive ecological systems to these larger UV-B doses, as well as finding replacements for ozone depleting substances that are more environmentally acceptable.

FY 1996 Highlights and Accomplishments

Air research focused on air toxics, criteria air pollutants, such as particulate matter and tropospheric ozone, indoor air pollutants, global climate and stratospheric ozone depletion. Highlights/accomplishments in these areas include the following:

Air Toxics: characterized the risks of hazardous pollutants emitted in significant amounts from small sources concentrated in large numbers in urban neighborhoods; developed methodologies to estimate air toxic emissions from key sources in the Great Lakes area.

Particulate Matter: using two animal models, demonstrated the mortality and morbidity in susceptible human sub-populations and determined the exposure response relationships for selected ambient source particles.

Tropospheric Ozone: improved the understanding of both ozone formation and health effects and emissions inventory methods and modeling approaches needed to ensure effective control measures.

Indoor Air Pollutants: characterized the sources of indoor air pollutants and developed data to determine the capability of air cleaners and ventilation systems to reduce concentrations of indoor air pollutants.

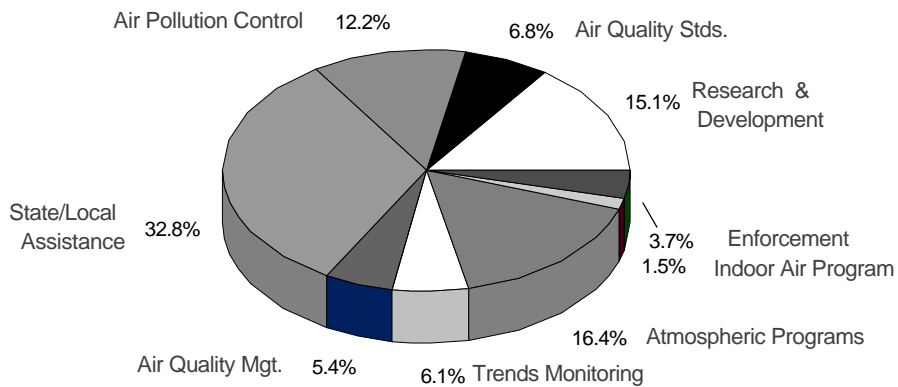
Global Climate: evaluated the emissions data from biomass combustion of chemically treated wastes in order to consider mixed fuels for power generation and developed

regional vegetation models to assess the potential effects of climate change on global terrestrial vegetation.

Stratospheric Ozone Depletion: evaluated environmentally acceptable alternatives to determine energy efficiency in refrigerators and freezers.

AIR Program Obligations - FY 1996

Total Obligations - \$501.4 Million



RADIATION

The EPA program to protect public health and the environment from adverse effects of radiation exposure is grounded in the following statutes: the Indoor Radon Abatement Act; the Clean Air Act Amendments of 1990; the Waste Isolation Pilot Project Land Withdrawal Act of 1992; the Energy Policy Act of 1992; the Atomic Energy Act; the Public Health Service Act; the Uranium Mill Tailings Radiation Control Act; the Marine Protection, Research, and Sanctuaries Act; and the Superfund Amendments and Reauthorization Act. These Acts authorize a wide range of regulatory, assessment, assistance, and research activities.

Program Description

The Radiation Program helps carry out three major national environmental goals including Safe Waste Management, Preventing Accidental Releases and Restoration of Contaminated Sites. EPA's Radiation Program has two specific goals:

- C Reducing adverse health effects and environmental impacts from radiation exposure through a program of standards and guidelines.
- C Responding to radiation issues of serious public concern while maintaining the capability to respond to radiological emergencies including collaborating on the development and testing of Federal, state, and local plans for emergency response.

To accomplish these objectives, EPA assesses and regulates sources of airborne radionuclides; evaluates and regulates radioactive waste disposal; provides site assessments and radiochemical analyses of environmental samples; operates the Environmental Radiation Ambient Monitoring System; develops radiation clean-up and waste management standards; and responds to radiological emergencies.

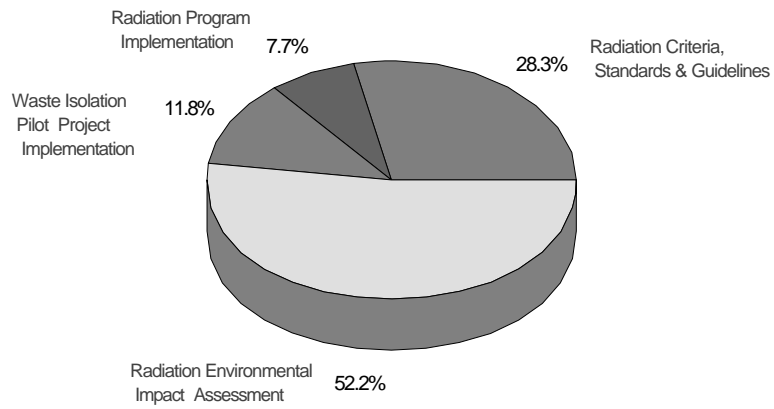
FY 1996 Highlights and Accomplishments

Highlights and accomplishments of this program in FY 1996 include the following:

- C Yucca Mountain rulemaking package near completion.
- C Extensive comments were provided to the Department of Energy on their Draft Compliance Certification Application for the Waste Isolation Pilot Plant.
- C Site clean up regulations for Federal facilities were proposed in early 1996.

RADIATION Program Obligations - FY 1996

Total Obligations - \$37.8 Million



DRINKING WATER

The Drinking Water Program was established to ensure that public water supplies are free of contaminants that may pose unacceptable human health risks and to protect our groundwater resources. Public concern over the quality of the nation's drinking water supplies has been elevated by a series of emergencies in recent years, including the 1993 Milwaukee drinking water crisis and further outbreaks in Washington, D.C. and New York City. In 1994, 23 million people were provided water that violated drinking water health standards at least once during the year. An additional 23 million people were placed at increased risk because they were served by systems that had inadequate or no filtration treatment.

The Drinking Water Program was reauthorized on August 6, 1996 with the passage of the Safe Drinking Water Amendments of 1996, which amended the amended Title XIV of the Public Health Service Act (commonly known as the "Safe Drinking Water Act").

Program Description

EPA's goal is to ensure that every public water system will provide water that is consistently safe to drink. The Agency has therefore undertaken an initiative to make fundamental changes in the direction and scope of the national drinking water program. This "reinvention/redirection" effort centers around four major principles, each equally important to ensuring safe drinking water. These principles are: targeting resources to those contaminants posing the greatest human health risk and focusing standard setting on those high priority contaminants, especially

microbial and disinfection byproducts; setting safety standards based on sound science and data; building strong, flexible partnerships with states and local governments in implementation efforts; and promoting community-based, source water protection. This redirection effort, which began in 1995, not only continued in 1996, but was bolstered by the enactment of the amendments to the Safe Drinking Water Act (SDWA) in August 1996.

FY 1996 Highlights and Accomplishments

In 1996, EPA conducted an extensive reassessment of its Drinking Water Program in response to the need to focus on the highest risk reduction activities, implement stakeholder requested improvements, and be better prepared to deal with serious public health concerns caused by contaminated drinking water. The Agency held a series of public meetings, attended by over 500 stakeholders, to discuss EPA's approach to this reinvention/redirection effort, and on June 7, 1996, the Assistant Administrator for Water signed the drinking water program redirection document, focusing the program on those high priority activities that maximize the reduction of public health risks.

On August 6, 1996, President Clinton signed into law the SDWA Amendments of 1996, the first major revision to our Nation's principal drinking water protection law since 1986. The Agency provided extensive technical assistance to the Congressional drafting Committees, and as a result, the priorities of the amendments are closely aligned with the priorities reflected in EPA's drinking water redirection document.

SDWA's Amendments improve our ability to assure safe drinking water by: providing for more efficient operations and management of water systems; adding a new and stronger source water protection program; giving better information to consumers; and ensuring sound scientific work, including the use of risk and cost-benefit analysis in setting drinking water standards.

States and communities across the country are starting to realize that they will need to optimize the operations of water filtration plants to maximize public health protection from microbial contaminants like cryptosporidium. The Agency has developed and demonstrated an approach to achieve cost-effective optimization called the Composite Correction Program (CCP) that helps these communities make the best use of their existing infrastructure. Through the use of CCP, a community determines the reasons for not achieving optimization and implements sensible solutions for their unique situation. These efforts have already demonstrated that, in many cases, optimization can be achieved solely by redirecting existing staff activities, rarely requiring the construction of additional treatment processes. Current activities are focusing on several pilot programs and how to bring the benefits of CCP to communities through either their state drinking water program or the Partnership for Safe Water.

Over the past year, the Agency has made major progress in the evaluation of costs for its regulatory impact assessment functions. The Agency convened a Blue Ribbon Panel to conduct an in-depth evaluation of its regulatory alternatives costing program. The panel's recommendations matched well with other statutory and regulatory requirements

and provided a firm foundation for the regulation cost analysis in the coming year. In addition, the Agency completed the Community Water Supply Survey of 3,000 public water systems. This effort replaces a ten year old one and will considerably enhance our ability to consider a broad spectrum of regulatory and economic impacts.

The Agency has developed a conceptual approach to identify contaminants for future regulation. The Contaminant Identification Approach, which will rely heavily on risk assessment, provides for the nomination of contaminants from many different sources, the application of contaminant occurrence data and analysis, and the use of toxicity and public health effects screening to propose a candidate contaminant list. From this list, contaminants that appear to pose the greatest risk to public health will be selected for further evaluation.

The Drinking Water Program has been improving the Public Water System Supervision data management system to better and more easily track and report on program implementation. The system, known as the Safe Drinking Water Information System (SDWIS), has been under development since 1993 and was designed to better identify drinking water problems, solutions and trends.

SDWIS is user friendly, network compatible and automates much of the burdensome manual data accounting and auditing responsibilities. The first state-level installation, including the capability for electronic transfer of water quality data, was successfully completed in September of 1996.

SDWIS will be expanded to become the National Contaminant Occurrence Data Base.

This action will conserve limited resources for data base development and build on a data base that already focuses on contamination in public water systems. The Data Base will be instrumental in providing data on occurrence of contaminants below maximum contaminant levels for regulated contaminants, and on concentrations of unregulated contaminants for analysis to select contaminants for regulation. Plans are being made for input from the scientific community and to encourage the public to obtain maximum use of the data base.

The Agency completed a study to demonstrate that the benefits of avoiding contamination of drinking water sources are greater than the costs of implementing a local prevention programs for wellhead protection. While the study examined a limited number of communities, the results were staggering. In communities where contamination had occurred and either new water sources had to be instituted or where ground water remediation had to occur, the associated costs significantly exceeded the small dollar outlay required to implement a local protection program.

The Wellhead Protection Program is one of the premier Agency programs for community-based environmental protection. Headquarters, Regions and states have all made efforts to promote this program and advance its implementation. Forty-four states and two territories now have EPA approved programs. Even in States without approved programs, many communities are implementing local protection programs.

Future Trends

With the passage of the Safe Drinking Water Amendments of 1996, the Drinking Water State Revolving Fund (DWSRF) has been authorized at \$9.6 billion. While this Fund is still in the process of coming on line, it is designed to provide Federal financial assistance to the states, localities, and Indian tribes to protect the Nation's drinking water resources. The DWSRF will provide capitalization grants to state and tribal governments to fund low-interest loans to local drinking water systems to install or improve drinking water treatment facilities.

The Drinking Water Program's highest priority is protecting human health from microbiological contaminants and disinfectant/disinfection by-products (M-DBP). Development of safety standards and regulation for these contaminants is a long-term endeavor of the Agency. Planned activities include: targeting resources to work with states, water systems (especially small systems), and equipment suppliers to expand technology choices for treating drinking water and preventing microbial contamination. In addition, the Agency will continue to work with the 300 large systems under the Information Collection Rule (ICR) to collect and analyze occurrence and treatment data, crucial to the Agency's work on the M-DBP rule cluster.

EPA is committed to strengthening both the science and data bases for developing human health standards. Specific activities to be supported include: developing the means and methodologies for making comparative risk assessments between microbial and chemical contaminants; expanding health endpoints to include such non-cancer endpoints as effects on the immune system;

and, focusing on emerging, high-risk contaminants that could pose significant health risks in the future.

Assistance to small systems in capacity development or enhancement activities that ensure conformance with safety standards will be emphasized. Furthermore, EPA will provide additional technical and other capacity-building support to states to assist them in maintaining their primary enforcement authority (primacy) for drinking water standards.

Source Water Protection (SWP) program activities will be strengthened. The Agency will expand its efforts with the some 60,000 community public water systems that supply drinking water from both surface and ground water sources to implement SWP programs. The final rule for Class V underground injection wells will be implemented by those states with primacy for the Underground Injection Control program and by EPA in those states without primacy or with partial primacy. Through its multi-partner effort, EPA will work with local government managers of SWP programs to incorporate both the implementation of the Class V rule as well as management of other Class V wells, especially storm water and agricultural drainage wells, into their ongoing SWP activities.

Research Program

Program Description

The Drinking Water Research program develops and analyzes scientific data and technologies to ensure the safety of our public water supplies in accordance with the SDWA. The goal of the program is to prevent and remove contamination from drinking water supplies by researching pollutants, disinfection, non-point sources of pollution, and groundwater. Information is also determined regarding the health effects and associated health risks of specific contaminants in drinking water, such as disinfectants used in particular water treatments and distribution systems and the related by-products of disinfection. This requires developing new analytical methods for quantifying unidentified contaminants as well as improving existing methodology.

FY 1996 Highlights and Accomplishments

Highlights and accomplishments of this program in FY 1996 include the following:

- C Arsenic compounds have been reliably speciated and quantitated using a sensitive new mass spectrometry approach.
- C A reliable sensitive method has been developed for detection, quantitation, and viability testing of GIARDIA LAMBLIA cysts.

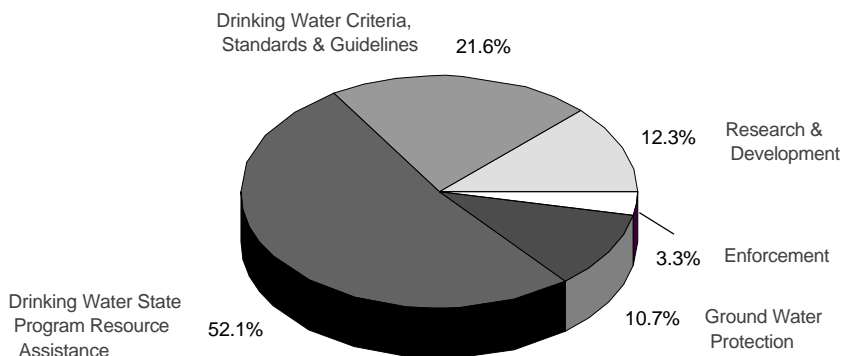
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- C Critical data has been developed on the toxicity and reproductive toxicity of priority disinfection by-products, including dichloroacetic acid and dibromoacetic acid.

C Improved methods were developed and field tested for evaluating the toxicity of individual chemicals and selected mixtures of contaminants in sediments.
 - C Nanofiltration has been successfully used to remove organic contaminants and control disinfection by products in domestic drinking waters.

C Human studies have been completed on human bladder cancers from exposure to chlorinated drinking water.

DRINKING WATER Obligations - FY 1996

Total Obligations - \$165.3 Million



WATER QUALITY

The Water Quality Program is mandated by the Water Quality Act of 1987, which amended the Clean Water Act (CWA). The 1987 Act enhanced water quality management and improved the Agency's partnerships with the states. This Act also authorized the development of new standards and guidelines to prevent and control water quality pollution and authorized new approaches to deal with nonpoint sources of pollution. Other statutory mandates for this program are the Great Lakes Critical Programs Act (GLCPA), Water Resources Development Act (WRDA) of 1992, the Marine Protection, Research and Sanctuaries Act (MPRSA), the Shore Protection Act (SPA), the Coastal Zone Act Reauthorization Amendments (CZARA), and the North American Waterfowl Conservation Act (NAWCA).

Since the passage of the CWA in 1972, the United States has had tremendous success in reducing pollution entering our surface waters from factories and municipal sewage plants. However, in spite of the great strides that have been made, over six billion pounds of toxic industrial pollution is still being discharged annually into our rivers, lakes and streams. Only 71% of assessed rivers can support recreational activity without risk of adverse health effects. While this is a dramatic improvement over conditions thirty years ago, it is well short of our long-term goal. Moreover, in 1994, state authorities issued over 1,500 advisories warning consumers to either not eat or limit their consumption of fish and shellfish taken from polluted water.

Program Description

The Water Quality Program has broadened its emphasis over the years to consider all sources of water quality pollution by looking at entire watersheds. This broader "place-based" approach considers critical ecosystems affected, stakeholders involved, strong science and data available, and pollution prevention strategies in developing effective solutions. In this way, both point source and nonpoint source problems -- such as wet weather runoff from farms, streets, lawns and construction sites -- will be addressed. This is critical since nonpoint source pollution has become the Nation's most significant remaining water quality problem.

FY 1996 Highlights and Accomplishments

EPA's Water Quality Program faces three main challenges: improving the quality of our surface water, protecting ground water resources, and reducing wetlands loss. With these three guiding principals, the Agency seeks to prevent or control pollution sources and adverse physical alteration, to restore degraded areas, and to gain a better understanding of the condition of our surface water resources. The Agency must protect ground water from pollution and help the public better understand the ways in which to prevent the ground water from becoming polluted. In addition, EPA is seeking to continue the trend towards reduced wetlands loss, ultimately realizing a net gain in wetland acreage through efforts to create new wetlands and to protect, improve and better understand wetlands conditions.

The Agency placed a heavy emphasis in

1996 on expanding efforts to promote understanding of the condition of aquatic resources in geographic terms -- on a watershed basis. We implemented a multi-pronged effort to encourage and facilitate the use of the watershed approach nationwide. We worked with states, tribes and local governments to determine which tools EPA can develop or share with them through training, and how EPA can use its authorities to assist them in implementing community-based environmental protection approaches. The Agency initiated the Watershed Academy in 1996 to provide training for watershed managers and others implementing the watershed approach. The Academy includes core courses and related EPA reference materials about watershed processes, functions, and management techniques. EPA cosponsored *Watershed '96*, a national conference that attracted almost 4,000 people interested in developing, enhancing, implementing and sharing information on place-based environmental protection techniques and issues. Our Watershed Technical Assistance Coordinating Team developed and disseminated the *Watershed Tools Directory*.

The Agency embarked on a major project intended to facilitate decision making within the watershed protection framework: the National Watershed Assessment Project (NWAP). NWAP will array existing information from multiple sources to paint a portrait of the Nation's 2,150 watersheds. Citizens and all levels of government will be able to learn about and work to preserve their watersheds; watersheds at particular risk can be closely analyzed and improvements hastened. An integral part of NWAP is *Surf Your Watershed*, an Internet application and

community-based information system that, when fully populated, will serve as a model platform for communicating to the United States and the world water quality information critical for understanding problems and developing solutions.

The Agency worked on several fronts to build partnerships to more effectively protect and restore coastal ecosystems. Examples include partnerships with Coastal America, consisting of Federal agencies responsible for natural resource management and protection, and the National Association of Counties to provide local governments in coastal communities with community-based environmental decision-making tools, skills, and knowledge. Our National Estuary program, one of the Water Quality program's seminal place-based, stakeholder oriented efforts, saw the completion and approval of Comprehensive Conservation and Management Plans for Massachusetts Bays, Delaware Estuary, Sarasota Bay, and Casco Bay. The Inter-agency National Dredging Team, established in response to ocean disposal concerns in New York and New Jersey, improved coordination of dredging issues among relevant Federal agencies, including developing guidance on long-term dredged material management plans in cooperation with all affected stakeholders.

The Water Program established a special initiative on air deposition of chemicals, heavy metals, nutrients, and other pollutants in the Nation's surface waters. The goal of the initiative is to characterize and manage air deposition effects on downwind waters by building upon ongoing programs, primarily under the Clean Air Act and the CWA.

The Water Program developed an agreement with the states on a major new

direction in the national nonpoint source (NPS) program. The states agreed to review and upgrade their NPS programs to assure that they address critical elements, while EPA committed to streamlining and refocusing the grants issuance and reporting process to maximize efficiency. A powerful and comprehensive NPS Grants Information and Tracking System was developed to supply information on the \$100 million NPS grant program.

The Agency made significant advances toward the goal of providing to our state, local and private partners accurate information on the quality of our Nation's waters. EPA's efforts to develop appropriate indicators of environmental health, support monitoring programs, and store and provide data are critical to maintaining the ability to identify and understand remaining high-risk problems, develop appropriate solutions, and evaluate if and when environmental results are being achieved. We continued in our role as Federal government leaders in the area of environmental indicators, publishing a report featuring 18 indicators to help measure true progress toward goals of human and ecosystem health, improving ambient conditions, and preventing or reducing pollutant loadings.

The team tasked with development of a new generation of STORET, the nation's primary water quality data storage and retrieval system, completed the system prototype. We announced a new five-year rotating basin approach to developing CWA required state water quality reports, including electronic updating. Our new approach will provide much-improved and more continuous information about the location of water quality

impairments and threats throughout the country.

EPA continues to build the capacity of states, tribes and local governments to perform wetlands preservation, restoration and management. As part of the President's plan to improve the effectiveness and flexibility of wetlands protection efforts, EPA sponsored workshops and developed tools to support the use of wetlands mitigation banks. Wetland banks give greater flexibility to permit applicants by providing opportunities for wetlands mitigation more easily, at reduced cost, and with a greater certainty of environmental success.

Future Trends

The total maximum daily load (TMDL) process is prescribed by the CWA, and requires states to make a complete public accounting of which water bodies do not meet water quality standards or are threatened, to set priorities for action, and then to develop watershed-scale protection plans for achieving the standards. These plans are then implemented through the National Pollutant Discharge Elimination System permits, nonpoint source programs, and a variety of other Federal, state and local programs. Where states are unable to fulfill their responsibilities, EPA must act in their stead. Recent litigation and the rapidly increasing availability of environmental information and management tools create a new opportunity for us to reinvigorate the TMDL program and to accelerate the watershed protection approach.

The Agency will continue its long-standing trend toward common sense, place-based

approaches that build on the solid foundation for the basic water programs. In particular, we will revise existing water quality criteria, assist stakeholders in incorporating a risk-based approach, investigate newly-identified environmental problems like endocrine disruptors, and provide increased support for tribal water quality programs.

Continuing EPA's success in demonstrating that economic renewal and environmental protection go hand in hand, the Agency will participate in an urban revitalization initiative to address cities' special environmental needs. The Water Quality Program will participate in a multi-media effort by establishing partnerships and creating tools for protecting and restoring polluted waterways that hold vast potential for economic development.

Finally, through state and tribal program assistance, EPA will continue to pursue its strategy of building state and local capacity to implement and enforce the Nation's environmental laws. One approach will be to encourage states and tribes, under the new authority of Performance Partnership Grants (PPGs), to group categorical grant funds into PPGs so they can address their own unique environmental priorities. By fostering a decentralized nationwide approach to environmental protection, we are ensuring that the Nation's environmental goals will ultimately be achieved through the actions, programs, and commitments of local governments, organizations, and citizens. EPA's role will be to help those who need our assistance and strive to make sure that Federal financial assistance brings the Nation the best possible return on its investment in a cleaner, safer environment.

Research Program

Program Description

The Water Quality Research Program develops and analyzes scientific data and technologies to protect and enhance the designated uses of our Nation's waters and related ecosystems in accordance with the CWA and other related provisions and policies by providing technical assistance to EPA regulatory programs, states and municipalities. The goal of the program is to minimize environmental health risks from pollutant discharges, environmental stressors and disturbances. Scientific understanding and techniques are being developed for integrated ecological risk assessment and ecosystem protection for fresh, estuarine and marine waters, such as coastal and marine waters, large lakes and rivers, wetlands, contaminated sediments, aquatic ecocriteria, non-point sources, habitat/biodiversity, wastewater and sludge. This requires improving analytical methods for quantifying pollutants.

FY 1996 Highlights and Accomplishments

Highlights and accomplishments of this program in FY 1996 include the following:

- C Approaches have been developed to evaluate the toxicity of selected chemical mixtures in the aquatic environment to establish criteria for the protection of aquatic life and human health.
- C An exposure assessment module was developed for modeling South Florida everglades and estuaries to assess restoration and resource management strategies.

TOXIC SUBSTANCES

- C Big Darby River of Ohio has been assessed for the development of indicators of multiple stressors affecting aquatic systems and will be used as a prototype for four ongoing watershed assessment case studies.

C Methods have been developed for estimating bioaccumulation factors for selected organic chemicals, and a method was validated for describing the availability and toxicity of sediment-associated metals.
- C Evaluation procedures have been developed for whole sediment toxicity identification to evaluate the toxicity of mixtures of sediment contaminants.

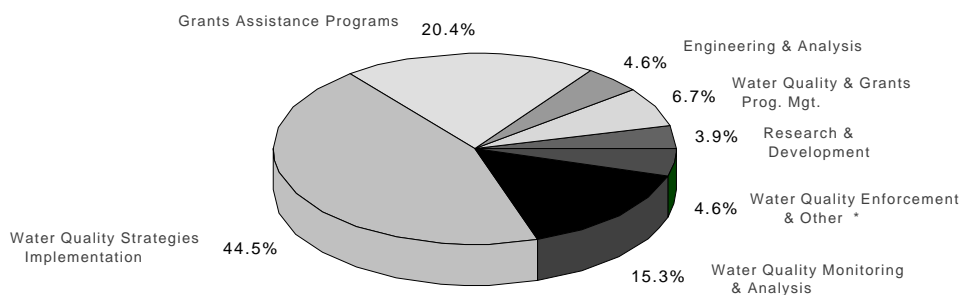
C Models have been developed to characterize wetland sedimentation, nutrient cycling, and food web models in targeted geographic areas; description of the effects of agricultural land-use and best management practices on water quality of seasonal wetlands; and development of ecological criteria and indicators of ecological integrity of prairie wetlands.

C Approaches have been developed to prioritize riparian restoration in watersheds in the Western United States and strategies to monitor the ecological health of wetlands.

The Toxic Substances Program is responsible for environmental programs

WATER QUALITY Obligations - FY 1996

Total Obligations - \$470.1 Million



* Other includes Municipal Source Control & Permit Issuance

TOXIC SUBSTANCES

carried out under six major statutes, with emphasis on preventing pollution and reducing risks associated with toxic chemicals. The Toxic Substances Control Act (TSCA) is designed to protect human health and the environment from unreasonable risks arising from the manufacture, processing, distribution, use or disposal of new or existing chemical substances. The Pollution Prevention Act of 1990 (PPA) authorizes the Agency to work with private and public sectors to prevent toxic chemical pollution. The Asbestos Hazard Emergency Response Act (AHERA), requires inspection for and abatement of asbestos in all public and private schools, and requires EPA to examine similar asbestos exposure issues in public and commercial buildings. The Asbestos School Hazard Abatement Act (ASHAA) authorizes EPA to provide financial assistance as loans or grants to local education agencies to conduct asbestos abatement projects in school buildings. Section 313 of Title III of the Emergency Planning and Community Right-to-Know Act of 1986 (EPCRA) requires facilities that emit toxic materials to report those emissions to EPA, and requires EPA to collect and provide the data to the public. Finally, Title X of the Residential Lead-based Paint Hazard Reduction Act of 1992 requires EPA to provide a comprehensive national approach to dealing with lead-based paint in the Nation's housing stock.

Program Description

Core TSCA Program

The primary goals of the core Toxic Substances Program are to identify and prevent the introduction into the environment of chemicals that may be harmful to human health or the environment, and to mitigate the effects on the environment and human health of toxic chemicals already present in commerce. This is done in such a manner as not to impede unduly, or create unnecessary economic barriers, to technological innovation. The regulatory approach to carrying out the core TSCA program is giving way to voluntary compliance with emphasis on pollution prevention as the strategy of first choice. Chemical assessment and management rely on chemical testing and scientific analysis to gain knowledge about the environmental and health effects of toxic chemicals. Without a thorough understanding of the health and environmental effects of chemicals, sound chemical management cannot be achieved.

To improve the Agency's ability to set priorities for toxic chemicals and the public's knowledge of the uses of chemicals, the Office of Pollution Prevention and Toxics (OPPT) is developing the Chemical Use Inventory.

National Program Chemicals

The National Program Chemicals component concentrates on risk management

activities for lead, asbestos, polychlorinated biphenyls (PCBs) and other toxic chemicals of national concern and impact. Nationwide chemical management efforts have been made for lead, asbestos, and PCBs, targeting the reduction of risks from contaminants in residential, school, and workplace settings. Dioxin, a toxic chemical that accumulates in the environment, is also being further addressed for its health hazards and exposures.

Health hazards from lead contamination may be found in paint, dust, soil and drinking water. The goal of the lead program is to reduce lead exposure, particularly for children, and identify the most serious exposure sources. The lead program addresses past, current and new uses of lead and works to empower the public through improved understanding of the problem. EPA is responsible for carrying out over 30 mandates contained in the Lead-Based Paint Hazard Reduction Act of 1992 ("Title X").

Asbestos and other hazardous fibers are commonly found as indoor air contaminants. The asbestos program supports activities necessary for Federal, state, and local governments and the private sector to develop and carry out asbestos control and management programs.

The PCB Program was mandated by TSCA Section 6(e). The Program ensures that PCBs are managed in an environmentally sound manner while they are in use and requires that PCBs are properly disposed. The Program regulates the use of PCBs in electrical equipment and other products; directs appropriate clean-up of spills, leaks, and other releases of PCBs to the environment; and permits facilities for the

storage and disposal of PCB wastes.

Toxic Release Inventory (TRI) Program

The Toxic Release Inventory (TRI) is a database that provides information to the public about releases and waste management of toxic chemicals from manufacturing and Federal facilities into the environment. The TRI is mandated by Section 313 of EPCRA. Section 6607 of the PPA expanded the type of information included in TRI. TRI information is reported by covered facilities yearly to EPA and states. As mandated by EPCRA Section 313, EPA makes this information available to the public in various formats, including on the Internet.

Fees

Section 5 of TSCA requires that chemical manufacturers notify the Agency at least 90 days before the commercial manufacture of a new chemical. EPA's review process is called the Premanufacture Notice (PMN) process; new chemical submissions are called PMNs. There are several exemptions to the PMN process, such as low volume and polymer exemptions. TSCA allows the Agency to collect fees up to \$2,500 (\$100 for small businesses) for each PMN submission, which generates annual revenues of about \$3 million for deposit into the General Fund.

FY 1996 Highlights and Accomplishments

Core Toxic Substances Control Act (TSCA) Program

The Chemical Assessment and Management program is the core framework for the implementation of TSCA. In 1996,

EPA continued its chemical testing program, concentrating both on chemicals designated by the Interagency Testing Committee (ITC), and also on multi-chemical rules identified through non-ITC sources. The use of multi-chemical rulemaking resulted in an acceleration of chemicals handled in the rulemaking process. Additional testing candidates were identified for inclusion on the Agency's Master Testing List. The chemical testing program continued to play a major international role in the high production volume/screening information data set testing program.

The new chemical and biotechnology review program concentrates on reviewing new chemical substances, for which manufacturers must submit a PMN to the Agency for review before the chemical can be manufactured for commerce. In 1996, EPA received approximately 2,300 PMNs. Many PMNs provided information detailing pollution prevention practices in use by industry. The new chemical review program emphasizes both quick reviews of new chemicals to identify those which may present unreasonable risks, and the use of cost-effective risk reduction measures. The primary focus of the program is pollution prevention and Design for the Environment applications for new technology. Our scientific staffs continue to develop assessment tools, collect data, and prepare guidance for the biotechnology program.

The existing chemicals program focuses on identifying risks, assessing alternatives and identifying pollution prevention opportunities through the screening of existing chemicals, chemical clusters, processes, and use patterns. To mitigate risks, the program emphasizes voluntary agreements with industry as well as

regulatory approaches where necessary. The program continues to stress information collection and distribution, taking advantage of the wealth of knowledge EPA holds on toxic chemicals and their associated risk.

This program promotes risk reduction, pollution prevention and source reduction throughout the life cycle of chemicals of concern, and encourages information sharing. The program continues to conduct initial chemical screening to determine the chemical's potential human health and environmental effects. Additionally, the program examines control options, conducts more detailed risk management reviews and implements appropriate risk control measures.

During FY 1996, OPPT drafted a proposed rule to collect information on chemical uses (i.e., a Chemical Use Inventory). OPPT plans to publish the proposal in early 1997.

As part of the Reinventing Environmental Regulations Initiative, on March 16, 1995, President Clinton announced the Green Chemistry Challenge Program to "promote pollution prevention and sustainability through a new Design for the Environment partnership with the chemical industry." There are two phases to the program. The first phase is a recognition of accomplishments in chemistry that have been used to achieve pollution prevention goals. The Challenge will focus on the design and synthesis of chemicals which incorporate pollution prevention principles into their use and manufacture. The second phase will promote basic research through EPA research grants and encourage industrial and university collaboration to develop innovative approaches to achieve pollution

prevention. The research will help identify ways of making chemicals which reduce or eliminate the use or generation of toxic feedstocks, by-products, and impurities. By changing the types of chemicals that are used in all types of consumer and industrial projects, Green Chemistry is promoting pollution prevention at the molecular level.

National Program Chemicals

Asbestos: The Agency continued to help the states improve their asbestos accreditation programs, as required under the AHERA, and continued to close out site evaluations of the ASHAA loan and grant projects previously awarded. The Agency also coordinated with the Occupational Safety and Health Administration (OSHA) on amending both agencies' asbestos regulations to ensure that the two Federal asbestos programs are complementary.

Polychlorinated Biphenyls (PCBs): The PCB program made substantial progress in completion of the major rule to overhaul the PCB program to allow risk-based decision making and significant cost reductions in PCB clean-up and disposal. Efforts were also focused on permitting of disposal facilities, support to other Federal agencies on PCB issues, and international efforts to promote sound management and disposal of PCBs.

Lead: The 1996 Lead program efforts focused on development and implementation of major rules mandated under Title X. Rules were promulgated to require information disclosure on lead hazards in residential real estate transactions (purchase and lease); to establish a Federal program for accreditation of lead training providers, certification of

workers in lead abatement, inspection, risk assessment, etc.; and to establish standard work practices. Promulgation of the second rule also allows EPA to approve state lead programs.

Additional efforts were also directed to outreach, evaluation of low cost abatement and alternatives to abatement, and coordination with other state and Federal agencies. Grants were also awarded to states and tribes to assist in the development and implementation of state/tribal lead programs.

Dioxin: In 1996, EPA expanded its activities related to dioxin. EPA's ongoing dioxin assessment supports recent scientific evidence that reconfirms dioxin to be a major environmental pollutant. EPA currently has insufficient understanding of dioxin sources, transport and human exposure to ensure sound policy and program development. In 1996, EPA expanded its cross-media efforts to characterize human exposure to and sources of dioxin. This included a measurement of dioxin levels in all major fat components of the United States food supply, and identification of the processes that contribute to food contamination. The latter effort includes the identification and characterization of suspected sources of dioxin, including industrial, natural and reservoir sources; identification and quantification of fate and transport mechanisms affecting dioxin emissions; and the identification of rates and mechanisms for dioxin deposition contributing to food contamination. EPA works to improve the understanding of the chemical mechanisms of dioxin formation and ways to prevent its formation. The dioxin exposure initiative is being managed across EPA programs and involves work in cooperation

with the Department of Agriculture and the Food and Drug Administration.

Toxic Release Inventory

The original list of industry sectors required to report on TRI data were limited to the manufacturing sector. The original list of chemicals for which reporting was required was approximately 320 chemicals and chemical categories. Both lists have undergone expansion, with the original industry list still in the process of being expanded.

The list of chemicals has more than doubled since 1986, primarily through the November 1994 addition of 286 chemicals and chemical categories. President Clinton expanded the facility coverage through Executive Order 12856 which requires Federal facilities reporting to TRI and developing goals to reduce releases and transfers of toxic chemicals by 50 percent by the year 1999.

EPA proposed in June 1996, to further expand the types of industry groups required to report under EPCRA Section 313 and PPA Section 6607. EPA proposed the addition of the following seven industry groups to TRI: metal mining, coal mining, utilities, hazardous waste treatment and disposal facilities, solvent

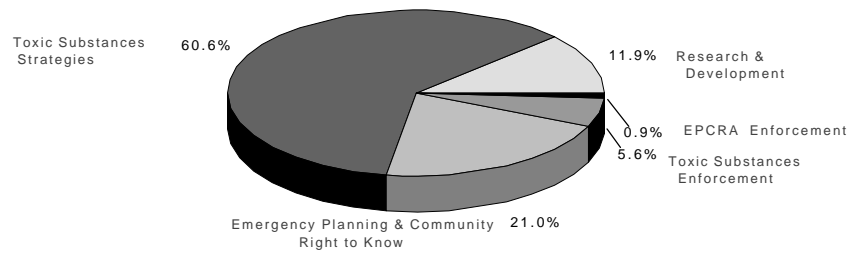
recyclers, petroleum bulk terminals, chemical wholesalers. EPA plans to finalize this addition as soon as possible. EPA has also published an Advance Notice of Proposed Rulemaking on the possible expansion of the type of data collected in the TRI. EPA is investigating whether to collect materials accounting data, worker exposure data and data on toxic chemicals in products.

EPA has undertaken a number of burden reducing activities. EPA has developed a short form for facilities that have generated small quantities in waste and manufacture, process, or use less than a million pounds. EPA has deleted or modified several high volume/low toxicity chemicals, such as non-aerosol forms of sulfuric acid. EPA is also reviewing the initial list of chemicals to remove those chemicals that do not meet the EPCRA Section 313 toxicity criteria.

In 1996, EPA concentrated on data management, data quality, public data access, and expansion of the use of TRI data by state and local governments, other EPA offices, industry and the public. OPPT publishes the annual national report on TRI data. OPPT develops tools to simplify public access to and usefulness of chemical information, and will put in place the latest technology to ease the reporting burden on industry in submitting TRI reports.

TOXIC SUBSTANCES Obligations - FY 1996

Total Obligations - \$99.6 Million



HAZARDOUS WASTE

The Hazardous Waste Program was established to address the prevention, management and disposal of hazardous and municipal solid wastes generated nationwide. Hazardous wastes are produced by large businesses and industries, such as chemical and manufacturing plants, and small businesses. Over 210 million tons, approximately 4.4 pounds per person per day, of municipal solid wastes are produced annually. These wastes can pose short and long term health and environmental hazards unless they are properly managed and disposed. The Resource Conservation and Recovery Act (RCRA) of 1976, as revised by the Hazardous and Solid Waste Amendments (HSWA) of 1984, provides the legislative mandate for a nationwide program to protect human health and the environment from the risks of improper management of hazardous and solid wastes. The goals of the Act are to: ensure protective management of hazardous waste from generation to disposal as well as minimize the generation of hazardous waste; ensure adequate and safe management and disposal capacity for solid wastes; and prevent and detect leakage from underground storage tanks (USTs).

The Emergency Planning and Community Right-to-Know Act (EPCRA), Title III of the Superfund Amendments and Reauthorization Act of 1986, helps state and local officials address risk posed by hazardous chemicals present in their communities. This program gives state and local governments tools they need to develop response plans to protect and inform the public in the event of a chemical release emergency. The Clean Air Act (CAA) accidental release provisions, require facility owner/operators to prepare risk management

plans to prevent, detect, and respond to chemical accidents.

The goal of the UST program is to prevent, detect, and address leaks from underground storage tanks containing petroleum and hazardous substances. The program encompasses both leak prevention as well as remedial activities. The UST program objectives are to stimulate development and implementation of comprehensive state, local and tribal regulatory programs with prevention requirements (i.e., installation, upgrade, leak detection, and technical operating standards) that are at least as stringent as Federal regulations; to improve implementation and enforcement performance; and to provide ongoing technical information, assistance, and training. These objectives directly support the Agency's guiding principle of partnerships through building strong state, local and tribal UST programs. Environmental damage is minimized by the development of effective state leak detection and corrective action programs.

The Agency continues to refine program strategies to direct both private and public resources towards the greatest environmental risk. In the RCRA program, an expanded strategic planning process is being employed to set goals for improving the program. Strategic planning facilitates setting priorities according to relative risk across the RCRA program, including corrective action stabilization and permit writing work. Additionally, the RCRA program will continue ongoing efforts to develop risk based management

standards for hazardous waste. Enhanced and expanded risk assessments will be incorporated into the RCRA permitting process.

FY 1996 Highlights and Accomplishments

RCRA

In FY 1996, EPA began the Jobs Through Recycling (JTR) a national effort to build markets for reusables and recyclables in state, local and regional economic development activities. Through national competition the RCRA program awarded 10 JTR grants and issued 22 cooperative agreements with states and tribes totaling \$1.9 million.

The RCRA program established a partnership with the Association of State Territorial Solid Waste Management Officials (ASTSWMO) to develop a voluntary guidance document pertaining to the management of industrial non-hazardous wastes. The guidance document will complement existing state programs and recommend management practices tailored to risk and strategies for waste minimization. The program also formed an external Focus Group of stake-holders from state solid waste managers, EPA, industry, waste management companies and environmental groups to advise the EPA/ASTSWMO partnership. This initiative provides an opportunity to enlist industry support for voluntarily upgrading management practices and to enhance state industrial waste programs.

Much of the environmental progress achieved in the management of hazardous waste can be measured through the Agency's efforts to develop useful guidance and rational

regulations. The RCRA program has been an Agency leader in regulatory reinvention to provide flexibility to our state partners and continuous improvement in program implementation.

Reduction in paperwork burden associated with waste management was proposed for the Land Disposal Restrictions (LDR) program through a number of changes, including allowing generators of wastes and treatment, storage, and disposal facilities shipping waste for further management to submit a one-time notification, rather than a notification with each shipment. The changes to the LDR program amounted to more than 1.5 million hours of paperwork burden reduction. Paperwork burden hours were also reduced through the Capacity Assurance Process. The Information Collection Request (ICR) for this process was not renewed, reducing the paperwork burden by more than 73,000 hours. The ICR expired on March 31, 1996. These changes will maintain strong environmental protection at a significantly lower cost.

The expanded Public Participation rule was finalized in FY 1996. This rule empowers communities to become more actively involved in local hazardous waste management activities by expanding public participation aspects of RCRA Subtitle C permitting. Also, in a common sense reform to RCRA, the requirement to promulgate stringent and costly treatment requirements for wastes already regulated under the Clean Water Act or Safe Drinking Water Act was eliminated. Certain municipal landfill groundwater monitoring requirements were also reformed, easing burdens on local governments.

Three significant changes to the 1997 Biennial Report (BR) process were approved by OMB in September 1996. These will substantially decrease burden (by about 30%) on the regulated community. In addition, methodologies for in-depth analysis of the BR, identification of areas for potential burden reduction, and comparison of data elements and uses of BR with other RCRA data sources (such as manifest) were developed.

The RCRA program continues to be an Agency leader in the development of multi pathway and indirect pathway risk assessment methods. The Office of Solid Waste and Emergency Response (OSWER) will continue close coordination with the Office of Research and Development (ORD) in addressing technical issues associated with risk assessment.

UST

In FY 1996, EPA's UST program formed the Private Sector Initiative Team which began exploring ways in which UST programs could more closely work with the lending, insurance, and real estate industries in their states or communities. The Office of Underground Storage Tanks (OUSTs) anticipates that educating commercial realtors, lenders, and insurers about USTs can ultimately result in more sites that comply with requirements and will be suitable for redevelopment and reuse. The Team began exploring possible roles for the private sector, which include conducting inspections, participating in licensing and certification programs, providing insurance to owner/operators, and developing lender/realtor compliance programs.

In FY 1996, the program actively promoted the development and imple-

mentation of risk-based decision making through information sharing and technical assistance. Risk-based corrective action (RBCA) provides a framework for considering both contamination and site specific factors to determine the danger to human health and the environment from a given release. The RBCA process allows for environmental response action at all UST sites, while focusing resources on highest risk sites and allowing more sites to be closed and thus available for reuse. To date, 48 states/territories have entered the RBCA training process. The support provided to each state varies according to state officials' understanding of the risk-based concept and compatibility of their regulations with a RBCA approach. Nine states have issued risk-based corrective action guidance and are using the RBCA process.

While much of EPA's current brownfields work involves Superfund sites, old and abandoned gasoline stations and other commercial or industrial properties with "orphan" USTs may also be brownfields. Many of the estimated 100,000 to 450,000 brownfields sites in the U.S. involve USTs.

OUST is assisting in efforts to clean up and reuse commercial and industrial sites with USTs and working to prevent future UST brownfields. OUST has participated on evaluation panels for national brownfields pilot projects. In a related effort, OUST provided \$50,000 to EPA Region X to support a regional brownfields pilot to develop new methods for assessing total petroleum

hydrocarbon (TPH) levels at leaking UST sites. OUST also provided \$50,000 to EPA's Region V to support a brownfields project in St. Louis, Illinois.

Title III

Under Section 112(r) of the Clean Air Act, certain facilities are required to prepare and submit risk management plans (RMPs) which contain very specific information on risks of chemical accidents in communities by June 1999. OSWER's Chemical Emergency Preparedness and Prevention Office (CEPPO) convened an Electronic Submission Workgroup to examine the technical and practical issues associated with creating a national repository of electronic RMPs. The workgroup will recommend the best way for the regulated community to report their RMPs, and the best way for the EPA, state and local governments, and the public to have access to this information. This workgroup includes local government, the media, industry, environmentalists, and others. In FY 1996, CEPPO also made significant progress using the Internet to ensure that the States, local emergency planning committees and other local level entities including individual citizens are empowered with emergency planning and community right-to-know and accident risk related information 24 hours a day.

The National Response Team, which the CEPPO Director chairs, developed Integrated Contingency Plan Guidance published in the Federal Register on June 5, 1996. This guidance (also known as "one plan" guidance) provides a way to consolidate multiple plans that a facility may have prepared to comply with various regulations, into one functional

emergency response plan. This one-plan approach will minimize duplication of effort and unnecessary paperwork burdens. This project was awarded the Hammer Award given by Vice President Al Gore's National Performance Review to teams who have made significant contributions in support of reinventing government principles. This is an example of how local involvement can enhance local efficiency and safety.

Research Program

Program Description

ORD conducts research on hazardous wastes, bioremediation, pollution prevention, ecorisk assessment methods/ecosystems protection, groundwater, surface cleanup, health effects, and international and national technology transfer pursuant to RCRA as amended by HSWA. The goal of this research program is to help OSWER ensure adequate and safe treatment of hazardous wastes from generation through disposal, to ensure safe management and disposal capacity for solid wastes, and to prevent and detect leakage from underground storage tanks.

The Hazardous Waste Research Program provides a core of scientific and technical support necessary to implement requirements of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, and the enforcement actions undertaken to obtain cleanup and to recover costs. The largest portion of this program addresses technical assessment for remedy selection, site assessment, and technology field evaluation, each of which is integral to direct site cleanup. The goal is to provide the strong scientific and technical

foundation for OSWER to investigate and mitigate health and environmental problems at the priority sites.

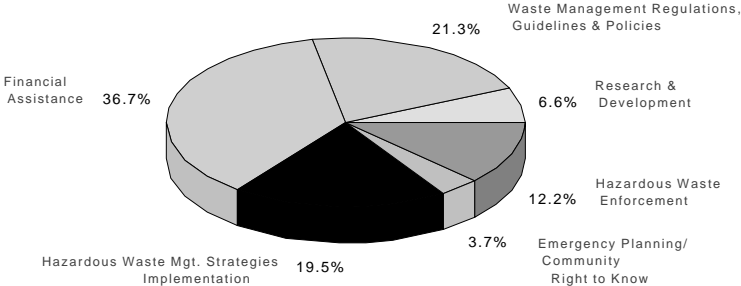
FY 1996 Highlights and Accomplishments

Highlights and accomplishments within the Hazardous Waste Research program for FY 1996 included the following:

- C Produced reports on some full-scale field demonstrations of innovative remediation technologies under the Superfund Innovative Technology Evaluation program, providing effectiveness and applicability information which will aid EPA Remedial Project Managers (RPMs), private site managers and others in finding the most cost-effective technologies for site remediation.
- C Developed computer software for the interpretation of non-invasive ground penetrating radar surveys to delineate subsurface Non-Aqueous Phase Liquids (NAPLs) in fracture formations. Initiated bench-scale research on the feasibility of the use of passive barriers for remediation of groundwater contaminated by arsenic and lead, two significant metal contaminants.
- C Developed reports and articles on air analytical methods for rapid detection of emissions from Superfund sites.
- C Provided results from studies to automate a VOC CEM device to measure 20 organic VOCs real time.
- C Produced book summarizing the state-of-knowledge of groundwater flow and contaminant transport in fractured crystalline rock.
- C Initiated studies of the use of high temperature sorbents to control the emission of Hg and other volatile metals. Also, Hg speciation as functions of fuel/waste composition and combustion environment.
- C Provided characterization of the residuals produced from treating PAH contaminated soils from the Riley Tar site.

HAZARDOUS WASTE Obligations - FY 1996

Total Obligations - \$275.8 Million



SUPERFUND

EPA administers the Superfund Program under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) as amended by the Superfund Amendments and Reauthorization Act, 1986 (SARA) and the Omnibus Budget Reconciliation Act of 1990. The Office of Solid Waste and Emergency Response (OSWER) and the Office of Enforcement and Compliance Assurance (OECA) provide primary management of the program. In this section, Headquarters Superfund references will include OSWER and OECA unless otherwise noted.

Program Description

Superfund Program was enacted on December 11, 1980 to address public health and environmental threats from spills of hazardous materials and from sites contaminated with hazardous substances. It established a comprehensive program to identify and clean up these spills and sites. The cleanup program consists of a pipeline of activity. This pipeline includes site assessment, removal, remedial and enforcement activities.

The law also created the “Hazardous Substance Response Trust Fund” known now as the Hazardous Substance Superfund or Superfund. CERCLA is predicated on a “polluter pays” principle. As such EPA works first to compel potentially responsible parties to respond and conduct site cleanups. When this is not possible because an

agreement cannot be reached or because of an emergency, Fund dollars can be used to address and cleanup hazardous waste sites.

Cleaning up a Superfund site is often a multi-stage and multi-year process. In fact, the average site takes seven to ten years from discovery to start of cleanup. Superfund site cleanup phases include site assessment, removal, remedial and enforcement activities.

Prior to placing a site on the National Priorities List (NPL), EPA conducts a preliminary assessment of the site. This is the beginning of the site assessment phase of site cleanup. Where warranted, this is followed by a site investigation. The conclusion of this phase of site cleanup could be a removal action to stabilize the site and/or listing the site on the NPL.

Removal actions are a critical phase of addressing and cleaning up sites. They are conducted at NPL and at non-NPL sites. Since 1980, more than 3,100 short-term removal actions at 2,780 non-NPL sites have been started (225 actions at 197 non-NPL sites in FY 1996 alone, excluding Federal facilities). These short-term responses address an immediate threat posed by the uncontrolled release of a hazardous substance, such as from a newly discovered dump, transportation accident, or a fire.

Early actions also are a part of the overall removal action phase of site cleanup. Early actions are similar to removals but are usually non-time critical and can be performed under

removal or remedial program authority. An example of an early action is implementing interim controls to contain/stabilize a plume of contamination in groundwater.

The next phase of site cleanup is remedial actions. Sites that require a long-term, permanent cleanup remedy become part of the remedial action pipeline and enter the remedial phase of cleanup. These sites represent circumstances where the risk to human health and the environment also warrants placing the site on the NPL.

Once a site is listed on the NPL, EPA works with responsible parties, the community, and other stakeholders around the site to plan the long-term cleanup with a detailed study of the site and an evaluation of cleanup options. The planning process can take up to four years with an average cost of \$1.4 million per site.

The actual cleanup (construction) work itself averages \$18 million per site. Because of the high cost of construction and limited Superfund resources, EPA's Superfund Enforcement Program emphasizes compelling potentially responsible parties (PRPs) to conduct a majority of the cleanup actions and to reimburse the Federal government for cleanup actions financed by the Trust Fund. PRPs currently fund more than 70 percent of new remedial work at NPL sites.

While Superfund responsibilities cannot be delegated, at some sites the state or local government or Indian tribe takes the lead in managing the site cleanup. At other sites, the State or local agency cooperates with EPA on handling a site cleanup.

Financial Perspective

In 1980, the Congress established, in the Department of the Treasury, the "Hazardous Substance Response Trust Fund," known as the Hazardous Substance Superfund. Congress also authorized program funding for five years totaling \$1.6 billion. As the long-term nature and expense of site cleanup became more evident, Congress reauthorized the program in 1986 extending the authorizing program funding level for an additional five years totaling \$8.5 billion. In 1990, Congress extended the authorizing program funding level through calendar year 1995 with the Omnibus Budget Reconciliation Act, adding an additional \$5.1 billion.

The Trust Fund is supported primarily by taxes on crude and petroleum, on the sale or use of certain chemicals, and an environmental tax on corporations. Other sources of funding for Superfund include cleanup costs recovered from responsible parties, interest, fines and penalties paid by individuals and entities who violate the terms of the CERCLA provisions, and by general revenues.

The Trust Fund is the primary source of funding for EPA's Superfund account. Through annual and supplemental appropriations, Congress establishes the amount from the Fund that EPA may use. EPA then with-draws those monies from the Trust Fund, as needed, to cover disbursements. At the end of FY 1996, the Trust Fund reflected an unappropriated balance of \$3.1 billion. Congress could make these funds available to

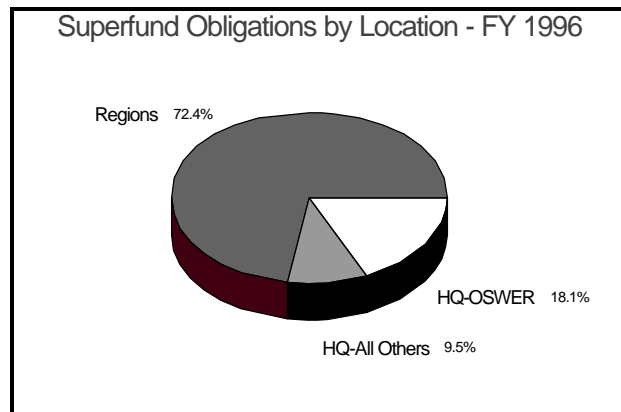
EPA in future appropriations. In FY 1996, Congress appropriated \$1.3 billion for the Superfund Program.

Parties responsible for contaminating Superfund NPL sites are increasingly conducting and paying for the cleanup at their sites, reserving the Trust Fund monies for those sites where parties are unable to contribute. PRPs' commitments to site cleanup have averaged over \$1 billion per year for three of the past five years.

Superfund response program expenditures through FY 1996 total \$13.1 billion. In EPA's FY 1994 Superfund Annual Report to Congress, the Office of Solid Waste and Emergency Response estimated the remaining costs of cleaning up the 1,291 sites (1,131 non-Federal facilities and 160 Federal facilities) currently on the NPL to be \$15.9 billion for FY 1996 and beyond. This estimate does not include the responsible party contribution.

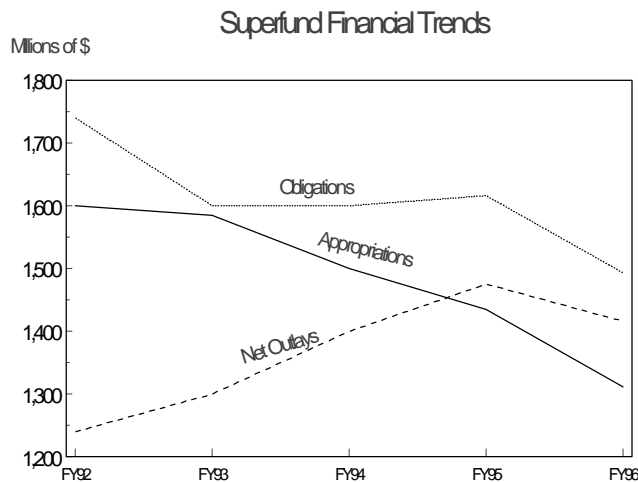
Superfund Obligations by Location. Obligations are displayed by "Regions", "Headquarters (HQ) - Office of Solid Waste and Emergency Response (OSWER)", and "HQ - All Others". Much of the operational responsibility for direct Superfund activities resides in the EPA Regions.

EPA Headquarters is further broken down between HQ OSWER (includes components of the OECA formerly located in OSWER) and all other remaining non-OSWER offices.



Program Results

In FY 1996, EPA announced and implemented a third round of Administrative Reforms in a continuing effort to protect human health and the environment. The Program also maintained progress toward completing site cleanup. Taken together these two efforts during FY 1996 contributed to a faster, fairer and more efficient site cleanup program. In addition, the Superfund Response program was a GPRA pilot. This effort is designed to improve the tie between funding distribution and strategic planning efforts.



There are many noteworthy Administrative Reform achievements in FY 1996 which include:

- C establishing a National Remedy Review Board - reviewed and proposed 12 decisions at 11 sites;
- C identifying over 30 potential sites for remedy decision updates based on improved technology;
- C issuing a memorandum and fact sheet on the role of cost in the remedy selection process;
- C issuing national consistency memorandum for remedy selection;
- C deleting clean parcels from the NPL - issued 4 notices for the intent to delete clean parcels from the NPL;
- C promoting risk-based prioritization for NPL sites - established national panel to rank sites based on risk;
- C reducing oversight of cooperative PRP's - reduced or reached agreement to reduce PRP oversight at 100 sites;
- C establishing Regional Superfund Ombudsman - each region appointed a regional Ombudsman;
- C issuing memorandum on changes in procedures for equitable issuance of unilateral administrative orders (UAO); and
- C adopting private party allocations.

As part of measuring the impact of site cleanup efforts, EPA established Environmental Indicators for the Superfund program. There are 3 indicators, A, B, and C. Indicator A, Addressing Immediate Threats, measures how the immediate response actions taken by cleanup workers at hazardous waste sites protect people's health through access restrictions, alternate water supplies, and relocation. Indicator B, Achieving Permanent Cleanup Goals, measures the progress Superfund cleanup actions make toward achieving permanent cleanup goals set for contaminated land, surface water, or groundwater. Indicator C, Bringing Technology to Bear, tracks the different types of cleanup technologies available and/or being used at Superfund sites, as well as how much soil, groundwater, surface water, sediment, liquid waste, and solid waste have been cleaned up.

These Environmental Indicators continue to show progress in hazardous waste cleanup. Data gathered through March 1996 shows that Superfund continues to fulfill its environmental mission and is gradually reducing the risks to human and ecological health posed by dangerous chemicals in the air, soil and water.

Through 1991, cleanup systems had been constructed and completed at a total of 61 Superfund NPL sites. Now, over five years later, more than six times that number, 400 non-Federal facility sites, have been completed by the end of FY 1996. There were 62 non-Federal facility construction completions in FY 1996. In addition, assessment and cleanup is now underway at 95 percent of the sites on the NPL.

Since the beginning of the program in 1980 through March, 1996, Superfund has performed 990 emergency cleanups at NPL sites greatly reducing risks to site workers and the surrounding communities. Superfund workers also supplied 23,834 people with temporary safe drinking water supplies eliminating exposure to contaminated surface water and groundwater sources.

As for achieving long-term cleanup goals at Superfund sites since 1980:

- C Cleanup goals were fully achieved for all media at an additional 185 sites (sites restored to safe levels for communities living on or near previously contaminated areas)
- C Cleanup goals were fully achieved for at least one medium at 158 sites (cleaning one medium means that other media are less likely to become more contaminated)
- C Cleaning up of a contaminated medium started at 224 sites

In terms of cleaning individual media at NPL sites since 1980, Superfund workers fully cleaned up 307 areas of contaminated land, 39 areas of contaminated groundwater, and 41 areas of contaminated surface water. Additionally, cleaning up began at 162 areas of land contamination, 265 areas of groundwater contamination, and 40 areas of surface water contamination.

The direct beneficiaries of Superfund are those people living in the vicinity of the clean-up sites. Indirect beneficiaries include those living further from the sites who might suffer degradation of their groundwater, drinking

water, or air if these programs did not alleviate the risk of contamination before it became more widespread. Early action to contain impacted areas also lessens the potential liability of parties responsible for the contamination.

The purpose of this section of the financial statements is to relate program performance to Trust Fund expenditures. Since the funds used to cleanup Federal facility sites do not come from the Trust Fund, accomplishments attributable to EPA's Federal facilities program have been excluded from this report.

EPA's performance measures for the Superfund program for FY 1996 fall into two categories: site cleanup (Measures 1-5) and enforcement/cost recovery (Measures 6-10).

Cleanup: For site cleanup we measure not only the completion stage but also the critical steps in the cleanup process. Because the cleanup process can take a number of years, it is important to look at the "pipeline" of activities to get an accurate sense of progress. Please note that in measures 1-5, the cumulative totals reflect current information and methodology refinements and may not reconcile with previous annual reports. Part of this difference in comparing cumulative totals is attributable to the conversion of a site from Fund-lead to State-lead and the point in time when that conversion is captured in the State and Agency systems.

Measure 1: Number of sites on the NPL where the first cleanup or investigation has started compared to the total number of sites on the NPL.

Activities captured under this measure are short-term removal actions and the remedial investigation/feasibility study which assesses the nature and extent of contamination at the site and analyzes cleanup alternatives so that a remedy can be selected.

Results: In FY 1996, the first cleanup or investigation was started at 9 sites. Cumulative performance to date is 1,157 cleanups or investigations begun compared to 1,223 non-Federal NPL sites.

The number of cleanups started to decline in FY 1991 through 1996, relative to earlier years, as the Superfund program's emphasis shifted to the later stages of the cleanup effort needed to complete work at a site. Also, cleanup has now begun at nearly all sites on the NPL. The remaining sites have been evaluated for immediate threat, even though cleanup action has not yet begun.

Measure 2: The number of non-NPL sites with hazardous releases where EPA has begun a cleanup action.

Sites with confirmed hazardous releases, which do not score high enough to be included on the NPL or where an emergency exists, are eligible for a short-term Superfund removal action if they meet certain regulatory criteria. This measure counts the number of sites where a removal action has started.

Results: In FY 1996, cleanup actions were begun at 155 non-NPL sites, bringing the total number of sites addressed through such actions since program inception to 2,838 non-NPL sites.

Measure 3: The number of sites on the NPL where a decision has been made about how to proceed with the cleanup of at least a significant portion of the site compared to the total number of sites on the NPL.

Activities counted under this measure include the documentation of how to proceed with the remedial action - the signing of a Record of Decision (ROD) - or the documentation of the selection and authorization of a removal - an Action Memorandum. The ROD identifies the remedy that has been chosen for remediating the site (or a portion of the site) and summarizes the site problems, the alternative remedies considered, and the public's involvement in the decision. The Action Memorandum substantiates the need for removal action, identifies the proposed action, and explains the rationale for the particular type of removal action selected.

Results: Cleanup decisions were made for 24 sites in FY 1996, resulting in a total to date of 1,003 sites of the 1,223 non-Federal sites on the NPL.

Measure 4: Number of sites on the NPL where remedial action has been completed for at least a significant portion of the site compared to the total number of sites on the NPL.

This measure counts those NPL sites (or portions thereof) which have progressed through the remedial action phase. At this stage the construction work to implement the remedy is complete, and EPA has conducted a final inspection to determine that the remedy is functioning properly and performing as designed.

As indicated above, a site may have more than one remedial action.

Results: In FY 1996, 43 sites (or significant portions thereof) progressed through the Remedial Action cleanup phase. This brings the total number of such sites to 434 of the 1,223 non-Federal sites on the NPL (excluding Federal facilities).

Measure 5: The number of sites on the NPL where cleanup construction is completed compared to the total number of sites on the NPL.

This measure counts the sites for which EPA has declared cleanup construction complete. Sites qualify for construction completion when:

- C any necessary physical construction is complete whether or not final cleanup levels or other requirements have been achieved;
- C EPA determines that the response action does not involve construction; or
- C the site qualifies for deletion from the NPL.

Additional clarification on the definition of site cleanup is described in the Federal Register, March 2, 1993.

Results: During FY 1996, cleanup was completed at 62 non-Federal facility sites. The continuing cumulative increases in completions reflect management's increasing focus on completions, the maturing of sites already in the pipeline, and the streamlining of documentation requirements. Cumulative

results for the program to date are 400 sites with cleanup construction completed of the 1,223 non-Federal sites on the NPL (excluding Federal facilities).

Enforcement Program

Program Description

In FY 1996, EPA's Enforcement Program continued seeking settlement with those parties potentially responsible for contaminating Superfund sites and pursuing recovery of expended Trust Fund monies.

Measure 6: The number of enforcement actions taken at NPL sites to have potentially responsible parties (PRPs) conduct or participate in response activities compared to the total number of sites on the NPL. The percentage and estimated value of PRP commitments to response activities at non-Federal Facility sites on the NPL.

This measure counts the number of legal actions taken to involve PRPs in site study and cleanup at NPL sites (including proposed sites). This measure includes all administrative and judicial settlements, judicial actions, and administrative orders for removals, site studies, and remedial design and remedial actions (RD/RA). It includes those instances where parties have voluntarily entered into a settlement, as well as those instances where unilateral enforcement order authority was used to compel PRPs to conduct work and the PRPs have agreed to comply with the order.

Results: During FY 1996, 95 enforcement actions for site study and cleanup were taken at 80 sites on the NPL. 58 of these actions were settlements for RD/RA (39 consent decrees referred to the Department of Justice (DOJ) and 19 unilateral administrative orders in compliance).

Since the inception of the Superfund program, PRPs have committed to conduct site response at 837 sites (68 percent) of the 1,223 non-Federal Facility sites on the NPL, with an estimated cumulative value of over \$10.4 billion. In FY 1996, PRPs committed to conduct response work at 80 (over 6 percent) of the 1,223 NPL sites, with an estimated value of approximately \$810 million.

Measure 7: The total value of cost recovery settlements and judicial actions achieved, and past costs considered recoverable.

This measure provides the amount of cost recovery that has been achieved to date. A number of factors limit EPA's ability to recover its past costs. The first limitation is that EPA can only recover money that has been spent. A significant portion of EPA's budget is obligations for future years. These funds will be eligible for cost recovery after they are actually expended. EPA's ability to recover money that has been spent is also limited. A number of factors, including bankruptcy of PRPs, other litigation concerns, the inability to identify financially viable PRPs, and the exclusion of certain indirect costs make 100% cost recovery not realistic.

Results: Through FY 1996, EPA has achieved settlement for approximately \$2.1 billion with over \$451.6 million of this amount achieved in FY 96 and is seeking

approximately an additional \$1.6 billion in ongoing cost recovery actions. Through FY 1996, of the \$13.1 billion in total past costs, \$7.5¹ billion are considered potentially addressable.

EPA has been very effective in addressing past costs for Statute of Limitation (SOL) cases at sites where the past costs exceeded \$200,000. The SOL requires EPA to address cases by certain dates. EPA addresses these cases by negotiating a settlement, referring the case to DOJ for trial, or writing the case off when no financially viable PRP can be found. In FY 1996, the number of cost recovery cases addressed was 181 with a total value of \$653.5 million. EPA addressed all but 3 of the FY 1996 SOL cases (where past costs exceeded \$200,000) prior to the expiration of the SOL. EPA intended to write off the costs associated with these cases because no financially viable PRPs were located. The documents, however, were not finalized prior to the expiration of the SOL.

Measure 8: The amount of money EPA has collected from PRPs compared to the total amount achieved in cost recovery settlements and judicial actions.

This compares the total value of cost recoveries, penalties, and damages collected

¹Under current Agency policy, \$7.5 billion of Superfund past costs are addressable (eligible to be included in cost recovery actions), of which \$5.5 billion (73%) has already been addressed and \$2 billion is yet to be addressed. The Agency has also incurred a significant amount of indirect costs which are not addressable under current policy. Current estimates are that future policy actions may make \$1.2 billion of these indirect costs addressable. A significant portion of the costs yet to be addressed, and any indirect costs which become addressable, will be unrecoverable due to write-offs, bankruptcies, orphan share compensation, ability-to-pay, and other issues which arise during cost recovery activity.

to-date to the total amount of cost recoveries achieved through settlements and judicial actions.

There is frequently a delay between the date the settlement is reached (the day cost recovery is considered to be achieved) and the date the funds are collected. Delays are not uncommon because of the time required to file the necessary documents with the courts, and because in some cases settlement payments are received in installments. As a result, settlements may be reached in one fiscal year, and the settlement payment collected in a later fiscal year.

Results: In FY 1996, the Agency collected over \$252 million in cost recovery and reached settlements for the recovery of over \$451.6 million. Since the inception of the program, the Agency has collected over \$1,440 million in cost recoveries. This represents approximately 68 percent of the total value of cost recovery settlements (approximately \$2.1 billion) reached by the program to-date.

Measure 9: The estimated amount of money PRPs have committed legally to site cleanup compared to the total amount of funds obligated by the Superfund enforcement program.

This measure compares the estimated dollar value of cleanups PRPs have agreed to perform at NPL and non-NPL sites to the enforcement obligations EPA has incurred achieving settlements. The estimate of the value of PRP work to be performed is derived from sources such as the Record of Decision, the Remedial Design, enforcement settlement document (i.e., Administrative Order on

Consent (AOC), Unilateral Administrative Order (UAO)), or other relevant source (i.e., Action Memorandum, Engineering and Evaluation Cost Analysis). The estimate of PRP work to be performed is then compared to the amount of funds obligated from the trust fund for enforcement activities. This provides an order-of-magnitude contrast between EPA and DOJ enforcement obligations versus the estimated value of private party settlements for site response (recognizing that the actual outlay of funds by PRPs may take place over several years). The resulting ratio is a measure of enforcement effectiveness.

Results: In FY 1996, the Agency reached settlements with PRPs valued at over \$1.3 billion (\$888.5 million in response settlements and over \$451.6 million in cost recovery settlements) for NPL and non-NPL sites. EPA's FY 1996 enforcement obligations (including DOJ obligations) were \$171 million. The resulting ratio of approximately 8 to 1 indicates that PRPs have committed approximately \$8 for every dollar obligated for Superfund enforcement. This ratio varies from year to year for a variety of reasons, such as the number and/or value of the settlements completed in a given year.

Over the life of the Superfund Program, the Agency reached settlements with an estimated value of over \$14 billion (\$11.9 billion in response settlements and \$2.1 billion in cost recovery settlements) for NPL and non-NPL sites. EPA's enforcement obligations over this period were approximately \$1.9 billion. The resulting ratio of approximately 7 to 1 indicates that PRPs have committed over \$7 for every dollar obligated for Superfund enforcement.

Measure 10: The number of *de minimis* settlements, potential value of these settlements, and the estimated number of settlors.

EPA continues to seek enforcement fairness by entering into *de minimis* settlement with PRPs who have contributed only a very small amount of waste to a site. EPA may consider parties who have contributed only a small amount of waste to a site to be *de minimis* parties if their contribution of waste is minimal compared to the other waste at the site. In recognition of their relatively small contribution of waste, and to help ensure that these *de minimis* parties do not get drawn into lengthy and expensive private party lawsuits, EPA may offer a special type of settlement to these parties known as a *de minimis* settlement. Although the amount a *de minimis* settlor may pay varies from site to site, in general, the amount paid in the settlement is a combination of a basic payment (based on cleanup costs and waste contribution by the *de minimis* party) and a premium payment.

This measure counts the total number of administrative and judicial settlements reached with PRPs that qualify as *de minimis* settlors under Section 122(g) of SARA. The measure also counts the potential value of these settlements and the estimated number of settlors.

*Results: In FY 1996, the Agency achieved 40 *de minimis* settlements valued at approximately \$50 million with over 1,800 *de minimis* settlors. Through FY 1996, the Agency achieved over 240 *de minimis* settlements with over 14,000 settlors.*

Summary and Next Steps

While continuing with previous Administrative Reforms, in FY 1996, Superfund Enforcement continued to substantially expand and improve the program; through another round of Administrative Reforms, the Superfund program is now “Faster, Fairer, and More Efficient.”

Recognizing the Orphan Share

Traditionally, the costs of the cleanup obligations of companies responsible for past pollution who are insolvent or defunct would be allocated entirely to the remaining viable parties at a site under Superfund’s principles of joint and several liability (rather than to the Superfund or the taxpayer). Over the past year, however, EPA has agreed to share this burden by offering to forgive a portion of its past costs and projected future oversight costs at sites in recognition of fairness to viable parties. On June 3, 1996, EPA issued its “Interim Guidance on Orphan Share Compensation for Settlers of Remedial Design/Remedial Action and Non-Time-Critical Removals.” This fiscal year alone, the Agency offered over \$57.5 million to potential settling parties at 24 sites across the United States.

Additionally, the “orphan share” reform has reduced litigation and transaction costs by addressing arguments over who should bear the burden of the “orphan shares.” If the parties settle, these dollars would be written

off and thus future cost recovery amounts would be reduced as this reform progresses.

Ensuring Interest is Preserved for Individual Sites

The Superfund statute provides EPA with authority to retain and use funds received in settlement at the site for future work. Prior to the reform, interest earned on settlement funds was not credited to special accounts (accounts which are site-specific within the Superfund Trust Fund). As a result of this reform, \$35 million (interest is through August 31, 1996) is now available for site-specific cleanup. This is in addition to the \$226 million in principle in these accounts.

Reducing Costs for PRPs Through Reduced Oversight

PRPs incur costs at sites in part because of EPA's need to oversee the quality of the work they are doing. Oversight is the process EPA uses to ensure that all studies and work performed by PRPs comply with the statute, its regulations, guidance and policies and the signed settlement agreement and are technically sound. As the Superfund program has matured, parties performing work at sites have developed a considerable body of experience in conducting response activities at sites, such that EPA could reduce oversight of such parties while continuing to exercise sufficient oversight to ensure that the work is performed properly and in a timely manner. On July 31, 1996, EPA issued a Directive (#9200.4-15) entitled "Reducing Federal Oversight at Superfund sites with Cooperative and Capable Parties" implementing this new reform. Already EPA Regions have identified approximately 100 sites where reductions in

oversight of ongoing work for cooperative and capable PRPs have occurred or will occur, significantly reducing costs at some of these sites.

Early Settlements with Small Volume Waste Contributors

EPA has reformed the way it administers the liability system in order to release small volume contributors of waste (*de minimis* parties) from Superfund litigation. The government has completed settlements with more than 1800 small volume contributors in 1996 and over than 14,000 *de minimis* parties to date. These settlements protect the settling parties from burdensome private contribution suits and free up resources for use in cleaning up sites.

EPA has also stepped in to prevent the big polluters from dragging untold numbers of the smallest "de micromis" contributors of waste into contribution litigation by publicly offering settlements to any such party that would preclude lawsuits by other PRPs. On June 3, 1996, EPA issued the "Revised Guidance on CERCLA Settlements with *De Micromis* Waste Contributors" which doubled previous eligibility cut-offs and stated that EPA would settle with these parties for \$0. The revised guidance and seven attachments are designed to streamline and simplify the process by creating routine settlement practices.

Equitable Issuance of Unilateral Administrative Orders

There has been criticism that EPA has issued cleanup orders under Section 106 (Unilateral Administrative Orders or UAOs) to only a subset of the parties that have been

identified at a particular site. On August 2, 1996, EPA issued a memorandum entitled "Documentation of Reason(s) for Not Issuing CERCLA 106 UAOs to all Identified PRPs", reaffirming EPA commitment to issue such UAOs to the largest manageable number of PRPs after considering the adequacy of evidence of a party's liability, the party's financial viability, and the party's contribution to the site. The Regions are also required to document the reasons why UAOs weren't issued to other PRPs.

Removing Liability Barriers

EPA is promoting redevelopment of contaminated properties by protecting prospective purchasers, lenders and property owners from Superfund liability. EPA's "Guidance on Agreements with Prospective Purchasers of Contaminated Property" is stimulating the development of sites where parties otherwise may have been reluctant to take action by clarifying, through agreements known as "prospective purchaser agreements," that bona fide prospective purchasers will not be responsible for cleaning up sites where they did not contribute to or worsen contamination. Of the 45 agreements to date, over 50 percent (23) have been reached since the May 1995 guidance. In FY 1996, EPA also issued several fact sheets as a follow-up to its 1995 guidance summarizing its intentions toward certain parties as a result of their association with and activities at a site: (1) "The Effect of Superfund on Involuntary Acquisitions of Contaminated Property by Government Entities" fact sheet; (2) "Policy Toward Owners of Property Containing Contaminated Aquifers" fact sheet; and (3)

"The Effect of Superfund on Lenders that Hold Security Interests in Contaminated Property" fact sheet. [NOTE: Legislation passed as part of the Omnibus Appropriations Bill for FY 1997 (the Asset Conservation, Lender Liability and Deposit Insurance Protection Act; H.R. 4278, Sections 2501 to 2505) contains statutory provisions which are based on EPA's lender liability policy and address the CERCLA liability of lenders, fiduciaries, and government entities who acquire property involuntarily.]

An Ombudsman in Every Region

This initiative was undertaken by a joint Headquarters-Regional Workgroup. The goal of the initiative was to place an Ombudsman in each Region to serve as a point of contact for the public and help resolve stake-holder concerns. On June 4, 1996, EPA Administrator Carol Browner announced that all ten Regions had nominated an Ombudsman by the prescribed date of March 31, 1996.

The Use of ADR

EPA continues to use ADR mechanisms in enforcement actions and to implement the Administrative Dispute Resolution Act and the Executive Order on Civil Justice Reform. Significant strides were made in every aspect of the ADR Program including case use of ADR, case support systems, training, provision of ADR services, and outreach to the regulated community.

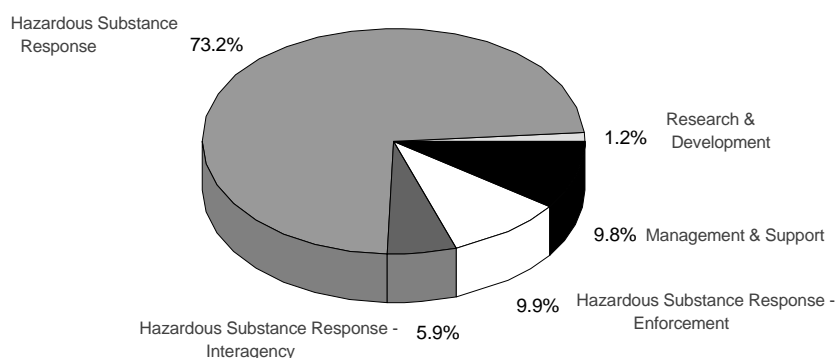
The use of ADR mechanisms to assist resolution of enforcement negotiations was initiated by regional offices in over 20 civil actions. In addition, regional offices

supported PRP allocation efforts by encouraging and/or providing ADR services at over 25 sites. Regional support for the use of ADR grew substantially, with all regional offices using or supporting PRP use of ADR assisting settlement efforts. Awareness of

ADR as a tool for increasing the efficiency of future disputes also increased, with mediation included in the dispute resolution provisions of several judicial and administrative settlement documents.

SUPERFUND Obligations - FY 1996

Total Obligations - \$1.5 Billion



OIL SPILLS

EPA's Oil Pollution Prevention Program is administered by the Office of Solid Waste and Emergency Response (OSWER) and uses the Oil Spill Trust Fund to finance the cost of cleaning up spills. OSWER's Office of Emergency and Remedial Response (OERR) provides assistance to Regional On-Scene Coordinators during oil spill incidents and for implementation of the oil pollution prevention program. Support for enforcement activities is provided by EPA's Office of Enforcement and Compliance Assurance (OECA).

Program Description

The goal of the Oil Pollution Prevention Program, which is authorized by the Clean Water Act (CWA) and has been in effect for over 20 years, is to protect public health, welfare and the environment from hazards associated with a discharge, or a threat of a discharge, of oil or hazardous substances into navigable waters through pollution prevention, response, preparedness and effective response actions. The program was strengthened by the Oil Pollution Act of 1990 (OPA) which was passed in response to increasing frequency and severity of accidental oil discharges into the environment, such as the Exxon-Valdez spill.

Under the CWA and OPA, EPA is responsible for oil spill prevention, preparedness, response, and enforcement activities associated with non-transportation-related facilities. These facilities, which range from hospitals and apartment complexes to large tank farms, include any storage facility with aboveground storage capacity greater than 1,320 gallons, a single aboveground storage

storage tank larger than 660 gallons, or underground storage greater than 40,000 gallons.

The OPA requires area committees (comprised of state, local and Federal officials) to develop Area Contingency Plans which: detail the responsibilities of those involved in planning the response process; describe unique geographical features of the area covered; and identify available response equipment. Certain high-risk facilities must prepare facility response plans (FRPs) which EPA must review and approve to: ensure consistency with the National Contingency Plan (NCP); identify and ensure the availability of resources to respond to a worst case discharge; establish communications; identify an individual with authority to implement removal actions; and describe training and testing drills at the facility.

As described in the FY 1995 report, current program prevention efforts focus on periodic re-reviews of FRP facilities and continued implementation of Spill Prevention Control and Countermeasures (SPCC) regulations. In FY 1996, EPA reviewed about 600 FRPs, and conducted about 2,300 SPCC inspections.

EPA has established the regulatory framework under which it will proceed with its OPA-mandated responsibilities. This framework includes the Oil and Hazardous Substances National Contingency Plan (40 CFR Part 300) and the Oil Pollution Prevention regulation (40 CFR Part 112). The National Contingency Plan (NCP) is the Nation's blueprint for responding to releases of oil and hazardous substances. The Oil

Pollution Prevention program establishes requirements to prevent and prepare to respond to spills at oil storage facilities subject to the regulation. Both the NCP and FRP regulations were published in the Federal Register in mid-summer, 1994.

Headquarters develops policy and program guidance to: 1) prevent harmful releases of oil and other petroleum products; 2) improve nationwide capability to respond to threats of discharge of oil or other petroleum products; 3) improve nationwide capability for containment and removal of releases that occur in navigable waters; 4) coordinate with other Federal agencies on FPR requirements and review and approval; 5) minimize the resulting environmental damage from releases; and 6) fully utilize enforcement authority to compel responsible parties to clean up spills and to provide a strong economic incentive to invest in preventive measures and comply with regulations.

In addition, Headquarters supports field operations through operational guidance, technical bulletins, and demonstrations of new technologies. Headquarters also supports the OPA-mandated facility response plan process, chiefly through the development of approval criteria for the response plans.

The Regions conduct oil storage facility inspections to ensure compliance with EPA's oil pollution prevention regulation, also known as the SPCC regulation. Each regulated facility must have an SPCC plan certified by a registered professional Engineer. EPA inspects hundreds of these facilities each year, including site visits and/or plan reviews. A major component of the Regions' work is the monitoring, directing, or performance of

removal actions during oil spills. They also conduct periodic equipment inspections and unannounced area drills. The Regions take administrative actions against facility operators for failure to comply with SPCC plans and new OPA requirements, and refer a limited number of actions for judicial action. Administrative and judicial actions also are brought as a result of oil and hazardous substance spills. Regions also assist the Federal Emergency Management Agency at major disasters and participate in response training of state and local staff.

The beneficiaries of the Oil Pollution Prevention Program are those people living in the vicinity of confirmed spills when cleanup actions are taken either by EPA or the responsible party. People living near regulated facilities benefit from the increased safety measures incorporated into the facilities' response plans.

Financial Perspective

Since the beginning of the Oil Spill Trust Fund's existence through FY 1996, Congress has appropriated a total of \$95.2 million to the Agency. In FY 1996, EPA received a budget authority of \$15 million to implement the Oil Pollution Prevention program. The Agency obligated \$16.5 million for oil spill response activities in FY 1996 and processed \$22 million in net outlays.

Program Results

Since the FY 1993 CFO Report, the oil program prevention measures report have changed depending on the most accurate reflection of activity in the program. In FY 1995, the review and approvals of FRPs

were measured; that was the most accurate reflection of activity and coincided with statutory deadlines for those approvals.

Measure 1: FRP Reviews and SPCC Inspections.

To ensure continued compliance with the statute and consistency with the FRP regulation, EPA will continue to review FRPs on a periodic basis. This typically includes review of written plans, evaluation of response resources, communication with facilities, and site visits, leading to an overall evaluation of plan adequacy and facility preparedness. To ensure compliance with the prevention portions of the SPCC regulation, EPA conducts inspections of SPCC-regulated facilities each year. This typically includes review of written SPCC Plans, interviews of facility personnel, and inspection of facilities and equipment on site.

Results: About 2,300 facilities received FRP approval in FY 1996, and a few additional facilities were identified or received approval since then. In FY 1996, EPA conducted about 600 re-reviews of facility response plans. EPA regulates about 440,000 facilities under the SPCC regulation. In FY 1996, EPA inspected about 2,300 SPCC-regulated facilities.

Measure 2: Oil Spill Cleanups and On-Scene Monitoring of Potentially responsible Party (PRP) Lead Cleanups.

This measure counts the number of oil spills cleaned up by EPA using OPA funds and the number of times EPA monitors a PRP's cleanup actions. EPA monitors a cleanup when a PRP responds to the spill to ensure adequate cleanup takes place.

Results: 69 oil spills cleanups were started in FY 1996 using OPA funds. EPA monitored 130 responsible party oil spill cleanups in FY 1996. Since program inception through FY 1996, 226 oil spills have been cleaned up using OPA funds. For that same period, EPA monitored 1,167 responsible party cleanups.

Measure 3: Administrative Actions for spill violations and prevention regulation violations and Judicial Penalty Enforcement Actions for spill violations and prevention regulation violations.

This measure counts the number of administrative and judicial enforcement actions resulting from prohibited spills and violations of the regulations of the CWA as amended by OPA. These two actions reflect a significant portion of the resources used in the Oil Program and indicate significant achievements in compliance. An administrative complaint is counted on the date it is issued to the respondent. A judicial case is counted on the date of the referral letter/cover memo to the Department of Justice (DOJ).

Results: Thirty-eight administrative cases were filed, and five judicial enforcement actions were referred to the DOJ in FY 1996.

Research Program

Program Description

For the Agency's Oil Spill Prevention and Response Program, the Office of Research and Development conducts research on new approaches to cleaning up oil spills. As a member of the International Coordinating Committee on Oil Spill Research, as mandated by OPA, the Agency has primary responsibility for research on the use of bioremediation to remediate spilled oil, the use of dispersants and other chemical agents, mechanical cleanup on fast flowing streams, and debris disposal. Bioremediation is the primary focus. The goal of this research program is to provide the Federal on-scene coordinators with the technical information they require to allow them to make decisions on the best cleanup procedure to be used on any given spill.

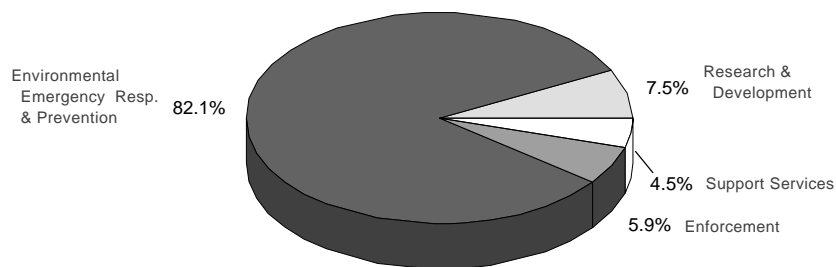
Additionally, the information produced is required by the OERR to periodically revise the NCP and its annexes.

FY 1996 Highlights and Accomplishments

During FY 1996, Oil Spill Research included: 1) laboratory method for affirming that biodegradation is occurring in the field; 2) develop standardized seawater inoculum for use in laboratory protocols; 3) evaluate interactions between hydrocarbon degraders and indigenous sediment bacteria; and 4) a report on finding of effectiveness of bioremediation on sandy shorelines contaminated with crude oil.

OIL SPILLS RESPONSE Obligations - FY 1996

Total Obligations - \$16.5 Million



LUST TRUST FUND

The Leaking Underground Storage Tank (LUST) Program was authorized by the Resource Conservation and Recovery Act. The Office of Solid Waste and Emergency Response (OSWER) is responsible for implementation of the LUST Program.

Program Description

The Resource Conservation and Recovery Act was amended in 1984 to give EPA the authority to regulate underground tanks storing petroleum products. In 1986, Congress set up a \$500 million Leaking Underground Storage Tank (LUST) Trust Fund which was financed by a 1/10 of a cent tax on the sale of motor fuels. The Trust Fund was reauthorized for five years in 1990 with no cap on funds collected. The tax expired in December 1995 and has not been reinstated. The Fund is, in large majority, used to enter into cooperative agreements with states to oversee cleanups by responsible parties or to clean up LUSTs where the owner/operator cannot or will not do so, or where no owner/operator can be found.

State Assurance Funds have been established in many states to assist owners and operators in demonstrating financial responsibility and to help pay owner and operator costs for cleanup. State Fund solvency is becoming a major LUST program issue, as claims submitted by owners and operators begin to exceed Fund revenues. The LUST Trust Fund Cooperative Agreements help pay for technical staff to perform reviews of corrective actions. This step is necessary to facilitate state fund reimbursement processes.

In 1988, it was estimated that the United

States had 5-7 million underground tanks storing petroleum products. Approximately 2.1 million of these tanks were regulated by EPA; the rest, that contain heating oil for on-site consumption and are mainly on farms and at other locations, are exempt by law. Currently there are 1.1 million active regulated underground storage tanks (USTs) and 1.1 million tanks have been closed.

USTs are found at gas and service stations, convenience stores and non-marketer locations such as bus depots and government facilities. An estimated 15-25 percent of regulated tanks may have leaked since their installation. Leaks from USTs can cause fires or explosions, and states have indicated that LUSTs are the leading source of ground water contamination in the Nation and that petroleum is the most common contaminant (National Water Quality Inventory, Report to Congress, December 1995).

Financial Perspective

Since 1986, the LUST Trust Fund, through the Treasury Department, has collected about \$1.5 billion. This Fund is the source of funding for EPA's LUST account. Through annual and supplemental appropriations, Congress establishes the amount of the Fund that EPA may use. Congress has appropriated a total of \$605.8 million to EPA through the end of FY 1996. At the end of FY 1996, the Trust Fund had a balance of \$1 billion. Congress could make these funds available to EPA in future appropriations.

The LUST Program is primarily a state-run program. Since the program's inception, approximately 85 percent of EPA's appropriated funds have been distributed to the states through cooperative agreements.

In FY 1996, EPA obligated \$46.6 million to implement the LUST program. OSWER supported the LUST program with \$43.9 million, while approximately \$3.2 million were provided to non-OSWER offices in Headquarters and the Regions. Responsible parties conducted 96 percent of the cleanups with state oversight.

The purpose of this next section of the Overview is to describe the results of the Leaking Underground Storage Tank Program Pilot under the Government Performance and Results Act (GPRA) in FY 1996.

I. FY 1996 LUST Performance Goals, Indicators and Results

Background: In FY 1994, the U.S. Environmental Protection Agency (EPA) proposed the LUST program as a performance pilot under GPRA. In FY 1996, the LUST program continued its participation in the GPRA performance pilot and submitted a performance plan in accordance with OMB Memorandum M-94-32.

The purpose of the LUST Trust Fund is to ensure protection of human health and the environment by paying for the oversight of responsible party cleanups or for the cleanup of petroleum releases from underground storage tanks when the owner or operator is unknown or cannot or will not conduct the cleanup. The LUST program is administered

by the Office of Underground Storage Tanks (OUST), within the Office of Solid Waste and Emergency Response.

Performance Goal: The performance goal for the LUST Program is to ensure that underground storage tanks (UST) releases are detected and cleaned up promptly and cost-effectively to the extent necessary to protect human health and the environment. The LUST program goal changed to accommodate the UST Program's new mission statement: "Protect human health and environmental quality by creating conditions under which good management of UST systems is common business practice. Good tank management includes prevention, detection, and timely, cost-effective cleanup of releases." This mission statement and LUST program goal are stated in the Underground Storage Tank Program Strategy dated July 24, 1996.

Performance Indicators/Measures: OUST used three performance measures to evaluate progress in meeting its performance goal. These performance measures are: confirmed releases, cleanups initiated, and cleanups completed. OUST has been tracking all three measures since 1990.

C Confirmed releases are the cumulative number of incidents where the owner/operator has identified a release from a Subtitle I regulated petroleum underground storage tank, reported the release to the state/local or other designated implementing agency, and the implementing agency has verified the release. The number of confirmed releases represents the universe of petroleum leaking underground storage tank sites that require corrective action. This

measure does not count releases from heating oil tanks or other tanks exempted from the Federal underground storage tank regulations.

- C Cleanups initiated are the cumulative number of confirmed releases at which the state or responsible party (under state supervision) has initiated management of petroleum contaminated soil, removal of free product, management or treatment of dissolved petroleum contamination or monitoring of the groundwater or soil being remediated by natural attenuation. Cleanups can be conducted by the responsible party or the state (with or without LUST Trust Fund money).
- C Cleanups completed are the cumulative number of confirmed releases where cleanup has been initiated and where the state has determined that no further cleanup actions are necessary to protect human health and the environment. Site characterization, monitoring plans, and site-specific goals must be established and maintained for sites being remediated by natural attenuation to be counted in this category. Cleanups can be conducted by the responsible party or the state (with or without LUST Trust Fund money).

Performance Targets and Results: For FY 1996, OUST projected that the rate of cleanups initiated would be 70% of the cumulative number of confirmed releases. In FY 1996, the rate of cleanups initiated was 80% of the cumulative number of confirmed releases, which exceeds the original target.

For FY 1996, OUST set a target of approximately 17,000 cleanups to be completed. In FY 1996, 21,411 cleanups were completed, which exceeds the original target.

Background on Measures and Results:

The LUST program has initiated corrective actions that are protecting hundreds of thousands of people from the effects of leaking petroleum storage tanks. As described previously, the FY 1996 performance measures count the number of sites with confirmed releases of petroleum products, the number of these where cleanup has been initiated and the number where it has been completed.

- C During FY 1996, 13,853 additional releases were confirmed from leaking USTs resulting in a cumulative total of 317,488 confirmed releases since the beginning of the program.
- C In FY 1996, the program initiated cleanup of 13,944 sites, resulting in a cumulative total of 252,615 cleanups initiated since the beginning of the program.
- C During FY 1996, 21,411 cleanups were completed. The cumulative number of cleanups completed is 152,683 out of a universe 317,488 cumulative confirmed releases.

II. Success in and Impediments to Achieving Performance Goals

The UST Program exceeded its target of 70% for the rate of cleanups initiated and its target of 17,000 cleanups completed. This

can be attributed to OUST's assistance to states in incorporating risk-based decision making into their corrective action processes despite LUST Trust Fund reductions in FY 1996.

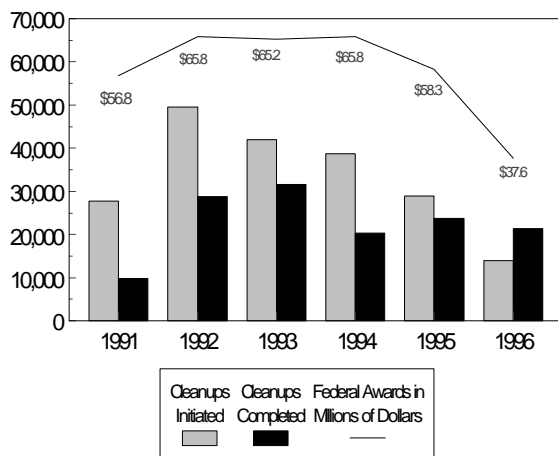
It should be noted that the rate of newly confirmed releases and cleanups initiated has been decreasing since 1993 (see chart on tank history). The core reasons for these declines are twofold. First, even though the rate of newly confirmed releases has declined in the past three years, the total number of confirmed releases still continues to out pace the number of cleanups completed. This means that states are faced with an ever increasing workload and have less time to devote to any one particular case. Second, many of the remaining cleanups are more complicated (i.e., groundwater contamination or complex hydrogeological conditions) and therefore will take longer to complete.

OUST believes that the number of cleanups completed exceeded the FY 1996 GPRA target because more States are beginning to use a risk-based approach to making corrective action decisions. The use of risk-based corrective action enables states to assess their workload and close some of their low risk sites more efficiently. The number of confirmed releases has steadily been declining since the beginning of the program and thus percentages of cleanups initiated have not declined as originally anticipated. At the onset of the program, many historical releases were being discovered as tank owners and operators conducted maintenance, began leak detection or performed work related to the regulatory requirements at their sites. Fewer new releases are occurring because newer tanks, which are less likely to leak, comply

with the new tanks standards set by the regulatory program.

However, it is expected that the number of confirmed releases will begin to increase again as owners and operators begin to upgrade, replace, or close their tanks in compliance with the 1998 deadline. This will be due to the discovery of existing contamination as work is performed on tank systems to bring them into compliance with equipment requirements associated with the 1998 deadline.

LUST Trust Fund
Cleanups Initiated and Completed by Year with Funds Awarded



III. Verification and Validation of Performance Results

The Office of Underground Storage Tanks (OUST) uses the following processes to verify and validate the performance measures data.

C In FY 1996, designated state agencies submitted semi-annual progress reports to the EPA regional offices, who review, verify and then forward the data to the OUST Headquarters office. OUST Headquarters staff examine the data and resolve any discrepancies with the regional offices. The data are displayed on a region by region basis, which allows regional staff to verify that their data are the same as Headquarters'.

C The performance results are also used in OUST's Regional Strategic Overview (RSO) Process to assess the status of state progress in implementing the program. This process is based on strategic discussions that Headquarters has with the Regions and the Regions have with the states, regarding how to continue to improve states' performance. In the mid-year and end of year state evaluations, the Regions discuss with states their efforts to update and validate their data, and to make continual improvements in their performance. OUST has asked the Regions to increase their emphasis on verifying the data that states report.

IV. FY 1997 Performance Plan Relative to FY 1996 Performance

For FY 1997, OUST anticipates approximately 20,000 more confirmed releases will occur. Until a final FY 1997 appropriation from the LUST Trust Fund is available, planned targets for the rate of cleanups initiated and completed will not be available.

Historically, as funding has decreased, so have the number of cleanups initiated and completed. The Tank History chart shows a comparison of LUST Trust Fund Cooperative Agreement funding to cleanups initiated and completed. Over time, as LUST Trust Fund support increases, cleanups initiated and completed increase. However, when funding remains static (as it has between 1992 and 1994) states are faced with an ever increasing backlog of cleanups to complete, since the cumulative number of confirmed releases continues to exceed states' ability to complete cleanups.

In FY 1996, LUST Trust Funds decreased and states completed less cleanups than in FY 1995, although more than expected. OUST attributes this in part to the implementation of risk-based corrective action which enabled states to identify and move cleanup at low risk sites to completion more efficiently. Despite the increase in cleanups completed in FY 1996, OUST continues to believe that there will be a trend of decreasing numbers of cleanups initiated and completed, as a result of a decrease in funding and because of the 1998 deadline for upgrading, replacing, or closing tanks which will increase the number of confirmed releases states must address.

V. Use of Managerial Flexibility Waiver to Achieve Performance Goal

OUST has considered the possibility of using a managerial flexibility waiver from reporting requirements (e.g. to the Treasury Department or the Office of Management and Budget) in order to achieve greater program results. However, at this time OUST does not have a need to seek this type of waiver.

VI. Summary Findings of Program Evaluations Completed During FY 1996

No formal LUST Trust Fund Program evaluations were conducted by Headquarters during FY 1996 as part of this pilot. However, OUST reevaluated its RSO process to be consistent with changes in OUST's and the Agency's vision. The RSO is the process whereby the regions outline status of program implementation in their states and propose and discuss projects with OUST that directly develop and improve state and local programs. During the process, the Regions discussed geographical initiatives in the area of compliance and enforcement.

In addition, on August 6, 1996, the Inspector General issued its "Consolidated Report on EPA's Leaking Underground Storage Tank Program". OSWER has responded to the audit report, proposing actions to the report's recommendations. The Inspector General will continue state program audits in FY 1997.

VII. Summary of Accomplishments for Resources Expended

Accomplishments for LUST Trust Fund resources expended fall into two categories: first, the amount of outputs (i.e., cleanups initiated and completed) for the amount of funding spent and second, how LUST Trust Fund money is effectively used to leverage the clean up of sites. As mentioned in Section III of this report, the relationship between the amount of LUST Trust Fund Cooperative Agreement funding and cleanups initiated and completed is illustrated in the Tank History chart which suggests a correlation between the amount of LUST Trust Cooperative

Agreement funding and cleanups initiated and completed; when Cooperative Agreement funding decreases, so do cleanups initiated and completed. When funding remains about the same, (approximately \$65 million from FY 1992 through FY 1994), states cannot make progress on the number of cleanups they complete because the cumulative number of confirmed releases continues to grow. OUST was able to exceed its targets for cleanups initiated and completed in FY 1996 due to the implementation of risk-based decision making as a tool for advancing remediation.

The majority of cleanups (96 percent) are conducted by responsible parties with state oversight. State oversight costs range from \$1,500 to \$3,000 per site. EPA is saving significant resources by requiring responsible party cleanups because state lead cleanups range from \$10,000 to over \$1 million depending on the severity of the site.

Research Program

Program Description

Research to support the LUST Program is authorized under Subtitle I of the Hazardous and Solid Waste Amendments of 1984, as amended by the Superfund Amendments and Reauthorization Act of 1996. The Office of Research and Development conducts research on new approaches for leak detection and remediation at LUST sites. This includes identifying information needed on the subsurface environment, released petroleum products therein, and how the information can be used to select appropriate corrective action technologies. Technical support is provided to the Office of Underground Storage Tanks, Regions, state and local agencies, and

practicing professionals implementing the LUST program. This effort includes providing scientific expertise on low-cost approaches for the assessment of site contamination and evaluation of remedial technologies.

FY 1996 Highlights and Accomplishments

During FY 1996, LUST research included:

- 1) report on lab studies of

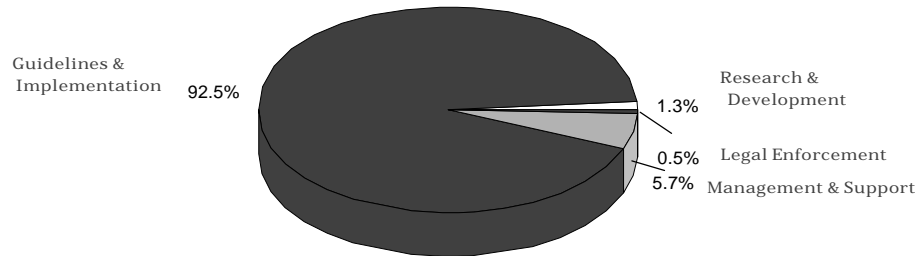
applicability of chemical oxidation to treatment of MTBE, n-hexadecane, 2-methylnaphthalene and diesel fuel; 2) report of state of the art of coupling chemical oxidation with electro-osmosis for use in low-permeability soils; 3) report on lab studies of photothermal treatment of BTEX vapors; and 4) technical resource document on screening thermal desorption of LUST sites.

TANK HISTORY

Year	Confirmed Releases		Cleanups Initiated		Cleanups Completed	
	Annual	Cumulative	Annual	Cumulative	Annual	Cumulative
FY 1990	71,087	87,528	35,620	51,770	11,208	16,905
FY 1991	39,667	127,195	27,736	79,506	9,761	26,666
FY 1992	57,262	184,457	49,568	129,074	28,778	55,444
FY 1993	52,565	237,022	42,008	171,082	31,621	87,065
FY 1994	33,545	270,567	38,715	209,797	20,383	107,448
FY 1995	33,068	303,635	28,874	238,671	23,824	131,272
FY 1996	13,853	317,488	13,944	252,615	21,411	152,683

LUST Obligations - FY 1996

Total Obligations - \$46.7 Million



PESTICIDES

The Agency's Pesticides Program was established pursuant to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) to protect public health and the environment. The law requires the Agency to balance public health and environmental concerns with the expected economic benefits derived from pesticides. The guiding principles of the Pesticides Program are to reduce risks from pesticides in food, the workplace, and other exposure pathways and to prevent pollution by encouraging the use of new and safer pesticides.

In accordance with FIFRA and the Federal Food, Drug and Cosmetic Act, the Pesticides Program administers the Revolving Fund for Certification and Other Services (Tolerance Fund); and the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund).

Certification and Other Services (TOLERANCE FUND)

Program Description

As part of its authority to regulate pesticides, EPA is responsible for setting "tolerances". If the pesticide is being considered for use on a food or feed crop or as a food or feed additive, the applicant must petition EPA for establishment of a tolerance (or exemption from a tolerance) under authority of the Federal Food, Drug and Cosmetic Act (FFDCA). A tolerance is the maximum legal limit of a pesticide residue on food commodities and animal feed. Tolerances are set at levels that ensure that the public is protected from unreasonable health risks posed by eating foods that have been

treated with pesticides in accordance with label directions. The tolerance program is a major part of the Agency's Food Safety goals.

In 1954, Congress authorized the collection of fees for the establishment of tolerances for raw agricultural commodities (Section 408 of FFDCA). Congress, however, did not authorize the collection of fees for food additive tolerances (Section 409 of FFDCA). EPA, therefore, does not collect fees for food additive tolerances. The Agency also does not collect fees for Agency-initiated actions such as the revocation of tolerances for previously canceled pesticides. Fees collected for tolerances for raw agricultural commodities were deposited to the U.S. Treasury General Fund until 1963 when Congress established the Tolerance Fund. Specific fees are contained in 40 CFR 180.33 and range from \$3,500 to \$61,950, depending on the type of tolerance action requested. Waivers and/or refunds are granted for minor use pesticides submitted under the Inter-Regional Research Project Number 4 (IR-4 Program), public interest, such as reduced-risk pesticides, and economic hardship. The fee schedule is changed annually by the same percentage as the percent change in the Federal General Schedule (GS) pay scale. Fees were increased 2.54 percent in 1996.

In 1996, the Agency supported pesticide reform legislation which included provisions for additional fees to support reregistration activities. Passage of the Food Quality Protection Act (FQPA) of 1996 requires tolerances to be reassessed as part of the reregistration program. Effective January, 1997, all fees related to tolerance activities will be deposited in the Reregistration and

Expedited Processing Fund (FIFRA Fund).

Program Results

Tolerance fees collected in FY 1996 were approximately \$2.3 million and obligations were \$1.4 million.

Measure 1: Number of permanent tolerance petitions completed.

Results: The number of permanent tolerance petitions completed in FY 1996 for Section 408 raw agricultural commodities and Section 409 food additives was 106 compared to a target of 65. This represents final determinations by the Agency concerning permanent tolerance petition requests for allowable levels of pesticide residues on raw agricultural commodities and in processed foods. This is a decrease of 10 completions compared to the 116 in FY 1995. The number of permanent tolerance petition reviews ("cycles") completed was 336 compared to a target of 330. The number of actions pending at the beginning of FY 1996 was 183 compared to 172 at the end of FY 1996.

Pesticides Reregistration and Expedited Processing Fund (FIFRA FUND)

Program Description

As part of its authority to regulate pesticides, EPA is responsible for re-registering existing pesticides. The FIFRA legislation, requiring the registration of pesticide products, was originally passed in 1947. Since then, health and environmental standards have become more stringent and scientific analysis techniques are much more

precise and sophisticated. In the 1988 amendments to FIFRA (FIFRA '88), Congress mandated the accelerated reregistration of all products registered prior to November 1, 1984. The amendments established a statutory goal of completing reregistration eligibility decisions by 1997. The legislation allows for various time extensions which can extend the deadline by three years or more.

Congress authorized the collection of two kinds of fees until 1997 to supplement appropriated funds for the program - an annual maintenance fee and a one-time reregistration fee. Maintenance fees are assessed on registrants of pesticide products and are structured to collect approximately \$14 million per year. Reregistration fees are assessed on the manufacturers of the active ingredients in pesticide products and are based on the manufacturer's share of the market for the active ingredient. In fiscal years 1992, 1993, 1994, 1995, and 1996, approximately 14 percent of maintenance fees collected, up to \$2 million each year, were used for the expedited processing of old chemical and amended registration applications. Fees are deposited to the FIFRA Revolving Fund. By statute, excess monies in the FIFRA Fund may be invested. Waivers and/or refunds are granted for minor use pesticides, antimicrobial pesticides, and small businesses.

In 1996, the Agency supported pesticide reform legislation which included provisions for additional fees to support reregistration activities. Passage of the FQPA of 1996 implements the following changes in the Pesticide Reregistration Program: reauthorizes collection of fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increases annual fees

from \$14 million to \$16 million per year for 1998, 1999, and 2000 only); requires tolerances to be reassessed as part of the reregistration program. Tolerance fees received will be included and reported in the FIFRA Fund.

The reregistration process is being conducted through reviews of groupings of similar active ingredients called cases. There are five (5) major phases of reregistration:

- C Phase 1 - Listing of Active Ingredients. EPA publishes lists of active ingredients and asks registrants whether they intend to seek reregistration. Completed in FY 1989.
- C Phase 2 - Declaration of Intent and Identification of Studies. Registrants notify EPA if they intend to reregister and identify missing studies. Completed in FY 1990.
- C Phase 3 - Summarization of Studies. Registrants submit required existing studies. Completed in FY 1991.
- C Phase 4 - EPA Review and Data Call-Ins. (DCIs). EPA reviews the studies, identifies and "calls-in" missing studies by issuing a DCI. A "DCI" is a request to a pesticide registrant for scientific data to assist the Agency in determining the pesticide's eligibility for reregistration. Completed in FY 1994.

- C Phase 5 - Reregistration Decisions. EPA reviews all studies and issues a Reregistration Eligibility Decision (RED) for the active ingredient(s). A "RED" is a decision by the Agency whether uses of a pesticide active ingredient are eligible or ineligible for reregistration. The registrant complies with the RED by submitting product specific data and new labels. EPA reregisters or cancels the product. Pesticide products are reregistered, based on a RED, when it meets all label requirements. This normally takes 14 to 20 months after issuance of the RED.

Financial Perspective

During FY 1996, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration and expedited processing programs were \$15.8 million and 194 workyears. Of these amounts, the Office of Pesticide Programs obligated \$14.2 million of this cost and funded the 194 workyears.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 1996, approximately \$16.5 million in appropriated funds were obligated for reregistration and expedited processing program activities. The unobligated balance in the Fund at the end of FY 1996 was \$10.6 million. This is a decrease of \$.4 million compared to the FY 1995 year-end balance of \$11 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$14.7 million in FY 1996 receipts, approximately 96 percent were fee collections. The fee collections decreased by \$.3 million in FY 1996 compared to FY 1995.

Program Results

The following measures support the program's strategic goals of Food Safety and Safer Pesticides as contained in the Pesticide Program Strategy, 1994-1997.

Measure 1: Number of Reregistration Eligibility Documents (REDs) completed.

Results: The number of Reregistration Eligibility Decisions (REDs) completed was 27¹, a decrease of 13 from FY 1995 when 40 were completed. This decrease is due to the government furlough and the passing of the Food Quality Protection Act. There are approximately 382² active ingredient cases, of which 148 REDs have been completed.

Measure 2: Number of products reregistered, canceled, or amended. Approximately 19,000 products are subject to reregistration. Many products, however,

contain more than one active ingredient. Since products are reassessed separately for each active ingredient, EPA will conduct approximately 38,000 product reviews.

Results: In FY 1996, 159 products were reregistered³, 24 were amended and 284 were canceled. The combined 467 decisions were achieved versus a target of 300. The 467⁴ decisions is an increase over the 405 in FY 1995. In addition, 158 products were forwarded to the EPA Office of Compliance Monitoring for suspension. The cumulative totals at the end of FY 1996 were 1,459 products canceled⁵, 44 products amended, and 906 products reregistered.

³Product reregistrations include federally registered products and special local needs registrations issued by states pursuant to Section 24(c) of FIFRA.

⁴153 of these decisions were product cancellations that occurred in prior fiscal years, but were unreported until FY 1996 due to a software problem.

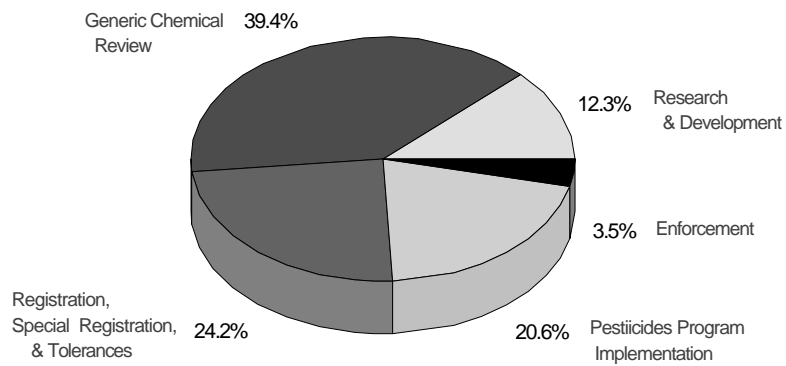
⁵OPP will disclose in FY 1996 Overview to the Financial Statements that a product cancellation is reported as a product reregistration decision when a voluntary cancellation request is received, when the annual maintenance fee is not paid or when a notice of intent to cancel due to unreasonable adverse effects is issued. In the case of a voluntary cancellation request, the process of finalizing the cancellation required by Section 6(f) of FIFRA may take about six months after receipt of the request to complete.

¹Of the total 27 RED decisions made, one decision was a suspension notice and three decisions were due to voluntary cancellations of the active ingredient by the registrant.

²The total number of active ingredient cases to date is 382. The decrease of 23 cases from last year's total of 405 reflects additional unsupported and canceled cases.

PESTICIDES Obligations - FY 1996

Total Obligations - \$90.2 Million



WATER INFRASTRUCTURE FINANCING

The Clean Water State Revolving Fund (CWSRF) Program provides financial assistance to states, localities, and Indian tribes to protect the Nation's water resources by meeting the requirements under Title II and Title VI of the Federal Water Pollution Control Act (FWPCA), commonly known as the Clean Water Act (CWA). With the passage of the Safe Drinking Water Amendments of 1996, the Drinking Water State Revolving Fund (DWSRF) has been authorized at \$9.6 billion. While this fund is still in the process of coming on line, it is designed to provide Federal financial assistance to the states, localities, and Indian tribes to protect the Nation's drinking water resources. The DWSRF will provide capitalization grants to state and tribal governments to fund low-interest loans for local drinking water systems needing to install or improve drinking water treatment facilities and for source water protection, operator certification, and other priority activities.

Program Description

The Water Infrastructure Financing media is comprised of: the CWSRF; DWSRF; the U.S./Mexican Border Integrated Border Environmental Plan; grants for communities facing extraordinarily high needs and user charges; and wastewater infrastructure needs of Alaskan Native Villages. The State Revolving Funds (SRFs) Program provides Federal financial assistance to states, localities, and Indian tribes to protect the Nations water resources by providing funds for the construction of wastewater treatment facilities and financing the facilities needed

to keep harmful contaminants from our drinking water. The SRFs are two of the Agency's premier tools for building the financial capacity of our partners.

The Special Needs Program provides focused grant assistance to areas facing extraordinarily high needs in relation to household income, while the U.S./Mexican Border Program provides funds to support the planning, design and construction of high priority wastewater treatment projects along the U.S./Mexican Border and in the U.S. Colonias. The goal of this Program is to reduce the incidence of waterborne diseases along the Mexican border and in the U.S. Colonias.

FY 1996 Highlights and Accomplishments

Through 1996, EPA has invested more than \$12 billion to capitalize the 51 CWSRFs. Under the Program, EPA provides grants or "seed money" to all 50 states plus Puerto Rico to capitalize state loan funds. The states, in turn, make loans to communities, individuals, and others for high-priority water quality activities. As money is paid back into the revolving fund, new loans are made to other recipients that need help in maintaining the quality of their water. States have contributed the required 20% match and, in some cases, leveraged their funds in the bond market to increase the total amount available for loans. Currently, the Program has over \$20 billion in assets. As of June 30, 1995, states reported they had issued 3,372 loans worth \$14.6 billion for wastewater, storm water, combined sewer overflow, and nonpoint source projects. EPA estimates that these loans have helped to

improve wastewater treatment and protect water quality for approximately 50 million Americans.

EPA estimates that states have issued approximately 140 loans to communities with populations of more than 100,000. These loans have served approximately 37 million people. In addition, EPA estimates that states have issued approximately 3,230 loans to medium and small communities, which have served approximately 13 million people. The Program allows Federal, state, and local agencies to leverage limited dollars. Because of the funds' revolving nature, the Federal investment can result in the construction of up to four times as many projects over a 20-year period as a one-time grant.

A major benefit for municipalities and other loan recipients is the substantial financial savings they can realize. When funded by a loan from this Program, a project typically costs much less than it would if funded through the bond market. Many states offer low-interest loans to small and disadvantaged communities, providing an additional boost to get projects started. For example, a state can make a zero-percent loan to a community for 20 years, saving the community 50 percent of the total project costs over a similar loan at 7.5 percent. The SRF Program's primary mission is to promote water quality. Aside from the financial savings, loan recipients can realize significant environmental benefits, including protection of public health and conservation of local watersheds. Loans for such infrastructure projects also tend to stimulate local economies by encouraging commercial development and construction.

The Administration's goal is to continue to capitalize the CWSRF so that it will be able to provide approximately \$2 billion annually in assistance to communities to help fund critical water quality infrastructure projects. Because of the revolving nature of the CWSRF Program, every dollar invested will result in four dollar's worth of environmental protection over the next twenty years. If capitalized as planned, the CWSRF should be available to fund a significant portion of the nation's water quality infrastructure needs.

The Agency initiated the *Drinking Water Needs Survey* effort in 1993 to better quantify the total picture of drinking water infrastructure needs across the U.S. The survey focuses on the needs and costs associated with developing new drinking water sources and storage, treatment, transmission and distribution facilities. Data collected from over 4,000 water systems has been quality controlled and used in the development of the draft report. With the authorization of the DWSRF in the 1996 Amendments, the Agency has undertaken the development of initial, interim guidance for the administration of this loan Program, as well as started reviewing options for the allocation of funds. The final allocation formula will be developed with input from the States and the results of the *Drinking Water Needs Survey*.

Special Infrastructure projects were appropriated \$306.5 million in 1996, including \$141.5 million for Special Infrastructure Needs Cities, \$15 million for Rural and Alaskan Native Villages, \$50 million for Colonias, and \$100 million for the Mexico Border. The Agency has developed and issued guidance on how to award grants for the 22 special projects authorized by the

Omnibus Consolidated Rescissions and Appropriations Act of 1996, and awarded grants for 21 of the projects by the end of the fiscal year.

To support wastewater infrastructure development on Indian Lands and in Alaskan Rural and Native Villages, the Agency initiated a \$10 million program of assistance for Tribal water and wastewater projects along the Mexican border and successfully negotiated with the Indian Health Services (IHS) to provide field level support for the projects.

During the Continuing Resolutions of 1996, EPA worked with Region VI to award more than \$30 million to the State of Texas for the colonias. The Agency also initiated a project to demonstrate alternative wastewater treatment technology in colonias communities.

Future Trends

To further the Agency's strategic goal of providing an economical source of capital for the states to address their environmental problems, EPA proposes continued capitalization of the CWSRF through the year 2004 at a level that will enable states to finance \$2 billion in loan activity for several more decades. This level of funding will help ensure that a long-term, low-cost source of financing will be available to meet the \$137 billion in wastewater infrastructure needs that have been documented throughout the United States.

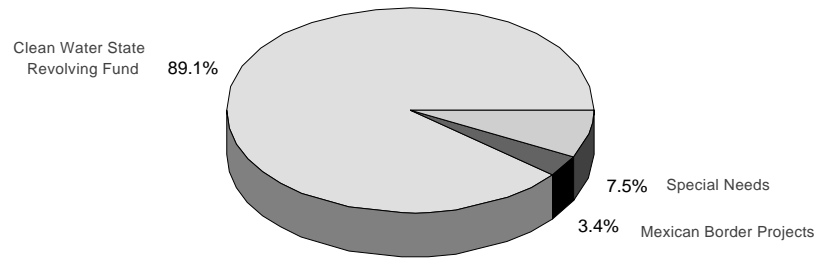
EPA will continue to encourage states to expand the availability of CWSRF capitalization grants for more water quality infrastructure projects. EPA will also continue

to encourage states to provide loans to small and disadvantaged communities which have difficulty constructing complex infrastructure projects or participating in the financial markets. One of EPA's efforts to assist small communities such as tribes is the Indian Set-Aside Program funded through the CWSRF, which helps address the serious health problems some tribes face due to the lack of basic sewage treatment. EPA will work with the Council of State Community Development Agencies and other Federal agencies to facilitate the use of the CWSRF by small communities.

Serious public health problems due to water contamination and communicable waterborne diseases are prevalent along the U.S./Mexican Border, as untreated domestic and industrial wastes flow into the rivers contaminating both sides of the Border. EPA will continue to support the U.S./Mexico Border Plan and NAFTA through wastewater treatment projects along the U.S./Mexican Border. In cooperation with the NAFTA Border Environment Cooperation Commission (BECC), EPA will help set priorities for funding wastewater infrastructure projects along the Border. In addition, EPA will provide grants to the State of Texas to help finance wastewater projects in U.S. colonias communities. EPA will also provide Federal grants to the State of Alaska, subject to an appropriate cost share as determined by the Administrator, for necessary wastewater infrastructure projects in Native Alaskan villages.

WATER INFRASTRUCTURE Obligations - FY 1996

Total Obligations - \$1.8 Billion



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

As the Chief Financial Officer (CFO) of the U.S. Environmental Protection Agency (EPA), I am proud to present the Fiscal Year 1996 Annual Financial Statements. These statements provide Agency managers with a tool for assessing the financial condition of EPA's operating programs. The Agency's financial statements are submitted in accordance with requirements of the Chief Financial Officers Act of 1990 (CFO Act), the Government Management Reform Act of 1994 (GMRA), and Office of Management and Budget guidance. The CFO Act was authorized to bring about improvements in government agency accounting systems, financial management activities and internal controls. The CFO Act requires EPA to prepare annual financial statements for its Trust Funds, Revolving Funds, and Commercial Activities. With the enactment of the GMRA, EPA is responsible for preparing annual financial statements for all of its operating programs beginning in 1996.

The fiscal year 1996 financial statements present the financial position of the Agency's operating programs. The principal schedules are organized into three components -- Superfund; State and Tribal Assistance Grants; and all other Agency funds. The financial statements, including the Overview, along with the accompanying audit report from EPA's Inspector General provide useful information about the Agency programs and accounting systems and help us identify areas where improved information systems, management controls, and accountability are needed.

During the past year, EPA continued to resolve several major problem areas identified in previous audit reports. Many of these improvements included strengthening our internal control systems in accounting for real and personal property, expense allocation, and grants funded with more than one appropriation. These improvements have been noted in the Inspector General's audit report. The accompanying CFO Analysis provides the highlights of the issues raised by the Inspector General's audit and the Agency's plans to resolve these issues in order to secure unqualified opinions on future year's financial statements.


Over the years, EPA has made significant progress in its financial systems and processes. However, the Agency continues to focus on enhancing initiatives already in place and initiating new ones to maximize the efficiency of its financial systems. For fiscal year 1997, the Agency will focus on:

- C implementing the new Planning, Budgeting Analysis and Accountability System and Organization,
- C creating a Program and Cost Accounting Branch in the Office of the CFO to assist program offices in developing managerial cost accounting procedures,

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- C strengthening accountability for all Agency officials with financial management responsibilities,
 - C initiating a comprehensive working capital fund for administrative services that bills costs for services directly to the program supported,
 - C expanding the use of electronic commerce and electronic data interchange to simplify and accelerate the contract and procurement payment process from review and approval to payment,
 - C establishing an electronic time and attendance management process by implementing an approach that is cost effective, meets National Performance Review guidelines, and reduces current administrative burdens, and
 - C continuing to implement enhancements for the Federal Agencies Centralized Tracking System (FACTS) for preparing pre-closing adjusted trial balances and notes.

These actions are just a few of the many activities that comprise the Agency's overall strategy for strengthening financial management functions at EPA. As the Agency's CFO, I personally accept responsibility for ensuring that these plans are executed; and as always, I challenge managers throughout the Agency to meet the highest possible standards of efficiency and effectiveness.

The preparation of these financial statements represents a partnership between my office 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.



Sallyanne Harper
Acting Chief Financial Officer

CFO
ANALYSIS

Chief Financial Officer's Analysis of the FY 1996 Audited Financial Statements

INTRODUCTION

Under the Chief Financial Officers Act of 1990 (CFOs Act), as amended by the Government Management Reform Act, EPA was required to prepare Agency-wide financial statements for FY 1996. We aggregated the Agency's appropriations into the following four reporting entities:

- C Hazardous Substances Superfund Trust Fund (Superfund);
- C State and Tribal Assistance Grants (STAG);
- C All Other Appropriations (All Other); and
- C Consolidated.

Structure of CFO's Analysis

This analysis is organized into the following sections:

- C Highlights of significant program information;
- C Summary of auditor's reports, including plans and timeframes for correcting problems;
- C Impediments to correcting problems; and
- C Progress in correcting previously identified problems.

HIGHLIGHTS OF EPA'S SIGNIFICANT PROGRAM INFORMATION

In FY 1996, EPA continued to guide the Nation's efforts to protect and preserve the public health and vitality of natural ecosystems. Among the many events of 1996, Congress passed the Safe Drinking Water Act (SDWA) Amendments and the Food Quality Protection Act. Meanwhile, EPA worked to strengthen partnerships with states, tribes, communities and industries with the National Environmental Performance Partnership System and the Design for Environment Program.

In FY 1996, Congress provided EPA with an enacted level of \$6.5 billion and 17,416 workyears. The Agency's accomplishments are reported in the Overview. Some of the significant highlights include the following:

- C To reduce emissions of hazardous air pollutants, EPA developed technology-based standards known as Maximum Achievable Control Technology (MACT) standards for 189 hazardous air pollutants from 174 industries. EPA has completed all of the MACT standards required to be completed two and four years after the Clean Air Act Amendments. In addition, based on research of criteria air pollutants, EPA proposed National Ambient Air Quality Standards for ozone and particulate matter.
- C With the passage of the Safe Drinking Water Act Amendments of 1996, the Drinking Water State Revolving Fund has been authorized at \$9.6 billion. This Fund, which is still in the process of coming on line, is designed to provide Federal financial assistance to the states, localities, and Indian tribes to protect the Nation's drinking water resources.
- C For the Superfund Program, the Agency obligated \$1.5 billion in FY 1996. At the end of FY 1996, the Trust Fund reflected an unappropriated balance of \$3.1 billion. During FY 1996, cleanup construction was completed at 62 non-Federal facility sites, bringing the total of construction completions to 400 out of 1,223 non-Federal sites on the NPL.
- C The Superfund Enforcement Program continues seeking settlement with those parties potentially responsible (PRPs) for contaminating Superfund sites and pursuing recovery of expended Trust Fund dollars. Since the inception of the Superfund Program, PRPs have committed to conduct site response at 837 sites (68 percent) of the 1,223 non-Federal facility sites on the NPL, with an estimated cumulative value of \$10.4 billion. In FY 1996, PRPs committed to conduct response work at 80 (over 6 percent) of the 1,223 NPL sites, with an estimated value of approximately \$810 million. On the cost recovery front, EPA has achieved settlement for approximately \$2.1 billion with over \$451.6 million of this amount achieved in FY 1996. Actual collections in FY 1996 exceeded \$252 million.
- C EPA obligated \$46.6 million in FY 1996 to implement the LUST Program. At the end of FY 1996, the Trust Fund had a balance of \$1 billion. The LUST Program is primarily a state-run program. Since the inception of the program, approximately 85 percent of EPA's appropriated funds have been distributed to the states through cooperative agreements.
- C During FY 1996, the Agency obligated \$15.8 million against the FIFRA Revolving Fund for Pesticides Reregistration and Expedited Processing programs and obligated another \$16.5 million from appropriated funds. At the end of FY 1996, the unobligated balance in the FIFRA Fund was \$10.6 million.

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- C In 1996, the Agency supported pesticide reform legislation which included provisions for additional fees to support reregistration activities. Passage of the Food Quality Protection Act of 1996 resulted in the following changes in the Pesticide Reregistration Program: reauthorized collection of fees through year 2001 to complete the review of older pesticides to ensure they meet current standards; and required tolerances to be reassessed as part of the reregistration program. Tolerance fees received will be deposited to and reported in the FIFRA Fund.
 - C Through 1996, EPA has invested more than \$12 billion to capitalize state loan funds for high-priority water quality activities.
 - C The Agency implemented multi-pronged efforts to encourage and facilitate the use of a watershed approach nationwide. These efforts included (1) initiating a Watershed Academy to provide training, (2) co-sponsoring a national conference (*Watershed '96*) for sharing information on place-based environmental protection techniques and issues, and (3) developing and disseminating the *Watershed Tools Directory*.
 - C In the Toxic Substances Program, EPA continued its chemical testing program; accelerated the rule making process through the use of multi-chemical rule-making; and promoted risk reduction pollution prevention and source reduction throughout the life cycle of chemicals.
 - C In 1996, EPA proposed expanding the types of industry groups required to report Toxic Release Inventory (TRI) data and the type of data collected in the TRI. The Agency undertook activities to reduce the reporting burden on industries and increase the use of TRI data.
 - C In FY 1996, EPA awarded 10 Jobs Through Recycling (JTR) grants and issued 22 cooperative agreements to build markets for recyclables and reusables. The Agency reduced the paperwork burden associated with waste management by more than 1.5 million hours through changes to the Land Disposal Restrictions (LDR) and by more than 73,000 hours through changes in the Capacity Assurance Process.
 - C In June 1996, the National Response Team published Integrated Contingency Plan Guidance which provides a way to consolidate multiple risk management plans that a facility may have prepared to comply with various regulations into one functional emergency response plan. This project won the National Performance Review Hammer Award, recognizing a significant contribution to “reinventing government” principles.

SUMMARY OF AUDITOR'S REPORT AND OPINIONS

Pursuant to OMB guidance for 1996, we prepared two statements: a Statement of Financial Position and a Statement of Operations and Changes in Net Position for each of the four reporting entities. We did not prepare a Statement of Cash Flows or a Statement of Budget and Actual Expenses because we had obtained waivers from OMB for these two statements.

For FY 1996, the OIG reported that (except for Superfund) they had not previously audited the financial statements of the STAG, All Other, and Consolidated activities. Because of these limitations, they could not determine whether the FY 1996 opening balances reported for assets, liabilities, and net position were fairly presented. These balances affect the Statements of Operations and Changes in Net Position for FY 1996. However, the OIG informed us that they performed work during their current audit to enable them to provide an opinion on all our FY 1997 financial statements.

For STAG, All Other, and Consolidated, we received qualified opinions on the Statements of Financial Position and disclaimer of opinions on Statements of Operations and Changes in Net Position. We are pleased that the OIG reported no new material accounting weaknesses on the new funds audited.

For Superfund, we received a disclaimer of opinion on both Statements -- the same opinion received for FY 1995 statements.

The table below summarizes the audit opinions for fiscal years 1995 and 1996.

Fund/Activity	Statement of Financial Position		Statements of Operations and Changes in Net Position	
	FY 1995	FY 1996	FY 1995	FY 1996
Superfund	Disclaim	Disclaim	Disclaim	Disclaim
STAG*	N/A	Qualified	N/A	Disclaim
All Other*	N/A	Qualified	N/A	Disclaim
Consolidated*	N/A	Qualified	N/A	Disclaim

*This was the first year audit for these reporting entities.

A more detailed discussion of the reasons for the auditor's FY 1996 opinions is provided below.

Superfund

The OIG disclaimed an opinion on the Superfund Statement of Financial Position and Statement of Operations and Changes in Net Position for FY 1996, because:

- C The Superfund net position could not be reconciled to its components accounts;
- C The methodology for estimating unbilled Superfund oversight costs incurred was unreliable; and
- C The OIG was unable to assess the fairness of the accrual for year-end grantee expenses.

STAG, All Other, and Consolidated

The OIG qualified their opinion on the STAG and All Other Statements of Financial Position for FY 1996 because they were unable to assess the fairness of the accrued year-end grantee expenses. For the Consolidated Statement of Financial Position, the OIG qualified their opinion because of accrued year-end grantee expenses and unbilled Superfund oversight cost. While the OIG agreed to an alternative methodology for developing the accrual amount, it was unable to verify directly with the grantees the information obtained from a sample of grantees used in developing the accrual. The OIG disclaimed an opinion on the Statement of Operations and Changes in Net Position because they had not previously audited the financial statements for these activities during their FY 1995 audit.

REPORT ON INTERNAL CONTROLS

The OIG's evaluation of the Agency's internal controls identified the following material weaknesses:

- C The net position for Superfund did not reconcile to its component accounts;
- C The methodology for estimating unbilled Superfund oversight costs was unreliable; and
- C The fairness of the accrued year-end unbilled grantee expenses could not be assessed.

Each of these weaknesses, along with management's planned corrective actions, are discussed in greater detail below.

Superfund Net Position was not Reconciled to its Component Accounts

Because we have not completed our corrective action plan to correct this problem, which is scheduled for completion by June 30, 1997, the OIG continues to report that the components of Superfund net position are not reconcilable. The problem stems from our use of an accounting model which did not properly maintain accounting relationships when applied to non-appropriated funds.

We have now implemented a new reimbursable accounting model based on the recommendations of a government-wide task force formed to improve accounting for reimbursable

activities. This new model should eliminate most of the problems that the OIG has reported. In addition, we have issued instructions to all finance offices to review specific accounts and transactions and to adjust account balances of prior years. The OIG acknowledged our efforts and made no new recommendations on this issue.

Methodology for Estimating Unbilled Superfund Oversight Costs was Unreliable

The OIG found our first attempt at developing a methodology to compute unbilled Superfund oversight costs did not include all appropriate costs. As a result, the OIG concluded that the accruals for unbilled oversight costs were not fairly presented.

The OIG recommended that a working group consisting of regional and Headquarters finance personnel be established to determine the population of recoverable Superfund oversight costs and to develop a better methodology for estimating the amount of unbilled Superfund oversight costs. We agreed to implement the OIG recommendation, and fully expect to resolve this issue for the FY 1997 Financial Statements Audit.

Accrued Year-End Unbilled Grantee Expenses could not be Assessed

In prior year audits, the OIG has questioned how the year-end grant accruals for unbilled grant expenses were derived. The auditors expressed concern with how the estimates were computed, and in how to verify the reasonableness of the estimates. These problems stem from a confluence of factors. First, grantees are not required on their payment requests to identify the period of time to which the payment request applies. In addition, since the payment request does not state what time period is covered by the request, the auditors are unable to use these requests as a basis for assessing the reasonableness of the grant accrual because they do not know if costs billed were incurred in the prior or current year. Second, there are no prescribed requirements for grantees to bill at regular intervals. Thus, grantee payment requests can and do come at irregular intervals. As a result, it is not feasible to use past payment history to develop an estimate of unbilled grant expenses.

This is a government-wide issue that affects agencies which provide significant amounts of financial assistance to states and local governments. Because of its significance, this issue is being addressed by a government-wide task force on which both the CFO and OIG staffs are participating. Our EPA representatives have proposed that grantees be required to provide grant expenses not billed as of September 30 to all Federal agencies to assure fair presentation in both Agency and government-wide financial statements. However, the task force has not yet acted upon this proposal.

For FY 1996, as an interim step, we developed a methodology acceptable to the OIG that would provide a more reliable and verifiable estimate for unbilled grantee expenses. We polled a sample of grantees and obtained information directly from them on their billing cycle and actual

accrual amounts. However, when the OIG contacted a sample of these grantees to verify the information we had obtained, the grantees provided different information. Consequently, the OIG was unable to conclude if the amount reported was reasonable.

The OIG recommended that the CFO work with the Acting Assistant Administrator for Administration and Resources Management (OARM) to obtain information that would assist us in estimating accrued year-end grant expenses. We agreed to implement the recommendation and have already established a work group consisting of representatives from the Financial Management Division, the Grants Administration Division and the OIG. We believe that this work group will be able to develop a methodology that will result in reliable and verifiable amounts for grant accruals. We expect to resolve this issue for the FY 1997 audit.

Compliance with Laws and Regulations

The OIG did not find any instances of non-compliance with applicable laws and regulations for the funds audited that would have resulted in material misstatements of the audited financial statements. However, the OIG did report one issue involving compliance with laws and regulations that is being addressed by EPA management. This issue is that the Agency has not performed biennial reviews of fees required by the CFO's Act. We plan to complete the required reviews by April 30, 1997.

Impediments to Correcting Problems

In our efforts to correct these internal control weaknesses, we have had to confront four major impediments. First, is the very dynamic and changing environment in which we operate. The development of new accounting standards and new information technologies, such as electronic data interchange and electronic signature, require us to make numerous and sometimes substantial changes to our systems and operations as well as our policies and procedures. This environment often creates competing priorities.

A second problem is that because we use an off-the-shelf financial system we have to rely on the contractor to make the necessary programming changes in a timely fashion. This does not always happen. Third, correcting some of these problems takes time because they involve complex issues and several organizational components within EPA, and in some instances the solution requires government-wide action.

Finally, we are challenged to improve and strengthen our internal controls using a common sense approach which takes into consideration the costs and benefits of our decisions. For example, in implementing the Federal accounting standards, we often have to determine whether it is cost beneficial to implement such standards retroactively.

Progress in Correcting Previously Identified Problems

Overall, we believe we have made exceptional progress this year towards resolving fundamental issues that have prevented us from obtaining unqualified opinions on our Agency-wide financial statements. We still have, as explained in the Report on Internal Controls section, three material weaknesses which are (1) reconciling the components of Superfund net position, (2) developing a better methodology for accounting for unbilled Superfund oversight costs, and (3) developing reliable estimates of unbilled grants expenses. Despite the difficulties involved in resolving these complex issues, we expect to resolve them for the FY 1997 Financial Statement Audit. We are also pleased that the OIG has been willing to work cooperatively with us in developing alternative analytical procedures and methodologies for fair presentation in our financial statements on these issues.

PRINCIPAL
FINANCIAL
STATEMENTS

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**EPA Hazardous Substance Superfund Trust Fund, State and Tribal
Assistance Grants, and All Other Funds
Consolidating Statements of Financial Position
As of September 30, 1996
(Dollars in Thousands)**

ASSETS	Superfund Trust Fund 1996	STAG 1996	All Others 1996
Entity Assets:			
Intragovernmental Assets:			
Balance With Treasury (Note 2)	\$4,948	\$7,364,623	\$1,959,973
Investments (Note 1 and 3)	--	--	8,892
Accounts Receivable, Net (Note 4)	43,555	5,845	52,773
Interest Receivable	--	--	400
Advances and Prepayments	--	24,226	733,980
Governmental Assets:			
Accounts Receivable, Net (Note 4)	527,883	50,260	48,766
Credit Program Receivables, Net (Note 5)	--	--	132,773
Interest Receivable	55,025	--	1,634
Advances and Prepayments	6,377	--	7,831
Cash and Other Monetary Assets (Note 16)	--	--	6,856
Operating Materials and Supplies	--	--	258
Property and Equipment, Net (Note 6)	7,945	--	204,263
Marketable Securities Equity (Note 1 and 3)	5,146	--	--
Appropriated Amounts Held By Treasury (Note 1)	<u>2,967,505</u>	<u>--</u>	<u>71,659</u>
Total Entity Assets	<u>3,618,384</u>	<u>7,444,954</u>	<u>3,230,058</u>
Non-Entity Assets:			
Amounts Held By Treasury for Future Appro (Note 1)	<u>3,836,151</u>	<u>--</u>	<u>980,380</u>
Total Non-Entity Assets	<u>3,836,151</u>	<u>--</u>	<u>980,380</u>
Total Assets	<u>\$7,454,535</u>	<u>\$7,444,954</u>	<u>\$4,210,438</u>
LIABILITIES			
Liabilities Covered by Budgetary Resources:			
Intragovernmental Liabilities:			
Accounts Payable	\$194,429	\$1,734	\$30,067
Debt (Note 7)	--	--	40,329
Other Intragovernmental Liabilities (Note 8)	741,788	--	887,027
Governmental Liabilities:			
Accounts Payable	120,409	74,283	133,351
Pensions & Other Acturial Liability (Note 8)	--	--	--
Other Governmental Liabilities (Note 8)	<u>301,030</u>	<u>--</u>	<u>91,632</u>
Total Liabilities Covered by Budgetary Resources	1,357,656	76,017	1,182,406
Liabilities not Covered by Budgetary Resources:			
Pensions & Other Acturial Liability (Note 8)	--	--	--
Other Governmental Liabilities (Note 8)	<u>14,158</u>	<u>--</u>	<u>90,475</u>
Total Liabilities not Covered by Budgetary Resources	<u>14,158</u>	<u>--</u>	<u>90,475</u>
Total Liabilities	<u>1,371,814</u>	<u>76,017</u>	<u>1,272,881</u>
NET POSITION (Note 10)			
Balances:			
Unexpended Appropriations	2,444,053	7,368,484	1,841,121
Invested Capital	7,945	--	204,263
Cumulative Results of Operations	2,288	453	2,268
Other	540,397	--	--
Amounts Held By Treasury for Future Appropriation (Note 1)	3,102,196	--	980,380
Future Funding Requirements	<u>(14,158)</u>	<u>--</u>	<u>(90,475)</u>
Total Net Position	<u>6,082,721</u>	<u>7,368,937</u>	<u>2,937,557</u>
Total Liabilities and Net Position	<u>\$7,454,535</u>	<u>\$7,444,954</u>	<u>\$4,210,438</u>

NOTE: The accompanying notes are an integral part of these statements.

**EPA Hazardous Substance Superfund Trust Fund, State and Tribal
Assistance Grants, and All Other Funds
Consolidating Statements of Financial Position
As of September 30, 1996
(Dollars in Thousands)**

ASSETS	Eliminations	Consolidated
Entity Assets:		
Intragovernmental Assets:		
Balance With Treasury (Note 2)	--	\$9,329,544
Investments (Note 1 and 3)	--	8,892
Accounts Receivable, Net (Note 4)	--	102,173
Interest Receivable	--	400
Advances and Prepayments	(\$733,955)	24,251
Governmental Assets:		
Accounts Receivable, Net (Note 4)	--	626,909
Credit Program Receivables, Net (Note 5)	--	132,773
Interest Receivable	--	56,659
Advances and Prepayments	--	14,208
Cash and Other Monetary Assets (Note 16)	--	6,856
Operating Materials and Supplies	--	258
Property and Equipment, Net (Note 6)	--	212,208
Marketable Securities Equity (Note 1 and 3)	--	5,146
Appropriated Amounts Held By Treasury (Note 1)	--	3,039,164
Total Entity Assets	<u>(733,955)</u>	<u>13,559,441</u>
Non-Entity Assets:		
Amounts Held By Treasury for Future Appro (Note 1)	--	4,816,531
Total Non-Entity Assets	--	<u>4,816,531</u>
Total Assets	<u>(733,955)</u>	<u>\$18,375,972</u>
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	--	\$226,230
Debt (Note 7)	--	40,329
Other Intragovernmental Liabilities (Note 8)	(733,955)	894,860
Governmental Liabilities:		
Accounts Payable	--	328,043
Pensions & Other Actuarial Liability (Note 8)	--	--
Other Governmental Liabilities (Note 8)	--	392,662
Total Liabilities Covered by Budgetary Resources	<u>(733,955)</u>	<u>1,882,124</u>
Liabilities not Covered by Budgetary Resources:		
Pensions & Other Actuarial Liability (Note 8)	--	--
Other Governmental Liabilities (Note 8)	--	104,633
Total Liabilities not Covered by Budgetary Resources	--	<u>104,633</u>
Total Liabilities	<u>(733,955)</u>	<u>\$1,986,757</u>
NET POSITION (Note 10)		
Balances:		
Unexpended Appropriations	--	11,653,658
Invested Capital	--	212,208
Cumulative Results of Operations	--	5,009
Other	--	540,397
Amounts Held By Treasury for Future Appropriation (Note 1)	--	4,082,576
Future Funding Requirements	--	(104,633)
Total Net Position	--	<u>16,389,215</u>
Total Liabilities and Net Position	<u>(733,955)</u>	<u>\$18,375,972</u>

Note: The accompanying notes are an integral part of these statements.

**EPA Hazardous Substance Superfund Trust Fund, State and Tribal
Assistance Grants, and All Other Funds
Consolidating Statement of Operations and Changes in Net Position
For the Year Ended September 30, 1996
(Dollars in Thousands)**

	Superfund Trust Fund 1996	STAG 1996	All Others 1996
REVENUE AND FINANCING SOURCES			
Appropriated Capital Used	\$1,367,672	\$2,507,599	\$2,549,697
Revenues from Services to the Public	110,292	--	86,934
Trust Fund Revenue Collected By Treasury (Note 19)	888,373	--	47,979
Trust Fund Investment Income Earned By Treasury (Note 19)	350,300	--	59,620
Interest and Penalties, Non-Federal	11,587	--	8,599
Interest Income, Federal	--	--	556
Income From Other Appropriations (Note 18)	75,399	400,801	(476,200)
Other Revenues	532,507	--	91,993
Less: Receipts Returned to Treasury	<u>626,513</u>	<u>--</u>	<u>95,263</u>
Total Revenues and Financing Sources	<u>2,709,617</u>	<u>2,908,400</u>	<u>2,273,915</u>
EXPENSES			
Program or Operating Expenses (Note 11)	1,455,610	2,507,423	2,610,551
Depreciation and Amortization	4,605	-	25,979
Bad Debts and Writeoffs	8,086	3,343	6,967
Expenses From Other Appropriations (Note 18)	75,399	400,801	(476,200)
Interest Expense	3	-	2,803
Expenses Of The Trust Fund Incurred By Treasury (Note 19)	497	-	3
Other Expenses (Note 12)	<u>1</u>	<u>--</u>	<u>16</u>
Total Funded Expenses	<u>1,544,201</u>	<u>2,911,567</u>	<u>2,170,119</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Funded Expenses before changes in accounting principle (policy)	1,165,416	(3,167)	103,796
Changes in Accounting Principle (Note 6):			
Change in Capitalization Threshold	(5,642)	--	(380)
Addition to Capital Leases	--	--	37,788
Appropriated Capital Used for Accounting Change	5,642	--	(37,408)
Plus (Minus) Unfunded Expenses	<u>(730)</u>	<u>--</u>	<u>(8,047)</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$1,164,686</u>	<u>(\$3,167)</u>	<u>\$95,749</u>
NET POSITION			
Net Position, Beginning Balance, as Previously Stated	\$2,552,594	\$7,139,474	\$1,828,356
Adjustments (Note 13)	<u>89,924</u>	<u>(608)</u>	<u>499</u>
Net Position, Beginning Balance, as Restated	2,642,518	7,138,866	1,828,855
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	1,164,686	(3,167)	95,749
Plus (Minus) Non Operating Changes (Note 14)	<u>2,275,517</u>	<u>233,238</u>	<u>1,012,953</u>
Net Position, Ending Balance	<u>\$6,082,721</u>	<u>\$7,368,937</u>	<u>\$2,937,557</u>

Note: The accompanying notes are an integral part of these statements.

**EPA Hazardous Substance Superfund Trust Fund, State and Tribal
Assistance Grants, and All Other Funds
Consolidating Statement of Operations and Changes in Net Position
For the Year Ended September 30, 1996
(Dollars in Thousands)**

	Eliminations	Consolidated
REVENUE AND FINANCING SOURCES		
Appropriated Capital Used	--	\$6,424,968
Revenues from Services to the Public	--	197,226
Trust Fund Revenue Collected By Treasury (Note 19)	--	936,352
Trust Fund Investment Income Earned By Treasury (Note 19)	--	409,920
Interest and Penalties, Non-Federal	--	20,186
Interest Income, Federal	--	556
Income From Other Appropriations (Note 18)	--	0
Other Revenues	--	624,500
Less: Receipts Returned to Treasury	--	<u>721,776</u>
Total Revenues and Financing Sources	--	<u>7,891,932</u>
EXPENSES		
Program or Operating Expenses (Note 11)	--	6,573,584
Depreciation and Amortization	--	30,584
Bad Debts and Writeoffs	--	18,396
Expenses From Other Appropriations (Note 18)	--	0
Interest Expense	--	2,806
Expenses Of The Trust Fund Incurred By Treasury (Note 19)	--	500
Other Expenses (Note 12)	--	<u>17</u>
Total Funded Expenses	--	<u>6,625,887</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Funded Expenses before changes in accounting principle (policy)	--	1,266,045
Changes in Accounting Principle (Note 6):		
Change in Capitalization Threshold	--	(6,022)
Addition to Capital Leases	--	37,788
Appropriated Capital Used for Accounting Change	--	(31,766)
Plus (Minus) Unfunded Expenses	--	<u>(8,777)</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	--	<u>\$1,257,268</u>
NET POSITION		
Net Position, Beginning Balance, as Previously Stated	--	\$11,520,424
Adjustments (Note 13)	--	<u>\$89,815</u>
Net Position Beginning Balance as Restated	--	11,610,239
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	--	1,257,268
Plus (Minus) Non Operating Changes (Note 14)	--	<u>3,521,708</u>
Net Position, Ending Balance	--	<u>\$16,389,215</u>

Note: The accompanying notes are an integral part of these statements.

**EPA Hazardous Substance Superfund Trust Fund, State and
Tribal Assistance Grants, and All Other Funds
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, State and Tribal Assistance Grants (STAG) 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 94-01, those sections of OMB Bulletin 97-01 that are applicable for the FY 1996 financial statements 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 1996 the reporting entities are grouped as Hazardous Substance Superfund, State and Tribal Assistance Grants (STAG), and All Other Funds.

Superfund

In 1980, the Hazardous Substances 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 also 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 also 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 1995, construction of cleanup remedies had been completed at a total of 346 NPL sites and 4,271 removal actions had been taken at 3,245 sites. Superfund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

State and Tribal Assistance Grants

In 1996, Congress restructured the Agency's appropriations. The new structure combines the State grants moved from the Abatement, Control and Compliance (now called Environmental Programs and Management) appropriation with the Water Infrastructure/State Revolving Fund appropriation. The restructured appropriation is now called State and Tribal Assistance Grants. The new appropriation provides the Agency Administrator with the authority to allow States and Indian tribes to consolidate numerous existing media specific or multimedia grants into one or more Performance Partnership grants. The Administrator is also provided with authority to allow States to consolidate Clean Water and Drinking Water State Revolving Funds into a Performance Partnership. The appropriation provides funds for capitalization grants to States for Clean Water State Revolving Funds for purposes of making low interest loans to communities to construct municipal wastewater treatment infrastructure. Since 1989, the Federal government has invested approximately \$11.5 billion in grants to help capitalize the 51 State revolving funds. With required State match, additional State contributions, and funds from program leveraging, funds available for loans total approximately \$16.3 billion. In support of the U. S. Mexico Border Environmental Plan, funds are provided to address the serious environmental and human health problems associated with untreated industrial and municipal sewage, including the impoverished colonias in Texas. Funds are provided to help address significant wastewater needs of Alaska Native Villages and for U. S. cities that are facing exceptionally high capital needs and user charges. Funds will also be provided, upon enactment of authorizing legislation, for capitalization grants to new Drinking Water State Revolving funds for the purpose of making low interest loans to help municipalities comply with the Safe Drinking Water Act. Once the Drinking Water State Revolving Fund program is authorized, these resources will allow States to fund both construction of needed infrastructure improvements for drinking water systems and the restructuring of small systems (including consolidation) to improve compliance. The State and Tribal Assistance Grants is accounted for under Treasury symbol number 0103.

All Other Funds

All Other Funds include Trust Fund appropriations to the Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund, General Fund appropriations to Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector General, Buildings and Facilities, and Payment to the Hazardous Substance Superfund.

Appropriations which no longer receive General Fund appropriations but have unexpended authority are the Asbestos Loan Program, Program and Research Operations, and Energy Research and Development. Besides Trust and General Fund appropriated accounts All Other Funds includes the FIFRA revolving fund and Tolerance revolving funds which receive no direct appropriations; however, they do collect fees as a source of reimbursement for the services provided. In addition, funds were collected to the Exxon Valdez settlement fund as a result of the Exxon Valdez oil spill. Besides the Agency appropriated and reimbursable funds, other Federal agencies transfer appropriated funds to the Agency under authority of the Economy Act of 1932. In addition All Other Funds include the Agency Budgetary Clearing accounts, Deposit funds, General Fund Receipt accounts, the Environmental Services Unavailable Receipt Account, and the Miscellaneous Contributed Funds Trust Fund. Activities conducted by the various 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 Trust Fund also covers administrative expenses necessary to carry out the program. Risks from releases at leaking underground petroleum tanks are reduced and addressed by cleanup actions. The LUST program tracks the number of cleanups completed, which includes all sites where a state determines risks have been addressed through completed corrective actions. The complexity of cleanups is increasing due to other environmental issues such as contaminated groundwater. The program is financed by a 0.1 cent a gallon tax on motor fuels, 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. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The Science and Technology (S&T) appropriation combines all resources from the previous Research and Development account, program office lab costs from the previous Abatement, Control, and Compliance account, and payroll and travel costs for the Office of Research and

Development and for the program office labs. S&T finances salary, travel, science, technology, research and development activities including laboratory and center supplies, certain operating expenses, grants, intergovernmental agreements, and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. Research for *Air* provides the data base needed to support national ambient air quality standards, establish emission standards for stationary and mobile sources and assess acid rain controls. Research is also performed to support the indoor air, radon mitigation, global change, and stratospheric ozone protection programs. Research for *Water Quality* develops data and technologies to help protect coastal and marine waters, large lakes and rivers, wetlands, and related ecosystems. Programs evaluate contaminated sediments, aquatic ecocriteria, non point sources of pollution, habitat biodiversity, wastewater and sludge. Research for *Drinking Water* includes evaluating the health effects of drinking water contaminants, methods to prevent or remove these contaminants in a cost effective manner, and research to support ground water protection. Research for *Hazardous Waste* includes providing hazardous waste measurement methods and protocols, assessing the risk from exposure to hazardous and municipal solid wastes, conducting research on surface cleanup, bioremediation, pollution prevention, and developing the necessary data to revise and implement treatment, storage and disposal standards and regulations. Research for *Pesticides* supports the pesticides program through health and environmental exposure studies, development of exposure protocols, and environmental review of new chemicals. Biotechnology research is also included in these activities. Research for *Radiation* supports radiological monitoring and surveillance services for Department of Energy nuclear testing at the Nevada Test Site. Research for *Multimedia* provides cross program support for ecosystems protection (including environmental monitoring and assessment), human exposure, risk assessment methods, health effects, pollution prevention, heavy metals, and innovative technologies. Exploratory research grants and centers, technology transfer, quality assurance and procurement of laboratory equipment is also included. *Toxic Substance* activities support the development of scientific and technological methods to understand, predict and manage the entry and movement of chemicals in commerce and into the environment and to determine the effects of these chemicals on human health and the environment. *Management and Support* activities executive direction, program planning, resource and facilities management. The Science and Technology appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) appropriation combines all previous Program and Research Operations payroll and travel funds not moved to S&T with the previous Abatement, Control and Compliance funds. Funds for State grants have been moved to STAG. EPM finances contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the operating programs. The *Air* program sets standards for ambient air quality, emissions of hazardous and criteria air pollutants and acid deposition precursors from stationary sources, motor vehicle emissions, prevention of significant deterioration of air quality and protection of the stratospheric ozone layer. The program also conducts motor vehicle testing for which user fees are collected. The *Water Quality* program has as its goal the protection and restoration of the Nation's waters. The program relies on a partnership between the Agency and the States to meet the goals of the Act. The Water Quality

program encompasses (1) developing water quality standards, (2) establishing technology based effluent limits for industrial discharges, (3) monitoring water quality, (4) developing guidelines for advanced identification of wetlands and programs to enhance State and local wetlands protection, (5) risk based targeting of abatement activities to protect important habitats through geographic initiatives, (6) issuing and enforcing requirements of National Pollutant Discharge Elimination System permits for industrial and municipal sources resulting in user fee collections, and (7) managing the municipal wastewater facilities completion / closeout of construction grants, and managing the State Revolving Fund programs. The *Drinking Water* program protects the Nation's drinking water supplies from contaminants. This involves (1) setting national drinking water standards, (2) assisting States and Indian tribes in implementing these regulatory programs, (3) initiating enforcement actions against noncompliance with drinking water and underground injection control regulations, and (4) directing the Agency's activities to manage and improve ground water quality. The *Hazardous Waste* program is designed to ensure that hazardous wastes are managed in a manner that protects public health and the environment. The program emphasizes delegation of authority to the States, permitting of operating and closed facilities, enforcement of hazardous waste regulations, and correction action. State assumption of hazardous waste authorities will be encouraged through Federal financial assistance, regulations, and guidance. Major activities of the *Pesticides* program include (1) review and registration of pesticide products, (2) developing and processing registration standards, (3) reregistration of pesticides as required by the 1988 amendments to the Federal Insecticide, Fungicide, and Rodenticide Act, (4) enforcement of pesticide use rules with emphasis on Federal/State cooperation, and (5) developing guidelines to ensure the protection of pesticide workers as well as assisting in the development of State plans for pesticide use that will protect ground water and endangered species. The *Radiation* program develops and promulgates standards, regulations, and guidelines to reduce exposure from radiation sources. The Agency assesses risks associated with high levels of naturally occurring radon, certifies radon remediation contractors, and provides technical assistance and guidance to States on radon. The Agency also carries out its responsibilities under the Waste Isolation Pilot Plant Land Withdrawal Act. The Multimedia program comprises several activities that cut across media programs. This involves (1) technical and legal aspects of the Agency's enforcement efforts including criminal investigations, (2) review of environmental impact statements to ensure actions taken by Federal agencies do not adversely affect the environment, (3) Federal agencies compliance with the statutes and regulations for pollution control, (4) the Regional funding of complex multimedia projects with significant state and local concerns due to the high risk to human health and ecosystems. The *Toxic Substances* program is responsible for protecting human health and the environment from unreasonable risks posed by chemicals. The program places a balanced emphasis on evaluation and control of new and existing chemicals and the reduction of exposure through pollution prevention. Nonregulatory approaches to obtain compliance are used where appropriate. The program has developed a comprehensive lead control strategy to examine the long term efficacy of lead abatement, and to implement the requirements of Title X of the Housing and Community Development Act of 1992. The program also provides technical assistance to implement various requirements of Title III of the Superfund Amendments and Reauthorization Act of 1986 relating to chemical releases, and the Pollution Prevention Act of 1990. *Management and*

Support funds contract work for policy studies in the management and support program. 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 the annual appropriations for 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 were not appropriated for FY 1996; accordingly no new loan obligations occurred in FY 1996. For the FY 1993 and 1992 obligations, the program is 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 received the subsidy and administrative appropriations in FY 1992 and 1993, disburses the subsidy to the Financing fund as loans are made, and disburses administrative expenses to the providers. The Financing fund receives the subsidy payment, borrows from Treasury and disburses and collects the asbestos loans. Loans obligated before 1992 are maintained in a Liquidating fund and are disbursed from the Liquidating fund. The loans receivable and collections on those loans are recorded in a General Fund receipt account. Under provisions of the Federal Credit Reform Act, the balance of any monies collected on loan repayments must be returned to the General Fund at Treasury. 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, under Treasury symbol 4321 for pre FY 1992 loan obligations and disbursements, and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The Program and Research Operations appropriation provided 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 in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act. The 1988 amendments mandated the accelerated reregistration of all products registered prior to November 1, 1984. Congress authorized the collection of fees to supplement appropriations to fund reregistration and to fund expedited processing of pesticides. FIFRA also includes provisions for the registration of new pesticides, monitoring the distribution and use of pesticides, issuing civil or criminal penalties for violations, establishing cooperative agreements with the states, and certifying training programs for users of restricted chemicals. Appropriated funds, however, pay for these activities. Legislation has been proposed to increase fees from pesticide manufacturers in support of reregistration of pesticides currently in use. The fees will also be extended beyond the current expiration date in order to fund timely completion of the reregistration program. 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. A tolerance is the maximum legal limit of a pesticide residue on food commodities and animal feed. Tolerances are established by the Agency to prevent consumer exposure to unsafe levels of pesticide residues. In 1954, Congress authorized the collection of fees for raw agricultural commodities. Fees were deposited to the Treasury General Fund until 1963 when Congress established the Revolving Fund for Certification and Other Services (Tolerance Revolving Fund). The Department of Agriculture and the Food and Drug Administration are responsible for enforcing adherence to these tolerance levels. Funding is provided by fee collections and by appropriated funds for federal services in establishing tolerances for residues of pesticide chemicals in or on raw agricultural commodities. The Tolerance Revolving Fund is accounted for under Treasury symbol number 4311.

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. Superfund and STAG may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to the All Other Funds in the Agencywide appropriations. The administrative costs funded by Agencywide appropriations for Superfund is 75,399 and 400,801 for STAG. These amounts are included in the Income from Other Appropriations and Expenses from Other Appropriations on the Statement of Operations and Changes in Net Position.

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 \$10,793 for FY 1996.

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.

State and Tribal Assistance Grants

Congress adopts an annual appropriation amount to be available until expended for State and Tribal Assistance Grants. When the appropriation is enacted, Treasury issues a warrant to the Agency in the amount of the appropriation. As the Agency disburses the obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

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 Buildings and Facilities and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriation for S&T and EPM to be available for two fiscal years; and adopts an annual appropriation for the Office of Inspector General that expires at the end of the fiscal year. 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 1996; therefore, there was no new financing available to the Asbestos Loan Program for FY 1996.

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.

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. Rather 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 Treasury.

D. Basis of Accounting

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 potentially responsible parties (PRPs).

State and Tribal Assistance Grants

The STAG receives all funding needed to support the program through appropriations that may be used, within statutory limits, for operating expenditures.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support the program 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 through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as revenues when earned, i.e., when services have been rendered without regard to payment of cash. Appropriations expended for property and equipment are recognized as expense and revenue when the asset is consumed in operations. Other revenues are recognized when earned, i.e., when services have been rendered.

F. Funds with the Treasury

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The 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

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

During FY 1993, and FY 1996, the Agency received marketable equity securities, valued at a total \$5,146, 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

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 expended 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 allowance for uncollectible PRP accounts receivable is determined on a specific identification basis as a result of a case-by-case review of receivables at the regional level, and a general reserve for those not specifically identified.

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.

The majority of other receivables for Asbestos and FIFRA represent interest receivable and receivables to the General Fund of the Treasury.

A summary of accounts receivable as of September 30, 1996 is in Note 4.

J. Loans Receivable

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 5. 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

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 1996, approximately \$2,967,505 remained in the Treasury managed Superfund Trust Fund and approximately \$65,997 remained in the LUST Trust Fund to meet the Agency's disbursement needs.

L. Advances and Prepayments

The Agency records the differences resulting from disbursements recorded by Treasury but not recorded by the Agency and the disbursements recorded by the Agency but not by Treasury as advances and prepayments. As a result of a data conversion error, the LUST Trust Fund has recorded a prepayment of \$636 which relates to prior years. Other amounts are current.

M. Property, Plant, and Equipment

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. Depreciation is taken on a modified straight-line basis over a period of six years depreciating 10% the first and six year, and 20% in years two through five.

Real property consists of land, buildings and leasehold improvements and are capitalized when their value is \$75 thousand or more. Buildings are valued at an estimated original cost basis and land is valued at fair market value. Capital improvements and work-in-progress, subject to the \$75 thousand capitalization threshold, not completed prior to the appraisals, are recorded at actual cost. Depreciation for real property is based on specific identification.

N. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other 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

Borrowing payable to Treasury result 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

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 1996, there was no outstanding interest payable to Treasury since payment was made through September 30.

Q. Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Annual leave expense for the Superfund Trust Fund was a negative \$936 and for All Other Funds a negative \$7,110 in FY 1996. Sick leave and other types of nonvested leave are expensed when taken.

R. Retirement Plan

The majority of the Agency's employees participate in the Civil Service Retirement System (CSRS), to which the Agency makes matching contributions equal to 7% of 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.

The Agency does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management. Such data is not allocated to individual departments and agencies.

Note 2. Fund Balances with Treasury:

The Treasury maintains EPA's fund accounts and processes all of EPA's receipts and disbursements. The available balances are for payment of EPA's obligations under its various programs. The restricted balances pertain to expired appropriated authority and are unavailable for future obligations.

Fiscal Year 1996:	Total	Available	Restricted
STAG	\$ 7,364,623	\$ 7,364,623	\$ --
Superfund	4,948	4,948	--
ALL Others	1,959,973	1,231,975	727,998

Note 3. Investments and Marketable Securities:

-----Amounts for Balance Sheet Reporting-----

Superfund	Cost	Amortization Method	Unamortized (Premium) Discount	Market Value	Investments, Net	Required Market Value Disclosure
Intragovernmental Securities:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Governmental Securities:						
Uniroyal Tech	<u>5,146</u>	---	---	<u>3,615</u>	<u>3,615</u>	---
Total	<u>\$5,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,615</u>	<u>\$3,615</u>	<u>\$3,615</u>
All Others						
Intragovernmental Securities:	<u>\$8,925</u>	\$ -	\$ 33	<u>\$8,892</u>	<u>\$8,892</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, instead will convert these securities to cash as soon as practicable.

Note 4. Accounts Receivable:

Fiscal Year 1996:

	Superfund	STAG	All Others
Intergovernmental Assets			
Accounts Receivable	\$ 43,555	\$ 5,845	\$ 52,773
Less Allowance for Doubtful Accounts	<u> -</u>	<u> -</u>	<u> -</u>
Total:	<u>\$ 43,555</u>	<u>\$ 5,845</u>	<u>\$ 52,773</u>
Governmental Assets			
Accounts Receivable	\$827,772	\$ 71,345	\$ 86,839
Less Allowance for Doubtful Accounts	<u>(299,889)</u>	<u>(21,085)</u>	<u>(38,073)</u>
Total:	<u>\$ 527,883</u>	<u>\$ 50,260</u>	<u>\$ 48,766</u>

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 general reserve on a percentage basis for those not specifically identified.

Note 5. Loans Receivable, Net - Non-Federal:

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 would be reported 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 is provided in the following sections.

Post Credit Reform Loans:

	Loans Receivable, <u>Gross</u>	Allowance for Estimated <u>Uncollectible Loans</u>	Loans Receivable, <u>Net</u>
September 30, 1996	\$ 93,543	\$ (103)	\$ 93,440

Post Credit Reform Loans:

	Loans Receivable, Gross	Allowance for Subsidy Cost (present value)	Loans Receivable, Net
September 30, 1996	\$ <u>64,125</u>	\$ <u>(24,792)</u>	\$ <u>39,333</u>
Total 1996:	\$ <u>157,668</u>	\$ <u>(24,895)</u>	\$ <u>132,773</u>

Subsidy Expenses for Post Credit Reform Loans:

Current Year's Loans:

	Total	Interest Differential	Expected Defaults	Fee Offsets
Fiscal Year 1996:	\$ <u>2,392</u>	\$ <u>2,390</u>	\$ <u>2</u>	\$ <u>0</u>

Total Direct Loan Subsidy Expense:

Fiscal Year 1996 \$ 3,894

Fiscal Year 1996 Other Information: \$1,993 for obligations established prior to credit reform and \$13,416 for obligations established after credit reform remain unpaid. No expenses were incurred in FY 1996 for subsidy reestimates.

Note 6. Property, Plant and Equipment - Net:

Superfund property, plant and equipment, consists primarily 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, personal, and contractor-held property.

During FY 1996, management made valuation adjustments to EPA-held equipment and changed the method used to depreciate buildings from "straight-line" to specific identification of each building's useful life. These lives ranged from 15 to 100 years. The cumulative effect of the changes in accounting estimates resulted in a net adjustment to Superfund and All Other property, plant and equipment by \$(23), and \$39,444, respectively, with a corresponding adjustment to the capital asset component of equity.

In 1996, EPA increased the capitalization threshold of contractor-held personal property to \$25,000. EPA also determined that all contractor-held property was half way through its useful life at the beginning of the fiscal year. The cumulative effect of these changes resulted in a net adjustment to property, plant and equipment for Superfund and All Other of \$(5,642) and \$(380), respectively, with a corresponding adjustment to the capital asset component of equity.

In addition, EPA determined that certain real property leases that were previously expensed were capital leases. The affect of this change was to reflect net book value of capital leases of \$37,788 and a lease liability of \$39,527 (Note 9). Due to the recapture of matching appropriations, there is not impact on the statement of operations and changes in net position.

Schedule of Property, Plant, and Equipment by Fund

	<u>Superfund</u>	<u>STAG</u>	<u>All Others</u>
EPA-Held Equipment, 1996			
Beginning Balance - Equipment	\$13,747	\$ -	\$78,239
Adjustments	<u>(105)</u>	-	<u>1,306</u>
Adjusted Beginning Balance - Equipment	13,642	-	79,545
Current Year Purchases	1,818	-	17,197
Adjustments	<u>(512)</u>	-	<u>(912)</u>
Ending Balance - Equipment	<u>14,948</u>	-	95,830
Beginning Balance - Accum Depr	(9,235)	-	(48,070)
Adjustments	82	-	(919)
Adjusted Beginning Balance - Accum Depr	<u>(9,153)</u>	-	<u>(48,989)</u>
Current Year Depreciation	(2,130)	-	(14,814)
Adjustments	567	-	717
Ending Balance - Accum Depreciation	<u>10,716</u>	-	<u>63,086</u>
Net Book Value - EPA-Held Equipment	<u><u>4,232</u></u>	<u>-</u>	<u><u>32,744</u></u>
Contractor-Held Equipment, 1996			
Beginning Balance	\$23,659	\$ -	\$41,207
Adjustments	<u>(11,282)</u>	-	<u>(760)</u>
Ending Balance	<u>12,377</u>	-	<u>40,447</u>
Beginning Balance - Accumulated Depreciation	(11,829)	-	(20,604)
Adjustments	<u>5,640</u>	-	<u>380</u>
Adjusted Beginning Balance	(6,189)	-	(20,224)
Current Year Depreciation	(2,475)	-	(8,089)
Ending Balance - Accumulated Depreciation	<u>(8,664)</u>	-	<u>(28,313)</u>
Net Book Value - Contractor-Held Equipment	<u><u>3,713</u></u>	<u>-</u>	<u><u>12,134</u></u>

Land and Buildings

Beginning Balance - Land and Buildings	-	-	141,389
Adjustments	-	-	14,970
Adjusted Beginning Balance	<u>-</u>	<u>-</u>	<u>156,359</u>
FY 96 Acquisitions	<u>-</u>	<u>-</u>	<u>7,009</u>
Ending Balance - Land and Buildings	<u>-</u>	<u>-</u>	<u>163,368</u>
Beginning Balance - Accumulated Depreciation	-	-	(62,782)
Adjustments	<u>-</u>	<u>-</u>	<u>24,087</u>
Adjusted Beginning Balance	-	-	(38,695)
Current Year Depreciation	<u>-</u>	<u>-</u>	<u>(1,438)</u>
Ending Balance - Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>(40,133)</u>
Net Book Value - Land and Buildings	<u>-</u>	<u>-</u>	<u>123,235</u>

Capital Leases

Beginning Balance - Capital Leases	-	-	-
Adjustment	<u>-</u>	<u>-</u>	<u>40,913</u>
Adjusted Beginning Balance	<u>-</u>	<u>-</u>	<u>40,913</u>
Beginning Balance - Accumulated Depreciation	-	-	-
Adjustment	<u>-</u>	<u>-</u>	<u>(3,125)</u>
Adjusted Beginning Balance	-	-	(3,125)
Current Year Depreciation	<u>-</u>	<u>-</u>	<u>(1,638)</u>
Ending Balance - Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>(4,763)</u>
Net Book Value - Capital Leases	<u>-</u>	<u>-</u>	<u>36,150</u>
Net Book Value - PP & E	<u>\$7,945</u>	<u>\$-</u>	<u>\$204,263</u>

Note 7. Debt - Federal:

Under the provisions of the Federal Credit Reform Act, borrowing from Treasury represents the portion of loan disbursements not subsidized by appropriated funds.

Fiscal Year 1996 Borrowing from Treasury:

	Beginning Balance	New Borrowing	Repayments	Ending Balance	Refinancing
Fiscal Year 1996:					
Borrowing from Treasury	<u>\$37,050</u>	<u>\$3,279</u>	<u>\$-</u>	<u>\$40,329</u>	<u>\$-</u>

Intragovernmental Debt:

Note 8. Other Liabilities- Federal:

Fiscal Year 1996:

	<u>Superfund</u>	<u>STAG</u>	<u>All Others</u>
Intragovernmental Liabilities - Funded	\$ 7,833	\$ -	\$887,027
Governmental Liabilities - Funded:	301,030	-	91,632
Accrued Funded Payroll	9,615	-	41,188
Unearned Revenue:			
State Cost Shares	37,388	-	14,784
Site Cleanup Costs	254,027	-	-
Other	-	-	35,660
Governmental Liabilities - Unfunded	\$ 14,158	\$ -	\$ 90,475

Standard General Ledger does not provide breakdown by current/non current.

The Governmental Liabilities-Unfunded consists of accrued unfunded leave and actuarially unfunded liabilities related to workmen compensation.

Note 9. Leases:

Capital Leases:

Summary of Assets Under Capital Lease:

Land and Buildings	\$40,913
Accumulated Amortization	\$ 4,763

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 bases upon either rising operating costs and/or real estate taxes. These leases terminate the end of fiscal years 2010, 2013 and 2025. The charges are expended out of the EPM appropriation. The amounts capitalized are \$5,628, \$10,800 and \$24,485. The minimum future costs of these three capital leases are listed below.

Future Payments Due:

<u>Fiscal Year</u>	<u>Land and Buildings</u>
1997	\$ 6,295
1998	6,295
1999	6,295
2000	6,295
2001	6,295
After 2001	121,375
Total Future Payments	\$152,851
Less: Imputed Interest	113,324
Total Capital	
Lease Liability	<u>39,527</u>
Funded	--
Unfunded	<u>\$ 39,527</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 three direct operating 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. One lease terminates in fiscal year 1999 and the other two leases will terminate in the year 2000. The charges are expended out of the EPM appropriation. The minimum future costs of the three operating leases are listed below.

<u>Fiscal Year</u>	<u>Total Land & Buildings</u>	<u>Superfund</u>	<u>STAG</u>	<u>All Others</u>
1997	\$ 6,103	\$ -	\$ -	\$ 6,103
1998	6,103	-	-	6,103
1999	6,103	-	-	6,103
2000	6,073	-	-	6,073
2001	-	-	-	-
After 2001	---	---	---	---
Total Future Lease Payments	<u>\$24,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,382</u>

Note 10. Total Net Position:

The total net position of EPA's Other funds and activities represents the financial position of these funds after consideration of the net effects of operations in the current year and the

cumulative effects of all prior years. Unexpended Appropriations represents that portion of the funding authority provided by Congress, net of interagency transfers, which has not reached the Accrued Expenditure stage. Invested Capital represents the book value, net of depreciation, of EPA resources invested in equipment. Cumulative Results of Operations represents the cumulative deficit or surplus from the funds' operations.

Fiscal Year 1996:

	<u>Superfund</u>	<u>STAG</u>	<u>All Others</u>
Unexpended Appropriations	\$2,444,053	\$7,368,484	\$1,841,121
Unobligated	551,704	652,063	455,601
Available	551,704	652,063	455,601
Unavailable	-	-	-
Undelivered Orders	1,892,349	6,716,421	1,382,884
Invested Capital	7,945	-	204,263
Other	540,397	-	-
Cumulative Results of Operations	2,288	453	2,268
Amounts Held by Treasury for Future Appropriations	3,836,151	-	980,380
Future funding requirements non-actuarial	<u>(14,158)</u>	<u>-</u>	<u>(90,475)</u>
Total Net Position	<u>\$6,082,721</u>	<u>\$7,368,937</u>	<u>\$2,937,557</u>

Note 11. Program or Operating Expenses:

FY 1996 Operating Expenses by Object Classification:	<u>Superfund</u>	<u>STAG</u>	<u>All Others</u>
(1) Personnel Services and Benefits	\$ 222,810	\$ -	\$ 941,533
(2) Travel and Transportation	6,498	12	22,320
(3) Rental, Communication and Utilities	33,548	2	172,517
(4) Printing and Reproduction	624	6	9,252
(5) Contractual Services	1,021,175	42,587	554,285
(6) Supplies and Materials	3,342	62	21,383
(7) Equipment not Capitalized	6,530	33	27,172
(8) Land and Structures	2	-	5,155
(9) Investments and Loans	-	-	(36)
(10) Grants, Subsidies and Contributions	160,787	2,464,721	856,590
(11) Insurance Claims and Indemnities	<u>294</u>	<u>-</u>	<u>380</u>
Total Expenses by Object Class	<u>\$ 1,455,610</u>	<u>\$2,507,423</u>	<u>\$2,610,551</u>

Note 12. Other Expenses:

As a matter of policy, EPA expenses discounts lost during the fiscal year as interest expense. EPA pays Treasury interest on the Asbestos loan borrowings. For FY 96, Interest Expense paid to Treasury for Asbestos Loan Borrowings is shown on the Income Statement as a separate line item.

	<u>Superfund</u>	<u>All Others</u>
Fiscal Year 1996:		
Discounts Lost	\$ 1	\$ 8
Inventory adjustments	<u>-</u>	<u>8</u>
Total	<u>\$1</u>	<u>\$16</u>

Note 13. Prior Period Adjustments:

During fiscal year 1996, a number of analyses and reclassifications of account balances brought forward from prior fiscal years occurred. One of the major activities which resulted in large prior period adjustment amounts was the analysis and recording of unbilled Superfund Oversight. In addition to the Superfund Oversight, there was a cumulative reconciliation of receivables to the subsidiary records, an analysis of equity accounts between the Appropriated Capital and Cumulative Results of Operations for budget years 1988 and prior, an analysis of reimbursable earnings, and an analysis of Bad Debt Expenses recorded during the fiscal year. Based on these activities prior period adjustments were made as follows:

	<u>Superfund</u>	<u>STAG</u>	<u>All Other Funds</u>
Superfund Oversight	\$77,749	\$ --	\$ --
Account Receivable	15	(58)	(192)
Equity	--	(4,227)	(129)
Unbilled Reimbursements	10,994	--	(10,562)
Bad Debt	<u>1,166</u>	<u>3,677</u>	<u>11,382</u>
Total	<u>\$89,924</u>	<u>\$ (608)</u>	<u>\$ 499</u>

Note 14. Non-Operating Changes:

The Non-Operating Changes resulted from funds transferred-in from Treasury, funds collected and returned to Treasury, statement of financial position reclassifications, and other non-operating increases and decreases.

Fiscal Year 1996

	<u>Superfund</u>	<u>STAG</u>	<u>All Others</u>
Increases:			
Transfers-in	\$ 1,299,647	\$ 2,813,000	\$ 2,660,306
Other Increases	<u>733,955</u>	<u>--</u>	<u>--</u>
Total Increases	2,033,602	2,813,000	2,660,306
Total Decreases	<u>(975,870)</u>	<u>2,579,762</u>	<u>1,647,353</u>
Net Non-Operating Changes	<u>\$ 3,009,472</u>	<u>\$ 233,238</u>	<u>\$ 1,012,953</u>

Note 15. Contingencies:

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

- Various personnel actions, suites, 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 + 1079(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 approximately fifteen 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 \$40,365 and \$13,096, respectively. The incurrance of a loss on these cases could be considered to be reasonably probable, however, an accurate estimate of the amount of the contingent loss cannot be made. As of September 30, 1996, no accruals had been made for these claims since losses had not yet been incurred.

EPA is responsible to indemnify response action contractors (CERCLA + 119) for legal costs. In each CERCLA 119 case, it is reasonable possible that legal defense costs 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.

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

Unasserted Claims and Assessments

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.

As of September 30, 1996, there were no material pending claims or litigation involving the State and Tribal Assistance Grants Fund (STAG) or all other appropriated funds of the agency (All Other Funds).

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. Cash and Other Monetary Assets:

Cash available for EPA use include petty cash imprest funds and other deposit funds which will not be transferred into the U. S. Treasury general fund.

Cash under the control of EPA was as follows:

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
September 30, 1996	\$ 6,856	\$ 0

Note 17. State Cost Share Credits:

The authorizing Superfund statute and Federal regulations require States to share in the costs of the Superfund program. The cost share requirements range from 0 to 50% of either remedial action costs only or total response costs depending on the circumstances of the individual site. In some cases, States are permitted to fulfill the cost share requirement through the provision of in-kind services or through credits earned from the incurrence of response costs by the State using its own funds. For a State to claim a credit, certain regulatory requirements must be met and EPA must approve the credit on a site-specific basis. Once EPA grants a credit, any account receivable which has been established will be adjusted since the State will not be making a payment to EPA. The total amount of outstanding state credits is estimated at \$9.4 million.

Note 18. Income and Expenses from other Appropriations:

OMB Bulletin 94-01 requires financial statements to “include all material costs incurred by the Agency in support of the activities of the revolving fund(s), trust fund(s), or commercial function(s).” For FY 1996, OMB expanded the scope of this requirement to include all of the Agency’s operations.

During Fiscal Year 1996, 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 for 1996 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 that benefitted FY 1996. 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 three Reporting Entities: Superfund, STAG, 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 expense.

As illustrated below, this estimate does not impact the net effect of the Statement of Operations and Changes in Net Position.

Fiscal Year 1996:

	<u>Income From Other Appropriations</u>	<u>Expenses From Other Appropriations</u>	<u>Net Effect</u>
Superfund	\$ 75,399	\$(75,399)	\$ 0
STAG	0	0	0
All Others	0	0	0

Note 19. Amounts Held by Treasury (Unaudited):

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the “Hazardous Substance Response Fund” (Superfund). 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 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 “Hazardous Substance Response Fund” as maintained by the U.S. Department of Treasury. The amounts contained in these statement have been provided by Treasury and are unaudited.

	<u>Combined</u>	<u>EPA</u>	<u>Treasury</u>
Undisbursed Balances:			
Available for Investment	\$ (286)	\$ -	\$ (286)
Unavailable for Investment	<u>733,955</u>	<u>-</u>	<u>733,955</u>
Total Undisbursed Balance	\$ 733,669	\$ -	\$ 733,669
Investments, net of discounts	<u>6,069,987</u>	<u>2,967,505</u>	<u>3,102,482</u>
Total Assets	<u>\$6,803,656</u>	<u>\$2,967,505</u>	<u>\$3,836,151</u>

Liabilities & Equity

Debt	\$ 733,955	\$ --	\$ 733,955
Equity	<u>\$6,069,701</u>	<u>2,967,505</u>	<u>3,102,196</u>
Total Liability and Equity	<u>\$6,803,656</u>	<u>\$2,967,505</u>	<u>\$3,836,151</u>

Receipts

Crude and Petroleum	\$ 159,559	\$ -	\$ 159,559
Certain Chemicals	94,341	-	94,341
Corporate Environmental	382,190	-	382,190
Cost Recoveries	248,946	-	248,946
Fines & Penalties	<u>3,337</u>	<u>-</u>	<u>3,337</u>
Total Revenue	888,373	-	888,373
Interest Income	<u>350,300</u>	<u>-</u>	<u>350,300</u>
Total Receipts	<u>\$1,238,673</u>	<u>\$ -</u>	<u>\$1,238,673</u>

Outlays

Returned Unobligated Appropriations	\$ (497)	\$ -	\$ (497)
Transfers to EPA	<u>1,294,376</u>	<u>-</u>	<u>1,294,376</u>
Total Outlays	<u>1,293,879</u>	<u>-</u>	<u>1,293,879</u>
Net Custodial Distribution	<u>\$ (55,206)</u>	<u>\$ -</u>	<u>\$ (55,206)</u>

LUST

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the "Leaking Underground Storage Tank Trust Fund" (LUST). LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites.

The following reflects the "Leaking Underground Storage Tank" Fund as maintained by the U.S. Department of Treasury. The amounts contained in these statement have been provided by Treasury and are unaudited.

	<u>Combined</u>	<u>EPA</u>	<u>Treasury</u>
Undisbursed Balances:			
Available for Investment	\$ 3	\$ -	\$ 3
Unavailable for Investment	_____ -	_____ -	_____ -
Total Undisbursed Balance	\$ 3	\$ -	\$ 3
Investments, net of discounts	<u>1,046,374</u>	<u>65,997</u>	<u>980,377</u>
Total Assets	<u>\$ 1,046,377</u>	<u>\$ 65,997</u>	<u>\$ 980,380</u>
Liabilities & Equity			
Debt	\$ -	\$ -	\$ -
Equity	<u>1,046,377</u>	<u>65,997</u>	<u>980,380</u>
Total Liability and Equity	<u>\$ 1,046,377</u>	<u>\$ 65,997</u>	<u>\$ 980,380</u>
Receipts			
Highway TF Tax	\$ 50,433	\$ -	\$ 50,433
Inland Waterway TF Tax	168	-	168
Airport/Air TF Tax	4,347	-	4,347
Gross Revenue	54,948	-	54,948
Less: Reimbursement to G/F	<u>(6,969)</u>	<u>-</u>	<u>(6,969)</u>
Net Revenue	47,979	-	47,979
Interest Income	<u>59,620</u>	<u>-</u>	<u>59,620</u>
Net Receipts	<u>\$ 107,599</u>	<u>\$ -</u>	<u>\$ 107,599</u>
Outlays			
Operating Expenses Incurred by Treasury	\$ (3)	\$ -	\$ (3)
Transfers to EPA	<u>71,151</u>	<u>-</u>	<u>71,151</u>
Total Outlays	<u>71,148</u>	<u>-</u>	<u>71,148</u>
Net Custodial Collections	<u>\$ (36,451)</u>	<u>\$ -</u>	<u>\$ (36,451)</u>

SUPPLEMENTAL INFORMATION
REQUESTED BY
OMB*

*** Supplemental Information Only - Statements Were Not Audited**

State and Tribal Assistance Grants and All Other Funds
Supplemental Statements of Financial Position (Unaudited)
As of September 30, 1996
(Dollars in Thousands)

	LUST Trust Fund 1996	Oil Spill Trust Fund 1996	FIFRA 1996	Tolerance 1996	EPM 1996
ASSETS					
Entity Assets:					
Intragovernmental Assets:					
Balance With Treasury	\$5,675	\$6,037	\$473	\$4,253	\$710,840
Investments	--	--	8,892	--	--
Accounts Receivable, Net	355	8,450	--	--	7,655
Interest Receivable	--	--	--	--	--
Advances and Prepayments	--	--	3	--	54
Governmental Assets:					
Accounts Receivable, Net	--	--	1	--	638
Credit Program Receivables, Net	--	--	--	--	--
Interest Receivable	--	--	16	--	--
Advances and Prepayments	752	39	-	--	4,424
Property and Equipment, Net	83	154	41	--	305
Cash and Other Monetary Assets	--	--	--	--	--
Operating Materials and Supplies, Net	--	--	--	--	--
Marketable Securities Equity	--	--	--	--	--
Appropriated Amounts Held By Treasury	<u>65,997</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Entity Assets	<u>72,862</u>	<u>14,680</u>	<u>9,426</u>	<u>4,253</u>	<u>723,916</u>
Non-Entity Assets:					
Amounts Held By Treasury For Future Appropriation	<u>980,380</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Non-Entity Assets	<u>\$980,380</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Assets	<u>\$1,053,242</u>	<u>\$14,680</u>	<u>9,426</u>	<u>\$4,253</u>	<u>\$723,916</u>
LIABILITIES					
Liabilities Covered by Budgetary Resources:					
Intragovernmental Liabilities:					
Accounts Payable	\$44	\$129	\$12	--	\$4,216
Debt	--	--	--	--	--
Other Intragovernmental Liabilities	--	--	--	--	407
Governmental Liabilities:					
Accounts Payable	1,833	2,690	43	21	43,437
Other Governmental Liabilities	<u>198</u>	<u>247</u>	<u>3,011</u>	<u>4,232</u>	<u>32,248</u>
Total Liabilities Covered by Budgetary Resources	<u>2,075</u>	<u>3,066</u>	<u>3,066</u>	<u>4,253</u>	<u>80,308</u>
Liabilities not Covered by Budgetary Resources:					
Pensions & Other Actuarial Liability	--	--	--	--	--
Other Intragovernmental Liabilities	--	--	--	--	--
Other Governmental Liabilities	<u>421</u>	<u>538</u>	<u>1,198</u>	<u>311</u>	<u>74,182</u>
Total Liabilities not Covered by Budgetary Resources	<u>421</u>	<u>538</u>	<u>1,198</u>	<u>311</u>	<u>74,182</u>
Total Liabilities	<u>2,496</u>	<u>3,604</u>	<u>4,264</u>	<u>4,564</u>	<u>154,490</u>
NET POSITION					
Balances:					
Unexpended Appropriations	70,709	11,460	--	--	643,397
Invested Capital	83	154	41	--	305
Cumulative Results of Operations	(5)	--	6,319	--	(94)
Amounts Held By Treasury For Future Appropriation	980,380	--	--	--	--
Other	--	--	--	--	--
Future Funding Requirements	<u>(421)</u>	<u>(538)</u>	<u>(1,198)</u>	<u>(311)</u>	<u>(74,182)</u>
Total Net Position	<u>1,050,746</u>	<u>11,076</u>	<u>5,162</u>	<u>(311)</u>	<u>569,426</u>
Total Liabilities and Net Position	<u>\$1,053,242</u>	<u>\$14,680</u>	<u>\$9,426</u>	<u>\$4,253</u>	<u>\$723,916</u>

Note: Supplemental Information Only - Statements Were Not Audited

State and Tribal Assistance Grants and All Other Funds
Supplemental Statements of Financial Position (Unaudited)
As of September 30, 1996
(Dollars in Thousands)

	Science & Technology	Building & Facilities	Inspector General	STAG		Other Funds
	1996	1996	1996	STAG 1996	SRFSG 1996	1996
ASSETS						
Entity Assets:						
Intragovernmental Assets:						
Balance With Treasury	\$318,161	\$168,172	\$12,322	\$2,356,973	\$5,007,650	\$734,040
Investments	--	--	--	--	--	--
Accounts Receivable, Net	4,344	--	4,628	--	5,845	27,341
Interest Receivable	--	--	--	--	--	400
Advances and Prepayments	16	5	105	--	24,226	733,797
Governmental Assets:						
Accounts Receivable, Net	26	--	3	3,580	46,680	48,098
Credit Program Receivables, Net	--	--	--	--	--	132,773
Interest Receivable	--	--	--	--	--	1,618
Advances and Prepayments	1,081	25	4	--	--	1,506
Property and Equipment, Net	454	123,302	39	--	--	79,885
Cash and Other Monetary Assets	--	--	--	--	--	6,856
Operating Materials and Supplies, Net	--	--	--	--	--	258
Marketable Securities Equity	--	--	--	--	--	--
Appropriated Amounts Held By Treasury	--	--	5,307	--	--	355
Total Entity Assets	<u>324,082</u>	<u>291,504</u>	<u>22,408</u>	<u>2,360,553</u>	<u>5,084,401</u>	<u>1,766,927</u>
Non-Entity Assets:						
Amounts Held By Treasury For Future Appropriation	--	--	--	--	--	--
Total Non-Entity Assets	--	--	--	--	--	--
Total Assets	<u>\$324,082</u>	<u>\$291,504</u>	<u>\$22,408</u>	<u>\$2,360,553</u>	<u>\$5,084,401</u>	<u>\$1,766,927</u>
LIABILITIES						
Liabilities Covered by Budgetary Resources:						
Intragovernmental Liabilities:						
Accounts Payable	\$1,071	\$1,038	\$1,704	\$1,734	--	\$21,853
Debt	--	--	--	--	--	40,329
Other Intragovernmental Liabilities	244	--	6	--	--	886,370
Governmental Liabilities:						
Accounts Payable	19,240	1,273	863	17,072	57,211	63,951
Other Governmental Liabilities	6,991	--	1,255	--	--	43,450
Total Liabilities Covered by Budgetary Resources	<u>27,546</u>	<u>2,311</u>	<u>3,828</u>	<u>18,806</u>	<u>57,211</u>	<u>1,055,953</u>
Liabilities not Covered by Budgetary Resources:						
Pensions & Other Actuarial Liability	--	--	--	--	--	--
Other Intragovernmental Liabilities	--	--	--	--	--	--
Other Governmental Liabilities	--	--	1,922	--	--	11,903
Total Liabilities not Covered by Budgetary Resources	--	--	1,922	--	--	11,903
Total Liabilities	<u>27,546</u>	<u>2,311</u>	<u>5,750</u>	<u>18,806</u>	<u>57,211</u>	<u>1,067,856</u>
NET POSITION						
Balances:						
Unexpended Appropriations	296,082	165,891	15,778	2,338,167	5,030,317	637,804
Invested Capital	454	123,302	39	--	--	79,885
Cumulative Results of Operations	--	--	2,763	3,580	(3,127)	(6,715)
Amounts Held By Treasury For Future Appropriation	--	--	--	--	--	--
Other	--	--	--	--	--	--
Future Funding Requirements	--	--	(1,922)	--	--	(11,903)
Total Net Position	<u>296,536</u>	<u>289,193</u>	<u>16,658</u>	<u>2,341,747</u>	<u>5,027,190</u>	<u>699,071</u>
Total Liabilities and Net Position	<u>\$324,082</u>	<u>\$291,504</u>	<u>\$22,408</u>	<u>\$2,360,553</u>	<u>\$5,084,401</u>	<u>\$1,766,927</u>

Note: Supplemental Information Only - Statements Were Not Audited

State and Tribal Assistance Grants and All Other Funds
Supplemental Statements of Operations and Changes in Net Position (Unaudited)
For the Year Ended September 30, 1996
(Dollars in Thousands)

	LUST Trust Fund 1996	Oil Spill Trust Fund 1996	FIFRA 1996	Tolerance 1996	EPM 1996
REVENUE AND FINANCING SOURCES					
Appropriated Capital Used	\$68,456	\$16,283	--	\$1,366	\$1,032,519
Revenues from Services to the Public	--	5,845	15,835	--	9,735
Trust Fund Revenue Collected By Treasury	47,979	--	--	--	--
Trust Fund Investment Income Earned By Treasury	59,620	--	--	--	--
Interest and Penalties, Non-Federal	--	--	--	--	--
Interest Income, Federal	--	--	556	--	--
Income From Other Appropriations	12,815	3,158	16,512	1,598	--
Other Revenues	--	--	--	--	1
Less: Receipts Returned to Treasury	--	--	--	--	1
Total Revenues and Financing Sources	<u>188,870</u>	<u>25,286</u>	<u>32,903</u>	<u>2,964</u>	<u>1,042,254</u>
EXPENSES					
Program or Operating Expenses	68,449	22,039	15,782	1,381	1,042,179
Depreciation and Amortization	11	89	53	-	34
Bad Debts and Writeoffs	1	1	--	--	132
Expenses From Other Appropriations	12,815	3,158	16,512	1,598	--
Interest Expense	--	--	--	--	3
Expenses Of The Trust Fund Incurred By Treasury	3	--	--	--	--
Other Expenses	--	--	--	--	1
Total Funded Expenses	<u>81,279</u>	<u>25,287</u>	<u>32,347</u>	<u>2,979</u>	<u>1,042,349</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Funded Expenses before changes in accounting principle (policy)	107,591	(1)	556	(15)	(95)
Changes in Accounting Principle					
Change in Capitalization Threshold	--	--	32	--	--
Addition of Contractor Held Property	--	--	--	--	--
Appropriated Capital Used for Accounting Change	--	--	(32)	--	--
Plus (Minus) Unfunded Expenses	<u>(143)</u>	<u>(256)</u>	<u>(77)</u>	<u>(164)</u>	<u>(74,182)</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>\$107,448</u>	<u>(\$257)</u>	<u>\$479</u>	<u>(\$179)</u>	<u>(\$74,277)</u>
NET POSITION					
Net Position, Beginning Balance,as Previously Stated	\$92,900	\$12,732	\$4,710	(\$163)	--
Adjustments	<u>4</u>	<u>--</u>	<u>(1)</u>	<u>15</u>	<u>1</u>
Net Position, Beginning Balance,as Restated	92,904	12,732	4,709	(148)	1
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	107,448	(257)	479	(179)	(74,277)
Plus (Minus) Non Operating Changes	<u>850,394</u>	<u>(1,399)</u>	<u>(26)</u>	<u>16</u>	<u>643,702</u>
Net Position, Ending Balance	<u>\$1,050,746</u>	<u>\$11,076</u>	<u>\$5,162</u>	<u>(\$311)</u>	<u>\$569,426</u>

Note: Supplemental Information Only - Statements Were Not Audited

State and Tribal Assistance Grants and All Other Funds
Supplemental Statements of Operations and Changes in Net Position (Unaudited)
For the Year Ended September 30, 1996
(Dollars in Thousands)

	Science & Technology	Building & Facilities	Inspector General	STAG		Other Funds
	1996	1996	1996	1996	SRFSG 1996	1996
REVENUE AND FINANCING SOURCES						
Appropriated Capital Used	\$227,939	\$19,857	\$28,437	\$340,709	\$2,166,890	\$1,154,840
Revenues from Services to the Public	5,530	--	9,530	--	--	40,459
Trust Fund Revenue Collected By Treasury	--	--	--	--	--	--
Trust Fund Investment Income Earned By Treasury	--	--	--	--	--	--
Interest and Penalties, Non-Federal	--	--	--	--	--	8,599
Interest Income, Federal	--	--	--	--	--	--
Income From Other Appropriations	40,284	--	--	--	400,801	(550,567)
Other Revenues	--	--	--	--	--	91,992
Less: Receipts Returned to Treasury	--	--	--	--	--	95,262
Total Revenues and Financing Sources	<u>273,753</u>	<u>19,857</u>	<u>37,967</u>	<u>340,709</u>	<u>2,567,691</u>	<u>650,061</u>
EXPENSES						
Program or Operating Expenses	233,417	18,359	37,933	340,709	2,166,714	1,171,012
Depreciation and Amortization	50	1,498	33	--	--	24,211
Bad Debts and Writeoffs	--	--	3	97	3,246	6,830
Expenses From Other Appropriations	40,284	--	--	--	400,801	(550,567)
Interest Expense	1	--	--	--	--	2,799
Expenses Of The Trust Fund Incurred By Treasury	--	--	--	--	--	--
Other Expenses	1	--	--	--	--	14
Total Funded Expenses	<u>273,753</u>	<u>19,857</u>	<u>37,969</u>	<u>340,806</u>	<u>2,570,761</u>	<u>654,299</u>
Excess (Shortage) of Revenues and Financing Sources Over Total Funded Expenses before changes in accounting principle (policy)	--	--	(2)	(97)	(3,070)	(4,238)
Changes in Accounting Principle						
Change in Capitalization Threshold	--	--	--	--	--	(412)
Addition of Contractor Held Property	--	--	--	--	--	37,788
Appropriated Capital Used for Accounting Change	--	--	--	--	--	(37,376)
Plus (Minus) Unfunded Expenses	--	--	(88)	--	--	66,863
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>--</u>	<u>--</u>	<u>(\$90)</u>	<u>(\$97)</u>	<u>(\$3,070)</u>	<u>\$62,625</u>
NET POSITION						
Net Position, Beginning Balance, as Previously Stated	--	\$160,416	\$25,968	--	\$7,139,474	\$1,531,793
Adjustments	--	546	15	3,677	(4,285)	(81)
Net Position, Beginning Balance, as Restated	--	160,962	25,983	3,677	7,135,189	1,531,712
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	--	--	(90)	(97)	(3,070)	62,625
Plus (Minus) Non Operating Changes	<u>296,536</u>	<u>128,231</u>	<u>(9,235)</u>	<u>2,338,167</u>	<u>(2,104,929)</u>	<u>(895,266)</u>
Net Position, Ending Balance	<u>\$296,536</u>	<u>\$289,193</u>	<u>\$16,658</u>	<u>\$2,341,747</u>	<u>\$5,027,190</u>	<u>\$699,071</u>

Note: Supplemental Information Only - Statements Were Not Audited

OIG'S
REPORT
ON EPA'S
FY 1996 FINANCIAL
STATEMENTS

This summary is part of Audit Report E1AML6-20-7001-7100120 issued by the EPA Office of Inspector General on March 24, 1997. Therefore, it contains references to other sections of the report (e.g., attachments), which are not included.

INSPECTOR GENERAL'S REPORT ON EPA'S FISCAL 1996 FINANCIAL STATEMENTS

The Administrator
U.S. Environmental Protection Agency:

In accordance with the requirements of the Government Management Reform Act (GMRA), we undertook an audit of EPA's fiscal 1996 financial statements. Following, are the results of our work that included determining whether: (1) EPA's Consolidating Statement of Financial Position is fairly presented, (2) adequate internal controls related to the Agency's financial statements were in place, (3) the Agency complied with applicable laws and regulations, and (4) information reported in the overview section of the financial statements is consistent with information in the principal financial statements.

As described in Note 1, these financial statements were prepared in accordance with applicable provisions of OMB Bulletins 94-01 and 97-01, entitled "Form and Content of Agency Financial Statements," both of which are considered a comprehensive basis of accounting other than generally accepted accounting principles. EPA received a waiver from OMB for the preparation of Statements of Cash Flow and Budget and Actual Expenses for fiscal 1996. Since this was the first year GMRA required Agency-wide financial statements for EPA, comparative fiscal 1995 financial statements are not presented.

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 the Consolidated Financial Statements. The OIG is organizationally independent with respect to all other aspects of the Agency's activities.

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.

In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.¹ The United

¹ The Leaking Underground Storage Tank Trust Fund is included in the All Other Funds column of the financial statements.

States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not EPA, is responsible for these activities our audit work did not cover these activities.

OPINION ON EPA'S CONSOLIDATING STATEMENT OF FINANCIAL POSITION

As further discussed in the section of this report which summarizes our evaluation of internal controls, we were unable to determine if the Agency fairly presented: (1) the amount of unbilled Superfund oversight costs recoverable from potentially responsible parties (affects the Superfund and the Agency's Consolidated financial statements), (2) the amount owed grantees for costs they had incurred but for which they had not billed EPA (affects the Superfund, State and Tribal Assistance Grants Appropriation, All Other Funds, and the Agency's Consolidated financial statements), and (3) the components of Superfund net position (affects only the Superfund financial statements).

In our opinion, except for the affects, if any, of adjustments that might have been necessary had we been able to audit the unbilled oversight costs, and the amounts accrued for unbilled grantee expenses, the Consolidating Statement of Financial Position fairly presents the financial position of EPA, the State and Tribal Assistance Grants Appropriation, and All Other Funds as of September 30, 1996. We are disclaiming an opinion on the Superfund Statement of Financial Position as of September 30, 1996 because we were unable to audit the unbilled oversight costs, the amounts accrued for unbilled grantee expenses, and the components of Superfund net position.

DISCLAIMER OF OPINION ON EPA'S CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION

Except for the Superfund Trust Fund (for which we disclaimed an opinion on the fiscal 1995 financial statements), we had not previously audited the financial statements of the other entities included in the financial statements. Therefore, we could not determine whether the balances reported for assets, liabilities and net position as of October 1, 1995 were fairly presented. Since these balances impact the Statement of Operations and Changes in Net Position for the year ended September 30, 1996 we could not express an opinion on the Statement of Operations and Changes in Net Position for Superfund, the State and Tribal Assistance Grants Appropriation, All Other Funds, and the Agency as a whole. In addition, the issues described above that caused us to qualify or disclaim an opinion on the entities reported in the Statement of Financial Position also affect the Statement of Operations and Changes in Net Position.

The Supplemental Statements of Financial Position and Operations and Changes in Net Position are supplementary information presented for purposes of additional analysis. We reviewed these statements to determine if they were consistent with information in the consolidating financial

statements. However, our audit work was not designed to express, and we are not expressing, an opinion on the financial statements for the individual funds presented in the supplemental statements.

OVERVIEW SECTION OF THE FINANCIAL STATEMENTS

Our audit work related to the information presented in Management's Overview of EPA and EPA Programs consisted of comparing the overview information with information in EPA's principal financial statements to ensure that it was consistent. We did not identify material inconsistencies between the information presented in the two documents. However, we did not perform sufficient audit work to express an opinion on the information contained in the overview.

We also considered the results of other audits that addressed information contained in the overview. Regarding the performance measures reported for the Leaking Underground Storage Tank (LUST) Program, in a recently completed audit ("Consolidated Report on EPA's Leaking Underground Storage Tank Program," Report No. E1LLF5-10-0021-6100264 issued August 6, 1996), we reported that states did not accurately report their LUST program results. EPA Headquarters used this information to report the results of the program in the overview. The three measures reported are: (1) number of sites with confirmed releases of petroleum products, (2) number of these sites where cleanup has been initiated, and (3) number where cleanup has been completed. For the states where we performed audit work, we found an overstatement of the numbers reported by 7 to 47 percent.

We concluded that states did not accurately report their program accomplishments because they: (1) did not correctly use the definition of the measures, (2) improperly reported unregulated tanks, (3) had reporting systems that did not count actual activities, and (4) placed too little emphasis on reporting requirements. Although Agency officials disagreed that the misstatements represented a significant reporting problem, they did agree to take corrective actions which are in process.

EVALUATION OF INTERNAL CONTROLS

We evaluated the Agency's internal control structure: (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:

- C transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- C transactions, including those related to obligations and costs, are executed in compliance with applicable laws and regulations; and

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- C funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Our objective in evaluating controls was not to express an opinion on controls. Accordingly, we do not express such an opinion. 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 internal control structure, losses, noncompliances, 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 93-06, "Audit Requirements for Federal Financial Statements," defines a material weakness as a situation where internal control procedures do not reduce to a relatively low level, the risk that errors or irregularities in amounts material to the audited financial statements 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 noted the following material weaknesses. Attachment 1 describes these material weaknesses in more detail, including the Agency's actions to correct the weaknesses and any additional corrective actions we are recommending.

- C EPA incurs oversight costs to monitor cleanups of hazardous waste sites. These oversight costs are recoverable by EPA from Potentially Responsible Parties according to the terms of Consent Decrees or Consent Orders. Until bills for these costs are prepared they are not recorded as an asset in EPA's accounting system. Therefore, regional finance personnel had to estimate the amount of unbilled oversight costs as of September 30, so the costs could be shown as an asset in the financial statements. Financial Management Division (FMD) personnel provided regional finance offices with procedures for developing and recording the amount of unbilled oversight costs. However, we found the Agency's methodology resulted in some costs that should have been included not being included, while other costs were included that should not have been included. We believe this occurred because Agency staff did not always consistently code oversight costs in the Integrated Financial Management System (IFMS), and prior to fiscal 1996 there was no requirement that Agency staff input activity codes into IFMS.
- C Superfund net position does not reconcile to its component accounts. This problem exists because the budget execution process within IFMS was initially set up to expend funds as though the source of all funds was appropriated authority; however, Superfund has both appropriated and non-appropriated authority. When finance officials recorded various transactions in IFMS for non-appropriated authority, equity, budget and revenue accounts

were improperly affected. Therefore, we were unable to determine if the components of net position are fairly stated. FMD officials are taking the necessary corrective actions which they expect to complete during June 1997.

- C EPA's grantees are not required to provide the Agency with information on the amount of expenses they have incurred as of September 30, but for which they have not billed EPA. Lacking this information, the Agency in the past estimated the amount owed its grantees based on payments made to these grantees during the first two weeks of the new fiscal year. We found however, that this methodology does not result in the amount of unbilled grant expenses (or the accrued liability for grant expenses) being fairly presented in the financial statements.

To obtain a more reasonable estimate of the fiscal 1996 accrued liability for grant expenses, Agency financial management staff contacted by phone a sample of 150 grant recipients to obtain either the amount of the accrued liability or billing cycle information. They used this information to estimate the Agency's accrued liability for grantee expenses. We concurred with this alternative methodology. However, when we attempted to confirm the information provided by the grantees we found that most grantee responses did not correspond with the original information they had provided. Therefore, we were unable to determine whether the accrued grant liability included in the financial statements is fairly presented.

REPORTABLE CONDITIONS

OMB Bulletin 93-06 defines a reportable condition as an internal control weakness that could adversely affect EPA's ability to ensure: (1) obligations and costs are in compliance with applicable laws; (2) funds, property, and other assets are safeguarded against unauthorized use or disposition; and (3) transactions are properly recorded to permit the preparation of reliable financial statements. We identified the following reportable conditions which are discussed in more detail in Attachment 2. We will also report other less significant matters involving the internal control structure and its operation in a separate management letter or audit report.

- C In the accounts receivable area, we identified weaknesses in: (1) recording receivables, (2) managing outstanding receivables, (3) calculating the allowance for doubtful accounts, and (4) accruing and recording interest. We believe the Agency has made improvements in managing its accounts receivable, but the weaknesses we identified show that Agency management needs to continue its emphasis in this area.
- C Although the Agency has taken aggressive action to correct weaknesses in the property area, we found some leases and leasehold improvements that should have been capitalized that had not been capitalized, and we found information in the Agency's property system was incomplete.

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- C The Agency's Financial Management Offices (FMOs) conducted analytical reviews on only selected accounts. More comprehensive analysis could reduce errors and improve the reliability of the Agency's financial statements. The Agency acknowledges this and intends during fiscal 1997 to provide FMOs additional guidance on account analysis.
 - C Invoice approval forms for interagency agreements EPA has with other Federal agencies were not always timely approved and returned to the finance office responsible for their payment. In addition, detailed information to support amounts billed were not always received and reviewed. As a result, the Agency had limited assurance the costs billed were valid and allowable under the terms of the interagency agreements.
 - C During fiscal 1996 and prior years, FMOs did not properly recognize revenue on Superfund State Contracts. Although policies and procedures were developed to ensure revenue was properly recognized, regional personnel encountered difficulties in making the necessary accounting entries that caused revenue on Superfund State Contracts to be misstated by nearly \$50 million.
 - C We were unable to identify and test the automated processing controls for accounting events contained in IFMS because existing documentation is not detailed enough to allow a sufficient test plan to be developed. Agency officials believe they have sufficient documentation to operate IFMS effectively, but the supporting contract staff have acknowledged that existing IFMS manuals do not contain the necessary information for the contractor to create the desired documents and flowcharts. Therefore, the Agency has taken positive action to acquire additional documentation to facilitate our review of automated Accounts Receivable applications controls. Agency representatives are working with us to ensure the additional documentation meets our needs.

COMPARISON OF EPA'S FMFIA REPORT WITH OUR EVALUATION OF INTERNAL CONTROLS

As required by OMB Bulletin 93-06, we compared EPA's Federal Managers' Financial Integrity Act (FMFIA) report to our evaluation of the Agency's internal control systems. For reporting under FMFIA, material weaknesses are defined differently than for financial statement auditing purposes. For FMFIA 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. While the criteria for financial statement audits, OMB Bulletin 93-06, defines a material weakness as a weakness in controls that creates a risk that amounts material to the financial statements could occur and not be detected.

For fiscal 1996, the Agency reported the following FMFIA material weaknesses relating to the Agency's financial statements.

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- C **Grant Close Outs and Oversight of Assistance Agreements.** Agency staff have not adequately managed assistance agreements. Agency project files lack documentation to show that EPA monitored progress on the projects or required recipients to complete projects and submit the required close out documentation. This lack of oversight has created a significant backlog of assistance agreements to be closed out.
 - C **Construction Grant Close Out.** Of the more than \$50 billion in construction grants awarded in the last 20 years, grants totaling \$12 billion had not been closed out as of the end of fiscal 1996. As a result, millions of dollars in potentially ineligible program costs are not being reimbursed for reuse on other high priority state clean water projects.
 - C **Accounting System-Related Financial Management Problems.** The Agency has reported this weakness since 1989. At the end of fiscal 1996, the Agency reported that it had corrected all deficiencies, except for implementing a Fixed Asset System which is scheduled for implementation in fiscal 1997. In addition, the Agency continued to report as material non-conformances: accounts receivable, the Agency's property accounting system and the Agency's accounting system interfaces.

The Agency is also tracking the following Agency-level weaknesses that could affect the financial statements.

- C **Adequacy of Regional Administration of the State Revolving Fund Program.** Headquarters' reviews during fiscal 1996 identified problems in several regions with the administration of the State Revolving Fund Program. The problems included failure to fully support a national information system and inadequate oversight of the program. In addition, inadequate financial audit coverage existed in more than half the states and concerns about the pace of the program existed in more than one-third of the states.
- C **Year 2000 Data Conversion.** Information systems that store the millennium year as a two-digit number are unable to properly process transactions with dates beyond 1999, placing the data and the programs they support at risk of loss, waste or potential abuse. ²

The material weaknesses we identified that affected the financial statements were not reported in the Agency's FMFIA report. We do not believe these weaknesses meet the criteria for reporting as material weaknesses under FMFIA.

² In our report entitled "Major EPA Information Systems Are Vulnerable to Failure Due to the Upcoming Century Change," Report No. E1NMB5-15-3038- 6400036 dated March 14, 1996, IFMS was one of the systems identified as not being prepared to address the Year 2000 problem.

TESTS OF COMPLIANCE WITH LAWS AND REGULATIONS

We tested compliance with those laws and regulations that could either materially affect the financial statements, 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. Accordingly, 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. Also, we identified the following issue that did not cause a material misstatement to the financial statements, but that is a significant issue.

As discussed in prior audits (most recently the "Fiscal 1995 Financial Statement Audit of EPA's Trust Funds, Revolving Funds and Commercial Activity," Report No. E1SFL5-20-8001-6100200 issued May 1996), the Agency has not performed the biennial reviews of fees that are required by the Chief Financial Officers Act. By completing the reviews, the Agency might identify fees EPA could increase which would generate additional revenues. During fiscal 1996, the Acting Chief Financial Officer (CFO) developed a process that will be used to perform the biennial review of fees. On February 10, 1997, the Acting Deputy CFO requested program offices complete the required reviews of fees by April 30, 1997.

RESPONSIBILITIES AND METHODOLOGY

EPA MANAGEMENT AND OIG RESPONSIBILITIES

EPA's management is responsible for:

- C preparing annual Agency-wide financial statements;
- C establishing and maintaining a system of internal controls; and
- C complying with applicable laws and regulations.

We are responsible for auditing the financial statements in order to determine if the statements are free of material misstatements and are presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements. We are also responsible for 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 and disclaimer of opinion on the financial statements, we:

- C examined on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- C assessed the accounting principles used and significant estimates made by management;
- C evaluated the overall presentation of the financial statements;
- C obtained an understanding of the significant internal control structure policies and procedures and assessed the level of control risk 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

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- C tested significant controls to determine whether the controls were effective;
 - C evaluated the adequacy of the automated general control structure affecting EPA's Small Purchases Electronic Data Interchange Local Area Network operations;
 - C followed-up on findings and recommendations from previous audits that could materially affect the financial statements;
 - C obtained an understanding of management's process for evaluating and reporting on internal controls and accounting systems as required by FMFIA;
 - C compared the material weaknesses reported in the Agency's FMFIA report to the material weaknesses we found; and
 - C tested compliance with applicable sections of laws and regulations that either materially affect the financial statements or that OMB or our office considered significant to the audit.

In addition, we attempted to assess the adequacy of the application processing controls for IFMS. However, detailed system documentation was not available that would allow us to develop an understanding of the IFMS automated control structure and to test these controls. We did evaluate selected aspects of the IFMS maintenance structure, and participated in IFMS Subrelease testing, to include reviewing contract deliverables and observing testing activities.

The information presented in Management's Overview of EPA and EPA Programs is supplemental information required by OMB Bulletins 94-01 and 97-01, both entitled "Form and Content of Agency Financial Statements." OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," requires that we obtain an understanding of the internal control structure policies and procedures designed to ensure that data supporting the measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information. OMB Bulletin 93-06 also requires us to assess the risk that the controls in place would not prevent, detect or correct a material misstatement of the information. Our audit work in the area of performance measures was limited to:

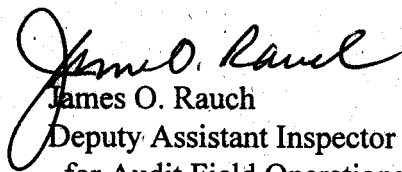
- C comparing the financial information included in the overview with information contained in the principal financial statements,
- C considering other audit work that addressed information presented in the Agency's overview, and
- C providing comments to management regarding the presentation of the overview.

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; 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 observed the Agency's physical inventory of its property, and we conducted a physical inventory of a statistical sample of property items.

Our fieldwork for the audit was performed from April 11, 1996, through January 17, 1997. We conducted our audit work in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin 93-06, except as previously discussed in this report. 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 opinion.


James O. Rauch
Deputy Assistant Inspector General
for Audit Field Operations
U.S. Environmental Protection Agency
January 17, 1997



ACRONYMS

ACRONYMS

AHERA	Asbestos Hazard Emergency Response Act
AIRS	Aerometric Information and Retrieval System
AOC	Administrative Order on Consent
APDLN	Air Pollution Distance Learning Network
ASHAA	Asbestos School Hazard Abatement Act
ASTSWMO	Association of State Territorial Solid Waste Management Officials
BECC	Border Environment Cooperation Commission
CAA	Clean Air Act
CEPPO	Chemical Emergency Preparedness and Prevention Office
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CCP	Composite Correction Program
CFCs	Chlorofluorocarbons
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
DCIs	Data Call-Ins
DfE	Design for the Environment
DOJ	Department of Justice
DWSRF	Drinking Water State Revolving Fund
EPA	Environmental Protection Agency
EPCRA	Emergency Planning and Community Right-To-Know Act
ETS	Environmental Tobacco Smoke
FFDCA	Federal Food, Drug and Cosmetic Act
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act
FWPCA	Federal Water Pollution Control Act
FQPA	Food Quality Protection Act
GS	General Schedule
HCFCs	Hydrofluorocarbons
HSWA	Hazardous and Solid Waste Amendments
ICR	Information Collection Rule
ITC	Interagency Testing Committee
JTR	Jobs Through Recycling

LDR	Land Disposal Restrictions
LUST	Leaking Underground Storage Tank
MACT	Maximum Achievable Control Technology
M-DBP	Microbiological Contaminants and disinfectant by-products
NAAQS	National Ambient Air Quality Standards
NAPLs	Non-Aqueous Phase Liquids
NCP	National Contingency Plan
NPL	National Priorities List
NPS	Nonpoint Source
NWAP	National Watershed Assessment Project
OAR	Office of Air and Radiation
OARM	Office of Administration and Resources Management
OECA	Office of Enforcement and Compliance Assurance
OIG	Office of Inspector General
OPA	Oil Pollution Act
OPPT	Office of Pollution Prevention and Toxics
ORD	Office of Research and Development
OSHA	Occupation Safety and Health Administration
OSWER	Office of Solid Waste and Emergency Response
OTAG	Ozone Transport Assessment Group
OUSTs	Office of Underground Storage Tanks
PPA	Pollution Prevention Act
PCBs	Polychlorinated Biphenyls
PMN	Premanufacture Notice
PPGs	Performance Partnership Grants
PRPs	Potentially Responsible Parties
RBCA	Risk-Based Corrective Action
RCRA	Resource Conservation and Recovery Act
RED	Reregistration Eligibility Decision
ROD	Record of Decision
RPMs	Remedial Project Managers
RSO	Regional Strategic Overview

SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SIPs	State Implementation Plans
SOL	Statute of Limitation
SPCC	Spill Prevention Control and Countermeasures
SRFs	State Revolving Funds
S&T	Science and Technology
STAG	State and Tribal Assistance Grants
SWP	Source Water Protection
TMDL	Total Maximum Daily Load
TPH	Total Petroleum Hydrocarbon
TRI	Toxic Release Inventory
TSCA	Toxic Substances Control Act
TTN	Technology Transfer Network
UAO	Unilateral Administrative Orders
USTs	Underground Storage Tanks

For more information, contact:

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