U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements

Report No. 14-1-0039 **December 16, 2013**

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Abbreviations

CIO	Chief Information Officer
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
IP	Internet Protocol
OCFO	Office of the Chief Financial Officer
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
POA&Ms	Plans of Action and Milestones
RSSI	Required Supplementary Stewardship Information
SOP	Standard Operating Procedure
SSC	Superfund State Contracts
VM	Vulnerability Management

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Washington, DC 20460

U.S. Environmental Protection Agency
Office of Inspector General

14-1-0039
December 16, 2013

At a Glance

Why We Did This Review

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

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

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

This report addresses the following EPA theme:

- *Embracing EPA as a high performing organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20131216-14-1-0039.pdf

Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements

EPA Receives an Unqualified Opinion

We rendered an unqualified opinion on the EPA's Consolidated Financial Statements for fiscal 2013 and 2012, meaning that they were fairly presented and free of material misstatement.

System weaknesses could impact the reliability of financial information.

Internal Control Significant Deficiencies Noted

We noted the following significant deficiencies:

- EPA overstated Superfund State Contract credits.
- EPA's high number of accounting corrections indicates an internal control weakness.
- Internal controls over EPA's accountable personal property inventory process need improvements.
- Software was improperly recorded in Compass.
- EPA needs to improve access control procedures for key financial systems.
- EPA needs to improve processes for following up on identified network vulnerabilities.

Noncompliance With Laws and Regulations Noted

EPA's high number of accounting corrections indicates an internal weakness.

Recommendations and Planned Agency Corrective Actions

The agency agreed with most of our findings and recommendations. However, the agency did not agree with our finding that the number of error corrections were high, an internal control weakness and an instance of noncompliance with the Federal Financial Management Improvement Act. The agency posted over 100 journal entries to correct posting model errors, and just one of those entries involved 206 transactions. While we do not believe the noncompliance rose to the level of substantial noncompliance, we consider the number of errors at the transaction level to be high and an internal control weakness.

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

OFFICE OF
INSPECTOR GENERAL

December 16, 2013

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements
Report No. 14-1-0039

FROM: Paul C. Curtis
Director, Financial Statement Audits

TO: Maryann Froehlich, Acting Chief Financial Officer
Office of the Chief Financial Officer

Craig E. Hooks, Assistant Administrator
Office of Administration and Resources Management

Cynthia Giles, Assistant Administrator
Office of Enforcement and Compliance Assurance

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2013 and 2012 consolidated financial statements. We are reporting six significant deficiencies, one of which is also a noncompliance issue. Attachment 2 contains the status of recommendations related to significant deficiencies reported in prior years' reports. The significant deficiencies included in attachment 2 also apply for fiscal 2013.

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

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 60 calendar days of the final report date. The response should address all issues and recommendations contained in attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether to close this report in our audit tracking system. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

Should you or your staff have any questions about the report, please contact Richard Eyermann, Acting Assistant Inspector General for Audit, at (202) 566-0565; or me at (202) 566-2523.

Attachments

cc: See appendix III, Distribution

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Inspector General's Report on EPA's Fiscal 2013 and 2012 Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA) as of September 30, 2013, and September 30, 2012, and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of EPA management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements,* dated October 21, 2013. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors and other federal agencies. Our audit work pertaining to these expenses included testing only within the EPA. The U.S. Treasury collects and accounts for excise taxes that are deposited into the Leaking Underground Storage Tank Trust Fund. The U.S. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since the U.S. Treasury, and not the EPA, is responsible for these activities, our audit work did not cover these activities.

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

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by goal, changes in net position, custodial activity, and combined budgetary resources of EPA as of and for the years ended September 30, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

Review of EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis

We obtained information from the EPA management about its methods for preparing Required Supplementary Stewardship Information (RSSI), Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements. The Supplemental Information previously included the unaudited Superfund Trust Fund financial statements and certain footnotes. The agency has decided to omit those statements for fiscal 2013 and removed the previously published 2012 statements. The Superfund statements were presented for additional analysis and are not a required part of the basic financial statements. Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

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

Evaluation of Internal Controls

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

> **Reliability of financial reporting**—Transactions are properly recorded, processed and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition.
>
> **Compliance with applicable laws, regulations and government-wide policies**—Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered the EPA's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02, *Audit Requirements* *for Federal Financial Statements,* dated October 21, 2013. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, none of which are considered to be material weaknesses. These significant deficiencies are summarized below and detailed in attachment 1.

EPA Overstated Superfund State Contract Credits

The EPA overstated the value of Superfund State Contract credits available to reduce state shares of remedial action costs by $15 million. The EPA's calculated credits were $25.7 million as of June 30, 2013, but the general ledger showed a balance of $40.7 million for Superfund State Contract credits. The overstatement would misstate the EPA's footnote disclosure and could mislead financial statement users.

EPA's High Number of Accounting Corrections Indicates an Internal Control Weakness

The EPA made numerous manual journal voucher entries in fiscal year (FY) 2013, of which over 100 were to correct transaction level errors in the accounting system. OMB directs agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. The EPA made the accounting corrections due to posting model and other system configuration errors. Although the EPA corrected the errors that the EPA and the OIG identified, the high number of corrections diminishes the reliability of the EPA's accounting system to process transactions accurately. Without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated.

Internal Controls Over EPA's Accountable Personal Property Inventory Process Needs Improvements

We found an $11.5 million difference in accountable personal property, including $7 million of capitalized property, between the agency's property management system (Maximo) and its FY 2013 property certification letters. In addition, our examination found that the EPA did not perform a complete inventory of $3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, Maximo is missing detailed records for this property and such property is not included in the EPA's property certification letters. The EPA requires accountable personal property to be inventoried annually and equipment to have decals and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that the EPA's details within Maximo were not updated timely. The agency's capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. Inaccurate accountable personal property records could compromise the EPA's property control system, impact the accuracy of the agency's financial statements, and result in the loss or misappropriation of assets.

Software Improperly Recorded in Compass

The EPA Software In Development and Loss On Disposition accounts were misstated by $36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. The misstatement impacts the accuracy and reliability of information reported in the EPA's financial statements.

EPA Needs to Improve Access Control Procedures for Key Financial Systems

The EPA did not maintain up-to-date system access control lists for two key Office of the Chief Financial Officer (OCFO) financial systems. We found that users had access to these information systems for at least one year longer than their job duties required. Specifically, a contractor maintained privileged database administrator access to the production server controlling the interface to the EPA's core financial application. We also had concern regarding separation of duties because a system developer maintained a data creation account on another key financial application. In both instances, the EPA resolved these two access control violations uncovered during our audit.

EPA Needs to Improve Processes for Following Up on Identified Network Vulnerabilities

The process for resolving and tracking network vulnerabilities for OCFO was not operating in accordance with agency policy. In particular, OCFO failed to notify the Office of Environmental Information within the required 30-day resolution timeframe of high-risk vulnerabilities that the Office of Environmental Information incorrectly identified as belonging to the OCFO network. OCFO lacked a documented process for its internal staff to follow when reviewing the monthly vulnerability management reports. As such, OCFO received monthly vulnerability reports, but the reports were not distributed to personnel knowledgeable on how to take action or to provide status reports on vulnerability remediation activities.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in attachment 3 should be considered among the EPA's significant deficiencies for FY 2013. We reported to the agency on less significant internal control matters in writing during the course of the audit. We will not issue a separate management letter.

Comparison of EPA's FMFIA Report With Our Evaluation of Internal Controls

OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, dated October 21, 2013, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

The agency reported that no material weaknesses had been found in the design or operation of internal controls over financial reporting as of June 30, 2013. We did not identify any material weaknesses during the course of our audit. Details concerning our findings on significant deficiencies can be found in attachment 1.

Tests of Compliance With Laws and Regulations

The EPA management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, dated October 21, 2013. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

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

FFMIA Noncompliance

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA Section 803(a) requirements and used the OMB guidance, *Memorandum M-09-06-23, Implementation Guidance for the Federal Financial Management Improvement Act,* dated January 9, 2009, for determining substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances where the agency's financial management systems did not substantially comply with the applicable federal accounting standard.

We found that the agency had a high number of accounting corrections due to posting model and other system errors at the transaction level. However, we do not believe that the errors we found reached the level of substantial non compliance as described in OMB guidance. We also reported this issue as a significant deficiency in attachment 1. The results of our tests did not disclose any other instances of noncompliance with FFMIA requirements.

No other significant matters involving compliance with laws and regulations came to our attention during the course of the audit. We will not issue a separate management letter.

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

Prior Audit Coverage

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

- Compass system limitations.
- Posting models materially misstating general ledger activity and balances.
- Compass reporting limitations.
- Controls over expense accrual reversals.
- Accounts receivables internal controls.
- Fund Balance with Treasury Statement of Audit Differences not clearing timely.
- Property internal controls.
- Compass and Maximo not reconciling.
- System vulnerabilities.
- OCFO financial systems documentation.
- Compass service provider's controls over business processes.

Attachment 2 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues.

Agency Comments and OIG Evaluation

In a memorandum received December 13, 2013, the acting Chief Financial Officer responded to our draft report.

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

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

Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
December 16, 2013

Internal Control Significant Deficiencies

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1 – EPA Overstated Superfund State Contract Credits

The EPA overstated the value of Superfund State Contract (SSC) credits available to reduce state shares of remedial action costs by $15 million. The EPA's calculated credits were $25.7 million as of June 30, 2013, but the general ledger showed a balance of $40.7 million for SSC credits. The overstatement would misstate the EPA's footnote disclosure and could mislead financial statement users.

Under Section 104(c)(5)(A) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the federal government shall grant credits to states for amounts they expend for remedial action. EPA Comptroller Policy Announcement No. 99-01, dated December 23, 1998, states that all approved SSC credit amounts will be recorded and tracked in the general ledger. The account with credits earned for the year will close at year-end to the account that reflects the liability for available credits.

The overstatement occurred because the EPA did not properly close the SSC credit accounts at the end of FY 2012. The EPA disclosed the correct amount of SSC credits in the FY 2012 footnote to the financial statements. However, the EPA did not properly set up the year-end closing entries and posted entries that reduced EPA's credits earned during FY 2012 instead of EPA's cumulative liability for credits. Therefore, FY 2013 opened with a $15 million overstatement of the cumulative liability for credits. The EPA's general ledger overstated the cumulative state credits by $15 million; without a correcting entry, the footnote to the financial statements for state credits would misstate the cumulative credits at the end of FY 2013. The footnote disclosures must be accurate because they are an integral part of the financial statements, and a misstatement could mislead financial statement users.

After we notified the EPA of the error, the EPA addressed the cause of the error and posted an entry to correct the account balances. Therefore, we make no recommendations.

Agency Comments and OIG Evaluation

The agency did not respond to this issue. However, since the EPA addressed the cause of the error and corrected the balances, we determined the agency agreed with our finding.

2 – EPA's High Number of Accounting Corrections Indicates an Internal Control Weakness

The EPA made numerous manual journal voucher entries in FY 2013, of which over 100 were to correct transaction level errors in the accounting system. OMB directs agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. The EPA made the accounting corrections due to posting model and other system configuration errors. Although the EPA corrected the errors that the EPA and the OIG identified, the high number of corrections diminishes the reliability of the EPA's accounting system to process transactions accurately. Without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated.

The EPA's manual journal voucher entries included corrections for the following types of transaction level errors:

- Posting model errors, including:
  - ✓ Misclassification of direct appropriations and reimbursable authority.
  - ✓ Misclassification of federal and non-federal activity.
  - ✓ Misclassification of new obligations as upward or downward adjustments of prior year obligations.
  - ✓ Misclassification of property accounts related to software in development.
- Erroneous journal voucher entries.
- Other system configuration errors, such as implied posting models.

The EPA misclassified $89.5 million of new obligations at the transaction level because posting model errors incorrectly impacted the upward adjustments of prior year obligations 206 times. The errors significantly impacted general ledger balances. The EPA has not corrected the obligations posting model and continues to adjust the misstated balances.

The OMB's *Memorandum M-09-06, Implementation Guidance for the Federal Financial Management Improvement Act*, directs federal agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. Federal government internal control standards require accurate and timely recording of transactions.

In October 2011, the EPA replaced its accounting system with a new system, Compass Financials (Compass). Following the conversion to Compass, the EPA has experienced posting model and other system configuration errors. We previously reported on the posting model errors we found in our FY 2012 audit. At that time the agency did not agree that incorrect posting models resulted in material misstated general ledger activity and balances. The agency stated that it has aggressively reviewed posting models to ensure that transactions are properly posting to the EPA's financial accounts and will continue to do so. However, during FY 2013 we continued to find posting model errors. While the agency has corrected certain errors by posting journal vouchers, until they conduct a diligent review of the posting models, such errors will continue to occur.

Without a diligent review of posting models, errors could occur at the transaction level. The EPA has limited assurance that the accounting system can process transactions accurately and the account balances and financial statements are accurate. Due to the high number of transaction level errors and corrections, we do not believe the EPA is in compliance with FFMIA. However, we do not believe that the errors we found reached the level of substantial noncompliance as described in OMB guidance. Agencies are required to post transactions to appropriate general ledger accounts at the transaction level, but the EPA posting models misclassified a high number of transaction-level entries that significantly impacted the general ledger balances.

Recommendations

We recommend that the Chief Financial Officer:

1. Perform a thorough review of posting models and financial system configurations to ensure the proper accounts are impacted.

2. Perform quarterly analytical reviews of account activity at the transaction level to verify that the activity is reasonable.

Agency Comments and OIG Evaluation

The agency concurred with our recommendation to perform quarterly analytical reviews of account activity but it did not concur with our recommendation to perform a thorough review of posting models. The agency maintained that it already has an established process for regularly reviewing posting models. We do not believe the agency's review process was effective because errors from posting models continued throughout FY 2013 with the EPA making journal voucher corrections as we notified them of errors.

We believe that the EPA is not in compliance with FFMIA because of the high number of transaction level errors. The EPA stated that it disagreed that the number of corrections was high. We found that over 100 of the journal voucher corrections were to correct posting models. Just one of the corrections consisted of 206 transaction errors. While we could not determine the total number of transaction level errors that made up all of the correcting entries, what we did find indicated the problem was more than inconsequential. Accordingly, the EPA's posting models misclassified a high number of transaction level entries that significantly impacted the general ledger balances. According to OMB, FFMIA compliance indicates that systems routinely provide reliable financial information consistently, accurately and uniformly. When a financial statement audit identifies a persistent significant deficiency, the agency must demonstrate that the deficiency does not have any impact on providing reliable and timely financial information.

While the agency did adjust for the errors so that the year-end financial statements were fairly stated, we believe that the EPA's posting model errors have persistently and adversely impacted the capability of the EPA's Compass financial management system to provide reliable financial information. The EPA claims that Compass does provide reliable financial information. We disagree because throughout FY 2013 the Compass posting model errors generated transaction level entries that caused significant misstatements to general ledger balances. Without making significant corrections to the system, the EPA could not have obtained reliable financial information. The EPA claimed that making posting model changes through its disciplined configuration management process is an integral part of complying with the Federal Information System Management Act requirements, which is an indicator of FFMIA compliance. We believe that performing a thorough review of posting models would be a more effective method of correcting system errors and achieving FFMIA compliance.

3 – Internal Controls Over EPA's Accountable Personal Property Inventory Process Needs Improvements

We found an $11.5 million difference in accountable personal property, including $7 million of capitalized property, between the agency's property management system (Maximo) and its FY 2013 property certification letters. In addition, our examination found the EPA did not perform a complete inventory of $3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, Maximo is missing detailed records for this property and such property is not included in the EPA's property certification letters. The EPA requires accountable personal property to be inventoried annually and equipment to have decals and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that the EPA's details within Maximo were not updated timely. The agency's capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. Inaccurate accountable personal property records could compromise the EPA's property control system, impact the accuracy of the agency's financial statements, and result in the loss or misappropriation of assets.

At the time of our examination we found that the EPA's property management system was incomplete or inaccurate based on its FY 2013 inventory. For example, the EPA did not inventory $3.7 million of sensitive personal property that was part of a contract buy-out. Sensitive items as defined in the EPA's *Personal Property and Procedures Manual*, section 3.2.7, *Sensitive Items*, "are nonexpendable items (EPA owned or leased) that may be converted to private use or have a high potential for theft, must be recorded and controlled as accountable property. This type of accountability requires property to be tracked throughout its life cycle regardless of cost or value." In addition to the $3.7 million not inventoried, a total of 2,097 records totaling $11.5 million, including 87 items totaling $7 million of capitalized property, have not been updated in Maximo. Property managers can request a Board of Survey be held to review the circumstances of missing property. The Board of Survey can determine if the property should be removed from the property system inventory or referred for investigation. According to the agency's Property Officer, a Board of Survey for one of the largest accountable areas (Washington D.C.) has not been held for the last two years. These factors contributed to incomplete inventory records as of September 30, 2013.

The Facilities Management and Services Division is responsible for administering the EPA Personal Property Management Program. The EPA's *Personal Property and Procedures Manual*, Section 3.2.1, defines accountable personal property as "Personal property with an acquisition cost of $5,000 or more, all leased personal property, and sensitive items." Section 3.1.1, states that "Each AA's [Accountable Area] personal property records must be maintained in IFMS [IFMS, the Integrated Financial Management System, has been replaced by Compass and includes a fixed asset subsystem which is updated by Maximo], thus providing all needed data for effective personal property management (i.e. location, procurement, utilization, disposal.)"

The agency's capitalized property financial activity is dependent upon property management officers maintaining an accurate inventory of capitalized items at the EPA. The $11.5 million difference between the property certification letters and Maximo indicate that accurate personal property records are not being maintained in the agency's official property system. Inaccurate personal property records compromise the EPA's property control system and can lead to the loss or misappropriation of agency assets and possible misstatements within the financial statements.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, to:

3. Establish timeframes that property records are to be entered or updated when a new accountable personal property item is received or inventoried, relocated, transferred or no longer in the EPA's custody.

4. Determine and resolve the issue of missing personal property records not in agency's official property system.

5. Verify capital assets are updated in Maximo (including new equipment, surplused and no longer in the EPA's custody).

6. Hold a Board of Survey to address missing items.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

4 – Software Improperly Recorded in Compass

The EPA's Software In Development and Loss On Disposition accounts were misstated by $36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. The misstatement impacts the accuracy and reliability of information reported in the EPA's financial statements.

FFMIA emphasizes the need for agencies to have systems that can generate timely, accurate and useful information which managers can rely on to make informed decisions and ensure accountability on an ongoing basis. The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government defines the five standards for the minimum level of quality acceptable for internal control in government. The standard for Control Activities requires accurate and timely recording of transactions and events.

Every year, the EPA transfers software going on-line from the Software in Development account to the software in production account. Compass posting model FD01 Fixed Asset Disposition was used to transfer the software out of the development account and reacquire it into the production account. However, the posting model erroneously impacted revenue and cost offset accounts. When notified of the posting model, the EPA prepared two journal vouchers that corrected the revenue account balance. However, the offset account remained understated resulting in an overstatement to the Loss On Disposition of Assets account. The amount of the under- and overstatements to each account is in excess of $36 million. Posting models that impact the wrong accounts will result in inaccurate financial information that can adversely impact the EPA's financial reporting and cost additional time and resources to find and correct the errors.

Recommendation

We recommend that the Chief Financial Officer:

7. Require the Director of the Office of Technology Solutions to work with the Compass contractor to correct the FD01 model posting error.

Agency Comments and OIG Evaluation

The agency did not concur with our finding. The agency believes it was human error and not a posting model error that caused software to be improperly recorded in Compass. Regardless of the cause of the error, multiple transactions occurred resulting in a $36 million misstatement, which had to be corrected. The agency stated that staff will receive refresher training in FY 2014 for recording software transfers from the development to the production account. In addition, OCFO indicated it will review and analyze FD01 transactions for actual disposal entries in FY 2014.

5 – EPA Needs to Improve Access Control Procedures for Key Financial Systems

The EPA did not maintain up-to-date system access control lists for two key OCFO financial systems. We found that users had access to these information systems for at least one year longer than their job duties required. Specifically, a contractor maintained privileged database administrator access to the production server controlling the interface to the EPA's core financial application. We also had concern regarding separation of duties because a system developer maintained a data creation account on another key financial application. In both instances, the EPA resolved these two access control violations uncovered during our audit.

EPA Chief Information Officer (CIO) Transmittal No. 12-003, *Information Security – Interim Access Control Procedures*, V3.2, July 13, 2012, states that the agency must manage information system accounts through a life cycle consisting of establishing, activating and modifying accounts; periodically reviewing accounts; and disabling, removing or terminating accounts. This guidance requires, in part, that the agency review access controls every 30 days to ensure access lists are up-to-date and that users have only the system privileges needed to perform their assigned duties.

EPA management did not ensure personnel followed access control procedures outlined in EPA CIO Transmittal No. 12-003 for granting, monitoring and removing access to its systems/servers. For instance, in June 2012, an Office of Environmental Information (OEI) contractor transferred from the database administrator group to another group under the same EPA contract but was no longer required privileged access. In another instance, one department within the OCFO Office of Technology Solutions took over the responsibility of maintaining access control of OCFO payment systems. Previously, another Office of Technology Solutions department was responsible for this systems' access control, as well as software development. In both cases, EPA management did not ensure that responsible personnel updated access control lists to the OCFO systems/servers in question.

If agency personnel do not follow access control procedures, there is uncertainty as to whether all OCFO system access privileges are up-to-date, and whether security controls necessary to protect the confidentiality, integrity and availability of the EPA's financial data are in place. Additionally, management may be unaware of unnecessary or unauthorized access to agency systems, leaving no assurance of the reliability of data on the information systems and placing the agency systems at unnecessary risk.

Recommendations

We recommend that the Assistant Administrator for Environmental Information and the Chief Financial Officer:

8. Conduct reviews of the access control lists for all agency financial applications under their responsibility to ensure they are up-to-date and reflect the current necessary system privileges of personnel.

9. Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.

Agency Comments and OIG Evaluation

The agency agreed with our findings and recommendations.

6 – EPA Needs to Improve Processes for Following Up on Identified Network Vulnerabilities

The process for resolving and tracking network vulnerabilities for OCFO was not operating in accordance with agency policy. In particular, OCFO failed to notify the OEI within the required 30-day resolution timeframe of high-risk vulnerabilities that OEI incorrectly identified as belonging to the OCFO network. OCFO lacked a documented process for its internal staff to follow when reviewing the monthly vulnerability management reports. As such, OCFO received monthly vulnerability reports but the reports were not distributed to personnel knowledgeable on how to take action or to provide status reports on vulnerability remediation activities.

On February 15, 2013, OEI published a Standard Operating Procedure (SOP), *Vulnerability Management Program,* to describe regularly recurring activities for the agency's Vulnerability Management (VM) Program. OEI's VM Program reports vulnerabilities found on networked resources to EPA offices on a monthly basis. OCFO is responsible for monitoring all high-risk vulnerabilities included on its monthly VM report and ensuring they relate to OCFO-networked resources. The VM SOP requires offices receiving monthly scans to remediate network vulnerabilities labeled as "high" risk within 30 days of the scan report date. If the high-risk vulnerabilities cannot be remediated within the required 30 days, offices must enter Plans of Action and Milestones (POA&Ms) into the EPA's vulnerability tracking system to ensure the agency is monitoring the vulnerability and that a resolution is in progress with documented milestone dates.

OEI had not provided training to the agency staff within each office responsible for receiving and following up on identified vulnerabilities to ensure the responsible individual understood responsibilities for managing identified vulnerabilities. While OEI published the VM SOP that outlines roles and responsibilities, it did not provide details to inform responsible personnel on how to review the provided VM report and what actions to take with the identified vulnerabilities. Additionally, OCFO did not have a documented process in place to review the VM report to ensure all high-risk vulnerabilities are assigned within OCFO or that feedback is provided to OEI informing it that listed high-risk vulnerabilities do not correlate to OCFO information technology assets. OCFO lacks a complete inventory of its information technology assets to identify which vulnerabilities listed on the VM report belong to OCFO. According to the OCFO representative responsible for overseeing OCFO's VM program, OCFO was unaware of which systems or servers correlated with the Internet Protocol (IP) addresses communicated by the VM report. Our analysis disclosed that the VM report lacked a direct correlation, or common attribute, linking vulnerabilities reported on the monthly VM report to the POA&M entries in the agency's vulnerability tracking system. We noted that the monthly VM reports identify vulnerabilities by IP address, while the POA&M entries are organized by server or system name and do not contain specific IP addresses.

The lack of effective response to identified vulnerabilities can adversely affect the agency's network. As noted in table 1, our analysis showed that the weaknesses in the VM process resulted in four high-risk vulnerabilities unresolved within the 30-day timeframe. Personnel unfamiliar with the specific IP addresses associated with their offices' production servers were not reviewing monthly scan reports completely to ensure vulnerabilities belonged to OCFO systems. If high-risk vulnerabilities such as these go unresolved, they could be exploited to cause critical system flaws that are likely to have a significant impact on financial data and reporting.

These weaknesses could result in unauthorized access to the production servers for financial applications and expose agency data, information and configurations to unnecessary risk.

Table 1: High-risk vulnerabilities from monthly VM report that remained unresolved after 30 days

Vulnerability Name	Identified in March 2013	Identified in April 2013	# of IP address vulnerabilities found
SMTP Open Mail Relay	√	√	2
Open SSH buffer_init Buffer Management Vulnerabilities	√	√	1
Microsoft IIS hit-highlighting Remote Security Bypass Vulnerability	√	√	1
Total			**4**

Source: OIG analysis.

SMTP: Simple Main Transfer Protocol
Open SSH buffer_init Buffer: Open Secure Shell Buffer Initialize Buffer
Microsoft IIS: Microsoft Internet Information Server

It is incumbent upon OCFO officials to have a process to train staff involved in the VM process to ensure that vulnerabilities on OCFO networked resources are properly identified, tracked and remediated in the required timeframe.

Recommendations

We recommend that the Chief Financial Officer:

10. Develop a detailed listing of all OCFO information technology assets by IP address, system name and server name. Provide the OCFO staff in charge of receiving and analyzing monthly VM reports with the detailed listing of information technology assets. The detailed listing should include all OCFO information technology assets under OCFO operational control, as well as information technology assets operated on behalf of OCFO within and external to the agency.

11. Issue a memorandum to OCFO staff involved in the monthly VM process reiterating the importance of following roles and responsibilities outlined in the VM SOP. Specifically, the memorandum should stress the importance of communicating, to OEI, IP addresses that do not belong to OCFO so they are no longer included in OCFO's monthly reports. The memorandum should also specify timelines when responsible personnel must update the POA&M information in the agency's vulnerability tracking system and report the status of actions taken to OCFO's primary ISO.

We recommend that the Assistant Administrator for Environmental Information and Chief Information Officer:

12. Conduct training for staff in charge of receiving and analyzing monthly VM reports to ensure they are knowledgeable of the agency's remediation process for vulnerabilities. This training should included specific information on how to review the provided VM report and what actions offices must take regarding the identified vulnerabilities.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. The agency stated it will develop training for staff responsible for receiving and analyzing the monthly VM reports, and make it available through the agency’s enterprise training tool. While the OIG agrees with the agency's approach for conducting the training, we believe the developed training should be required for all personnel responsible for reviewing the VM reports and tracked to ensure all responsible personnel take the training.

Status of Prior Audit Report Recommendations

The EPA is continuing to strengthen its audit management to address audit follow-up issues and complete corrective actions expeditiously and effectively to improve environmental results. The Chief Financial Officer is the agency follow-up official and is responsible for ensuring that corrective actions are implemented. EPA Manual 2750, *Audit Management Procedures*, is a comprehensive audit management guide that addresses OIG, U.S. Government Accountability Office, and Defense Contract Audit Agency audits. OCFO continued to issue a quarterly report that highlights the status of management decisions and corrective actions. This report is shared with program office and regional managers throughout the agency to keep them informed of the status of progress on their audits. Additionally, OCFO continued to conduct reviews of national and program offices, which it initiated in fiscal 2009. The reviews focus on offices' audit follow-up procedures and their use of the Management Audit Tracking System, or MATS. The reviews are designed to promote sound audit management; increase agency awareness of, and accountability for, completing unimplemented corrective actions; and ensure that audit follow-up data are accurate and complete. OCFO completed 4 of these on-site reviews in fiscal 2013, including 2 regional offices and 2 national program offices. These reviews will be performed on an ongoing, rotating basis.

The agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits with findings and recommendations that could have a material effect on the financial statements, and have corrective actions that are not completed or have not been demonstrated to be fully effective, are listed in the following table.

Table 2: Significant deficiencies—Issues not fully resolved

• **Posting Models in Compass Materially Misstated GL Activities and Balances** In FY 2012, the EPA materially misstated general ledger activity and balances due to incorrect posting models. The EPA corrected posting model errors that were identified during FY 2012. However, during FY 2013 we continued to find posting model errors. While the agency has corrected the errors identified in FY 2013, such errors will continue to occur until the EPA conducts a diligent review of the posting models. The EPA has implemented corrective actions to correct activity in accounts incorrectly impacted by improper posting models, develop internal control procedures to confirm the proper accounts are impacted for transactions, and to perform analytical reviews of account activity on a quarterly basis to verify account activity is reasonable. The EPA's remaining corrective action is to complete a thorough review of all posting models.
• **Compass Reporting Limitations Impair Accounting Operations and Internal Controls** The EPA did not agree that the reporting limitations we identified in FY 2012 in several accounting areas significantly impair the effectiveness of the agency's accounting operations and internal controls. However, the EPA stated that it will continue to analyze the agency's reports, identify any concerns and develop new reports for users as needed. In FY 2013, the EPA had not developed reports at the security organization level needed to reconcile accounts receivable and update allowance for doubtful account estimates and to reconcile property financial data in Compass to the property management data in Maximo. The EPA needs to complete corrective action in these areas to develop reports to provide users with accurate data on a timely basis.

• **EPA Should Improve Compliance With Internal Controls for Accounts Receivable** During FY 2012, we found numerous deficiencies in EPA's compliance with accounts receivable internal controls. Various factors contributed to EPA not properly following its internal control procedures to ensure timely and accurate recording of accounts receivable. We found that Cincinnati Finance Center did not timely receive accounts receivable judicial legal documents from the Department of Justice and EPA. In FY 2013, the agency made progress on the corrective action; however, the corrective action is not complete. The agency revised agency accounts receivable guidance to remove the requirement for Regional Legal Enforcement Offices to forward copies of executed judicial orders to the Cincinnati Finance Center within five workdays. EPA's Office of Enforcement and Compliance Assurance is still in the process of working with the Cincinnati Finance Center and the Department of Justice to assess the timely transmission of judicial orders to the Cincinnati Finance Center. The agency is scheduled to complete this corrective action in FY 2014.
• **EPA Is Not Clearing Fund Balance with Treasury Statement of Differences Timely** During FY 2012, EPA did not clear Fund Balance with Treasury differences reported on the U.S. Department of the Treasury's Statement of Differences within two months. Various problems resulting from the agency's conversion from the Integrated Financial Management System to Compass contributed to the untimely clearing of Statement of Differences transactions. In FY 2013 the agency improved its process for clearing Statement of Differences transactions with the implementation of the Central Accounting Reporting System. The EPA has made progress in clearing Statement of Differences transactions in two months. However, the EPA has not fully completed corrective action because some differences still remain, especially at the Washington Finance Center.
• **Property Internal Controls Need Improvement** In our FY 2012 audit, we found that Compass did not sufficiently reject personal property information entries that were not accurate. As a result, the agency could possibly lose accountability and control over property. We identified personal property items for which the location was not properly identified, and items were physically located in accountable areas other than the locations identified in the property system. During FY 2013, we found that some capital property items valued at approximately $1.1 million in Research Triangle Park were not in the exact location as recorded in the Fixed Assets System. The EPA transferred the pieces of equipment to a new location, but did not update the system.
• **Compass and Maximo Cannot Be Reconciled** During FY 2012, we found that the EPA could not reconcile capital equipment property management data within its property management subsystem, Maximo, to relevant financial data within Compass. The inability to reconcile the property subsystem with Compass could compromise the effectiveness and reliability of financial reporting. The EPA could not reconcile Maximo and Compass because historical property data did not migrate properly from the Integrated Financial Management System to Compass. We recommended that the EPA develop procedures to reconcile capitalized property in the agency's system with Maximo. According to agency officials, they identified the need to develop additional procedures to reconcile capital property. The EPA is currently reviewing the policy and the target completion date is December 31, 2013.
• **EPA Should Improve Controls Over Expense Accrual Reversals** In FY 2012, the EPA did not reverse approximately $108 million of FY 2011 year-end expense accruals. The agency did not reverse the accrual transactions because the Compass posting configuration for the applicable fund category was inaccurate. By not reversing the accruals timely, EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. EPA's Policy Announcement No. 95-11, *Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals*, require the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our final audit report issued November 16, 2012, we recommended that the agency update the EPA's Policy Announcement 95-11 to require reconciliations of accruals and accrual reversals. Agency officials concurred with our finding and recommendations and took corrective action by implementing an independent review of the FY 2012 accruals and reversals. The agency also performed accrual reviews prior to the issuance of the FY 2013 quarterly financial statements. However, the agency has extended the target due date to update Policy Announcement 95-11 until June 2014.

• **EPA Needs to Remediate System Vulnerabilities That Place Financial Data at Risk** In our FY 2012 audit, we found that OCFO officials did not monitor the testing of its networked information technology assets to identify commonly known vulnerabilities or take action to remediate those weaknesses. We found the lack of monitoring, in part, because EPA's OEI took almost 3 years to resolve a long-standing recommendation to define duties and responsibilities for testing networked resources managed under EPA's service support contract. Information technology assets used by finance center personnel contained 286 commonly known vulnerabilities that could potentially undermine EPA's financial reporting capability, if exploited. We made several recommendations to the agency's program office senior information official to establish a process to closely monitor the contractor to ensure that they test the finance centers' networked resources and remediate all noted vulnerabilities. During FY 2013, we identified four high-risk vulnerabilities that went unresolved within the required 30-day timeframe for the OCFO network.
• **CFO Financial Systems Security Documentation Needs Improvement** During FY 2012 financial statement audit, we found that the EPA has inaccurate system security plans for the following key financial information systems: Contract Payment System, Fellowship Payment System, Grants Payment System and Small Purchase Information Tracking System. During FY 2013 financial statement audit, we found that the EPA has integrated these financial information systems as modules in the overarching Payment Tracking System. As of September 19, 2013, the EPA has an approved system security plans for the Payment Tracking System. The Payment Tracking System's system security plans incorporated the assessment and control reviews from the Contract Payment System, Fellowship Payment System, Grants Payment System and Small Purchase Information Tracking System system security plans. However, the Payment Tracking System's system security plans includes reference to an outdated policy under controls AC-5 that was found during the FY 2012 financial statement audit and the Contingency Plan provided was not finalized.
• **Financial Management System User Account Management Needs Improvement** EPA had previously considered these recommendations closed; however, OCFO agreed in FY 2013, to develop alternative corrective action for recommendation 27. OCFO is in the process of developing our proposal. Regarding recommendation 32, OCFO has been receiving automated human resources data/reports and is working with the Office of Administration and Resources Management on the implementation of the Human Resources Line of Business which will further respond to this recommendation."

Source: OIG analysis.

Attachment 3

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	11	Perform a thorough review of posting models and financial system configurations to ensure the proper accounts are impacted.	U	Chief Financial Officer			
2	11	Perform quarterly analytical reviews of account activity at the transaction level to verify that the activity is reasonable.	O	Chief Financial Officer	Ongoing quarterly activity		
3	14	Require the Director, Facilities Management and Services Division, to establish timeframes that property records are to be entered or updated when a new accountable personal property item is received or inventoried, relocated, transferred or no longer in the EPA's custody.	O	Assistant Administrator for Office of Administration and Resources Management	1/31/14		
4	14	Require the Director, Facilities Management and Services Division, to determine and resolve the issue of missing personal property records not in agency's official property system.	O	Assistant Administrator for Office of Administration and Resources Management	1/31/14		
5	14	Require the Director, Facilities Management and Services Division, to verify capital assets are updated in Maximo (including new equipment, surplused and no longer in the EPA's custody).	O	Assistant Administrator for Office of Administration and Resources Management	Ongoing quarterly activity		
6	14	Require the Director, Facilities Management and Services Division, to hold a Board of Survey to address missing items.	O	Assistant Administrator for Office of Administration and Resources Management	1/31/14		
7	15	Require the Director of the Office of Technology Solutions to work with the Compass contractor to correct the FD01 model posting error.	U	Chief Financial Officer			
8	16	Conduct reviews of the access control lists for all agency financial applications under their responsibility to ensure they are up-to-date and reflect the current necessary system privileges of personnel.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	1/15/14		
9	17	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	1/15/14		

		RECOMMENDATIONS				POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
10	19	Develop a detailed listing of all OCFO information technology assets by IP address, system name and server name. Provide the OCFO staff in charge of receiving and analyzing monthly VM reports with the detailed listing of information technology assets. The detailed listing should include all OCFO information technology assets under OCFO operational control, as well as information technology assets operated on behalf of OCFO within and external to the agency.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	4/30/14		
11	19	Issue a memorandum to OCFO staff involved in the monthly VM process reiterating the importance of following roles and responsibilities outlined in the VM SOP. Specifically, the memorandum should stress the importance of communicating, to OEI, IP addresses that do not belong to OCFO so they are no longer included in OCFO's monthly reports. The memorandum should also specify timelines when responsible personnel must update the POA&M information in the agency's vulnerability tracking system and report the status of actions taken to OCFO's primary ISO.	O	Assistant Administrator for Environmental Information and Chief Financial Officer	4/30/14		
12	19	Conduct training for staff in charge of receiving and analyzing monthly VM reports to ensure they are knowledgeable of the agency's remediation process for vulnerabilities. This training should included specific information on how to review the provided VM report and what actions offices must take regarding the identified vulnerabilities.	U	Assistant Administrator for Environmental Information and Chief Information Officer			

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

EPA's Fiscal 2013 and 2012 Consolidated Financial Statements

SECTION II
FINANCIAL SECTION

Principal Financial Statements

Financial Statements

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

Notes to Financial Statements

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Notes to Financial Statements (continued)

Required Supplementary Information (Unaudited)

Required Supplementary Stewardship Information (Unaudited)

Environmental Protection Agency
Consolidated Balance Sheet
For the Periods Ending September 30, 2013 and 2012
(Dollars in Thousands)

		FY 2013		FY 2012
ASSETS				
Intragovernmental:				
Fund Balance With Treasury (Note 2)	$	9,944,179	$	10,856,475
Investments (Note 4)		4,577,071		4,620,231
Accounts Receivable, Net (Note 5)		14,327		28,216
Other (Note 6)		243,654		252,837
Total Intragovernmental	$	14,779,231	$	15,757,759
Cash and Other Monetary Assets (Note 3)		10		10
Accounts Receivable, Net (Note 5)		849,173		491,122
Loans Receivable, Net - Non-Federal (Note 7)		57		136
Property, Plant & Equipment, Net (Note 9)		1,030,807		1,010,021
Other (Note 6)		5,756		3,134
Total Assets	$	**16,665,034**	**$**	**17,262,182**
Stewardship PP& E (Note 11)				
LIABILITIES				
Intragovernmental:				
Accounts Payable and Accrued Liabilities (Note 8)		55,961		55,021
Debt Due to Treasury (Note 10)		28		1,063
Custodial Liability (Note 12)		94,441		118,900
Other (Note 13)		102,693		117,520
Total Intragovernmental	$	253,123	$	292,504
Accounts Payable & Accrued Liabilities (Note 8)	$	619,734	$	775,281
Pensions & Other Actuarial Liabilities (Note 15)		51,818		46,905
Environmental Cleanup Costs (Note 21)		21,549		21,560
Cashout Advances, Superfund (Note 16)		1,011,585		735,837
Commitments & Contingencies (Note 18)		25,200		25,180
Payroll & Benefits Payable (Note 32)		267,955		266,727
Other (Note 13)		125,908		105,068
Total Liabilities	$	2,376,872	$	2,269,062
NET POSITION				
Unexpended Appropriations - Other Funds (Note 17)		8,980,012		9,811,870
Cumulative Results of Operations - Funds from Dedicated Collections (Note 19)		4,576,942		4,504,199
Cumulative Results of Operations - Other Funds		731,208		677,051
Total Net Position		14,288,162		14,993,120
Total Liabilities and Net Position	**$**	**16,665,034**	**$**	**17,262,182**

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

Environmental Protection Agency
Consolidated Statement of Net Cost
For the Periods Ending September 30, 2013 and 2012
(Dollars in Thousands)

		FY 2013		FY 2012
COSTS				
Gross Costs (Note 20)	$	10,026,208	$	10,905,272
Less:				
Earned Revenue (Note 20)		600,897		521,826
NET COST OF OPERATIONS (Note 20)	**$**	**9,425,311**	**$**	**10,383,446**

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

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Period Ending September 30, 2013
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 166,921	$ 405,439	$ 341,138	$ 163,742	$ 194,386
With the Public	903,413	4,723,286	1,902,661	538,325	686,897
Total Costs (Note 20)	1,070,334	5,128,725	2,243,799	702,067	881,283
Less:					
Earned Revenue, Federal	21,275	7,733	67,803	12,732	3,489
Earned Revenue, non Federal	1,444	29,976	237,781	31,837	186,827
Total Earned Revenue (Note 20)	22,719	37,709	305,584	44,569	190,316
NET COST OF OPERATIONS (Note 20)	**$ 1,047,615**	**$ 5,091,016**	**$ 1,938,215**	**$ 657,498**	**$ 690,967**

	Consolidated Totals
Costs:	
Intragovernmental	**$ 1,271,626**
With the Public	**$ 8,754,582**
Total Costs (Note 20)	**10,026,208**
Less:	
Earned Revenue, Federal	**$ 113,032**
Earned Revenue, non Federal	**$ 487,865**
Total Earned Revenue (Note 20)	**600,897**
NET COST OF OPERATIONS (Note 20)	**$ 9,425,311**

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

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Period Ending September 30, 2012
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 184,695	$ 380,760	$ 358,603	$ 184,459	$ 216,865
With the Public	1,027,551	5,177,804	2,175,713	593,659	605,163
Total Costs (Note 20)	1,212,246	5,558,564	2,534,316	778,118	822,028
Less:					
Earned Revenue, Federal	12,171	8,220	79,371	12,092	5,877
Earned Revenue, non Federal	1,372	33,654	255,421	37,106	76,542
Total Earned Revenue (Note 20)	13,543	41,874	334,792	49,198	82,419
NET COST OF OPERATIONS (Note 20)	**$ 1,198,703**	**$ 5,516,690**	**$ 2,199,524**	**$ 728,920**	**$ 739,609**

	Consolidated Totals
Costs:	
Intragovernmental	**$ 1,325,382**
With the Public	**$ 9,579,890**
Total Costs (Note 20)	**10,905,272**
Less:	
Earned Revenue, Federal	**$ 117,731**
Earned Revenue, non Federal	**$ 404,095**
Total Earned Revenue (Note 20)	**521,826**
NET COST OF OPERATIONS (Note 20)	**$ 10,383,446**

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

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Periods Ending September 30, 2013 and 2012
(Dollars in Thousands)

		FY 2013 Funds from Dedicated Collections		FY 2013 All Other Funds		FY 2013 Consolidated Total
Cumulative Results of Operations:						
Net Position - Beginning of Period		4,504,199		677,051		5,181,250
Beginning Balances, as Adjusted	$	4,504,199	$	677,051	$	5,181,250
Budgetary Financing Sources:						
Appropriations Used		-		9,160,169		9,160,169
Nonexchange Revenue - Securities Investment (Note 34)		28,717		-		28,717
Nonexchange Revenue - Other (Note 34)		195,107		-		195,107
Transfers In/Out (Note 30)		(12,594)		29,885		17,291
Trust Fund Appropriations		1,087,088		(1,087,088)		-
Total Budgetary Financing Sources	$	1,298,318	$	8,102,966	$	9,401,284
Other Financing Sources (Non-Exchange)						
Imputed Financing Sources (Note 31)		25,151		125,776		150,927
Total Other Financing Sources	$	25,151	$	125,776	$	150,927
Net Cost of Operations		(1,250,726)		(8,174,585)		(9,425,311)
Net Change		72,743		54,157		126,900
Cumulative Results of Operations	$	**4,576,942**	$	**731,208**	$	**5,308,150**
Unexpended Appropriations:						
Net Position - Beginning of Period		-		9,811,870		9,811,870
Beginning Balances, as Adjusted		-		9,811,870		9,811,870
Budgetary Financing Sources:						
Appropriations Received		-		8,782,272		8,782,272
Other Adjustments (Note 33)		-		(453,961)		(453,961)
Appropriations Used		-		(9,160,169)		(9,160,169)
Total Budgetary Financing Sources		-		(831,858)		(831,858)
Total Unexpended Appropriations		-		8,980,012		8,980,012
TOTAL NET POSITION	**$**	**4,576,942**	**$**	**9,711,220**	**$**	**14,288,162**

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

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Periods Ending September 30, 2013 and 2012
(Dollars in Thousands)

		FY 2012 Funds from Dedicated Collections		FY 2012 All Other Funds		FY 2012 Consolidated Total
Cumulative Results of Operations:						
Net Position - Beginning of Period		7,027,163		654,306		7,681,469
Beginning Balances, as Adjusted	$	7,027,163	$	654,306	$	7,681,469
Budgetary Financing Sources:						
Appropriations Used		-		9,814,392		9,814,392
Nonexchange Revenue - Securities Investment (Note 34)		87,454		-		87,454
Nonexchange Revenue - Other (Note 34)		200,069		-		200,069
Transfers In/Out (Note 30)		(2,418,773)		32,018		(2,386,755)
Trust Fund Appropriations		1,075,367		(1,075,367)		-
Total Budgetary Financing Sources	$	(1,055,883)	$	8,771,043	$	7,715,160
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property		-		-		-
Transfers In/Out (Note 30)		-		-		-
Imputed Financing Sources (Note 31)		26,337		141,806		168,143
Other Financing Sources		(76)		-		(76)
Total Other Financing Sources	$	26,261	$	141,806	$	168,067
Net Cost of Operations		(1,493,342)		(8,890,104)		(10,383,446)
Net Change		(2,522,964)		22,745		(2,500,219)
Cumulative Results of Operations	$	**4,504,199**	$	**677,051**	$	**5,181,250**
Unexpended Appropriations:						
Net Position - Beginning of Period		-		11,462,598		11,462,598
Beginning Balances, as Adjusted	$	-	$	11,462,598	$	11,462,598
Budgetary Financing Sources:						
Appropriations Received		-		8,251,902		8,251,902
Appropriations Transferred In/Out (Note 30)		-		5		5
Other Adjustments (Note 33)				(88,243)		(88,243)
Appropriations Used		-		(9,814,392)		(9,814,392)
Total Budgetary Financing Sources		-		(1,650,728)		(1,650,728)
Total Unexpended Appropriations		-		9,811,870		9,811,870
TOTAL NET POSITION	**$**	**4,504,199**	**$**	**10,488,921**	**$**	**14,993,120**

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

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Periods Ending September 30, 2013 and 2012
(Dollars in Thousands)

	FY 2013	FY 2012
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	$ 2,786,404	$ 3,497,850
Unobligated balance brought forward, October 1, as adjusted	2,786,404	3,497,850
Recoveries of Prior Year Unpaid Obligations (Note 26)	286,170	571,576
Other changes in unobligated balance	(25,506)	(31,639)
Unobligated balance from prior year budget authority, net	3,047,068	4,037,787
Appropriations (discretionary and mandatory)	9,585,239	11,948,399
Spending authority from offsetting collections (discretionary and mandatory)	664,260	583,051
Total Budgetary Resources (Note 25)	$ 13,296,567	$ 16,569,237
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 25)	$ 10,090,120	$ 13,782,833
Unobligated balance, end of year:		
Apportioned (Note 27)	3,008,632	2,609,127
Unapportioned	197,815	177,277
Total unobligated balance, end of period	3,206,447	2,786,404
Total Status of Budgetary Resources	$ 13,296,567	$ 16,569,237
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (gross)	$ 11,311,842	$ 12,774,894
Obligations incurred	10,090,120	13,782,833
Outlays (gross)	(11,331,761)	(14,674,309)
Recoveries of prior year unpaid obligations	(286,170)	(571,576)
Unpaid obligations, end of year (gross)	$ 9,784,031	$ 11,311,842
Uncollected Payments:		
Uncollected customer payments from Federal Sources, brought forward, October 1	$ (305,514)	$ (438,428)
Change in uncollected customer payments from Federal sources	9,338	132,914
Uncollected customer payments from Federal sources, end of year	$ (296,176)	$ (305,514)
Memorandum entries:		
Obligated balance, start of year	$ 11,006,328	$ 12,336,466
Obligated balance, end of year (net)	$ 9,487,856	$ 11,006,328
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	$ 10,249,499	$ 12,531,450
Actual offsetting collections (discretionary and mandatory)	(673,598)	(715,965)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	9,338	(132,914)
Budget authority, net (discretionary and mandatory)	$ 9,585,239	$ 11,682,571
Outlays, gross (discretionary and mandatory) (Note 25)	$ 11,331,761	$ 14,674,309
Actual offsetting collections (discretionary and mandatory) (Note 25)	(673,598)	(715,965)
Outlays, net (discretionary and mandatory)	10,658,163	13,958,344
Distributed offsetting receipts (Notes 25 and 29)	(1,173,784)	(1,163,736)
Agency outlays, net (discretionary and mandatory)	$ 9,484,379	$ 12,794,608

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

Environmental Protection Agency
Statement of Custodial Activity
For the Periods Ending September 30, 2013 and 2012
(Dollars in Thousands)

	FY 2013	FY 2012
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 150,444	$ 172,938
Other	17,346	(51,707)
Total Cash Collections	$ 167,790	$ 121,231
Accrual Adjustment	(20,167)	62,980
Total Custodial Revenue (Note 24)	$ 147,623	$ 184,211
Disposition of Collections:		
Transferred to Others (General Fund)	$ 167,790	$ 121,234
Increases/Decreases in Amounts to be Transferred	(20,167)	62,977
Total Disposition of Collections	$ 147,623	$ 184,211
Net Custodial Revenue Activity (Note 24)	**$ -**	**$ -**

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

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2013 and 2012
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

The FY 2013 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

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

C. Budgets and Budgetary Accounting

1. General Funds

Congress adopts an annual appropriation for State and Tribal Assistance Grants (STAG), Buildings and Facilities (B&F), and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for Science and Technology (S&T), Environmental Programs and Management (EPM) and for the Office of Inspector General (OIG) to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

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

Funds transferred from other federal agencies are processed as non-expenditure transfers. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

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

2. Revolving Funds

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

Funding of the Working Capital Fund (WCF) is provided by fees collected from other Agency appropriations and other federal agencies to offset costs incurred for providing the agency administrative support for computer and telecommunication services, financial system services, employee relocation services, background investigations, conference planning and postage.

In FY 2013, EPA received an advance of $1.053 million from BP PLC (BP) to fund the National Resource Damage and Assessment Fund (NRDA) to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

3. Special Funds

The Environmental Services Receipt Account obtains fees associated with environmental programs.

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

4. Deposit Funds

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

5. Trust Funds

Congress adopts an annual appropriation amount for the Superfund, Leaking Underground Storage Tank (LUST) and the Oil Spill Response Accounts to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the agency disburses obligated amounts from the transfer account, the agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the Inland Oil Spill Programs appropriation amount to the EPA's Oil Spill Response Account.

The Office of General Counsel determined that the EPA did not have statutory authority to retain and use states voluntary cost share payments for Superfund removal actions and subsequently did not comply with the Miscellaneous Receipts Act and the EPA's Hazardous Substance Superfund appropriation was improperly augmented. As a result of this decision, the EPA transferred $9.3 million from the Superfund appropriation to Treasury's miscellaneous receipts.

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. The financial statements are prepared in accordance with GAAP for Federal entities.

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

E. Revenues and Other Financing Sources

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources." The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under CERCLA Section 122(b)(3) placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

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

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

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

F. Funds with the Treasury

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

G. Investments in U.S. Government Securities

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

H. Notes Receivable

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

I. Marketable Securities

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

J. Accounts Receivable and Interest Receivable

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

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

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

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

K. Advances and Prepayments

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

L. Loans Receivable

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

M. Appropriated Amounts Held by Treasury

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

N. Property, Plant, and Equipment

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

A purchase of EPA-held or contract personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least two years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years two through five. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to fifteen years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the minimum lease payments must be $75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an $85 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the lease and other minimum lease payments equal or exceed 90 percent of the fair value.

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

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

Real property consists of land, buildings, capital and leasehold improvements and capital leases. Real property, other than land, is capitalized when the value is $85 thousand or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

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

O. Liabilities

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

P. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt.

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 32 as a component of “Payroll and Benefits Payable.”

S. Retirement Plan

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

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

T. Prior Period Adjustments and Restatements

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

U. Recovery Act Funds

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Act was enacted to create jobs in the United States, encourage technical advances, assist in modernizing the nation's infrastructure, and enhance energy independence. The EPA was charged with the task of distributing funds to invest in various projects aimed at creating advances in science, health, and environmental protection that will provide long-term economic benefits.

The EPA manages almost $7.22 billion in Recovery Act funded projects and programs that will help achieve these goals, offer resources to help other "green" agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2013, EPA has paid out $7.1 billion.

The EPA, in collaboration with states, tribes, local governments, territories and other partners, is administering the funds it received under the Recovery Act through four appropriations. The funds include:

- State and Tribal Assistance Grants (STAG) that in turn include:
    - $4 billion for assistance to help communities with water quality and wastewater infrastructure needs and $2 billion for drinking water infrastructure needs (Clean Water and Drinking Water State Revolving Fund programs and Water Quality Planning program);

- $100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program);

- $300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs);

* $600 million for the cleanup of hazardous sites (Superfund program);

* $200 million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank program); and

* $20 million for audits and investigations conducted by the Inspector General (IG).

The vast majority of the contracts awarded under the Recovery Act have used competitive contracts. The EPA is committed fully to ensuring transparency and accountability throughout the agency in spending Recovery Act funds in accordance with OMB guidance.

EPA set up a Stimulus Steering Committee that meets to review and report on the status of the distribution of the Recovery Act Funds to ensure transparency and accuracy. EPA also developed a Stewardship Plan which is an Agency-level risk mitigation plan that sets out the Agency's Recovery Act risk assessment, internal controls and monitoring activities. The Stewardship Plan is divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Stewardship Plan was developed around Government Accountability Office (GAO) standards for internal control. Under each functional area, risks are assessed and related control, communication and monitoring activities are identified for each impacted program. The Plan is a dynamic document and will be updated as revised OMB guidance is issued or additional risks are uncovered.

EPA has the three-year EPM treasury symbol 6809/110108 that was established to track the appropriate operation and maintenance of the funds. EPA's other Recovery Act programs are the following: Office of Inspector General (IG), treasury symbol 6809/120113; State and Tribal Assistance Grants, treasury symbol 6809/100102; Payment to the Superfund, treasury symbol 6809/100249; Superfund, treasury symbol 6809/108195; and Leaking Underground Storage Tank, treasury symbol 6809/108196.

V. Deepwater Horizon Oil Spill

On April 20, 2010 the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. In FY 2011, the EPA worked on the cleanup effort in conjunction with the U.S. Coast Guard who was named the lead Federal On-Scene Coordinator and continues to assist the Department of Justice on the pending civil litigation.

On September 10, 2012, the President designated EPA and USDA as additional trustees for the National Resource Damage and Assessment Council for restoration solely in conjunction with injury to, destruction of, loss of, or loss of the use of natural resources, including their supporting ecosystems, resulting from the Deepwater Horizon Oil Spill. In FY 2013, EPA received an advance of $1.053 million from BP, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

W. Hurricane Sandy

On January 29, 2013, President Obama signed into law the Disaster Relief Appropriations Act (Disaster Relief Act) which provides aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, agencies must ensure that the funds appropriated under the Act are used for their intended purposes. The Disaster Relief Act required Federal agencies supporting Sandy recovery and other disaster-related activities to implement internal controls to prevent waste, fraud and abuse of these funds. EPA implemented an internal control plan. The EPA Hurricane Sandy Internal Control Plan was submitted to OMB, GAO and the IG during March 2013.

EPA received a post sequestration appropriation of $577 million in Hurricane Sandy funds. As of the end of FY 2013, $433,005 in Hurricane Sandy funds have been expended. These funds are for the following programs (all amounts are post sequestration):

- The Clean Water State Revolving Fund received $475 million for work on clean water infrastructure projects.
- The Drinking Water State Revolving Fund received $95 million for work on drinking water infrastructure projects.
- The Leaking Underground Storage Tanks program received $4.75 million for work on projects impacted by Hurricane Sandy.
- The Superfund program received $1.9 million for work on Superfund sites impacted by Hurricane Sandy.
- EPA also received $689,000 to make repairs to EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

X. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2013 and 2012, consists of the following:

	FY 2013 Entity Assets	FY 2013 Non-Entity Assets	FY 2013 Total	FY 2012 Entity Assets	FY 2012 Non-Entity Assets	FY 2012 Total
Trust Funds:						
Superfund	$ 40,254	$ -	$ 40,254	$ 95,604	$ -	$ 95,604
LUST	38,368	-	38,368	35,310	-	35,310
Oil Spill	5,082	-	5,082	4,682	-	4,682
Revolving Funds:						
FIFRA/Tolerance	11,820	-	11,820	4,808	-	4,808
Working Capital	66,663	-	66,663	68,319	-	68,319
Cr. Reform Finan.	370	-	370	599	-	599
NRDA	1,037	-	1,037	-	-	-
Appropriated	9,402,247	-	9,402,247	10,300,004	-	10,300,004
Other Fund Types	377,460	878	378,338	338,748	8,401	347,149
Total	$ **9,943,301**	$ **878**	$ **9,944,179**	$ **10,848,074**	$ **8,401**	$ **10,856,475**

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

Status of Fund Balances:		**FY 2013**		**FY 2012**
Unobligated Amounts in Fund Balance:				
Available for Obligation	$	3,008,631	$	2,609,126
Unavailable for Obligation		199,569		177,277
Net Receivables from Invested Balances		(3,114,699)		(3,269,572)
Balances in Treasury Trust Fund (Note 36)		2,492		(994)
Obligated Balance not yet Disbursed		9,487,855		11,005,812
Non-Budgetary FBWT		360,331		334,826
Totals	$	**9,944,179**	$	**10,856,475**

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2013 and FY 2012 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2013 and 2012, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2013 and 2012 investments related to Superfund and LUST consist of the following:

			Cost		**Amortized (Premium) Discount**		**Interest Receivable**		**Investments, Net**		**Market Value**
Intragovernmental Securities:											
Non-Marketable	FY 2013	$	4,510,044	$	(60,737)	$	6,290	$	4,577,071	$	4,577,071
Non-Marketable	FY 2012	$	4,509,646	$	(103,614)	$	6,971	$	4,620,231	$	4,620,231

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable (see Note 6). All investments in Treasury securities are funds from dedicated collections (see Note 19).

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

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

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2013 and 2012 consist of the following:

		FY 2013		FY 2012
Intragovernmental:				
Accounts & Interest Receivable	$	15,163	$	29,027
Less: Allowance for Uncollectibles	$	(836)	$	(811)
Total	$	**14,327**	$	**28,216**
Non-Federal:				
Unbilled Accounts Receivable	$	142,251	$	139,138
Accounts & Interest Receivable		2,484,674		2,036,177
Less: Allowance for Uncollectibles		(1,777,752)		(1,684,193)
Total	**$**	**849,173**	**$**	**491,122**

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

Note 6. Other Assets

Other Assets as of September 30, 2013 and 2012 consist of the following:

Intragovernmental:		**FY 2013**		**FY 2012**
Advances to Federal Agencies	$	243,586	$	252,537
Advances for Postage		68		300
Total	**$**	**243,654**	**$**	**252,837**

Non-Federal:		**FY 2013**		**FY 2012**
Travel Advances	$	318	$	202
Other Advances		5,052		2,625
Operating Materials and Supplies		85		140
Inventory for Sale		301		167
Total	**$**	**5,756**	**$**	**3,134**

Note 7. Loans Receivable, Net

Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2013 and 2012 are as follows:

	FY 2013			**FY 2012**		
	Loans Receivable, Gross	**Allowance***	**Value of Assets Related to Direct Loans**	**Loans Receivable, Gross**	**Allowance***	**Value of Assets Related to Direct Loans**
Direct Loans Obligated After FY 1991	30	27	57	496	(360)	136
Total	**$ 30**	**$ 27**	**$ 57**	**$ 496**	**$ (360)**	**$ 136**

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

During FY 2008, the EPA made a payment within the U.S. Treasury for the Asbestos Loan Program based on an upward re-estimate of $33 thousand for increased loan financing costs. It was believed that the payment only consisted of "interest" costs and, as such, an automatic apportionment, per OMB Circular A-11, Section 120.83, was deemed appropriate.

However, approximately one third ($12 thousand) of the $33 thousand re-estimate was for increased "subsidy" costs which requires an approved apportionment by OMB before any payment could be made. Therefore, the payment resulted in a minor technical Antideficiency Act (ADA) violation. On October 13, 2009, EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB. On May 18, 2011, EPA sent a supplemental letter to the OMB Director to further identify the names of the persons responsible for the violation, and that they were not suspected of willfully or knowingly violating the ADA.

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

	Interest Rate Re-estimate	Technical Re-estimate	Total
Upward Subsidy Reestimate – FY 2013	$	$	$ -
Downward Subsidy Reestimate - FY 2013	302	96	398
FY 2013 Totals	**$ 302**	**$ 96**	**$ 398**
Upward Subsidy Reestimate – FY 2012	$ 247	$ 85	$ 332
Downward Subsidy Reestimate - FY 2012			-
FY 2012 Totals	**$ 247**	**$ 85**	**$ 332**

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

	FY 2013	FY 2012
Beginning balance of the subsidy cost allowance	$ (360)	$ (131)
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs		
Default costs (net of recoveries)		
Fees and other collections		
Other subsidy costs		
Total of the above subsidy expense components	$ -	$ -
Adjustments:		
Loan Modification		
Fees received		
Foreclosed property acquired		
Loans written off		
Subsidy allowance amortization	$ (11)	$ 103
Other		
End balance of the subsidy cost allowance before reestimates	$ (11)	$ 103
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	302	(247)
(b) Technical/default reestimate	96	(85)
Total of the above reestimate components	$ 398	(332)
Ending Balance of the subsidy cost allowance	$ 27	$ (360)

EPA has not disbursed Direct Loans since 1993.

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2013 and 2012:

		FY 2013		FY 2012
Intragovernmental:				
Accounts Payable	$	642	$	2,610
Accrued Liabilities		55,319		52,411
Total	$	**55,961**	$	**55,021**

Non-Federal:		FY 2013		FY 2012
Accounts Payable	$	78,614	$	107,294
Advances Payable		3		11
Interest Payable		7		7
Grant Liabilities		378,230		460,835
Other Accrued Liabilities		162,880		207,134
Total	$	**619,734**	$	**775,281**

Other Accrued Liabilities primarily relate to contractor accruals.

Note 9. General Property, Plant, and Equipment, Net

General property, plant, and equipment (PP&E) consist of software, real property, EPA and contractor-held personal property, and capital leases.

As of September 30, 2013 and 2012, General PP&E consist of the following:

	FY 2013			FY 2012		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$ 273,725	$ (169,592)	$ 104,133	$ 261,279	$ (157,259)	$ 104,020
Software	690,335	(272,155)	418,180	615,090	(231,599)	383,491
Contractor Held Equip.	48,158	(18,631)	29,527	59,812	(18,711)	41,101
Land and Buildings	680,344	(210,467)	469,877	672,096	(201,140)	470,956
Capital Leases	35,440	(26,350)	9,090	35,440	(24,987)	10,453
Total	**$ 1,728,002**	**$ (697,195)**	**$ 1,030,807**	**$ 1,643,717**	**$ (633,696)**	**$ 1,010,021**

Note 10. Debt Due to Treasury

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2013 and 2012 is as follows:

All Other Funds		**FY 2013**			**FY 2012**	
	Beginning Balance	**Net Borrowing**	**Ending Balance**	**Beginning Balance**	**Net Borrowing**	**Ending Balance**
Intragovernmental:						
Debt to Treasury	$ 1,063	$ (1,035)	$ 28	$ 2,593	$ (1,530)	$ 1,063

Note 11. Stewardship Land

The Agency acquires title to certain property and property rights under the authorities provided in Section 104(j) CERCLA related to remedial clean-up sites. The property rights are in the form of fee interests (ownership) and easements to allow access to clean-up sites or to restrict usage of remediated sites. The Agency takes title to the land during remediation and transfers it to state or local governments upon the completion of clean-up. A site with “land acquired” may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred under the terms of 104(j).

As of September 30, 2013 and 2012, the Agency possesses the following land and land rights:

	FY 2013	**FY 2012**
Superfund Sites with Easements		
Beginning Balance	36	36
Additions	0	0
Withdrawals	0	0
Ending Balance	36	36
Superfund Sites with Land Acquired		
Beginning Balance	34	34
Additions	0	0
Withdrawals	1	0
Ending Balance	33	34

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2013 and 2012, custodial liability is approximately $94 million and $119 million, respectively.

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2013:

Other Liabilities – Intragovernmental	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Current			
Employer Contributions & Payroll Taxes	$ 26,599	$ -	$ 26,599
WCF Advances	1,526	-	1,526
Other Advances	8,814	-	8,814
Advances, HRSTF Cashout	32,736	-	32,736
Deferred HRSTF Cashout	274	-	274
Liability for Deposit Funds	5	-	5
Non-Current			
Unfunded FECA Liability	-	10,581	10,581
Unfunded Unemployment Liability		158	158
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	$ **69,954**	**$ 32,739**	**$ 102,693**
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 103,813	$ -	$ 103,813
Liability for Deposit Funds, Non-Federal	1,052	-	1,052
Non-Current			
Capital Lease Liability	-	21,043	21,043
Total Non-Federal	$ **104,865**	**$ 21,043**	**$ 125,908**

Other Liabilities consist of the following as of September 30, 2012:

Other Liabilities – Intragovernmental		**Covered by Budgetary Resources**		**Not Covered by Budgetary Resources**		**Total**
Current						
Employer Contributions & Payroll Taxes	$	25,304	$	-	$	25,304
WCF Advances		1,294		-		1,294
Other Advances		23,505		-		23,505
Advances, HRSTF Cashout		34,341		-		34,341
Deferred HRSTF Cashout		604		-		604
Non-Current						
Unfunded FECA Liability		-		10,472		10,472
Payable to Treasury Judgment Fund		-		22,000		22,000
Total Intragovernmental	$	**85,048**	**$**	**32,472**	**$**	**117,520**
Other Liabilities - Non-Federal						
Current						
Unearned Advances, Non-Federal	$	72,728	$	-	$	72,728
Liability for Deposit Funds, Non-Federal		9,335		-		9,335
Non-Current						
Capital Lease Liability		-		23,005		23,005
Total Non-Federal	$	**82,063**	**$**	**23,005**	**$**	**105,068**

Note 14. Leases

Capital Leases:

The value of assets held under Capital Leases as of September 30, 2013 and 2012 are as follows:

Summary of Assets Under Capital Lease:		**FY 2013**		**FY 2012**
Real Property	$	35,285	$	35,285
Personal Property		155		155
Total	**$**	**35,440**	**$**	**35,440**
Accumulated Amortization	$	26,350	$	24,987

EPA had two capital leases for land and buildings housing scientific laboratories and computer facilities. Both leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. One lease terminated in FY 2013 and the other terminates in FY 2025.

The total future minimum capital lease payments are listed below.

Future Payments Due:		
Fiscal Year		**Capital Leases**
2014	$	4,215
2015		4,215
2016		4,215
2017		4,215
After 5 years		30,910
Total Future Minimum Lease Payments		47,770
Less: Imputed Interest	$	(26,727)
Net Capital Lease Liability		21,043
Liabilities not Covered by Budgetary Resources	**$**	**21,043**
(See Note 13)		

Operating Leases:

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

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

The total minimum future operating lease costs are listed below:

		Operating Leases, Land and Buildings
Fiscal Year		
2014	$	89
2015		89
2016		89
2017		83
Beyond 2018		114
Total Future Minimum Lease Payments	**$**	**464**

Note 15. FECA Actuarial Liabilities

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

The FECA Actuarial Liability as of September 30, 2013 and 2012 was $51.8 million and $46.9 million, respectively. The FY 2013 present value of these estimated outflows is calculated using a discount rate of 2.727 percent in the first year, and 3.127 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2013 and 2012, cashouts are approximately $1.012 billion and $736 million respectively.

Note 17. Unexpended Appropriations – Other Funds

As of September 30, 2013 and 2012, the Unexpended Appropriations consist of the following:

Unexpended Appropriations:	**FY 2013**	**FY 2012**
Unobligated		
Available	$ 1,061,402	$ 602,413
Unavailable	95,043	82,346
Undelivered Orders	7,823,567	9,127,111
Total	**$ 8,980,012**	**$ 9,811,870**

Note 18. Commitments and Contingencies

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

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

As of September 30, 2013 and 2012 total accrued liabilities for commitments and potential loss contingencies is $25.2 million and $25.2 million, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

Litigation Claims and Assessments

There is currently one legal claim which has been asserted against the EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. This loss has been deemed probable, and the unfavorable outcome is estimated to be between $15 million and $25 million. EPA has accrued the higher conservative amount as of September 30, 2013. The maximum amount of exposure under the claim could range as much as $25 million in the aggregate.

Superfund

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

Judgment Fund

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

As of September 30, 2013, there are no material claims pending in the Treasury's Judgment Fund. However, EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

Other Commitments

EPA has a commitment to fund the United States Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. EPA paid $3 million to the CEC in the period ended September 30, 2013 and $3 million in the period ended September 30, 2012.

EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling $5.92 million in FY 2013. Future payments totaling $27 million have been deemed reasonably possible and are anticipated to be paid in fiscal years 2014 through 2016.

Note 19. Funds from Dedicated Collections

Balance sheet as of September 30, 2013	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Assets					
Fund Balance with Treasury	$ 358,632	$ 38,368	$ 40,254	$ 36,767	$ 474,021
Investments	-	1,360,530	3,216,541	-	4,577,071
Accounts Receivable, Net	-	-	739,813	3,193	743,006
Other Assets	-	361	108,930	3,086	112,377
Total Assets	358,632	1,399,259	4,105,538	43,046	5,906,475
Other Liabilities	$ -	$ 8,973	$ 1,277,641	$ 42,919	$ 1,329,533
Total Liabilities	$ -	$ 8,973	$ 1,277,641	$ 42,919	$ 1,329,533
Cumulative Results of Operations	$ 358,632	$ 1,390,286	$ 2,827,897	$ 127	$ 4,576,942
Total Liabilities and Net Position	$ 358,632	$ 1,399,259	$ 4,105,538	$ 43,046	$ 5,906,475
Statement of Changes in Net Cost for the Period Ended September 30, 2013					
Gross Program Costs	$ -	$ 114,051	$ 1,558,007	$ 74,237	$ 1,746,295
Less: Earned Revenues	(470)	-	441,908	54,131	495,569
Net Cost of Operations	$ 470	$ 114,051	$ 1,116,099	$ 20,106	$ 1,250,726
Statement of Changes in Net Position for the Period ended September 30, 2013					
Net Position, Beginning of Period	$ 325,719	$ 1,336,906	$ 2,834,688	$ 6,886	$ 4,504,199
Nonexchange Revenue- Securities Investments	-	4,904	23,810	3	28,717
Nonexchange Revenue	33,383	162,167	(430)	(12)	195,108
Other Budgetary Finance Sources	-	-	1,062,303	12,190	1,074,493
Other Financing Sources	-	360	23,625	1,166	25,151
Net Cost of Operations	(470)	(114,051)	(1,116,099)	(20,106)	(1,250,726)
Change in Net Position	$ 32,913	$ 53,380	$ (6,791)	$ (6,759)	$ 72,743
Net Position	$ 358,632	$ 1,390,286	$ 2,827,897	$ 127	$ 4,576,942

Balance sheet as of September 30, 2012	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Assets					
Fund Balance with Treasury	$ 325,719	$ 35,310	$ 95,604	$ 22,518	$ 479,151
Investments	-	1,315,101	3,305,130	-	4,620,231
Accounts Receivable, Net	-	-	374,791	10,017	384,808
Other Assets	-	332	114,354	3,924	118,610
Total Assets	325,719	1,350,743	3,889,879	36,459	5,602,800
Other Liabilities	$ -	$ 13,837	$ 1,055,191	$ 29,573	$ 1,098,601
Total Liabilities	$ -	$ 13,837	$ 1,055,191	$ 29,573	$ 1,098,601
Cumulative Results of Operations	$ 325,719	$ 1,336,906	$ 2,834,688	$ 6,886	$ 4,504,199
Total Liabilities and Net Position	$ 325,719	$ 1,350,743	$ 3,889,879	$ 36,459	$ 5,602,800
Statement of Changes in Net Cost for the Period Ended September 30, 2012					
Gross Program Costs	$ -	$ 137,234	$ 1,705,893	$ 81,780	$ 1,924,907
Less: Earned Revenues	-	67,468	305,301	58,796	431,565
Net Cost of Operations	$ -	$ 69,766	$ 1,400,592	$ 22,984	$ 1,493,342
Statement of Changes in Net Position for the Period ended September 30, 2012					
Net Position, Beginning of Period	$ 302,677	$ 3,575,201	$ 3,143,619	$ 5,666	$ 7,027,163
Nonexchange Revenue- Securities Investments	-	60,572	26,879	3	87,454
Nonexchange Revenue	23,042	170,497	6,517	12	200,068
Other Budgetary Finance Sources	-	(2,400,000)	1,033,250	23,345	(1,343,405)
Other Financing Sources	-	402	25,015	844	26,261
Net Cost of Operations	-	(69,766)	(1,400,592)	(22,984)	(1,493,342)
Change in Net Position	$ 23,042	$ (2,238,295)	$ (308,931)	$ 1,220	$ (2,522,964)
Net Position	$ 325,719	$ 1,336,906	$ 2,834,688	$ 6,886	$ 4,504,199

Funds from Dedicated Collections are as follows:

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

Leaking Underground Storage Tank (LUST) Trust Fund: 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 the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act.

Superfund Trust Fund: In 1980, the Superfund Trust Fund, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund is largely financed through a transfer from general revenues with authorized augmentation through cost share agreements with state governments and cost recovery from and settlements with Federal, state, and industry responsible parties. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other Federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

Other Funds from Dedicated Collections:

Oil Spill Liability Trust Fund: The Oil Spill Liability Trust Fund, was authorized by the Oil Pollution Act of 1990 (OPA). Monies are appropriated from the Oil Spill Liability Trust Fund to EPA's Oil Spill Response Account each year. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for specific oil spill cleanup actions is provided through the U.S. Coast Guard from the Oil Spill Liability Trust Fund through reimbursable Pollution Removal Funding Agreements (PRFAs) and other inter-agency agreements.

Pesticide Registration Fund: The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199),", and reauthorized until September 30, 2019, for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

Reregistration and Expedited Processing Fund: The Revolving Fund, was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

National Resource Damage and Assessment Fund: In FY 2013, EPA received an advance of $1.053 million from BP to fund the National Resource Damage and Assessment Fund (NRDA) to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

Tolerance Revolving Fund: The Tolerance Revolving Fund, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently collection of these fees is prohibited by statute, enacted in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

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

Note 20. Intragovernmental Costs and Exchange Revenue

Exchange, or earned revenues on the Statement of Net Cost include income from services provided to Federal agencies and the public, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue.

	FY 2013			FY 2012		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Clean Air						
Program Costs	$ 166,921	$ 903,413	$ 1,070,334	$ 184,695	$ 1,027,551	$ 1,212,246
Earned Revenue	21,275	1,444	22,719	12,171	1,372	13,543
NET COST	$ 145,646	$ 901,969	$ 1,047,615	$ 172,524	$ 1,026,179	$ 1,198,703
Clean and Safe Water						
Program Costs	$ 405,439	$ 4,723,286	$ 5,128,725	$ 380,760	$ 5,177,804	$ 5,558,564
Earned Revenue	7,733	29,976	37,709	8,220	33,654	41,874
NET COSTS	$ 397,706	$ 4,693,310	$ 5,091,016	$ 372,540	$ 5,144,150	$ 5,516,690
Land Preservation & Restoration						
Program Costs	$ 341,138	$ 1,902,661	$ 2,243,799	$ 358,603	$ 2,175,713	$ 2,534,316
Earned Revenue	67,803	237,781	305,584	79,371	255,421	334,792
NET COSTS	$ 273,335	$ 1,664,880	$ 1,938,215	$ 279,232	$ 1,920,292	$ 2,199,524
Healthy Communities & Ecosystems						
Program Costs	$ 163,742	$ 538,325	$ 702,067	$ 184,459	$ 593,659	$ 778,118
Earned Revenue	12,732	31,837	44,569	12,092	37,106	49,198
NET COSTS	$ 151,010	$ 506,488	$ 657,498	$ 172,367	$ 556,553	$ 728,920
Compliance & Environmental Stewardship						
Program Costs	$ 194,386	$ 686,897	$ 881,283	$ 216,865	$ 605,163	$ 822,028
Earned Revenue	3,489	186,827	190,316	5,877	76,542	82,419
NET COSTS	$ 190,897	$ 500,070	$ 690,967	$ 210,988	$ 528,621	$ 739,609
Total						
Program Costs	$ 1,271,626	$ 8,754,582	$ 10,026,208	$ 1,325,382	$ 9,579,890	$ 10,905,272
Earned Revenue	113,032	487,865	600,897	117,731	404,095	521,826
NET COSTS	$ 1,158,594	$ 8,266,717	$ 9,425,311	$ 1,207,651	$ 9,175,795	$ 10,383,446

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

Note 21. Environmental Cleanup Costs

As of September 30, 2013, EPA has 2 sites that require clean up stemming from its activities. Two claimants' chances of success are characterized as probable with costs amounting to $180 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund cleanup work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2013 or in FY 2012.

Accrued Cleanup Cost:

EPA has 15 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2013 and 2012, the estimated costs for site cleanup were $21.6 million and $21.6 million, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

Note 22. State Credits

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2013 and 2012, the total remaining state credits have been estimated at $25.1 million and $24.7 million, respectively.

In Fiscal Year 2013 EPA started recognizing the credits to non-federal sponsors of Great Lakes Legacy Act (GLLA) agreements. The Legacy Act requires that at least 35 percent of project costs be provided by a nonfederal sponsor, with U.S. EPA providing up to 65 percent. Nonfederal sponsors must also cover 100 percent of the project's operation and maintenance costs. As of September 30, 2013 Great Lakes Legacy Act credits have been estimated at $37 million.

Note 23. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2013, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 million. As of September 30, 2012, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by EPA.

Note 24. Custodial Revenues and Accounts Receivable

	FY 2013	FY 2012
Fines, Penalties and Other Miscellaneous Receipts	**$ 147,623**	**$ 184,211**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	$ 190,630	$ 214,530
Less: Allowance for Uncollectible Accounts	(95,873)	(99,606)
Total	**$ 94,757**	**$ 114,924**

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

Note 25. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2013 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2014 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2013 has not yet been published. We expect it will be published by early 2014, and it will be available on the OMB website at http://www.whitehouse.gov/.

The actual amounts published for the year ended September 30, 2012 are listed immediately below:

FY 2012		Budgetary Resources		Obligations		Offsetting Receipts		Net Outlays
Statement of Budgetary Resources	$	16,569,237	$	13,782,833	$	1,163,736	$	13,958,344
Expired and Immaterial Funds*		(226,301)		(53,198)				(415)
Rounding Differences**		1,064		365		264		71
Reported in Budget of the U. S. Government	$	**16,344,000**	$	**13,730,000**	$	**1,164,000**	$	**13,958,000**

* Expired funds are not included in Budgetary Resources Available for Obligation in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.
** Balances are rounded to millions in the Budget Appendix.

Note 26. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2013 and 2012:

		FY 2013		FY 2012
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$	286,170	$	571,576
Temporarily Not Available - Rescinded Authority		(84,183)		(450)
Permanently Not Available:				
Payments to Treasury		(1,035)		(1,529)
Rescinded authority		(437,313)		(58,203)
Canceled authority		(16,649)		(30,116)
Total Permanently Not Available	**$**	**(454,997)**	**$**	**(89,848)**

Note 27. Unobligated Balances Available

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

The unobligated balances available consist of the following as of September 30, 2013 and 2012:

		FY 2013		FY 2012
Unexpired Unobligated Balance	$	3,022,122	$	2,609,303
Expired Unobligated Balance		184,325		177,101
Total	**$**	**3,206,447**	**$**	**2,786,404**

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2013 and 2012 were $9.23 billion and $10.60 billion, respectively.

Note 29. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2013 and 2012, the following receipts were generated from these activities:

	FY 2013	FY 2012
Trust Fund Recoveries	$ 34,987	$ 45,413
Special Fund Environmental Service	32,917	23,271
Trust Fund Appropriation	1,087,088	1,075,367
Miscellaneous Receipt and Clearing Accounts	18,792	19,685
Total	**$ 1,173,784**	**$ 1,163,736**

Note 30. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For September 30, 2013 and 2012, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follows for September 30, 2013 and 2012:

Transfers In/Out Without Reimbursement, Budgetary:

Fund/Type of Account	FY 2013	FY 2012
Army Corps of Engineers	$ -	$ 5
Total Appropriation Transfers (Other Funds)	$ -	$ 5
Net Transfers from Invested Funds	$ 1,176,496	$ 3,683,571
Transfers to Another Agency	(5,100)	-
Allocations Rescinded	81,518	389
Total of Net Transfers on Statement of Budgetary Resources	$ **1,252,914**	$ **3,683,960**

For September 30, 2013 and 2012, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consists of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and nonexpenditure, follows for September 30, 2013 and 2012:

Type of Transfer/Funds	FY 2013		FY 2012	
	Funds from Dedicated Collections	**Other Funds**	**Funds from Dedicated Collections**	**Other Funds**
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	$ (29,885)	$ 29,885	$ (32,018)	$ 32,018
Capital Transfer			(5,000)	
Transfers-in nonexpenditure, Oil Spill	12,190		23,344	
Transfers-in (out) nonexpenditure, Superfund	5,100		(5,099)	
Transfer-out LUST			(2,400,000)	-
Total Transfer in (out) without Reimbursement, Budgetary	$ **(12,595)**	$ **29,885**	$ **(2,418,773)**	$ **32,018**

Note 31. Imputed Financing

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2013 were $142.5 million ($22.9 million from Funds from Dedicated Collections, and $119.6 million from Other Funds). For FY 2012, the estimates were $151.6 million ($24.1 million from Funds from Dedicated Collections, and $127.5 million from Other Funds).

SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" and SFFAS No. 30, "Inter-Entity Cost Implementation," requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other Federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2013 total imputed costs were $7.0 million ($2.2 million from Funds from Dedicated Collections, and $4.8 million from Other Funds).

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2013 entries for Judgment Fund payments totaled $1.4 million (Other Funds). For FY 2012, entries for Judgment Fund payments totaled $10.0 million (Other Funds).

The combined total of imputed financing sources for FY 2013 and FY 2012 is $150.9 million and $168.1 million, respectively.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2013 and 2012 consist of the following:

FY 2013 Payroll & Benefits Payable	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accrued Funded Payroll & Benefits	$ 71,807	$ -	$ 71,807
Withholdings Payable	31,475	-	31,475
Employer Contributions Payable-TSP	6,944	-	6,944
Accrued Unfunded Annual Leave	-	157,729	157,729
Total - Current	**$ 110,226**	**$ 157,729**	**$ 267,955**

FY 2012 Payroll & Benefits Payable	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accrued Funded Payroll and Benefits	$ 72,799	$ -	$ 72,799
Withholdings Payable	31,511	-	31,511
Employer Contributions Payable-TSP	4,163	-	4,163
Accrued Unfunded Annual Leave	-	158,254	158,254
Total - Current	**$ 108,473**	**$ 158,254**	**$ 266,727**

Note 33. Other Adjustments, Statement of Changes in Net Position

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

		Other Funds FY 2013		Other Funds FY 2012
Rescissions to General Appropriations	$	437,280	$	64,991
Canceled General Authority		16,681		23,252
Total Other Adjustments	**$**	**453,961**	**$**	**88,243**

Note 34. Non-exchange Revenue, Statement of Changes in Net Position

Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2013 and 2012 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2013		Funds from Dedicated Collections FY 2012
Interest on Trust Fund	$	28,716	$	87,454
Tax Revenue, Net of Refunds		162,212		170,392
Fines and Penalties Revenue		(475)		6,624
Special Receipt Fund Revenue		33,371		23,053
Total Nonexchange Revenue	**$**	**223,824**	**$**	**287,523**

Note 35. Reconciliation of Net Cost of Operations to Budget

	FY 2013	FY 2012
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 10,090,120	$ 13,782,833
Less: Spending Authority from Offsetting Collections and Recoveries	(950,430)	(1,154,627)
Obligations, Net of Offsetting Collections	$ 9,139,690	$ 12,628,206
Less: Offsetting Receipts	(1,155,006)	(3,544,465)
Net Obligations	$ 7,984,684	$ 9,083,741
Other Resources		
Imputed Financing Sources	$ 150,927	168,142
Other Resources to Finance Activities	-	(76)
Net Other Resources Used to Finance Activities	$ 150,927	$ 168,066
Total Resources Used to Finance Activities	$ 8,135,611	$ 9,251,807
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated	$ 1,374,392	$ 1,138,862
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances:	819	6,777
Offsetting Receipts Not Affecting Net Cost	67,917	69,098
Resources that Finance Asset Acquisition	(106,802)	(145,656)
Other Resources Not Affecting Net Cost	-	76
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 1,336,326	$ 1,069,157
Total Resources Used to Finance the Net Cost of Operations	$ 9,471,937	$ 10,320,964

COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:	FY 2013	FY 2012
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ (525)	$ (4,590)
Increase in Environmental and Disposal Liability	(10)	722
Increase in Unfunded Contingencies	20	15,000
Upward/ Downward Reestimates of Credit Subsidy Expense	(730)	189
Increase in Public Exchange Revenue Receivables	(237,175)	(35,266)
Increase in Workers Compensation Costs	5,180	2,429
Other	(49)	1,242
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	$ (233,289)	$ (20,274)
Components Not Requiring/ Generating Resources:		
Depreciation and Amortization	$ 81,041	$ 96,481
Expenses Not Requiring Budgetary Resources	105,622	(13,725)
Total Components of Net Cost that Will Not Require or Generate Resources	$ 186,663	$ 82,756
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ (46,626)	$ 62,482
Net Cost of Operations	$ 9,425,311	$ 10,383,446

Note 36. Amounts Held by Treasury (Unaudited)

Amounts held by Treasury for future appropriations consist of amounts held in trusteeship by Treasury in the Superfund and LUST Trust Funds.

Superfund

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2013 and 2012. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2013	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ (433)	$ (433)
Total Undisbursed Balance	-	(433)	(433)
Interest Receivable	-	3,851	3,851
Investments, Net	3,028,841	197,366	3,226,207
Total Assets	$ 3,028,841	$ 200,784	$ 3,229,625
Liabilities & Equity			
Equity	$ 3,028,841	$ 200,784	$ 3,229,625
Total Liabilities and Equity	$ 3,028,841	$ 200,784	$ 3,229,625
Receipts			
Corporate Environmental	-	46	46
Cost Recoveries	-	34,986	34,986
Fines & Penalties	-	3,478	3,478
Total Revenue	-	38,510	38,510
Appropriations Received	-	1,087,088	1,087,088
Interest Income	-	23,810	23,810
Total Receipts	$ -	$ 1,149,408	$ 1,149,408
Outlays			
Transfers to/from EPA, Net	$ 1,097,586	$ (1,097,586)	$ -
Total Outlays	1,097,586	(1,097,586)	-
Net Income	$ **1,097,586**	$ **51,822**	$ **1,149,408**

In FY 2013, the EPA received an appropriation of $1.09 billion for Superfund. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation.

As of September 30, 2013 and 2012, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of $3.01 billion and $3.17 billion, respectively.

SUPERFUND FY 2012	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 1,723	$ 1,723
Total Undisbursed Balance	-	1,723	1,723
Interest Receivable	-	4,530	4,530
Investments, Net	3,171,409	129,191	3,300,600
Total Assets	$ 3,171,409	$ 135,444	$ 3,306,853
Liabilities & Equity			
Receipts and Outlays	-		-
Equity	$ 3,171,409	$ 135,444	$ 3,306,853
Total Liabilities and Equity	$ 3,171,409	$ 135,444	$ 3,306,853
Receipts			
Corporate Environmental	-	(104)	(104)
Cost Recoveries	-	45,413	45,413
Fines & Penalties	-	1,176	1,176
Total Revenue	-	46,485	46,485
Appropriations Received	-	1,075,367	1,075,367
Interest Income	-	26,879	26,879
Total Receipts	$ -	$ 1,148,731	$ 1,148,731
Outlays			
Transfers to/from EPA, Net	$ 1,221,693	$ (1,221,693)	$ -
Total Outlays	1,221,693	(1,221,693)	-
Net Income	$ **1,221,693**	$ **(72,962)**	$ **1,148,731**

LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2013 and 2012, there were no fund receipts from cost recoveries. Revenue provisions in section 40201 of Public Law 112-141 transferred and appropriated $2.4 billion of LUST funds to the Highway Trust Fund. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2013	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 2,925	$ 2,925
Total Undisbursed Balance	-	2,925	2,925
Interest Receivable	-	2,439	2,439
Investments, Net	85,858	1,272,232	1,358,090
Total Assets	$ 85,858	$ 1,277,596	$ 1,363,454
Liabilities & Equity			
Equity	$ 85,858	$ 1,277,596	$ 1,363,454
Receipts			
Highway TF Tax	$ -	$ 103,695	$ 103,695
Airport TF Tax	-	10,601	10,601
Inland TF Tax	-	62	62
Total Revenue	-	114,358	114,358
Interest Income	-	(4,904)	(4,904)
Total Receipts	$ -	$ 109,454	$ 109,454
Outlays			
Transfers to/from EPA, Net	$ 103,695	$ (103,695)	$ -
Total Outlays	103,695	(103,695)	-
Net Income	$ **103,695**	$ **5,759**	$ **109,454**

LUST FY 2012	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ (2,717)	$ (2,717)
Total Undisbursed Balance	-	(2,717)	(2,717)
Interest Receivable	-	2,442	2,442
Investments, Net		1,312,659	1,312,659
Total Assets	$ -	$ 1,312,384	$ 1,312,384
Liabilities & Equity			
Equity	$	$ 1,312,384	$ 1,312,384
Receipts			
Highway TF Tax	$ -	$ 159,325	$ 159,325
Airport TF Tax	-	11,082	11,082
Inland TF Tax	-	90	90
Total Revenue	-	170,497	170,497
Interest Income	-	128,040	128,040
Total Receipts	$ -	$ 298,537	$ 298,537
Outlays			
Transfers to/from EPA, Net	$ 2,504,142	$ (2,504,142)	$ -
Total Outlays	2,504,142	(2,504,142)	-
Net Income	$ **2,504,142**	$ **(2,205,605)**	$ **298,537**

Note 37. Antideficiency Act Violations

The EPA experienced an Antideficiency Act violation on November 18 and 19, 2010 in the agency's Oil Spill Response Account in the amount of $502,215. The violation occurred when the EPA made an expenditure in excess of the funds available in the account. The EPA was participating in the response to the Deepwater Horizon oil spill while simultaneously responding to a major inland oil spill in Enbridge, Michigan. The violation was rectified on November 20, 2010, when the EPA was reimbursed with funds from the U.S. Coast Guard. On October 25, 2012 EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB.

Environmental Protection Agency
As of September 30, 2013
(Dollars in Thousands)

1. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices.

		2013
Asset Category:		
Buildings	$	34,618
EPA Held Equipment		800
Total Deferred Maintenance	$	35,418

2. Stewardship Land

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

Environmental Protection Agency
As of September 30, 2013
(Dollars in Thousands)

3. Supplemental Combined Statement of Budgetary Resources
For the Period Ending September 30, 2013

	EPM	SUPERFUND	LUST	S&T	STAG	OTHER	TOTAL
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1:	$ 301,989	$ 1,879,410	$ 7,751	$ 179,591	$ 319,084	$ 98,579	$ 2,786,404
Unobligated balance brought forward, October 1, as adjusted	301,989	1,879,410	7,751	179,591	319,084	98,579	2,786,404
Recoveries of Prior Year Unpaid Obligations	59,256	120,676	4,979	20,020	59,374	21,865	286,170
Other changes in unobligated balance	(8,827)	(8,857)	-	(6,951)	-	(871)	(25,506)
Unobligated balance from prior year budget authority, net	352,418	1,991,229	12,730	192,660	378,458	119,573	3,047,068
Appropriations (discretionary and mandatory)	2,512,095	1,110,634	103,695	743,791	3,927,447	1,187,577	9,585,239
Spending authority from offsetting collections (discretionary and mandatory)	98,195	257,462	5	32,184	2,155	274,259	664,260
Total Budgetary Resources	$ 2,962,708	$ 3,359,325	$ 116,430	$ 968,635	$ 4,308,060	$ 1,581,409	$ 13,296,567
STATUS OF BUDGETARY RESOURCES							
Obligations incurred	$ 2,614,554	$ 1,541,048	$ 109,359	$ 791,353	$ 3,557,579	$ 1,476,227	$ 10,090,120
Unobligated balance, end of year:							
Apportioned	229,227	1,799,707	3,196	146,362	730,024	100,116	3,008,632
Unapportioned	118,927	18,570	3,875	30,920	20,457	5,066	197,815
Total unobligated balance, end of period	348,154	1,818,277	7,071	177,282	750,481	105,182	3,206,447
Total Status of Budgetary Resources	$ 2,962,708	$ 3,359,325	$ 116,430	$ 968,635	$ 4,308,060	$ 1,581,409	$ 13,296,567
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations							
Unpaid Obligations, Brought Forward, October 1 (gross)	$ 1,299,298	$ 1,401,705	$ 128,440	$ 387,416	$ 7,889,126	$ 205,857	$ 11,311,842
Obligations incurred	2,614,554	1,541,048	109,359	791,353	3,557,579	1,476,227	10,090,120
Outlays (gross)	(2,685,571)	(1,553,587)	(118,589)	(809,837)	(4,714,758)	(1,449,419)	(11,331,761)
Recoveries of prior year unpaid obligations	(59,256)	(120,676)	(4,979)	(20,020)	(59,374)	(21,865)	(286,170)
Unpaid obligations, end of year (gross)	$ 1,169,025	$ 1,268,490	$ 114,231	$ 348,912	$ 6,672,573	$ 210,800	$ 9,784,031
Uncollected Payments							
Uncollected customer payments from Federal Sources, brought forward, October 1	$ (110,004)	$ (15,277)	$ -	$ (31,465)	$ -	$ (148,768)	$ (305,514)
Change in uncollected customer payments from Federal sources	11,404	(2,914)	-	4,734	-	(3,886)	9,338
Uncollected customer payments from Federal sources, end of year	$ (98,600)	$ (18,191)	$ -	$ (26,731)	$ -	$ (152,654)	$ (296,176)
Memorandum Entries							
Obligated balance, start of year	$ 1,189,294	$ 1,386,428	$ 128,440	$ 355,951	$ 7,889,126	$ 57,089	$ 11,006,328
Obligated balance, end of year (net)	$ 1,070,425	$ 1,250,299	$ 114,231	$ 322,181	$ 6,672,573	$ 58,146	$ 9,487,855
BUDGET AUTHORITY AND OUTLAYS, NET:							
Budget authority, gross (discretionary and mandatory)	$ 2,610,290	$ 1,368,096	$ 103,700	$ 775,975	$ 3,929,602	$ 1,461,836	$ 10,249,499
Actual offsetting collections (discretionary and mandatory)	(109,599)	(254,547)	(5)	(36,919)	(2,155)	(270,373)	(673,598)
Change in uncollected customer payments from Federal sources	11,404	(2,914)	-	4,734	-	(3,886)	9,338
Budget authority, net (discretionary and mandatory)	$ 2,512,095	$ 1,110,635	$ 103,695	$ 743,790	$ 3,927,447	$ 1,187,577	$ 9,585,239
Outlays, gross (discretionary and mandatory)	$ 2,685,571	$ 1,553,587	$ 118,589	$ 809,837	$ 4,714,758	$ 1,449,419	$ 11,331,761
Actual offsetting collections (discretionary and mandatory)	(109,599)	(254,547)	(5)	(36,919)	(2,155)	(270,373)	(673,598)
Outlays, net (discretionary and mandatory)	2,575,972	1,299,040	118,584	772,918	4,712,603	1,179,046	10,658,163
Distributed offsetting receipts	-	(34,986)	-	-	-	(1,138,798)	(1,173,784)
Agency outlays, net (discretionary and mandatory)	$ 2,575,972	$ 1,264,054	$ 118,584	$ 772,918	$ 4,712,603	$ 40,248	$ 9,484,379

Environmental Protection Agency
Required Supplemental Stewardship Information
For the Quarter Ended September 30, 2013
(Dollars in Thousands)

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

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

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

For FY 2013, the full cost of the Agency's Research and Development activities totaled over $610M. Below is a breakout of the expenses (dollars in thousands):

	FY2009	FY2010	FY2011	FY2012	FY2013
Programmatic Expenses	600,552	590,790	597,558	580,278	531,901
Allocated Expenses[1]	119,630	71,958	80,730	133,637	78,189

[1] Allocated Expenses are calculated specifically for the Required Supplemental Stewardship Information report and do not represent the overall agency indirect cost rates.

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

INVESTMENT IN THE NATION'S INFRASTRUCTURE:

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

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

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

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

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

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

	FY 2009	FY2010	FY2011	FY2012	FY2013
Construction Grants	30,950	18,186	35,339	14,306	6,944
Clean Water SRF	836,502	2,966,479	2,299,721	1,925,057	1,976,537
Drinking Water SRF	906,803	1,938,296	1,454,274	1,240,042	1,027,613
Other Infrastructure Grants	306,366	264,227	269,699	196,085	166,050
Allocated Expenses	414,460	631,799	548,375	777,375	524,326

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

HUMAN CAPITAL

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

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

	FY 2009	FY2010	FY2011	FY2012	FY2013
Training and Awareness Grants	37,981	25,714	23,386	21,233	20,769
Fellowships	6,818	6,905	9,538	10,514	11,157
Allocated Expenses	8,924	3,973	4,448	7,311	4,118

Agency Response to Draft Report

December 13, 2013

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY13-0235, "*Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements,*" dated December 9, 2013

FROM: Maryann Froehlich
Acting Chief Financial Officer

TO: Arthur A. Elkins, Jr.
Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. Following is a summary of the agency's overall position, along with its position on each of the report recommendations. For those report recommendations with which the agency agrees, we have provided high-level intended corrective actions and estimated completion dates to the extent we can.

AGENCY'S OVERALL POSITION

The agency concurs with 10 of the 12 recommendations. We have attached a technical comments document which explains our position for those report recommendations with which the agency does not agree and for one recommendation on which the agency agrees.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
2	Perform quarterly analytical reviews of account activity at the transaction level to verify that the activity is reasonable.	Concur. The EPA already performs quarterly reviews at the transactional level.	Complete. (Ongoing quarterly activity)
3	Establish timeframes that property records are to be entered or updated when a new accountable personal property item is received or inventoried, relocated, transferred or no longer in the EPA's custody.	Concur. The Office of Administration and Resources Management will amend the EPA Personal Property Policy and Procedures manual to require posting within 5 days of installation or on-site receipt.	1/ 31/14

4	Determine and resolve the issue of missing personal property records not in agency's official property system.	Concur. 1) Agency property officers are working to identify and update any missing personal property records in the official property system. 2) In addition, EPA Property guidance will be revised to ensure all future reconciliations occur by September 1.	1) Updates of property records complete. (ongoing activity) 2) 1/31/14 for guidance revision
5	Verify capital assets are updated in Maximo (including new equipment, surplused and no longer in the EPA's custody).	Concur. Updates of capital assets records are required per the Agency Personal Property Policy and Procedure Manual (4382).	Complete. (Ongoing quarterly activity)
6	Hold a Board of Survey to address missing items.	Concur. 1) A Board of Survey has been identified to address missing items. 2) A report is anticipated by late January 2014. The Agency Personal Property Policy and Procedure Manual will be updated to require BOS reports by September 15.	1) BOS re-established 10/31/13 2) Manual updated by 1/31/14
8	Conduct reviews of the access control lists for all agency financial applications under their responsibility to ensure they are up-to-date and reflect the current necessary system privileges of personnel.	Concur. The Office of Environmental Information/ Office of Technology Operations and Planning will conduct the review of access control lists for financial applications under OTOP/National Computer Center's purview.	1/15/14
9	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures – specifically, periodic access reviews and proper access removal.	Concur. OEI/OTOP will issue a memorandum to responsible personnel regarding adherence to access control procedures.	1/15/14

10	Develop a detailed listing of all OCFO information technology assets by IP address, system name and server name. Provide the OCFO staff in charge of receiving and analyzing monthly VM reports with the detailed listing of information technology assets. The detailed listing should include all OCFO information technology assets under OCFO operational control, as well as information technology assets operated on behalf of OCFO within and external to the agency.	Concur. The Office of the Chief Financial Officer will update its detailed inventory of Internet Protocol addresses and system and server names. Information will be provided to appropriate staff.	4/30/14
11	Issue a memorandum to OCFO staff involved in the monthly VM process reiterating the importance of following roles and responsibilities outlined in the VM SOP. Specifically, the memorandum should stress the importance of communicating, to OEI, IP addresses that do not belong to OCFO so they are no longer included in OCFO's monthly reports. The memorandum should also specify timelines when responsible personnel must update the POA&M information in the agency's vulnerability tracking system and report the status of actions taken to OCFO's primary ISO.	Concur. OCFO will issue a memo to the appropriate staff regarding roles and responsibilities related to the Vulnerability Management review process including procedures on handling items that do not belong to OCFO and related timelines.	4/30/14
12	Conduct training for staff in charge of receiving and analyzing monthly VM reports to ensure they are knowledgeable of the agency's remediation process for vulnerabilities.	Concur. OEI will develop training on monthly VM reports and make it available through the agency's enterprise training tool.	TBD

Disagreements

No.	Recommendation	Agency Explanation/Response	Proposed Alternative
1	Perform a thorough review of posting models and financial system configurations to ensure the proper accounts are impacted.	Nonconcur. The agency already has an established process for regularly reviewing posting models to ensure that the proper accounts are impacted.	N/A
7	Require the Director, Office of Technology Solutions to work with CGI to correct the FD01 model posting error.	Nonconcur. The FD01 posting model did not cause the erroneous postings referenced in the draft report. The erroneous posting was due to user errors.	N/A

CONTACT INFORMATION

If you have any questions regarding this response, please contact Stefan Silzer, Director, Office of Financial Management on (202) 564-5389.

Attachment

cc: David Bloom
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Technical Comments Related to OIG's Draft Audit Report No. OA-FY13-0235, "*Audit of EPA's Fiscal 2013 and 2012 Consolidated Financial Statements,*" dated December 9, 2013

- **<u>OIG Finding - "Federal Financial Management Improvement Act Noncompliance"</u>**

"Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA Section 803(a) requirements and used the OMB guidance, Memorandum M-09-06-23, Implementation Guidance for the Federal Financial Management Improvement Act, dated January 9, 2009, for determining substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances where the Agency's financial management systems did not substantially comply with the applicable Federal accounting standards.

We found that the Agency had a high number of accounting corrections due to posting model and other system errors at the transaction level. However, we do not believe that the errors we found reached the level of substantial non compliance as described in OMB guidance. We also reported this issue as a significant deficiency in attachment 1. The results of our tests did not disclose any other instances of non compliance with FFMIA requirements."

Agency Response: Do Not Concur

Agency Position on Finding:
The agency's financial system is in compliance with FFMIA. The OMB guidance does not require a perfect system. The guidance states, "…FFMIA compliance itself neither requires nor results in ideal or state-of-the-art system performance or system efficiency; nor does it require that systems be entirely automated. What FFMIA compliance indicates is that systems routinely provide reliable financial information consistently, accurately and uniformly." Accordingly, the system routinely and substantially provides reliable financial information. Specifically, the Compass system:

- Gives the EPA the ability to prepare financial statements and other required financial and budget reports using information generated;
- Provides reliable and timely financial information for managing current operations;
- Enables the agency to safeguard its assets reliably; and
- Enables the EPA to comply with the U.S. Government Standard General Ledger at the transaction level.

Compass is based on a FSIO-compliant, commercial-off-the-shelf software solution from an OMB-approved shared service provider. Changes to the system, such as the posting model changes in progress, are accomplished through our disciplined configuration management process which includes rigorous development, testing and approval procedures. Adhering to a disciplined configuration management process is an integral part of complying with the Federal Information System Management Act requirements. Compliance with FISMA is cited in OMB Memorandum M-09-06 as an indicator in determining compliance with FFMIA. Specifically, the CM process aligns with the FISMA requirement for continuous monitoring of information systems components and associated security controls. This process ensures the consistency of financial system performance through the orderly management, documentation, testing, and review of system changes over the course of the system lifecycle. The CM process enables EPA to introduce posting model changes in a manner that satisfies fundamental accounting standards while mitigating the risk of disrupting existing functionality.

Further, the agency disagrees that the number of corrections made in FY 2013 is high given that the agency processes thousands of transactions on a daily basis. The agency has developed and implemented a rigorous process to continuously review, analyze and make the necessary corrections, where needed, to posting models. This process is one of the reasons that we are confident that we are providing reliable and timely information for managing current operations. Through this process we identify opportunities for system changes to improve automated operations. Of particular note, the agency is working on a system change to correct a defect related to upward and downward adjustments of prior year obligations. To ensure the defect is corrected in an efficient and effective manner and that we remain FISMA compliant, we are applying best practices in CM to change the system to correct handling of the upward and downward adjustments. Pending implementation of the system change, we have adopted manual procedures involving the use of journal vouchers as part of the process for properly recording upward and downward adjustments to prior year obligations; we have followed the manual procedures in FY 2013.

- **OIG Finding "2— EPA's High Number of Accounting Corrections indicates an Internal Weakness"**

"The EPA made 396 manual journal voucher entries FY 2013 to correct transaction level errors in the accounting system, including 138 entries for posting model errors. OMB directs agencies to apply the United States standard general ledger at the transaction level to generate appropriate general ledger accounts for posting transactions. The EPA made the accounting corrections due to posting model and other system configuration errors. Although the EPA corrected the errors that the EPA and the Office of Inspector General identified, the high number of corrections diminishes the reliability of the EPA's accounting system to process transactions accurately. Without a diligent review of posting models, errors could occur at the transaction level, impacting the reliability of financial information and increasing the risk that the financial statements could be misstated."

Agency Response: Do Not Concur

Agency Position on Finding:
The EPA disagrees that the high number of accounting corrections indicates an internal weakness. We believe the journal vouchers processed were fully supported and were significantly less in number than the amount stated in OIG's condition statement. For example, journal voucher entries made as part of normal financial business processes were erroneously classified by the OIG as corrections to transaction level errors.

Also, The agency does not agree that the number of corrections diminishes the reliability of the EPA's financial system. The agency took steps in FY 2012 and 2013 to ensure the integrity of its financial data and identified many of the issues in the OIG finding. The EPA has a process in place to proactively analyze and validate posting models. For example, during FY 2013, the agency identified accounting model issues, corrected them in the system, and made necessary journal voucher entries in compass to reflect the accurate United States Standard General Ledger impact. OCFO established an internal GL Issues email box to collect agency identified accounting model and reference table issues. OCFO prioritized, and tracked progress in resolving accounting model and reference table issues. We continue to remain vigilant in our efforts to ensure that Compass accounting models are properly recording accounting events.

As discussed above, the EPA complies with FFMIA.

- **OIG Finding "3—Internal Controls Over EPA's Accountable Personal Property Inventory Process Needs Improvements"**

"We found an $11.5 million difference in accountable personal property, including $7 million of capitalized property, between the agency's property management system (Maximo) and its fiscal year (FY) 2013 property certification letters. In addition, our examination found the EPA did not perform a complete inventory of $3.7 million of sensitive accountable personal property purchased in the last quarter of FY 2013. As a result, Maximo is missing detailed records for this property and such property is not included in the EPA's property certification letters. The EPA requires accountable personal property to be inventoried annually and equipment to be decaled and added to Maximo when acquired. Various factors contributed to Maximo being incomplete and inaccurate; however, the primary cause was that the EPA's details within Maximo were not updated timely. The agency's capitalized property financial activity (which is part of the accountable personal property) is dependent upon property management officers maintaining an accurate inventory of capitalized property. Inaccurate accountable personal property records could compromise the EPA's property control system, impact the accuracy of the agency's financial statements, and result in the loss or misappropriation of assets."

Agency Response: Concur

Agency Position on Finding: EPA concurs that the inventory purchased from the Customer Technology Solutions in the last quarter of FY 2013 was not completed. An official agency inventory could not be conducted until the equipment buy-out was completed and the agency owned the assets. The purchase of CTS equipment in August 2013 was an unusually large purchase resulting in the acquisition of approximately 12,000 assets near the end of the year. The equipment buyout did not occur until late August and Property notification in mid September. As a result, Facilities Management and Services Division could not inventory all equipment by the end of FY13. Inventory of these assets was initiated in October and should be completed by January 2014.

OARM will amend the EPA Personal Property policy and Procedures Manual to require posting of records within 5 days of installation or receipt on site.

- **<u>OIG Finding "4— Software Improperly Recorded in Compass"</u>**

"The U.S. Environmental Protection Agency's (EPA) Software In Development and Loss On Disposition accounts were misstated by $36 million. Federal regulations require agencies to have systems that record and generate accurate financial information. The posting model applied to the transaction impacted the wrong accounts. The misstatement impacts the accuracy and reliability of information reported in the EPA's financial statements."
Agency Response: Do Not Concur

Agency Position on Finding: The EPA does not concur with the finding that the posting model applied to the referenced transaction impacted the wrong actions. The "Software in Development" and the "Loss on Disposition" postings were incorrect due to system users applying an incorrect document type. The correct posting for this type of transaction, which moves software in development status to production, is the Fixed Asset Transfer (FT) document type. The FT document type allows the system to directly reclassify the asset's status from development to production. While OCFO staff were trained by the contractor in FY 2013 on how to process this transaction using the FT document type, the use of the FD document type was used in error. To help mitigate the risk of this type of incorrect posting in the future, OCFO will review with staff the correct posting for the business event of transferring software from the development account to the production account. Staff will receive refresher training in FY2014.

The resulting postings using the FD01 were corrected with Journal Vouchers (RAS13582JAN & RAS13583JAN) to allow the general ledger accounts to correctly reflect the intent of the accounting events that were initiated. As part of the agency's internal process for reviewing transaction events, OCFO will review and analyze the document/transaction type FD01 for the actual disposal entries in FY 2014.

Distribution

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Assistant Administrator for Enforcement and Compliance Assurance
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