U.S. ENVIRONMENTAL PROTECTION AGENCY

## OFFICE OF INSPECTOR GENERAL

# Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements

**Report No. 12-1-0073** **November 15, 2011**

## Abbreviations

| | |
|---|---|
| ALJ | Administrative Law Judges |
| BFY | Budget fiscal year |
| CFC | Cincinnati Finance Center |
| EAB | Environmental Appeals Board |
| EPA | U.S. Environmental Protection Agency |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| GAO | U.S. Government Accountability Office |
| HR Fund | Oil Spill Reimbursable Fund |
| IFMS | Integrated Financial Management System |
| LEO | Legal Enforcement Office |
| OARM | Office of Administration and Resources Management |
| OCFO | Office of the Chief Financial Officer |
| OECA | Office of Enforcement and Compliance Assurance |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| ORC | Office of Regional Counsel |
| RMDS | Resource Management Directive System |
| RPO | Regional program office |
| RSSI | Required Supplementary Stewardship Information |
| SFFAS | Statement of Federal Financial Accounting Standards |
| USCG | U.S. Coast Guard |

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Washington, DC 20460

U.S. Environmental Protection Agency
Office of Inspector General

12-1-0073
November 15, 2011

# At a Glance

## Why We Did This Audit

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

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

## Background

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

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

**The full report is at:**
**www.epa.gov/oig/reports/2012/20111115-12-1-0073.pdf**

# *Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements*

## EPA Receives an Unqualified Opinion

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for fiscal 2011 and 2010, meaning that they were fairly presented and free of material misstatement.

## Internal Control Significant Deficiencies Noted

We noted the following significant deficiencies:

- Regions and headquarters did not timely provide accounts receivable supporting documentation.
- EPA did not timely bill other federal agencies for reimbursable costs.
- EPA did not properly close general ledger accounts in its cancelling Treasury symbols.
- EPA double counted contractor-held property.
- EPA headquarters could not account for 1,284 personal property items.
- EPA needs to better secure marketable securities.
- EPA recorded earned revenue without recognizing corresponding expenses.
- EPA is withholding payments related to the BP Deepwater Horizon oil spill.

## Noncompliance With Laws and Regulations Noted

We noted a noncompliance issue involving EPA's Oil Spill Response Account in relation to the BP Deepwater Horizon oil spill response. EPA violated the Antideficiency Act in November 2010 because it made expenditures in excess of funds available. Also, to avoid a second potential Antideficiency Act violation, EPA delayed payments to vendors, resulting in the Agency being required to make interest penalty payments to vendors as required by the Prompt Payment Act.

## Agency Comments and Office of Inspector General Evaluation

The Agency did not concur with our finding regarding cancelling Treasury symbols causing inappropriate balances. The Agency believes that it is following Treasury instructions and the balances are proper. While the amounts are not material to the financial statements, by reversing the receivable, the Agency has understated fiscal 2011 income and bad debt expense related to cancelling the Treasury symbol. The Agency agreed with our other findings and recommendations.

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

THE INSPECTOR GENERAL

November 15, 2011

**MEMORANDUM**

**SUBJECT:** Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements
Report No. 12-1-0073

**FROM:** Arthur A. Elkins, Jr.
Inspector General

**TO:** Lisa P. Jackson
Administrator

Barbara J. Bennett
Chief Financial Officer

Craig E. Hooks
Assistant Administrator for Administration and Resources Management

Cynthia Giles
Assistant Administrator for Enforcement and Compliance Assurance

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2011 and 2010 consolidated financial statements. We are reporting eight significant deficiencies. We also identified an instance of noncompliance with laws and regulations related to an Antideficiency Act violation in the Oil Spill Response Account. Attachment 3 contains the status of recommendations related to the material weaknesses, significant deficiencies, and noncompliances with laws and regulations reported in prior years' reports. The significant deficiencies and noncompliances included in attachment 3 also apply for fiscal 2011.

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

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 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.

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

Attachments

cc: See appendix III, Distribution

# *Table of Contents*

# Inspector General's Report on EPA's Fiscal 2011 and 2010 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, 2011, and September 30, 2010, 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 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors, and other federal agencies. Our audit work pertaining to these expenses included testing only within EPA. 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 EPA as authorized in legislation. Since the U.S. Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

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

In our opinion, the consolidated financial statements, 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, 2011 and 2010, 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 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 includes the unaudited Superfund Trust Fund financial statements for fiscal 2011 and 2010, which are being presented for additional analysis and are not a required part of the basic financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

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

## Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, 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 EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009.* 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.

### *Accounts Receivable Source Documentation Not Provided Timely*

EPA regional and headquarters offices did not timely submit supporting documentation to the Cincinnati Finance Center (CFC) so that CFC could promptly record accounts receivable in the financial system. EPA policies state that within 5 business days of determining a debt is owed to the Agency, the responsible office must forward source documents to CFC. Regional program office (RPO), Office of Regional Counsel (ORC), the Environmental Appeals Board (EAB), Office of Administrative Law Judges (ALJ), Office of Enforcement and Compliance Assurance (OECA) staff, and regional Legal Enforcement Office (LEO) staff are responsible for providing this documentation. CFC stated that offices may have been unaware of the 5-day policy, or may have simply forgotten to send the documentation. When CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and EPA may not collect all that it is owed. Further, EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

### *Federal Reimbursable Costs Not Billed Timely*

EPA did not timely bill other federal agencies for $2,210,617 of reimbursable costs. We found costs that had not been billed for up to 9 years. In addition, $3,150,692 and $521,589 of reimbursable expenses were recorded in funds cancelled in fiscal 2010 and 2011, respectively. Reimbursable costs were not timely billed to other federal agencies because EPA had difficulty reconciling costs previously incurred to costs previously billed under individual reimbursable agreements. Untimely billing of reimbursable costs causes delays in replenishing funds spent on reimbursable agreements. Also, untimely billing may result in EPA losing the ability to obligate and/or spend funds due to the expiration and subsequent cancellation of funds before they are collected. For example, we identified $3.7 million of reimbursable expenses due from other agencies in fiscal 2010 and 2011 in cancelled funds. Since the funds are now cancelled, if EPA does bill such amounts, the collections must be returned to Treasury and will not be available to EPA.

### *EPA's Process for Cancelling Treasury Symbols Caused Inappropriate Account Balances*

EPA did not properly close general ledger accounts in its cancelling Treasury symbols. We identified two instances in which EPA inappropriately recorded general ledger entries to close accounts when it cancelled Treasury symbols. *Treasury Financial Manual Bulletin No. 2011-07,* Section 21, states that agencies must cancel any remaining balances (whether obligated or unobligated) in a closed appropriation account being cancelled and report valid receivable and payable balances associated with a cancelled Treasury Appropriation Fund Symbol. Because EPA did not review the net impact to current Treasury funds, EPA's improper cancellation procedures resulted in various misstated general ledger accounts. Consequently, the financial statements were misstated, although the misstatements were not material to the financial statements as a whole.

### *EPA Double Counted Contractor-Held Property*

EPA double counted 97 items of capitalized property in its financial system because it did not remove property from its financial system that had been transferred to contractors. As a result, these items were recorded as both EPA-held property and contractor-held property. The double-counted property had an acquisition cost of $12.3 million and a net book value of $5 million. EPA property guidance states that when contractors are furnished with government property, the property is deleted from the financial system. The contractor-held property items were not removed because EPA does not have a policy that states who is responsible for removing contractor-held property from EPA's financial system. Without clear policies, neither the Office of the Chief Financial Officer (OCFO) nor the Office of Administration and Resources Management (OARM) has taken responsibility to ensure that EPA property transferred to contractors is deleted from EPA's financial system. The double counting resulted in capitalized property being overstated by $5 million in fiscal 2011.

### *EPA Headquarters Cannot Account for 1,284 Property Items*

EPA headquarters could not account for 1,284 personal property items in fiscal 2011 as required by EPA's *Personal Property and Procedures Manual*. Headquarters mid-level management was not knowledgeable about Agency property management procedures, and EPA did not provide planned property training for Agency employees during fiscal 2011. Because EPA could not account for these property items, it was not exercising proper control over $2.1 million of accountable personal property. Inaccurate personal property records compromise EPA's property control system and can lead to the loss or misappropriation of Agency assets.

### *EPA Should Secure Marketable Securities*

EPA does not perform inspections of the safe in which marketable securities received should be stored to ensure that the securities are adequately safeguarded and that the contents of the safe agree with accounting or control records. The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, states, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records." By not securing marketable securities, EPA increases the risk of loss or theft of its assets.

### *EPA Recognized Earned Revenue in Excess of Expenditures*

EPA recorded earned revenue without recognizing corresponding expenses. At the end of fiscal 2011, EPA had recorded $7 million more in earned revenue in the Oil Spill Reimbursable (HR) Fund than it recognized in HR reimbursable expenses. The fund had a balance of $74.5 million in Earned Revenue Federal Billed versus $67.5 million for Operating Expense Public Exchange. These balances were the totals after EPA recorded (1) a $5.7 million entry to accrue unbilled reimbursements and earned revenue, and (2) a $1.1 million entry to reduce advances from other agencies and to increase earned revenue. Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, requires agencies to match revenue and expenses. The Agency did not properly match revenues and expenses in the HR Fund at the end of fiscal 2011 because it made earned revenue accrual entries without recognizing an equal amount in accrued expenses. The $7 million imbalance in the HR Fund code violates the matching principle required by the standard.

### *EPA Is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup*

As of September 30, 2011, EPA had not paid contractors working on the Deepwater Horizon oil spill $6.6 million, of which $2.8 million is late under the Prompt Payment Act. EPA violated the Antideficiency Act in November 2010 because it made expenditures in excess of funds available. To avoid a second potential Antideficiency Act violation, EPA delayed payments to vendors, resulting in the Agency being required to make interest penalty payments to vendors as required by the Prompt Payment Act. Section 1315.4(g) of the Prompt Payment Act states that payment is due (1) on the date specified in the contract, (2) in accordance with discount terms when discounts are offered and taken, (3) in accordance with Accelerated Payment Methods, or (4) 30 days after the start of a payment period, when a proper invoice is received. The Agency withheld payments to vendors because it did not have sufficient cash in its Deepwater Horizon Oil Spill funds to pay its bills. By not paying contractors on time, EPA is incurring interest payments and is losing the opportunity to take discounts.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in attachment 3 should be considered among EPA's significant deficiencies for fiscal 2011. 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. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

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 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, 2011. 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

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. A number of ongoing investigations involving EPA's grantees and contractors could disclose violations of laws and regulations, but a determination about these cases has not been made. The results of our tests of compliance with laws and regulations are summarized below and detailed in attachment 2.

### *EPA Violated the Antideficiency Act in Its Oil Spill Response Trust Account*

In January 2011, EPA notified OMB that it violated the Antideficiency Act when EPA made expenditures in excess of funds available in the Oil Spill Response Account in the amount of $502,215. The violation occurred because the U.S. Coast Guard (USCG) did not timely reimburse EPA for BP Deepwater Horizon oil spill response expenses. According to EPA, the reason for the reimbursement delay was that USCG wanted EPA to provide a greater level of cost documentation than had been acceptable in the past. By spending more funds than were available, EPA violated the Antideficiency Act.

### *Federal Financial Management Improvement Act Compliance*

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, 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 in which the Agency's financial management systems did not substantially comply 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.C. §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:

- Collectibility of federal receivables and recording of any needed allowances for doubtful accounts
- Headquarters property items not inventoried
- Improper closing of accounts when cancelling Treasury symbols
- Uncollectible debt misstated
- Financial system user account management
- Security planning for Customer Technology Solutions equipment
- Assessing automated application processing controls for the Integrated Financial Management System (IFMS)

Attachment 3 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 dated November 10, 2011, the Agency responded to our draft report.

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

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

Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 15, 2011

**Attachment 1**

# *Internal Control Significant Deficiencies*

## Table of Contents

## 1—Accounts Receivable Detail Not Provided Timely

EPA regional and headquarters offices did not timely submit supporting documentation to CFC so that CFC could promptly record accounts receivable in the financial system. EPA policies state that within 5 business days of determining a debt is owed to the Agency, the responsible office must forward source documents to CFC. RPO, ORC, EAB, ALJ, OECA, and regional LEO staff are responsible for providing this documentation. CFC stated that the offices may have been unaware of the 5-day policy, or may have simply forgotten to send the documentation. When CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and EPA may not collect all that it is owed. Further, EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

According to GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. EPA's Resource Management Directive System (RMDS) 2550D-14-T1 requires Servicing Finance Offices to maintain ongoing communications with the RPOs, ORCs, and LEOs regarding the status of settlement agreements and to ensure that accounts receivable source documents are forwarded within 5 business days.

From our audit of accounts receivable, we found that the offices did not timely forward supporting documentation (e.g., consent decrees, consent agreements and final orders, administrative orders, etc.) to CFC for 39 receivables totaling $106 million. CFC received associated source documents from 1 day to over 2 years late. Table 1 provides a summary of the relevant exceptions found during our audit.

**Table 1: Summary of receivables support not received timely**

| Sample | Number of samples | Number of exceptions | Dollar amount of exceptions |
|---|---|---|---|
| *6th month:* | | | |
| Department of Justice Report | 27 | 6 | $58,314,473.66 |
| Integrated Compliance Information System Report | 11 | 7 | 4,584,500.00 |
| Superfund Control[a] | 29 | 10 | 27,610,137.88 |
| All Other Control[b] | 12 | 0 | 0.00 |
| ***Subtotal*** | **79** | **23** | **$90,509,111.54** |
| *9th month:* | | | |
| Department of Justice Report | 18 | 8 | $13,528,177.32 |
| Integrated Compliance Information System Report | 4 | 1 | 140,000.00 |
| Superfund Control | 2 | 1 | 1,704,020.70 |
| All Other Control | 2 | 0 | 0.00 |
| ***Subtotal*** | **26** | **10** | **$15,372,198.02** |
| *Year-end:* | | | |
| Integrated Compliance Information System Report | 16 | 6 | $508,000.00 |
| ***Subtotal*** | **16** | **6** | **$508,000.00** |
| ***Total*** | **121** | **39** | **$106,389,309.56** |

Source: OIG analysis.

[a] One Department of Justice exception was also noted in Superfund Control Testing but excluded from *Number of Exceptions* and *Dollar Amount of Exceptions* in our analysis to avoid double counting.

[b] One Integrated Compliance Information System and one Department of Justice exception were also noted in All Other Control Testing but excluded from *Number of Exceptions* and *Dollar Amount of Exceptions* in our analysis to avoid double counting.

EPA's RMDS, as updated in April 2011, establishes procedures for timely providing supporting documentation for receivables. RMDS 2550D-14-T1 addresses Superfund receivables and requires the originating office to forward to the Servicing Finance Office copies of all Superfund consent decrees and judgments within 5 business days of receipt from the court. RMDS 2540-9-P3 specifically addresses administrative penalties and referrals of civil enforcement cases to the Department of Justice. The directive requires that the originating office ensure that documentation of administrative orders and bankruptcy proceedings with civil penalties are provided to CFC within 5 business days. For regionally initiated administrative enforcement actions, ORC Regional Hearing Clerks are to ensure that penalties are entered in the EPA Case Tracking System, which automatically sends a request to CFC to establish a billing document. It also states that OECA will develop internal processes to ensure that, in the case of OECA-initiated administrative enforcement actions, all documentation for administrative penalty debt/accounts receivable is sent to CFC along with the request for CFC to establish a billing document. OECA also coordinates with CFC to determine the appropriate action when a penalty debt/accounts receivable is 120 days past due.

For regionally initiated cases, the ORC/LEO/RPO is required to provide effective ongoing communication with the finance center regarding the status of settlement agreements to prevent untimely recording of accounts receivable. For headquarters-initiated cases, the Headquarters Hearing Clerk, the EAB, and OECA's Air Enforcement Division are responsible for notifying CFC after an order becomes final. Untimely receipt of accounts receivable source documentation results in inaccurate balances in the Agency's financial management system. Therefore, we believe that regional and headquarters offices and CFC should work together to resolve this control issue.

## Recommendation

We recommend that the Assistant Administrator for Enforcement and Compliance Assurance:

1. Require that regional and headquarters enforcement officials assist CFC by implementing EPA's newly updated RMDS policy, which includes the requirement to forward legal documentation within 5 business days and to designate regional contacts so that receivables are recorded timely.

## Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendation. OECA responded that in October 2011 it issued processes for headquarters-initiated administrative enforcement actions. Headquarters-initiated cases include those resolved by ALJ, EAB, or OECA's Air Enforcement Division. OECA requires these offices to make orders available to CFC within 5 business days of the order's effective date.

## 2—Federal Reimbursable Costs Not Billed Timely

EPA did not timely bill other federal agencies for $2,210,617 of reimbursable costs. We found costs that had not been billed for up to 9 years. In addition, $3,150,692 and $521,589 of reimbursable expenses were recorded in funds cancelled in fiscal 2010 and 2011, respectively. Reimbursable costs were not timely billed to other federal agencies because EPA had difficulty reconciling costs incurred to costs billed under individual reimbursable agreements. Untimely billing of reimbursable costs causes delays in replenishing funds spent on reimbursable agreements. Also, untimely billing results in EPA losing the ability to obligate and/or spend funds due to the expiration and subsequent cancellation of funds before they are collected. For example, we identified $3.7 million of reimbursable expenses due from other agencies in fiscal 2010 and 2011 in cancelled funds. Since the funds are now cancelled, if EPA does bill such amounts, the collections must be returned to Treasury and will not be available to EPA.

EPA provides goods or services to other federal agencies and is reimbursed for its expenses under reimbursable agreements. Under reimbursable agreements, EPA uses reimbursable authority provided by OMB to perform agreement activities. Reimbursable authority is a type of borrowing authority that exists for definite periods of time as long as the authority from the year of funding exists and is not expired or cancelled.

OMB Circular A-11, S20, states that during the expired phase, no new obligation can be incurred against the appropriations. At the end of the expired phase, all obligated and unobligated balances must be cancelled and the account closed. Cancelled balances may not be used to incur or pay obligations. Collections authorized or required to be credited to a cancelled appropriation that are received after the account is closed must be deposited in the Treasury as miscellaneous receipts. Therefore, once the appropriation in which the expenditures were incurred expires or cancels, EPA no longer has the ability to obligate and/or spend those funds if collected.

To execute reimbursable agreements, EPA assigns a unique reimbursable account number (budget organization code) to each reimbursable agreement. The budget organization code for each interagency agreement identifies obligations pertaining to that agreement, and costs of performance must be charged to reimbursable account numbers. As EPA performs work specified in the agreement, EPA should bill the other agency for costs incurred in providing the services or goods, and be reimbursed by the other agency for those costs.

During our analysis of the fiscal 2011 fourth quarter federal unbilled accrual, we identified more than $2 million of reimbursable expenses incurred from budget fiscal years (BFYs) 2000 through 2008 that were not billed to other federal agencies, as shown in table 2.

**Table 2: Federal reimbursable costs not timely billed**

| BFY | Expended amount | Billed amount | Unbilled amount |
|---|---|---|---|
| 2000 | $909,056.80 | 855,371.83 | $53,684.97 |
| 2001 | 804,873.23 | 702,805.84 | 102,067.39 |
| 2002 | 700,161.16 | 681,766.76 | 18,394.40 |
| 2003 | 6,748,900.32 | 6,746,253.27 | 2,647.05 |
| 2004 | 1,881,762.95 | 1,804,949.75 | 76,813.20 |
| 2005 | 394,948,066.24 | 394,383,011.57 | 565,054.67 |
| 2006 | 35,943,703.28 | 35,610,641.09 | 333,062.19 |
| 2007 | 23,233,385.48 | 23,072,839.72 | 160,545.76 |
| 2008 | 59,463,193.87 | 58,564,846.32 | 898,347.55 |
| **Total** | **$524,633,103.33** | **$522,422,486.15** | **$2,210,617.18** |

Source: OIG analysis.

Not timely billing reimbursable costs may result in EPA losing the ability to obligate and spend those funds, because collections must be returned to Treasury if the budgetary authority has been cancelled. For example, we identified unbilled reimbursable expenses of about $3.2 million and $522,000 remaining in cancelled funds from BFYs 2002 through 2004, as shown in table 3. These unbilled reimbursable expenses were moved to the miscellaneous receipt Treasury account. As a result, EPA no longer had the ability to obligate and or spend funds collected due to the cancellation of funds.

**Table 3: Unbilled costs in cancelled funds**

| BFY | Expended amount | Billed amount | Unbilled amount | Year cancelled |
|---|---|---|---|---|
| 2002–2003 | $16,008,647.30 | $12,857,955.39 | $3,150,691.91 | 2010 |
| 2003–2004 | 3,933,402.14 | 3,411,813.33 | 521,588.81 | 2011 |

Source: OIG analysis.

In response to our inquiry as to why the reimbursable expenses incurred in prior years have not been billed, the Agency stated that there may be problems with the agreements, expenses may not be identified to an agreement, or the expenses may have just recently been paid.

Not timely billing other federal agencies for reimbursable costs (1) causes unnecessary delays in replenishing funds spent on reimbursable agreements, (2) limits EPA's ability to recover all costs before funding authority cancels, and (3) could result in EPA using appropriated funds to cover reimbursable costs incurred. If EPA does not bill and collect the funds before the funds expire, it is not able to obligate and expend additional funds from those accounts.

## Recommendations

We recommend that the Chief Financial Officer:

2. Review unbilled federal reimbursable expenses, determine their collectibility, and bill appropriate funds before the funding period is cancelled.

3. Create and implement a process to reconcile expenses incurred and costs billed under individual reimbursable agreements.

4. Develop a process or implement a reporting system to track, for each reimbursable agreement, the expenses that have been billed for each budget fiscal year.

## Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

## 3—EPA's Process for Cancelling Treasury Symbols Caused Inappropriate Account Balances

EPA did not properly close general ledger accounts in its cancelling Treasury symbols. We identified two instances in which EPA inappropriately recorded general ledger entries to close accounts when it cancelled Treasury symbols. *Treasury Financial Manual Bulletin No. 2011-07,* Section 21, states that agencies must cancel any remaining balances (whether obligated or unobligated) in a closed appropriation account being cancelled, and report valid receivable and payable balances associated with a cancelled Treasury Appropriation Fund Symbol. Because EPA did not review the net impact to current Treasury funds, EPA's improper cancellation procedures resulted in various misstated general ledger accounts. Consequently, the financial statements were misstated, although the misstatements were not material to the financial statements as a whole.

EPA's closing procedures for accounts receivable in cancelled expenditure accounts resulted in a $6.5 million credit balance in the general ledger account, Expense Uncollectible Debt, Other Finances (Uncollectible Debt Expense). This account should normally have a debit balance. A credit balance in this account indicates that either the Agency has revenue from uncollectible debts or the general ledger account is otherwise misstated. EPA uses Standard Vouchers with predetermined debit(s) and credit(s) to record accounting events that occur on a recurring basis in accordance with its Comptroller Policy 93-02, *Policies for Documenting Agency Financial Transactions.* EPA moved the balances from the cancelling appropriation without properly reviewing the net impact on current Treasury funds.

This is the third year we have reported this issue. In fiscal 2009 and 2010, we recommended that EPA review and update its required standard voucher entries. In response to our recommendations, EPA noted that it would review the impact of accounting entries, including standard vouchers for billing documents, and provide accounting models and technical advice as appropriate. EPA has not made changes to accounting entries in the year-end instructions.

The procedure also resulted in an understatement in the general ledger account, Allowance for Loss on Accounts Receivable (Allowance for Loss). EPA did not properly record the Allowance for Loss from cancelling appropriations in fund 3200 (Treasury Symbol for the Collection of Receivable from Cancelled Account) along with the related account receivables. We found that in fund 3200 nonfederal receivables increased by $6.4 million from last fiscal year, but the related allowance account activity changed by $3,000. The Agency did not move the related allowances from the cancelling appropriations to fund 3200, resulting in the overstatement of the receivables net book value. Table 4 shows the fund 3200 balance as of year-end.

**Table 4: Fund 3200 account balances**

| GL | GL account name | 2011 balance | 2010 balance | Diff $ | Diff % |
|---|---|---|---|---|---|
| 13P3 | Billed Misc Receipts Public | $27,667,949.59 | $21,293,448.77 | $6,374,500.82 | 29.94% |
| 13P9 | Allow For Loss On A/R, Non Fed | (17,317,474.61) | (17,320,502.51) | 3,027.90 | -0.02% |

Source: IFMS and OIG analysis.

EPA recorded this entry in accordance with its *Year-End Closing Instructi*ons, which requires finance centers to remove accounts receivable and the related allowance for doubtful accounts from cancelling appropriations, and establish the receivables in fund 3200. The instructions do not allow for establishing the related allowance in fund 3200. SFFAS No. 1 states that an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. EPA required movement of balances without properly reviewing the closing entries' net impact on current Treasury funds. In doing so, the entry caused an understatement in the Allowance for Loss account in fund 3200. By not recording the related allowance for the receivables, EPA is overstating the net book value of the receivables in fund 3200.

OMB Circular A-127, *Financial Management Systems*, requires financial management systems to provide complete, reliable, consistent, timely, and useful financial management information on federal government operations. If EPA had properly reviewed the two general ledger accounts for the effect of the closing entries prior to the fiscal period close, EPA could have noticed the net impact on current Treasury funds. By not reviewing the entries and the account balances, EPA understated Uncollectible Debt Expense and Allowance for Loss in the financial statements.

## Recommendations

We recommend that the Chief Financial Officer:

5. Revise the cancellation procedures to ensure accounts are properly stated.

6. Post the proper Allowance for Loss.

7. Revise the *Year-End Closing Instructions,* to prescribe proper procedures for closing accounts.

8. Prior to year-end closing, review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements.

## Agency Comments and OIG Evaluation

The Agency did not concur with our finding and recommendations. The Agency stated it posted the appropriate adjustments, it is following Treasury guidance, and balances are properly stated. Our analysis of the Agency's adjustments to cancel a receivable and the related allowance revealed they understated fiscal 2011 revenue and bad debt expense. The understatement occurred because the Agency reversed the receivable and related allowance accounts creating postings that decreased revenue and bad debt expense. While the understatements are not material to the financial statements taken as a whole, we believe the Agency should have reviewed the impact of the closing entries and posted the proper adjustments so that revenue and expense were properly stated.

# 4—EPA Double Counted Contractor-Held Property

EPA double counted 97 items of capitalized property in its financial system because it did not remove from its financial system property that had been transferred to contractors. As a result, these items were recorded as both EPA-held property and contractor-held property. The double-counted property had an acquisition cost of $12.3 million and a net book value of $5 million. EPA property guidance states that when contractors are furnished with government property, the property is deleted from the financial system. The contractor-held property items were not removed because EPA does not have a policy that states who is responsible for removing contractor-held property from EPA's financial system. Without clear policies, neither OCFO nor OARM has taken responsibility to ensure that EPA property transferred to contractors is deleted from EPA's financial system. The double counting resulted in capitalized property being overstated by $5 million in fiscal 2011.

EPA's *Personal Property Policy and Procedures Manual* states that as an integral part of all EPA contracts, effective control and accountability must be maintained for all personal property furnished by EPA or acquired with EPA funds, in accordance with the Federal Acquisition Regulations and EPA's *Contracts Management Manual*. Section 5.2.1 of the property manual states, "When contractors are furnished with government property, it is deleted from the IFMS and the contractor becomes responsible for the property until such time as it is returned to the Government. In such cases, the Government retains title to the property."

## Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management:

9. Develop and implement policies and procedures to address responsibility for the removal of EPA property from the Agency financial system when EPA property is transferred to contractors.

10. Ensure that all EPA property that has been transferred to contractors is removed from EPA's financial system.

## Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

## 5—EPA Headquarters Cannot Account for 1,284 Property Items

EPA headquarters could not account for 1,284 personal property items in fiscal 2011 as required by EPA's *Personal Property and Procedures Manual*. Headquarters mid-level management was not knowledgeable of Agency property management procedures, and EPA did not provide planned property training for Agency employees during fiscal 2011. Because EPA could not account for these property items, it was not exercising proper control over $2.1 million of accountable personal property. Inaccurate personal property records compromise EPA's property control system and can lead to the loss or misappropriation of Agency assets.

The OARM Facilities Management and Services Division is responsible for administering the EPA Personal Property Management Program. EPA defines accountable personal property as "non-expendable personal property with an acquisition cost of $5,000 or greater, EPA-leased personal property, or property identified as a sensitive item." EPA's *Personal Property and Procedures Manual*, Section 3.1.1, states that each accountable area must maintain personal property records in the IFMS, thus providing all needed data for effective personal property management (e.g., location, procurement, utilization, and disposal). The missing items indicate that accurate personal property records are not being maintained. The *Personal Property Policy and Procedures Manual*, Section 1.3.2, requires that, when property is lost, damaged, or destroyed, a Board of Survey conduct a thorough investigation and provide recommendations to remove the property from EPA's financial system. Headquarters has 77 requests for board action on the 976 items from fiscal 2010.

As of October 15, 2011, EPA headquarters could not account for 1,284 accountable personal property items with a value of $2,130,427. EPA headquarters could not account for 769 of the items (valued at $1,288,817) missing from the fiscal 2010 inventory when it conducted its 2011 inventory. This is the third consecutive year we have reported this problem. In fiscal 2010 and 2009, EPA headquarters could not account for 1,134 and 1,804 items, respectively. In response to our fiscal 2010 audit, EPA planned to develop a mandatory online property training program. However, the target date for implementing the training program slipped from March 30, 2011, to November 15, 2011.

### Recommendations

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

11. Conduct planned property training and require completion of the course by all EPA managers.

12. Address the missing personal property items in accordance with Agency procedures.

### Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

# 6—EPA Should Secure Marketable Securities

EPA does not perform inspections of the safe in which marketable securities should be stored to ensure that securities are adequately safeguarded and that the contents of the safe agree with accounting or control records. GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, states, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records." By not securing marketable securities, EPA increases the risk of loss or theft of its assets.

During our fiscal 2011 financial statement audit, we found that EPA received two Common Stock Certificates from Exide Technologies totaling $1.2 million that were not placed in a safe for safeguarding. During our review, we found that EPA does not have regularly scheduled reviews of the safe. After our inquiry, EPA stated that it does not schedule inspections of the safe because the safe is rarely used. In addition, we noted that the safe was located in an open area instead of in a more secure location, such as a locked room.

Securities physically received by EPA should be secured in a safe until they are transferred to Treasury for disposition. To properly safeguard securities, access to securities should be limited to authorized personnel only. During our review, we found that EPA does not have regular scheduled reviews of the safe. By not having controls in place for safe inspections, EPA has minimal assurance that marketable securities received are properly accounted for and handled.

## Recommendations

We recommend that the Chief Financial Officer:

13. Develop and implement procedures to perform inspections of the safe on a regular basis to verify the contents against accounting records.

14. Move the safe to a secure area, such as a locked room, instead of keeping the safe in an open area.

## Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendation to develop and implement procedures to perform inspections of the safe on a regular basis. The Agency did not concur with moving the safe to a secure area, stating the safe is behind a desk, weighs 1,000 pounds, and there is other office security; we concluded that no further action is required.

## 7—EPA Recognized Earned Revenue in Excess of Expenditures

EPA recorded earned revenue without recognizing corresponding expenses. At the end of fiscal 2011, EPA had recorded $7 million more in earned revenue in the HR Fund than it recognized in HR reimbursable expenses. The fund had a balance of $74.5 million in Earned Revenue Federal Billed versus $67.5 million for Operating Expense Public Exchange. These balances were the totals after EPA recorded (1) a $5.7 million entry to accrue unbilled reimbursements and earned revenue, and (2) a $1.1 million entry to reduce advances from other agencies and to increase earned revenue. SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, requires agencies to match revenue and expenses. The Agency did not properly match revenues and expenses in the HR Fund at the end of fiscal 2011 because it made earned revenue accrual entries without recognizing an equal amount in accrued expenses. The $7 million imbalance in the HR Fund code violates the matching principle required by the standard.

We extracted and reviewed the fiscal 2011 ending balances in general ledger accounts in the HR Fund. The year-end balances showed that EPA reported $74.5 million in earned revenue in general ledger account 522G—Earned Revenue Federal Billed. EPA also reported $67.5 million in operating expenses in account 61PE—Operating Expense Public Exchange. These two balances represent a surplus of $7.0 million in the HR account at year end, which violates the principle of matching revenues and expenses. EPA created the imbalance when it recorded entries to recognize unbilled reimbursements for the HR Fund code at year end. The amounts EPA recorded and the resulting balances are shown in table 5:

**Table 5: HR Fund code amounts in fiscal 2011**

| Event | G/L Account 522G earned revenue | G/L Account 61PE operating expense | Revenue-expense |
|---|---|---|---|
| | *in millions* | | |
| Balances in HR at 09/30/2011 | ($61.4) | $61.2 | ($0.2) |
| Entries recorded in the 13th and 14th months to record unbilled reimbursements and recognize oil spill reimbursable revenue | (13.1) | 0.0 | (13.1) |
| Entries made in 13th month to accrue exchange expenses | 0.0 | 6.3 | 6.3 |
| Balances in HR at 09/30/2011<br>(after accruals and adjusting entries) | (74.5) | 67.5 | (7.0) |

Source: Data from IFMS and OIG analysis.

SFFAS No. 7 establishes the criteria for the recognition and measurement of revenue and expenses. The guidance notes that revenue comes from two sources: exchange and nonexchange transactions. The guidance requires agencies to match revenue and expenses. Exchange (reimbursable funds) revenue is to be recognized at the time goods or services are provided (i.e., when expenses are incurred).

EPA created the $7 million difference in HR revenues over expenses when it prepared entries for the 13th- and 14th-month periods. EPA adjusted general ledger account 2315—Other Advances

Federal, recognizing $1.1 million in earned revenue without recognizing expenses. EPA also recorded an entry for $5.7 million to adjust the unbilled reimbursement accrual, which increased earned revenue that was already recognized. The $5.7 million was based on accounts payable recorded in late September 2011. When those payables were recorded, earned revenue was properly recognized. However, EPA's entry to adjust the unbilled accrual recognized the $5.7 million in earned revenue for a second time. By not taking into account the total impact of its entries, EPA overstated earned revenue by $5.7 million and understated operating expense by $1.1 million in the HR Fund. The net effect was earned revenue exceeding operating expenses in the HR Fund, and exchange revenues not properly matching expenses at fiscal year-end 2011.

## Recommendations

We recommend that the Chief Financial Officer:

15. Review the entries and accounting models used to record expenditures and recognize earned revenue to assess their impact on the financial statements and to ensure that they result in the proper recognition of revenue.

16. Ensure that exchange revenue is only recognized at the time goods or services are provided.

## Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

## 8—EPA Is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup

As of September 30, 2011, EPA had not paid contractors working on the Deepwater Horizon oil spill $6.6 million, of which $2.8 million is late under the Prompt Payment Act. EPA violated the Antideficiency Act in November 2010 because it made expenditures in excess of funds available. To avoid a second potential Antideficiency Act violation, EPA delayed payments to vendors, resulting in the Agency being required to make interest penalty payments to vendors as required by the Prompt Payment Act. Section 1315.4(g) of the Prompt Payment Act states that payment is due (1) on the date specified in the contract, (2) in accordance with discount terms when discounts are offered and taken, (3) in accordance with Accelerated Payment Methods, or (4) 30 days after the start of a payment period, when a proper invoice is received. The Agency withheld the payments because it did not have sufficient cash in its Deepwater Horizon oil spill funds to pay its bills. By not paying contractors on time, EPA is incurring interest payments and is losing the opportunity to take discounts.

The Agency was aware that it would have to pay interest as required by the Prompt Payment Act if it did not pay the bills timely. The Agency was forced into this situation because of disputes between EPA and USCG on invoices submitted for reimbursement. EPA has not received sufficient emergency funding from USCG to reimburse the Oil Spill Response Trust Fund for costs incurred by EPA's response to the April 2010 Deepwater Horizon incident. This lack of funding prompted EPA to make a conscious decision to cease payments to its oil spill contractors on September 12, 2011. It is not clear when EPA will obtain the funds necessary to resume payment of the oil spill invoices. As of November 7, 2011, EPA has not resumed payments. Consequently, EPA owes contractors the $6.6 million due as of September 30, 2011, as well as any interest and late penalties, and debts incurred since September 30, 2011.

### Recommendations

We recommend that the Chief Financial Officer:

17. Resume payments to the oil spill contractors as soon as adequate funds are available in the Oil Spill Response Trust Fund.

18. Include in payments to contractors the interest penalties prescribed by the Prompt Payment Act for invoices that are paid past their due dates.

### Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

# *Compliance With Laws and Regulations*

## Table of Contents

# 9—EPA Violated the Antideficiency Act in Its Oil Spill Response Account

In January 2011, EPA notified OMB that it violated the Antideficiency Act when it made expenditures in excess of funds available in the Oil Spill Response Account in the amount of $502,215. The violation occurred because USCG did not timely reimburse EPA for BP Deepwater Horizon oil spill response expenses. According to EPA, the reason for the reimbursement delay was that USCG wanted EPA to provide a greater level of cost documentation than had been acceptable in the past. By spending more funds than were available, EPA violated the Antideficiency Act.

The Deepwater Horizon incident occurred in April 2010. According to EPA, starting on June 1, 2010, EPA's CFC regularly monitored the cash balance of the Oil Spill Response Account. According to EPA, in July 2010, EPA requested a cash advance from USCG due to large amounts being invoiced by contractors working on the response action. In August 2010, USCG provided EPA with a $32 million advance. EPA used the advance to pay contractor invoices, as well as Agency payroll and travel expenses, related to the Deepwater Horizon response work. On October 27, 2010, EPA advised USCG that additional advances would be required to pay oil spill response bills, but USCG was unwilling to provide additional advances because of cost documentation concerns. In EPA OIG Report No. 11-P-0527, *EPA's Gulf Coast Oil Spill Response Shows Need for Improved Documentation and Funding Practices,* August 25, 2011, we identified that EPA needed to improve its cost documentation packages prior to submittal to USCG. The report recommended that EPA implement controls to ensure that bills and supporting cost documentation packages submitted to USCG are clear and complete, and comply with cost documentation requirements.

To assist in cash management, EPA developed a cash monitoring report intended to include all transaction costs, but the report did not include disbursements related to indirect costs. EPA discovered this issue on November 23, 2010. In a revised cash monitoring report that included indirect costs, EPA discovered a negative cash balance in the Oil Spill Response Account on November 18 and 19, 2010. By spending more cash than available, EPA violated the Antideficiency Act. Title 31 U.S.C. §1341(a) states, "An officer or employee of the United States Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."

Since the date of the violation, EPA has established several reporting and analysis measures and safeguards. The measures include (1) establishing a new comprehensive funds-availability report that includes indirect costs distributed from the account, (2) balancing the new report with the fund balance with the Department of Treasury at the end of each month, and (3) analyzing the historical monthly expenses to estimate future expenses. In addition, EPA indicated that it will revise its administrative funds control policies to change the minimum required available cash balance from $500,000 to $2 million or more if the balance cannot support payment of anticipated fixed costs, and bill USCG weekly or when a disbursement of $1 million or more is made.

## Recommendations

We recommend that the EPA Administrator:

19. Finalize the reporting of the Antideficiency Act violation to the President, through the OMB Director, Congress, and the Comptroller General, as required.

We recommend that the Chief Financial Officer:

20. Work with USCG to come to a mutual agreement on what constitutes acceptable cost documentation so that reimbursements do not continue to be delayed.

## Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

# *Status of Prior Audit Report Recommendations*

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. During fiscal 2011, OCFO instituted a new 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. OCFO also initiated an update of EPA Order 2750, *EPA's Audit Management Process*. Additionally, OCFO continued to conduct the on-site 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, accountability for, and completion of unimplemented corrective actions; and ensure that audit follow-up data are accurate and complete. OCFO completed seven of these on-site reviews in fiscal 2011, including four of regional offices and three of 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 an 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 6: Significant deficiencies—issues not fully resolved**

| |
|---|
| • **Automated Application Processing Controls for IFMS**<br>EPA has taken action to correct this open issue by implementing a new financial system to replace IFMS. The new system was implemented in October 2011. We continue to report this issue because the fiscal 2011 financial statements were produced using IFMS and the same inability to test application controls due to insufficient system documentation still exists within IFMS. |
| • **EPA Misstated Uncollectible Debt and Other Related Accounts**<br>In fiscal 2011, we recommended that prior to year-end closing, EPA should review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements. This is the third year we have reported this issue. In responses to prior recommendations, EPA noted that it would review the impact of accounting entries, including standard vouchers for billing documents, and provide accounting models and technical advice as appropriate. EPA has not made changes to accounting entries in the year-end instructions. See attachment 1, "Internal Control Significant Deficiencies," for more information. |
| • **Improvements Needed in Controls for Headquarters Property**<br>The Agency has not taken sufficient action to address the weakness we noted in the headquarters annual personal property inventory. As described in attachment 1, "Internal Control Significant Deficiencies," EPA headquarters could not account for 1,284 personal property items in fiscal 2011. The activation date for the managers' on-line property training has slipped from March 30, 2011, to November 15, 2011. |

| |
|---|
| • **Integrated Financial Management System User Account Management Needs Improvement** EPA has made significant strides to complete corrective actions associated with the segregation of duties issue noted during the fiscal 2009 financial statement audit. To date, the Agency has implemented a segregation of duties policy and detective systems controls do exist. However, it has not provided sufficient documentation to show that the new Agency financial management system includes automated controls to enforce separation of duties (recommendation 27 in the fiscal 2009 financial statement audit report). Additionally, the OIG recommended that the new financial management system include automated controls to link to human resources data (recommendation 32 in the fiscal 2009 financial statement audit report). To date, EPA has not implemented any corrective actions in response to this recommendation. EPA has indicated that no further actions have been taken due to reevaluation of the business case for a new human resources system. |
| • **Improved Security Planning Needed for the Customer Technology Solutions Project.** Though EPA has taken steps to complete corrective actions, it has not provided all signed memoranda of understanding for each General Support System owner as agreed upon. A corrective action was rescheduled to be completed by August 29, 2011, but corrective actions are still incomplete. EPA has not provided an updated milestone date for when it plans to complete the corrective actions associated with this report's recommendations. |
| • **EPA Should Assess Collectibility of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts** EPA fully implemented recommendations 5 and 7 from our fiscal 2010 financial statement audit, but did not take full corrective actions for recommendation 6. In our fiscal 2011 financial statement audit, we found that EPA did not review the collectibility of 10 federal receivables that had been outstanding for 4 to 11 years, totaling $793,000. EPA's CFC did not document efforts to collect the federal debt or determine the debt's status after the 3-year delinquent period. During our review of the federal allowance for doubtful accounts, we identified 6 of 10 receivable files with the CFC Director's signature noting a review on September 30, 2011, but nothing was in the remaining 4 files. Debt files are required to document efforts to collect the debt. |
| • **EPA Improperly Closing Accounts When Cancelling Treasury Symbols** During fiscal 2010, we reported that EPA processed an adjusting entry to close out the Treasury symbol 682/30108, and improperly expensed the advance as well as removed other liabilities when the funds became cancelled on September 30, 2010. We found that the Working Capital Fund had not refunded the remaining advanced funds to EPA's Environmental Programs and Management appropriation. EPA responded that the advanced funds were expended before the Treasury symbol was cancelled, and the funds were spent in Treasury symbol 683/40108. Subsequently, EPA performed a reconciliation to compare advanced funds recorded in BFY 2002/2003 with drawdowns of those advanced funds in later BFYs. This comparison reflected activity by service agreement and did not identify the specific transactions to record the expenditures. EPA did not adequately track where the advanced funds from BFY 2002/2003 were spent. Further, although EPA's updated cancellation procedures seemed reasonable, the implementation of the cancellation procedures resulted in inappropriate activity and balances due to the cancellation of funds and improper procedures prescribed in the fiscal 2011 year-end closing instructions. Additional support provided by the Agency was not provided in time to be considered in this report. |

Source: OIG analysis.

# *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 | 12 | Require that regional and headquarters enforcement officials assist CFC by implementing EPA's newly updated RMDS policy, which includes the requirement to forward legal documentation within 5 business days and to designate regional contacts so that receivables are recorded timely. | U | Assistant Administrator for Enforcement and Compliance Assurance | | | |
| 2 | 14 | Review unbilled federal reimbursable expenses, determine their collectibility, and bill appropriate funds before the funding period is cancelled. | U | Chief Financial Officer | | | |
| 3 | 15 | Create and implement a process to reconcile expenses incurred and costs billed under individual reimbursable agreements. | U | Chief Financial Officer | | | |
| 4 | 15 | Develop a process or implement a reporting system to track, for each reimbursable agreement, the expenses that have been billed for each budget fiscal year. | U | Chief Financial Officer | | | |
| 5 | 17 | Revise the cancellation procedures to ensure accounts are properly stated. | U | Chief Financial Officer | | | |
| 6 | 17 | Post the proper Allowance for Loss. | U | Chief Financial Officer | | | |
| 7 | 17 | Revise the *Year-End Closing Instructions*, to prescribe proper procedures for closing accounts. | U | Chief Financial Officer | | | |
| 8 | 17 | Prior to year-end closing, review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements. | U | Chief Financial Officer | | | |
| 9 | 18 | Develop and implement policies and procedures to address responsibility for the removal of EPA property from the Agency financial system when EPA property is transferred to contractors. | U | Assistant Administrator for Administration and Resources Management | | | |
| 10 | 18 | Ensure that all EPA property that has been transferred to contractors is removed from EPA's financial system. | U | Assistant Administrator for Administration and Resources Management | | | |
| 11 | 19 | Require the Director, Facilities Management and Services Division, to conduct planned property training and require completion of the course by all EPA managers. | U | Assistant Administrator for Administration and Resources Management | | | |

| RECOMMENDATIONS | | | | | | POTENTIAL MONETARY BENEFITS (in $000s) | |
|---|---|---|---|---|---|---|---|
| Rec. No. | Page No. | Subject | Status[1] | Action Official | Planned Completion Date | Claimed Amount | Agreed To Amount |
| 12 | 19 | Require the Director, Facilities Management and Services Division, to address the missing personal property items in accordance with Agency procedures. | U | Assistant Administrator for Administration and Resources Management | | | |
| 13 | 20 | Develop and implement procedures to perform inspections of the safe on a regular basis to verify the contents against accounting records. | U | Chief Financial Officer | | | |
| 14 | 20 | Move the safe to a secure area, such a locked room, instead of keeping the safe in an open area. | C | Chief Financial Officer | 11/10/2011 | | |
| 15 | 22 | Review the entries and accounting models used to record expenditures and recognize earned revenue to assess their impact on the financial statements and to ensure that they result in the proper recognition of revenue. | U | Chief Financial Officer | | | |
| 16 | 22 | Ensure that exchange revenue is only recognized at the time goods or services are provided. | U | Chief Financial Officer | | | |
| 17 | 23 | Resume payments to the oil spill contractors as soon as adequate funds are available in the Oil Spill Response Trust Fund. | U | Chief Financial Officer | | | |
| 18 | 23 | Include in payments to contractors the interest penalties prescribed by the Prompt Payment Act for invoices that are paid past their due dates. | U | Chief Financial Officer | | | |
| 19 | 26 | Finalize the reporting of the Antideficiency Act violation to the President, through the OMB Director, Congress, and the Comptroller General, as required. | U | EPA Administrator | | | |
| 20 | 26 | Work with USCG to come to a mutual agreement on what constitutes acceptable cost documentation so that reimbursements do not continue to be delayed. | U | Chief Financial 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 2011 and 2010 Consolidated Financial Statements*

## SECTION II
## FINANCIAL SECTION

# Principal Financial Statements

## Financial Statements



## Notes to Financial Statements

**Notes to Financial Statements (continued)**



**Required Supplementary Information (Unaudited)**



**Required Supplementary Stewardship Information (Unaudited)**

**Supplemental Information and Other Reporting Requirements (Unaudited)**

**Environmental Protection Agency**
**Consolidated Balance Sheet**
**As of September 30, 2011 and 2010**
**(Dollars in Thousands)**

| | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Intragovernmental: | | | | |
| Fund Balance With Treasury (Note 2) | $ | 12,662,541 | $ | 14,603,024 |
| Investments (Note 4) | | 7,112,197 | | 7,243,613 |
| Accounts Receivable, Net (Note 5) | | 35,518 | | 45,698 |
| Other (Note 6) | | 251,803 | | 223,296 |
| Total Intragovernmental | $ | 20,062,059 | $ | 22,115,631 |
| | | | | |
| Cash and Other Monetary Assets (Note 3) | | 10 | | 10 |
| Accounts Receivable, Net (Note 5) | | 514,190 | | 417,535 |
| Loans Receivable, Net - Non-Federal (Note 7) | | 2,107 | | 5,254 |
| Property, Plant & Equipment, Net (Note 9) | | 966,799 | | 915,121 |
| Other (Note 6) | | 2,566 | | 2,834 |
| **Total Assets** | $ | **21,547,731** | **$** | **23,456,385** |
| | | | | |
| Stewardship PP& E (Note 11 ) | | | | |
| | | | | |
| **LIABILITIES** | | | | |
| Intragovernmental: | | | | |
| Accounts Payable and Accrued Liabilities (Note 8) | | 52,448 | | 51,325 |
| Debt Due to Treasury (Note 10) | | 2,593 | | 4,844 |
| Custodial Liability (Note 12) | | 56,703 | | 52,751 |
| Other (Note 13) | | 132,910 | | 132,286 |
| Total Intragovernmental | $ | 244,654 | $ | 241,206 |
| | | | | |
| Accounts Payable & Accrued Liabilities (Note 8) | $ | 916,766 | $ | 1,031,448 |
| Pensions & Other Actuarial Liabilities (Note 15) | | 44,833 | | 44,938 |
| Environmental Cleanup Costs (Note 22) | | 20,838 | | 20,154 |
| Cashout Advances, Superfund (Note 16) | | 790,069 | | 636,673 |
| Commitments & Contingencies (Note 18) | | 10,180 | | 4,373 |
| Payroll & Benefits Payable (Note 33) | | 272,335 | | 264,975 |
| Other (Note 13) | | 103,989 | | 99,996 |
| Total Liabilities | $ | 2,403,664 | $ | 2,343,763 |
| | | | | |
| **NET POSITION** | | | | |
| Unexpended Appropriations - Other Funds (Note 17) | | 11,462,598 | | 13,342,784 |
| Cumulative Results of Operations - Earmarked Funds (Note 19) | | 7,027,163 | | 7,152,382 |
| Cumulative Results of Operations - Other Funds | | 654,306 | | 617,456 |
| | | | | |
| Total Net Position | | 19,144,067 | | 21,112,622 |
| | | | | |
| **Total Liabilities and Net Position** | **$** | **21,547,731** | **$** | **23,456,385** |

**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, 2011 and 2010**
**(Dollars in Thousands)**

| | FY 2011 | FY 2010 |
|---|---|---|
| **COSTS** | | |
| Gross Costs (Note 20) | $ 11,577,224 | $ 12,406,265 |
| Less: | | |
| Earned Revenue (Note 20) | 698,331 | 693,484 |
| **NET COST OF OPERATIONS (Note 20)** | **$ 10,878,893** | **$ 11,712,781** |

**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, 2011
# (Dollars in Thousands)

| | Clean Air | Clean & Safe Water | Land Preservation & Restoration | Healthy Communities & Ecosystems | Compliance & Environmental Stewardship |
|---|---|---|---|---|---|
| **Costs:** | | | | | |
| Intragovernmental | $ 159,456 | $ 252,748 | $ 390,431 | $ 335,757 | $ 192,243 |
| With the Public | 1,035,680 | 5,125,894 | 2,180,996 | 1,289,505 | 614,514 |
| Total Costs (Note 20) | 1,195,136 | 5,378,642 | 2,571,427 | 1,625,262 | 806,757 |
| Less: | | | | | |
| Earned Revenue, Federal | 13,586 | 7,333 | 124,874 | 12,010 | 3,607 |
| Earned Revenue, non Federal | 1,034 | 1,458 | 494,249 | 38,725 | 1,455 |
| Total Earned Revenue (Note 20) | 14,620 | 8,791 | 619,123 | 50,735 | 5,062 |
| **NET COST OF OPERATIONS (Note 20)** | **$ 1,180,516** | **$ 5,369,851** | **$ 1,952,304** | **$ 1,574,527** | **$ 801,695** |

| | Consolidated Totals |
|---|---|
| **Costs:** | |
| Intragovernmental | **$ 1,330,635** |
| With the Public | **$ 10,246,589** |
| Total Costs (Note 20) | **11,577,224** |
| Less: | |
| Earned Revenue, Federal | **$ 161,410** |
| Earned Revenue, non Federal | **$ 536,921** |
| Total Earned Revenue (Note 20) | **698,331** |
| **NET COST OF OPERATIONS (Note 20)** | **$ 10,878,893** |

**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, 2010
# (Dollars in Thousands)

| | Clean Air | Clean & Safe Water | Land Preservation & Restoration | Healthy Communities & Ecosystems | Compliance & Environmental Stewardship |
|---|---|---|---|---|---|
| **Costs:** | | | | | |
| Intragovernmental | $ 170,677 | $ 193,456 | $ 342,734 | $ 293,850 | $ 182,299 |
| With the Public | 1,048,124 | 6,197,330 | 2,096,211 | 1,265,653 | 615,931 |
| Total Costs (Note 20) | 1,218,801 | 6,390,786 | 2,438,945 | 1,559,503 | 798,230 |
| Less: | | | | | |
| Earned Revenue, Federal | 18,923 | 2,803 | 103,687 | 64,034 | 3,400 |
| Earned Revenue, non Federal | 5,906 | 2,524 | 446,569 | 44,144 | 1,494 |
| Total Earned Revenue (Note 20) | 24,829 | 5,327 | 550,256 | 108,178 | 4,894 |
| **NET COST OF OPERATIONS (Note 20)** | **$ 1,193,972** | **$ 6,385,459** | **$ 1,888,689** | **$ 1,451,325** | **$ 793,336** |

| | Consolidated Totals |
|---|---|
| **Costs:** | |
| Intragovernmental | **$ 1,183,016** |
| With the Public | **$ 11,223,249** |
| Total Costs (Note 20) | **12,406,265** |
| Less: | |
| Earned Revenue, Federal | **$ 192,847** |
| Earned Revenue, non Federal | **$ 500,637** |
| Total Earned Revenue (Note 20) | **693,484** |
| **NET COST OF OPERATIONS (Note 20)** | **$ 11,712,781** |

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

# Environmental Protection Agency
# Consolidating Statement of Changes in Net Position
# For the Period Ending September 30, 2011
# (Dollars in Thousands)

| | | FY 2011 Earmarked Funds | | FY 2011 All Other Funds | | FY 2011 Consolidated Total |
|---|---|---|---|---|---|---|
| **Cumulative Results of Operations:** | | | | | | |
| **Net Position - Beginning of Period** | | 7,152,382 | | 617,456 | | 7,769,838 |
| Beginning Balances, as Adjusted | $ | 7,152,382 | $ | 617,456 | $ | 7,769,838 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations Used | | - | | 10,287,988 | | 10,287,988 |
| Nonexchange Revenue - Securities Investment (Note 35) | | 120,429 | | - | | 120,429 |
| Nonexchange Revenue - Other (Note 35) | | 184,984 | | 0 | | 184,984 |
| Transfers In/Out (Note 31) | | (17,068) | | 35,410 | | 18,342 |
| Trust Fund Appropriations | | 1,156,073 | | (1,156,073) | | - |
| Total Budgetary Financing Sources | $ | 1,444,418 | $ | 9,167,325 | $ | 10,611,743 |
| **Other Financing Sources (Non-Exchange)** | | | | | | |
| Donations and Forfeitures of Property | | - | | 50 | | 50 |
| Transfers In/Out (Note 31) | | 1 | | 76 | | 77 |
| Imputed Financing Sources (Note 32) | | 29,661 | | 148,993 | | 178,654 |
| Total Other Financing Sources | $ | 29,662 | $ | 149,119 | $ | 178,781 |
| Net Cost of Operations | | (1,599,299) | | (9,279,594) | | (10,878,893) |
| Net Change | | (125,219) | | 36,850 | | (88,369) |
| **Cumulative Results of Operations** | $ | **7,027,163** | $ | **654,306** | $ | **7,681,469** |

| | | FY 2011 Earmarked Funds | | FY 2011 All Other Funds | | FY 2011 Consolidated Total |
|---|---|---|---|---|---|---|
| **Unexpended Appropriations:** | | | | | | |
| **Net Position - Beginning of Period** | | - | | 13,342,784 | | 13,342,784 |
| Beginning Balances, as Adjusted | | - | | 13,342,784 | | 13,342,784 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations Received | | - | | 8,583,238 | | 8,583,238 |
| Appropriations Transferred In/Out (Note 31) | | - | | 1,750 | | 1,750 |
| Other Adjustments (Note 34) | | - | | (177,186) | | (177,186) |
| Appropriations Used | | - | | (10,287,988) | | (10,287,988) |
| Total Budgetary Financing Sources | | - | | (1,880,186) | | (1,880,186) |
| **Total Unexpended Appropriations** | | - | | 11,462,598 | | 11,462,598 |
| **TOTAL NET POSITION** | **$** | **7,027,163** | **$** | **12,116,904** | **$** | **19,144,067** |

**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, 2010
# (Dollars in Thousands)

| | | FY 2010 Earmarked Funds | | FY 2010 All Other Funds | | FY 2010 Consolidated Total |
|---|---|---|---|---|---|---|
| **Cumulative Results of Operations:** | | | | | | |
| **Net Position - Beginning of Period** | | 7,086,476 | | 582,668 | | 7,669,144 |
| Beginning Balances, as Adjusted | $ | 7,086,476 | $ | 582,668 | $ | 7,669,144 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations Used | | - | | 11,294,823 | | 11,294,823 |
| Nonexchange Revenue - Securities Investment (Note 35) | | 130,504 | | - | | 130,504 |
| Nonexchange Revenue - Other (Note 35) | | 213,984 | | - | | 213,984 |
| Transfers In/Out (Note 31) | | (20,789) | | 33,859 | | 13,070 |
| Trust Fund Appropriations | | 1,280,570 | | (1,280,570) | | - |
| Total Budgetary Financing Sources | $ | 1,604,269 | $ | 10,048,112 | $ | 11,652,381 |
| **Other Financing Sources (Non-Exchange)** | | | | | | |
| Transfers In/Out (Note 31) | | - | | (546) | | (546) |
| Imputed Financing Sources (Note 32) | | 27,022 | | 134,618 | | 161,640 |
| Total Other Financing Sources | $ | 27,022 | $ | 134,072 | $ | 161,094 |
| Net Cost of Operations | | (1,565,385) | | (10,147,396) | | (11,712,781) |
| Net Change | | 65,906 | | 34,788 | | 100,694 |
| **Cumulative Results of Operations** | $ | **7,152,382** | $ | **617,456** | $ | **7,769,838** |

| | | FY 2010 Earmarked Funds | | FY 2010 All Other Funds | | FY 2010 Consolidated Total |
|---|---|---|---|---|---|---|
| **Unexpended Appropriations:** | | | | | | |
| **Net Position - Beginning of Period** | | - | | 14,536,347 | | 14,536,347 |
| Beginning Balances, as Adjusted | $ | - | $ | 14,536,347 | $ | 14,536,347 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations Received | | | | 10,182,421 | | 10,182,421 |
| Appropriations Transferred In/Out (Note 31) | | | | (17,000) | | (17,000) |
| Other Adjustments (Note 34) | | | | (65,989) | | (65,989) |
| Appropriations Used | | | | (11,292,995) | | (11,292,995) |
| Total Budgetary Financing Sources | | - | | (1,193,563) | | (1,193,563) |
| **Total Unexpended Appropriations** | | - | | 13,342,784 | | 13,342,784 |
| **TOTAL NET POSITION** | **$** | **7,152,382** | **$** | **13,960,240** | **$** | **21,112,622** |

**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, 2011 and 2010
## (Dollars in Thousands)

| | FY 2011 | FY 2010 |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated Balance, Brought Forward, October 1: | $ 4,626,341 | $ 3,703,022 |
| Adjusted Subtotal | 4,626,341 | 3,703,022 |
| Recoveries of Prior Year Unpaid Obligations (Note 27) | 270,664 | 277,771 |
| Budgetary Authority: | | |
| Appropriation | 8,648,816 | 10,256,166 |
| Borrowing Authority | - | 52 |
| Spending Authority from Offsetting Collections | | |
| Earned: | | |
| Collected | 640,179 | 918,786 |
| Change in Receivables from Federal Sources | 11,181 | (1,746) |
| Change in Unfilled Customer Orders: | | |
| Advance Received | 79,324 | 234,559 |
| Without Advance from Federal Sources | (15,817) | (132,489) |
| Expenditure Transfers from Trust Funds | 35,410 | 36,809 |
| Total Spending Authority from Offsetting Collections | 750,277 | 1,055,919 |
| Nonexpenditure Transfers, Net, Anticipated and Actual (Note 31) | 1,372,575 | 1,369,345 |
| Temporarily Not Available Pursuant to Public Law (Note 27) | (553) | (11,800) |
| Permanently Not Available (Note 27) | (179,693) | (73,453) |
| **Total Budgetary Resources (Note 26)** | $ 15,488,427 | $ 16,577,022 |
| | | |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations Incurred: | | |
| Direct | $ 11,232,330 | $ 11,260,452 |
| Reimbursable | 758,247 | 690,229 |
| Total Obligations Incurred (Note 26) | 11,990,577 | 11,950,681 |
| Unobligated Balances: | | |
| Apportioned (Note 28) | 3,326,812 | 4,430,813 |
| Total Unobligated Balances | 3,326,812 | 4,430,813 |
| Unobligated Balances Not Available (Note 28) | 171,038 | 195,528 |
| **Total Status of Budgetary Resources** | $ 15,488,427 | $ 16,577,022 |

**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, 2011 and 2010**
**(Dollars in Thousands)**

| | FY 2011 | FY 2010 |
|---|---|---|
| **CHANGE IN OBLIGATED BALANCE** | | |
| Obligated Balance, Net: | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 13,872,909 | $ 15,788,389 |
| Adjusted Total | 13,872,909 | 15,788,389 |
| Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 | (439,956) | (573,824) |
| Total Unpaid Obligated Balance, Net | 13,432,953 | 15,214,565 |
| Obligations Incurred, Net (Note 26) | 11,990,577 | 11,950,681 |
| Less: Gross Outlays (Note 26) | (12,817,928) | (13,588,391) |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual (Note 27) | (270,664) | (277,771) |
| Change in Uncollected Customer Payments from Federal Sources | 1,528 | 133,869 |
| Total, Change in Obligated Balance | 12,336,466 | 13,432,953 |
| | | |
| Obligated Balance, Net, End of Period: | | |
| Unpaid Obligations | 12,774,894 | 13,872,909 |
| Less: Uncollected Customer Payments from Federal Sources | (438,428) | (439,956) |
| Total, Unpaid Obligated Balance, Net, End of Period | $ 12,336,466 | $ 13,432,953 |
| | | |
| **NET OUTLAYS** | | |
| Net Outlays: | | |
| Gross Outlays (Note 26) | $ 12,817,928 | $ 13,588,391 |
| Less: Offsetting Collections (Note 26) | (751,805) | (1,189,788) |
| Less: Distributed Offsetting Receipts (Notes 26 and 30) | (1,291,761) | (1,402,960) |
| **Total, Net Outlays** | $ 10,774,362 | $ 10,995,643 |

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

## Environmental Protection Agency
## Statement of Custodial Activity
## For the Periods Ending September 30, 2011 and 2010
## (Dollars in Thousands)

| | FY 2011 | FY 2010 |
|---|---|---|
| **Revenue Activity:** | | |
| Sources of Cash Collections: | | |
| Fines and Penalties | $ 126,212 | $ 88,318 |
| Other | (4,024) | 18,072 |
| Total Cash Collections | $ 122,188 | $ 106,390 |
| Accrual Adjustment | 4,163 | (16,763) |
| Total Custodial Revenue (Note 25) | $ 126,351 | $ 89,627 |
| **Disposition of Collections:** | | |
| Transferred to Others (General Fund) | $ 122,910 | $ 105,684 |
| Increases/Decreases in Amounts to be Transferred | 3,441 | (16,057) |
| Total Disposition of Collections | $ 126,351 | $ 89,627 |
| **Net Custodial Revenue Activity (Note 25)** | **$ -** | **$ -** |

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

**Environmental Protection Agency**
**Notes to the Financial Statements**
**Fiscal Year Ended September 30, 2011 and 2010**
**(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 2011 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 2 fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

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

Funds transferred from other federal agencies are 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 Agency administrative support for computer and telecommunication services, financial system services, employee relocation services, and postage.

**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 appropriation amount to EPA's Oil Spill Response Account.

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

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

**F. Funds with the Treasury**

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

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

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

**H. Notes Receivable**

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

## I. Marketable Securities

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

## J. Accounts Receivable and Interest Receivable

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

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by SARA. 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 acquisition dates.

A purchase of EPA-held or contract personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least 2 years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of 6 years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. 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 2 to 15 years.

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

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

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

Real property consists of land, buildings, capital and leasehold improvements 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 2 years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, “Accounting for Internal Use Software.” Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset’s useful life ranging from 2 to 10 years.

**O. Liabilities**

Liabilities represent the amount of monies or other resources that are 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 33 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.

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, 2011, EPA has paid out $6.31 billion.

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 EPA has committed to focusing on the following areas: Clean Diesel Emissions, Superfund Hazardous Waste Cleanup, Cleaner Underground Storage Tank Sites, Revitalized Neighborhoods from Brownfields and Cleaner Water and Drinking Water Infrastructures.

The vast majority of the contracts awarded under the Recovery Act will be entered into using competitive contracts. EPA is committed fully to ensuring transparency and accountability throughout the Agency in spending Recovery Act funds in accordance with OMB guidance.

EPA has 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 has 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 689/10108 that is under the Recovery Act. EPA's other Recovery Act programs are the following: Office of Inspector General, treasury symbol 689/20113; State and Tribal Assistance Grants, treasury symbol 689/00102; Payment to the Superfund, treasury symbol 689/00249; Superfund, treasury symbol 689/08195; and Leaking Underground Storage Tank, treasury symbol 689/08196.

**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 continued to work on the cleanup effort in conjunction with the U.S. Coast Guard who was named the lead Federal On-Scene Coordinator and is assisting the Department of Justice on the pending civil litigation.

**W. 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, 2011 and 2010, consists of the following:

| | | FY 2011 | | | FY 2010 | |
|---|---|---|---|---|---|---|
| | Entity Assets | Non-Entity Assets | Total | Entity Assets | Non-Entity Assets | Total |
| **Trust Funds:** | | | | | | |
| Superfund | $ 114,540 | $ - | $ 114,540 | $ 106,247 | $ - | $ 106,247 |
| LUST | 60,558 | - | 60,558 | 55,132 | - | 55,132 |
| Oil Spill & Misc. | 4,085 | - | 4,085 | 9,644 | - | 9,644 |
| **Revolving Funds:** | | | | | | |
| FIFRA/Tolerance | 3,571 | - | 3,571 | 4,204 | - | 4,204 |
| Working Capital | 68,776 | - | 68,776 | 80,485 | - | 80,485 |
| Cr. Reform Finan. | 390 | - | 390 | 390 | - | 390 |
| **Appropriated** | 12,086,770 | - | 12,086,770 | 14,049,511 | - | 14,049,511 |
| **Other Fund Types** | 314,522 | 9,329 | 323,851 | 289,149 | 8,262 | 297,411 |
| **Total** | **$ 12,653,212** | **$ 9,329** | **$ 12,662,541** | **$ 14,594,762** | **$ 8,262** | **$ 14,603,024** |

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 2011 | FY 2010 |
|---|---|---|
| Unobligated Amounts in Fund Balance: | | |
| Available for Obligation | $ 3,326,812 | $ 4,430,813 |
| Unavailable for Obligation | 171,038 | 195,529 |
| Net Receivables from Invested Balances | (3,485,275) | (3,736,818) |
| Balances in Treasury Trust Fund (Note 37) | 1,310 | (1,115) |
| Obligated Balance not yet Disbursed | 12,336,466 | 13,432,954 |
| Non-Budgetary FBWT | 312,190 | 281,661 |
| **Totals** | **$ 12,662,541** | **$ 14,603,024** |

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 2011 and FY 2010 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, 2011 and 2010, the balance in the imprest fund was $10 thousand.

## *Note 4. Investments*

As of September 30, 2011 and 2010 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 2011 | $ | 6,959,480 | $ | (137,103) | $ | 15,614 | $ | 7,112,197 | $ | 7,112,197 |
| Non-Marketable | FY 2010 | $ | 7,079,053 | $ | (139,302) | $ | 25,258 | $ | 7,243,613 | $ | 7,243,613 |

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

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

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

## *Note 5. Accounts Receivable, Net*

The Accounts Receivable as of September 30, 2011 and 2010 consist of the following:

| | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| **Intragovernmental:** | | | | |
| Accounts & Interest Receivable | $ | 35,518 | $ | 45,698 |
| **Total** | $ | **35,518** | $ | **45,698** |
| | | | | |
| **Non-Federal:** | | | | |
| Unbilled Accounts Receivable | $ | 159,170 | $ | 143,444 |
| Accounts & Interest Receivable | | 2,176,215 | | 1,958,981 |
| Less: Allowance for Uncollectibles | | (1,821,195) | | (1,684,890) |
| **Total** | **$** | **514,190** | **$** | **417,535** |

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, 2011 and 2010 consist of the following:

| **Intragovernmental:** | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| Advances to Federal Agencies | $ | 251,649 | $ | 223,165 |
| Advances for Postage | | 154 | | 131 |
| **Total** | **$** | **251,803** | **$** | **223,296** |
| | | | | |
| **Non-Federal:** | | | | |
| Travel Advances | $ | 486 | $ | 432 |
| Letter of Credit Advances | | - | | 9 |
| Other Advances | | 1,838 | | 2,105 |
| Operating Materials and Supplies | | 140 | | 149 |
| Inventory for Sale | | 102 | | 139 |
| **Total** | **$** | **2,566** | **$** | **2,834** |

***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, 2011 and 2010 are as follows:

| | FY 2011 | | | FY 2010 | | |
|---|---|---|---|---|---|---|
| | **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 Prior to FY 1992 | $ 44 | $ - | $ 44 | $ 545 | $ - | $ 545 |
| Direct Loans Obligated After FY 1991 | 2,194 | (131) | 2,063 | 4,931 | (222) | 4,709 |
| **Total** | **$ 2,238** | **$ (131)** | **$ 2,107** | **$ 5,476** | **$ (222)** | **$ 5,254** |

* 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 2011 | $ | 104 | $ | 39 | $ | 143 |
| Downward Subsidy Reestimate - FY 2011 | | | | | | - |
| **FY 2011 Totals** | **$** | **104** | **$** | **39** | **$** | **143** |
| Upward Subsidy Reestimate – FY 2010 | $ | 5 | $ | 2 | $ | 7 |
| Downward Subsidy Reestimate - FY 2010 | | (35) | | (16) | | (51) |
| **FY 2010 Totals** | **$** | **(30)** | **$** | **(14)** | **$** | **(44)** |

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

| | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| Beginning balance of the subsidy cost allowance | $ | (222) | $ | (948) |
| 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 | | 234 | | 477 |
| Other | | | | |
| End balance of the subsidy cost allowance before reestimates | | 234 | | 477 |
| Add or subtract subsidy reestimates by component: | | | | |
| (a) Interest rate reestimate | | (104) | | 176 |
| (b) Technical/default reestimate | | (39) | | 73 |
| Total of the above reestimate components | | (143) | | 249 |
| **Ending Balance of the subsidy cost allowance** | $ | (131) | $ | (222) |

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, 2011 and 2010:

| | FY 2011 | FY 2010 |
|---|---|---|
| **Intragovernmental:** | | |
| Accounts Payable | $ 62 | $ 1,466 |
| Accrued Liabilities | 52,386 | 49,859 |
| **Total** | **$ 52,448** | **$ 51,325** |

| **Non-Federal:** | FY 2011 | FY 2010 |
|---|---|---|
| Accounts Payable | $ 69,505 | $ 118,033 |
| Advances Payable | 3 | 8 |
| Interest Payable | 7 | 7 |
| Grant Liabilities | 617,073 | 650,526 |
| Other Accrued Liabilities | 230,178 | 262,874 |
| **Total** | **$ 916,766** | **$ 1,031,448** |

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, 2011 and 2010, General PP&E consist of the following:

| | FY 2011 | | | FY 2010 | | |
|---|---|---|---|---|---|---|
| | Acquisition Value | Accumulated Depreciation | Net Book Value | Acquisition Value | Accumulated Depreciation | Net Book Value |
| EPA-Held Equipment | $ 255,049 | $ (147,219) | $ 107,830 | $ 252,920 | $ (145,672) | $ 107,248 |
| Software | 527,603 | (190,302) | 337,301 | 443,847 | (158,034) | 285,813 |
| Contractor Held Equip. | 66,808 | (22,104) | 44,704 | 95,494 | (39,225) | 56,269 |
| Land and Buildings | 653,518 | (188,382) | 465,136 | 630,252 | (177,654) | 452,598 |
| Capital Leases | 35,440 | (23,612) | 11,828 | 35,440 | (22,247) | 13,193 |
| **Total** | **$ 1,538,418** | **$ (571,619)** | **$ 966,799** | **$ 1,457,953** | **$ (542,832)** | **$ 915,121** |

## *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, 2011 and 2010 is as follows:

| All Other Funds | FY 2011 | | | FY 2010 | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Borrowing | Ending Balance | Beginning Balance | Net Borrowing | Ending Balance |
| **Intragovernmental:** | | | | | | |
| Debt to Treasury | $ 4,844 | $ (2,251) | $ 2,593 | $ 9,983 | $ (5,139) | $ 4,844 |

## *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, 2011, the Agency possesses the following land and land rights:

| | FY 2011 | FY 2010 |
|---|---|---|
| **Superfund Sites with Easements** | | |
| Beginning Balance | 35 | 33 |
| Additions | 1 | 2 |
| Withdrawls | 0 | 0 |
| Ending Balance | 36 | 35 |

| | FY 2011 | FY 2010 |
|---|---|---|
| **Superfund Sites with Land Acquired** | | |
| Beginning Balance | 32 | 30 |
| Additions | 4 | 2 |
| Withdrawls | 2 | 0 |
| Ending Balance | 34 | 32 |

## *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, 2011 and 2010, custodial liability is approximately $57 million and $53 million, respectively.

## *Note 13. Other Liabilities*

Other Liabilities consist of the following as of September 30, 2011:

| **Other Liabilities – Intragovernmental** | **Covered by Budgetary Resources** | **Not Covered by Budgetary Resources** | **Total** |
|---|---|---|---|
| **Current** | | | |
| Employer Contributions & Payroll Taxes | $ 25,495 | $ - | $ 25,495 |
| WCF Advances | 1,337 | - | 1,337 |
| Other Advances | 38,981 | - | 38,981 |
| Advances, HRSTF Cashout | 34,979 | - | 34,979 |
| Deferred HRSTF Cashout | - | - | - |
| Liability for Deposit Funds | - | - | - |
| Resources Payable to Treasury | 3 | - | 3 |
| Subsidy Payable to Treasury | - | - | - |
| **Non-Current** | | | |
| Unfunded FECA Liability | - | 10,115 | 10,115 |
| Payable to Treasury Judgment Fund | - | 22,000 | 22,000 |
| **Total Intragovernmental** | **$ 100,795** | **$ 32,115** | **$ 132,910** |
| **Other Liabilities - Non-Federal** | | | |
| **Current** | | | |
| Unearned Advances, Non-Federal | $ 70,084 | $ - | $ 70,084 |
| Liability for Deposit Funds, Non-Federal | 9,194 | - | 9,194 |
| Contract Holdbacks | - | - | - |
| **Non-Current** | | | |
| Other Liabilities | - | - | - |
| Capital Lease Liability | - | 24,711 | 24,711 |
| **Total Non-Federal** | **$ 79,278** | **$ 24,711** | **$ 103,989** |

Other Liabilities consist of the following as of September 30, 2010:

| Other Liabilities – Intragovernmental | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|---|---|---|---|
| **Current** | | | |
| Employer Contributions & Payroll Taxes | $ 22,585 | $ - | $ 22,585 |
| WCF Advances | 1,706 | - | 1,706 |
| Other Advances | 52,596 | - | 52,596 |
| Advances, HRSTF Cashout | 20,431 | - | 20,431 |
| Deferred HRSTF Cashout | 1,831 | - | 1,831 |
| Liability for Deposit Funds | - | - | - |
| Resources Payable to Treasury | 649 | - | 649 |
| Subsidy Payable to Treasury | 256 | - | 256 |
| **Non-Current** | | | |
| Unfunded FECA Liability | - | 10,232 | 10,232 |
| Payable to Treasury Judgment Fund | - | 22,000 | 22,000 |
| **Total Intragovernmental** | **$ 100,054** | **$ 32,232** | **$ 132,286** |
| **Other Liabilities - Non-Federal** | | | |
| **Current** | | | |
| Unearned Advances | $ 65,314 | $ - | $ 65,314 |
| Liability for Deposit Funds | 8,128 | - | 8,128 |
| Contract Holdbacks | 155 | - | 155 |
| **Non-Current** | | | |
| Other Liabilities | - | 200 | 200 |
| Capital Lease Liability | - | 26,199 | 26,199 |
| **Total Non-Federal** | **$ 73,597** | **$ 26,399** | **$ 99,996** |

## *Note 14. Leases*

### Capital Leases:

The value of assets held under Capital Leases as of September 30, 2011 and 2010 are as follows:

| Summary of Assets Under Capital Lease: | FY 2011 | FY 2010 |
|---|---|---|
| Real Property | $ 35,285 | $ 35,285 |
| Personal Property | 155 | 155 |
| Software License | - | - |
| **Total** | **$ 35,440** | **$ 35,440** |
| Accumulated Amortization | $ 23,612 | $ 22,246 |

EPA had two capital leases for land and buildings housing scientific laboratories and computer facilities.  All of these 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.  Two leases terminate in FY 2013 and FY 2025.

The total future minimum capital lease payments are listed below.

| **Future Payments Due:** | | |
|---|---|---|
| **Fiscal Year** | | **Capital Leases** |
| 2012 | $ | 5,714 |
| 2013 | | 5,714 |
| 2014 | | 4,215 |
| 2015 | | 4,215 |
| After 5 years | | 39,340 |
| **Total Future Minimum Lease Payments** | | 59,198 |
| Less: Imputed Interest | $ | (34,487) |
| **Net Capital Lease Liability** | | 24,711 |
| **Liabilities not Covered by Budgetary Resources** | **$** | **24,711** |
| **(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:

| Fiscal Year | | Operating Leases, Land and Buildings |
|---|---|---|
| 2012 | $ | 89 |
| 2013 | | 89 |
| 2014 | | 89 |
| 2015 | | 89 |
| Beyond 2015 | | 285 |
| **Total Future Minimum Lease Payments** | **$** | **641** |

## *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, 2011 and 2010 was $44.8 million and $44.9 million, respectively. The FY 2011 present value of these estimated outflows is calculated using a discount rate of 3.535 percent in the first year, and 4.025 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, 2011 and 2010, cashouts are approximately $790 million and $637 million respectively.

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

As of September 30, 2011 and 2010, the Unexpended Appropriations consist of the following:

| **Unexpended Appropriations:** | | **FY 2011** | | **FY 2010** |
|---|---|---|---|---|
| Unobligated | | | | |
| Available | $ | 1,151,603 | $ | 184,815 |
| Unavailable | | 74,517 | | 275,592 |
| Undelivered Orders | | 10,236,478 | | 12,882,377 |
| **Total** | $ | **11,462,598** | $ | **13,342,784** |

## *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, 2011 and 2010 total accrued liabilities for commitments and potential loss contingencies is $10.2 million and $4.37 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 $10 million and $15 million. EPA has accrued the higher conservative amount as of September 30, 2011. The maximum amount of exposure under the claim could range as much as $15 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, 2011, 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. For the periods ended September 30, 2011 and 2010, EPA paid $3 million for each of these periods to the CEC. A payment of $3 million was made in FY 2011.

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 $8.35 million in FY 2011. Future payments totaling $11 million have been deemed reasonably possible and are anticipated to be paid in fiscal years 2012 through 2014.

## *Note 19. Earmarked Funds*

| Balance sheet as of September 30, 2011 | Environmental Services | LUST | Superfund | Other Earmarked Funds | Total Earmarked Funds |
|---|---|---|---|---|---|
| Assets | | | | | |
| Fund Balance with Treasury | $ 302,677 | $ 60,558 | $ 114,540 | $ 19,500 | $ 497,275 |
| Investments | - | 3,535,052 | 3,577,145 | - | 7,112,197 |
| Accounts Receivable, Net | - | - | 445,303 | 16,866 | 462,169 |
| Other Assets | - | 347 | 118,355 | 4,415 | 123,117 |
| Total Assets | 302,677 | 3,595,957 | 4,255,343 | 40,781 | 8,194,758 |
| | | | | | |
| Other Liabilities | $ - | $ 20,757 | $ 1,111,724 | $ 35,114 | $ 1,167,595 |
| Total Liabilities | $ - | $ 20,757 | $ 1,111,724 | $ 35,114 | $ 1,167,595 |
| | | | | | |
| Cumulative Results of Operations | $ 302,677 | $ 3,575,200 | $ 3,143,619 | $ 5,667 | $ 7,027,163 |
| | | | | | |
| Total Liabilities and Net Position | $ 302,677 | $ 3,595,957 | $ 4,255,343 | $ 40,781 | $ 8,194,758 |
| | | | | | |
| **Statement of Changes in Net Cost for the Period Ended September 30, 2011** | | | | | |
| Gross Program Costs | $ - | $ 209,613 | $ 1,908,317 | $ 124,214 | $ 2,242,144 |
| Less: Earned Revenues | - | - | 532,006 | 110,839 | 642,845 |
| | | | | | |
| Net Cost of Operations | $ - | $ 209,613 | $ 1,376,311 | $ 13,375 | $ 1,599,299 |
| | | | | | |
| **Statement of Changes in Net Position for the Period ended September 30, 2011** | | | | | |
| Net Position, Beginning of Period | $ 273,416 | $ 3,539,217 | $ 3,340,498 | $ (749) | $ 7,152,382 |
| Nonexchange Revenue- Securities Investments | - | 93,156 | 27,266 | 7 | 120,429 |
| Nonexchange Revenue | 29,261 | 152,127 | 3,596 | - | 184,984 |
| Other Budgetary Finance Sources | - | - | 1,120,663 | 18,342 | 1,139,005 |
| Other Financing Sources | - | 314 | 27,907 | 1,441 | 29,662 |
| Net Cost of Operations | - | (209,613) | (1,376,311) | (13,375) | (1,599,299) |
| | | | | | |
| Change in Net Position | $ 29,261 | $ 35,984 | $ (196,879) | $ 6,415 | $ (125,219) |
| | | | | | |
| Net Position | $ 302,677 | $ 3,575,201 | $ 3,143,619 | $ 5,666 | $ 7,027,163 |

| Balance sheet as of September 30, 2010 | Environmental Services | LUST | Superfund | Other Earmarked Funds | Total Earmarked Funds |
|---|---|---|---|---|---|
| Assets | | | | | |
| Fund Balance with Treasury | $ 273,420 | $ 55,132 | $ 106,247 | $ 29,578 | $ 464,377 |
| Investments | - | 3,502,913 | 3,740,700 | - | 7,243,613 |
| Accounts Receivable, Net | - | - | 391,388 | 7,697 | 399,085 |
| Other Assets | - | 266 | 115,729 | 6,199 | 122,194 |
| Total Assets | 273,420 | 3,558,311 | 4,354,064 | 43,474 | 8,229,269 |
| Other Liabilities | $ 4 | $ 19,094 | $ 1,013,566 | $ 44,223 | $ 1,076,887 |
| Total Liabilities | $ 4 | $ 19,094 | $ 1,013,566 | $ 44,223 | $ 1,076,887 |
| Cumulative Results of Operations | $ 273,416 | $ 3,539,217 | $ 3,340,498 | $ (749) | $ 7,152,382 |
| Total Liabilities and Net Position | $ 273,420 | $ 3,558,311 | $ 4,354,064 | $ 43,474 | $ 8,229,269 |
| **Statement of Net Cost for the Period Ended September 30, 2010** | | | | | |
| Gross Program Costs | $ - | $ 181,870 | $ 1,844,712 | $ 121,214 | $ 2,147,796 |
| Less: Earned Revenues | - | | 484,165 | 98,246 | 582,411 |
| Net Cost of Operations | $ - | $ 181,870 | $ 1,360,547 | $ 22,968 | $ 1,565,385 |
| **Statement of Changes in Net Position for the Period ended September 30, 2010** | | | | | |
| Net Position, Beginning of Period | $ 231,820 | $ 3,436,303 | $ 3,416,536 | $ 1,817 | $ 7,086,476 |
| Nonexchange Revenue- Securities Investments | - | 115,523 | 14,968 | 13 | 130,504 |
| Nonexchange Revenue | 41,596 | 168,990 | 3,396 | 2 | 213,984 |
| Other Budgetary Finance Sources | - | - | 1,241,402 | 18,379 | 1,259,781 |
| Other Financing Sources | - | 271 | 24,743 | 2,008 | 27,022 |
| Net Cost of Operations | - | (181,870) | (1,360,547) | (22,968) | (1,565,385) |
| Change in Net Position | $ 41,596 | $ 102,914 | $ (76,038) | $ (2,566) | $ 65,906 |
| Net Position | $ 273,416 | $ 3,539,217 | $ 3,340,498 | $ (749) | $ 7,152,382 |

## Earmarked funds are as follows:

***Environmental Services Receipt Account:*** The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549),", was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts 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.  The program is financed by a one cent per gallon tax on motor fuels which will expire on September 31, 2011.

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

**Other Earmarked Funds**:

***Oil Spill 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.

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

***Pesticide Registration Fund:*** The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199),", and reauthorized in 2007 for five more years, 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.

***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 2011 | | | FY 2010 | | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Total | Intragovernmental | With the Public | Total |
| **Clean Air** | | | | | | |
| Program Costs | $ 159,456 | $ 1,035,680 | $ 1,195,136 | $ 170,677 | $ 1,048,124 | $ 1,218,801 |
| Earned Revenue | 13,586 | 1,034 | 14,620 | 18,923 | 5,906 | 24,829 |
| NET COST | $ 145,870 | $ 1,034,646 | $ 1,180,516 | $ 151,754 | $ 1,042,218 | $ 1,193,972 |
| **Clean and Safe Water** | | | | | | |
| Program Costs | $ 252,748 | $ 5,125,894 | $ 5,378,642 | $ 193,456 | $ 6,197,330 | $ 6,390,786 |
| Earned Revenue | 7,333 | 1,458 | 8,791 | 2,803 | 2,524 | 5,327 |
| NET COSTS | $ 245,415 | $ 5,124,436 | $ 5,369,851 | $ 190,653 | $ 6,194,806 | $ 6,385,459 |
| **Land Preservation & Restoration** | | | | | | |
| Program Costs | $ 390,431 | $ 2,180,996 | $ 2,571,427 | $ 342,734 | $ 2,096,211 | $ 2,438,945 |
| Earned Revenue | 124,874 | 494,249 | 619,123 | 103,687 | 446,569 | 550,256 |
| NET COSTS | $ 265,557 | $ 1,686,747 | $ 1,952,304 | $ 239,047 | $ 1,649,642 | $ 1,888,689 |
| **Healthy Communities & Ecosystems** | | | | | | |
| Program Costs | $ 335,757 | $ 1,289,505 | $ 1,625,262 | $ 293,850 | $ 1,265,653 | $ 1,559,503 |
| Earned Revenue | 12,010 | 38,725 | 50,735 | 64,034 | 44,144 | 108,178 |
| NET COSTS | $ 323,747 | $ 1,250,780 | $ 1,574,527 | $ 229,816 | $ 1,221,509 | $ 1,451,325 |
| **Compliance & Environmental Stewardship** | | | | | | |
| Program Costs | $ 192,243 | $ 614,514 | $ 806,757 | $ 182,299 | $ 615,931 | $ 798,230 |
| Earned Revenue | 3,607 | 1,455 | 5,062 | 3,400 | 1,494 | 4,894 |
| NET COSTS | $ 188,636 | $ 613,059 | $ 801,695 | $ 178,899 | $ 614,437 | $ 793,336 |
| **Total** | | | | | | |
| Program Costs | $ 1,330,635 | $ 10,246,589 | $ 11,577,224 | $ 1,183,016 | $ 11,223,249 | $ 12,406,265 |
| Earned Revenue | 161,410 | 536,921 | 698,331 | 192,847 | 500,637 | 693,484 |
| NET COSTS | $ 1,169,225 | $ 9,709,668 | $ 10,878,893 | $ 990,169 | $ 10,722,612 | $ 11,712,781 |

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

## *Note 21. Cost of Stewardship Land*

There were costs of approximately $438 thousand related to the acquisition of stewardship land for September 30, 2011 and no costs for September 30, 2010. These costs are included in the Statement of Net Cost.

## *Note 22. Environmental Cleanup Costs*

As of September 30, 2011, EPA has 2 sites that requires clean up stemming from its activities. Two claimants' chances of success are characterized as probable with costs amounting to $180 thousand, 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 FY2010 or in FY2011.

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, 2011 and 2010, the estimated costs for site cleanup were $20.84 million and $20.15 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 23. 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, 2011 and 2010, the total remaining state credits have been estimated at $22.2 million and $21.0 million, respectively.

## *Note 24. 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, 2011, EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $11.5 million.

As of September 30, 2010, EPA had 6 for $15.6 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 25. Custodial Revenues and Accounts Receivable*

| | FY 2011 | FY 2010 |
|---|---|---|
| **Fines, Penalties and Other Miscellaneous Receipts** | **$ 126,351** | **$ 89,627** |
| **Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:** | | |
| Accounts Receivable | $ 236,313 | $ 229,658 |
| Less: Allowance for Uncollectible Accounts | (184,366) | (181,153) |
| **Total** | **$ 51,947** | **$ 48,505** |

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 26. Reconciliation of President's Budget to the Statement of Budgetary Resources*

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2011 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2012 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2011 has not yet been published. We expect it will be published by early 2012, and it will be available on the OMB website at http://www.whitehouse.gov/.
The actual amounts published for the year ended September 30, 2010 are listed immediately below:

| FY 2010 | Budgetary Resources | Obligations | Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| Statement of Budgetary Resources | $ 16,577,022 | $ 11,950,681 | $ 1,402,960 | $ 12,398,603 |
| Expired and Immaterial Funds* | (189,104) | | | (281) |
| 68X6275 adjustment | | | (6,290) | |
| Rounding Differences** | 2,082 | 1,319 | 330 | 678 |
| **Reported in Budget of the U. S. Government** | **$ 16,390,000** | **$ 11,952,000** | **$ 1,397,000** | **$ 12,399,000** |

* 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 27. 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, 2011 and 2010:

| | FY 2011 | FY 2010 |
|---|---|---|
| Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations | $ 270,664 | $ 277,771 |
| Temporarily Not Available - Rescinded Authority | (553) | (11,800) |
| Permanently Not Available: | | |
| Payments to Treasury | (2,508) | (5,191) |
| Rescinded authority | (157,166) | (52,897) |
| Canceled authority | (20,019) | (15,365) |
| **Total Permanently Not Available** | **$ (179,693)** | **$ (73,453)** |

## *Note 28. 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, 2011 and 2010:

| | FY 2011 | FY 2010 |
|---|---|---|
| Unexpired Unobligated Balance | $ 3,325,991 | $ 4,441,115 |
| Expired Unobligated Balance | 171,859 | 185,226 |
| **Total** | **$ 3,497,850** | **$ 4,626,341** |

## *Note 29. Undelivered Orders at the End of the Period*

Budgetary resources obligated for undelivered orders at September 30, 2011 and 2010 were $11.91 billion and $12.88 billion, respectively.

Please note that in FY 2010, Undelivered Orders at the End of the Period inadvertently excluded the paid portion of undelivered orders and were highlighted as $12.63 billion.

## *Note 30. Offsetting Receipts*

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FY 2011 and 2010, the following receipts were generated from these activities:

| | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| Trust Fund Recoveries | $ | 97,623 | $ | 53,247 |
| Special Fund Environmental Service | | 29,257 | | 41,599 |
| Downward Re-estimates of Subsidies | | - | | 51 |
| Trust Fund Appropriation | | 1,156,073 | | 1,280,570 |
| Special Fund Receipt Account and Treasury | | - | | - |
| Miscellaneous Receipt and Clearing Accounts | | 8,808 | | 27,493 |
| **Total** | $ | **1,291,761** | $ | **1,402,960** |

## *Note 31. Transfers-In and Out, Statement of Changes in Net Position*

### Appropriation Transfers, In/Out:

For FY 2011 and 2010, 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, 2011 and 2010:

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

| **Fund/Type of Account** | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| Army Corps of Engineers | $ | 1,750 | $ | (9,000) |
| U.S. Navy | | | | (8,000) |
| Small Business Administration | | | | - |
| Total Appropriation Transfers (Other Funds) | | 1,750 | | (17,000) |
| Net Transfers from Invested Funds | | 1,370,349 | | 1,386,345 |
| Transfers to Another Agency | | 1,750 | | (17,000) |
| Allocations Rescinded | $ | 476 | $ | - |
| Total of Net Transfers on Statement of Budgetary Resources | $ | **1,372,575** | $ | **1,369,345** |

For FY 2011 and 2010, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and nonexpenditure, follows for September 30, 2011 and 2010:

| Type of Transfer/Funds | FY 2011 | | FY 2010 | |
|---|---|---|---|---|
| | Earmarked | Other Funds | Earmarked | Other Funds |
| Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds | $ (35,410) | $ 35,410 | $ (39,168) | $ 33,859 |
| Transfer-in nonexpenditure recovery from CDC | | | - | - |
| Transfers-in nonexpenditure, Oil Spill | 18,342 | | 18,379 | - |
| Transfer-in (out) cancelled funds | | | - | - |
| Total Transfer in (out) without Reimbursement, Budgetary | $ **(17,068)** | $ **35,410** | $ **(20,789)** | $ **33,859** |

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

For FY 2011 and 2010, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of negative subsidy to a special receipt fund for the credit reform funds.

The amounts reported on the Statement of Changes in Net Position are as follows for September 30, 2011 and 2010:

| Type of Transfer/Funds | FY 2011 | | FY 2010 | |
|---|---|---|---|---|
| | Earmark | Other Funds | Earmark | Other Funds |
| Transfers-in by allocation transfer agency | $ | $ | $ - | $ - |
| Transfers-in property | (1) | 180 | - | 341 |
| Transfers (out) of prior year negative subsidy to be paid following year | | (256) | - | 205 |
| Total Transfer in (out) without Reimbursement, Budgetary | $ **(1)** | $ **(76)** | $ **-** | $ **546** |

## *Note 32. 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 2011 were $164.4 million ($25.8 million from Earmarked funds, and $138.6 million from Other Funds). For FY 2010, the estimates were $146.8 million ($23.7 million from Earmarked funds, and $123.1 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 2011 total imputed costs were $11.6 million ($3.9 million from Earmarked funds, and $7.7 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 2011 entries for Judgment Fund payments totaled $2.6 million (Other Funds). For FY 2010, entries for Judgment Fund payments totaled $4.0 million (Other Funds).

The combined total of imputed financing sources for FY 2011 and FY 2010 is $178.6 million and $161.6 million, respectively.

### *Note 33. Payroll and Benefits Payable*

Payroll and benefits payable to EPA employees for the years ending September 30, 2011 and 2010 consist of the following:

| FY 2011 Payroll & Benefits Payable | | Covered by Budgetary Resources | | Not Covered by Budgetary Resources | | Total |
|---|---|---|---|---|---|---|
| Accrued Funded Payroll & Benefits | $ | 73,432 | $ | - | $ | 73,432 |
| Withholdings Payable | | 32,050 | | - | | 32,050 |
| Employer Contributions Payable-TSP | | 4,008 | | - | | 4,008 |
| Accrued Unfunded Annual Leave | | - | | 162,845 | | 162,845 |
| **Total - Current** | $ | **109,490** | $ | **162,845** | $ | **272,335** |

| FY 2010 Payroll & Benefits Payable | | Covered by Budgetary Resources | | Not Covered by Budgetary Resources | | Total |
|---|---|---|---|---|---|---|
| Accrued Funded Payroll and Benefits | $ | 66,677 | $ | - | $ | 66,677 |
| Withholdings Payable | | 31,298 | | - | | 31,298 |
| Employer Contributions Payable-TSP | | 3,588 | | - | | 3,588 |
| Accrued Unfunded Annual Leave | | - | | 163,412 | | 163,412 |
| **Total - Current** | $ | **101,563** | $ | **163,412** | $ | **264,975** |

## *Note 34. 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 2011 | | Other Funds FY 2010 |
|---|---|---|---|---|
| Rescissions to General Appropriations | $ | 157,208 | $ | 50,623 |
| Canceled General Authority | | 19,978 | | 15,366 |
| **Total Other Adjustments** | **$** | **177,186** | **$** | **65,989** |

## *Note 35. 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, 2011 and 2010 consists of the following items:

| | | Earmarked Funds FY 2011 | | Earmarked Funds FY 2010 |
|---|---|---|---|---|
| Interest on Trust Fund | $ | 120,429 | $ | 130,504 |
| Tax Revenue, Net of Refunds | | 152,437 | | 172,127 |
| Fines and Penalties Revenue | | 3,286 | | 261 |
| Special Receipt Fund Revenue | | 29,261 | | 41,596 |
| **Total Nonexchange Revenue** | **$** | **305,413** | **$** | **344,488** |

## *Note 36. Reconciliation of Net Cost of Operations to Budget*

| | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| **RESOURCES USED TO FINANCE ACTIVITIES** | | | | |
| Budgetary Resources Obligated | | | | |
| Obligations Incurred | $ | 11,990,577 | $ | 11,950,681 |
| Less: Spending Authority from Offsetting Collections and Recoveries | | (1,020,941) | | (1,333,690) |
| Obligations, Net of Offsetting Collections | $ | 10,969,636 | $ | 10,616,991 |
| Less: Offsetting Receipts | | (1,282,958) | | (1,375,422) |
| Net Obligations | $ | 9,686,678 | $ | 9,241,569 |
| Other Resources | | | | |
| Donations of Property | $ | 50 | $ | |
| Transfers In/Out without Reimbursement, Property | | (178) | | (341) |
| Imputed Financing Sources | | 178,654 | | 161,640 |
| Net Other Resources Used to Finance Activities | $ | 178,526 | $ | 161,299 |
| Total Resources Used to Finance Activities | $ | 9,865,204 | $ | 9,402,868 |
| **RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:** | | | | |
| Change in Budgetary Resources Obligated | $ | 1,031,615 | $ | 2,166,944 |
| Resources that Fund Prior Periods Expenses | | - | | - |
| Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations: | | | | |
| Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances | | 2,759 | | 5,681 |
| Offsetting Reciepts Not Affecting Net Cost | | 126,885 | | 94,852 |
| Resources that Finance Asset Acquition | | (190,101) | | (213,953) |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | $ | 971,158 | $ | 2,053,524 |
| Total Resources Used to Finance the Net Cost of Operations | $ | 10,836,362 | $ | 11,456,392 |
| **COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:** | | **FY 2011** | | **FY 2010** |
| Components Requiring or Generating Resources in Future Periods: | | | | |
| Increase in Annual Leave Liability | $ | (823) | $ | 4,232 |
| Increase in Environmental and Disposal Liability | | 484 | | 630 |
| Increase in Unfunded Contingencies | | 5,807 | | (200) |
| Upward/ Downward Reestimates of Credit Subsidy Expense | | 394 | | (207) |
| Increase in Public Exchange Revenue Receivables | | (231,519) | | 7,375 |
| Increase in Workers Compensation Costs | | (221) | | 979 |
| Other | | 1,563 | | (3,077) |
| Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods | $ | (224,315) | $ | 9,732 |
| Components Not Requiring/ Generating Resources: | | | | |
| Depreciation and Amortization | | 73,640 | $ | 85,741 |
| Expenses Not Requiring Budgetary Resources | | 193,206 | | 160,916 |
| Total Components of Net Cost that Will Not Require or Generate Resources | $ | 266,846 | $ | 246,657 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | $ | 42,531 | $ | 256,389 |
| **Net Cost of Operations** | $ | 10,878,893 | $ | 11,712,781 |

## *Note 37. 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, 2011 and 2010. 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 2011** | **EPA** | **Treasury** | **Combined** |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ 15,000 | $ 15,000 |
| Total Undisbursed Balance | - | 15,000 | 15,000 |
| Interest Receivable | - | 4,361,927 | 4,361,927 |
| Investments, Net | 3,368,753,717 | 204,029,927 | 3,572,783,644 |
| **Total Assets** | $ 3,368,753,717 | $ 208,406,854 | $ 3,577,160,571 |
| **Liabilities & Equity** | | | |
| Equity | $ 3,368,753,717 | $ 208,406,854 | $ 3,577,160,571 |
| **Total Liabilities and Equity** | $ 3,368,753,717 | $ 208,406,854 | $ 3,577,160,571 |
| **Receipts** | | | |
| Corporate Environmental | - | 310,125 | 310,125 |
| Cost Recoveries | - | 97,623,116 | 97,623,116 |
| Fines & Penalties | - | 1,755,095 | 1,755,095 |
| Total Revenue | - | 99,688,336 | 99,688,336 |
| Appropriations Received | - | 1,156,073,340 | 1,156,073,340 |
| Interest Income | - | 27,266,038 | 27,266,038 |
| **Total Receipts** | $ - | $ 1,283,027,714 | $ 1,283,027,714 |
| **Outlays** | | | |
| Transfers to/from EPA, Net | $ 1,292,883,474 | $ (1,292,883,474) | $ - |
| **Total Outlays** | 1,292,883,474 | (1,292,883,474) | - |
| **Net Income** | $ **1,292,883,474** | $ **(9,855,760)** | $ **1,283,027,714** |

In FY 2011, the EPA received an appropriation of $1.16 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, 2011 and 2010, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of $3.37 billion and $3.53 billion, respectively.

| SUPERFUND FY 2010 | EPA | Treasury | Combined |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ 4,234,294 | $ 4,234,294 |
| Total Undisbursed Balance | - | 4,234,294 | 4,234,294 |
| Interest Receivable | - | 4,442,724 | 4,442,724 |
| Investments, Net | 3,526,671,825 | 209,585,595 | 3,736,257,420 |
| **Total Assets** | $ 3,526,671,825 | $ 218,262,613 | $ 3,744,934,438 |
| **Liabilities & Equity** | | | |
| Receipts and Outlays | - | | - |
| Equity | $ 3,526,671,825 | $ 218,262,613 | $ 3,744,934,438 |
| **Total Liabilities and Equity** | $ 3,526,671,825 | $ 218,262,613 | $ 3,744,934,438 |
| **Receipts** | | | |
| Corporate Environmental | - | 3,137,141 | 3,137,141 |
| Cost Recoveries | - | 53,246,618 | 53,246,618 |
| Fines & Penalties | - | 3,451,837 | 3,451,837 |
| Total Revenue | - | 59,835,596 | 59,835,596 |
| Appropriations Received | - | 1,280,570,288 | 1,280,570,288 |
| Interest Income | - | 14,967,685 | 14,967,685 |
| **Total Receipts** | $ - | $ 1,355,373,569 | $ 1,355,373,569 |
| **Outlays** | | | |
| Transfers to/from EPA, Net | $ 1,308,704,084 | $ (1,308,704,084) | $ - |
| **Total Outlays** | 1,308,704,084 | (1,308,704,084) | - |
| **Net Income** | $ **1,308,704,084** | $ **46,669,485** | $ **1,355,373,569** |

## LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2011 and 2010, there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes 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 2011** | **EPA** | **Treasury** | **Combined** |
|---|---|---|---|
| **Undistributed Balances** | | | |
| Uninvested Fund Balance | $ - | $ 1,295,063 | $ 1,295,063 |
| Total Undisbursed Balance | - | 1,295,063 | 1,295,063 |
| Interest Receivable | - | 11,252,175 | 11,252,175 |
| Investments, Net | 116,520,987 | 3,407,278,686 | 3,523,799,673 |
| **Total Assets** | $ 116,520,987 | $ 3,419,825,924 | $ 3,536,346,911 |
| **Liabilities & Equity** | | | |
| **Equity** | $ 116,520,987 | $ 3,419,825,924 | $ 3,536,346,911 |
| **Receipts** | | | |
| Highway TF Tax | $ - | $ 141,300,963 | $ 141,300,963 |
| Airport TF Tax | - | 10,750,770 | 10,750,770 |
| Inland TF Tax | - | 75,023 | 75,023 |
| Total Revenue | - | 152,126,756 | 152,126,756 |
| Interest Income | - | 93,156,165 | 93,156,165 |
| **Total Receipts** | $ - | $ 245,282,921 | $ 245,282,921 |
| **Outlays** | | | |
| Transfers to/from EPA, Net | $ 112,874,798 | $ (112,874,798) | $ - |
| **Total Outlays** | 112,874,798 | (112,874,798) | - |
| **Net Income** | $ **112,874,798** | $ **132,408,123** | $ **245,282,921** |

| LUST FY 2010 | | EPA | | Treasury | | Combined |
|---|---|---|---|---|---|---|
| **Undistributed Balances** | | | | | | |
| Uninvested Fund Balance | $ | - | $ | (5,349,000) | $ | (5,349,000) |
| Total Undisbursed Balance | | - | | (5,349,000) | | (5,349,000) |
| Interest Receivable | | - | | 20,815,275 | | 20,815,275 |
| Investments, Net | | 210,146,189 | | 3,271,951,525 | | 3,482,097,714 |
| **Total Assets** | $ | 210,146,189 | $ | 3,287,417,800 | $ | 3,497,563,989 |
| **Liabilities & Equity** | | | | | | |
| **Equity** | $ | 210,146,189 | $ | 3,287,417,800 | $ | 3,497,563,989 |
| **Receipts** | | | | | | |
| Highway TF Tax | $ | - | $ | 158,254,000 | $ | 158,254,000 |
| Airport TF Tax | | - | | 10,685,000 | | 10,685,000 |
| Inland TF Tax | | - | | 51,000 | | 51,000 |
| Total Revenue | | - | | 168,990,000 | | 168,990,000 |
| Interest Income | | - | | 115,523,147 | | 115,523,147 |
| **Total Receipts** | $ | - | $ | 284,513,147 | $ | 284,513,147 |
| **Outlays** | | | | | | |
| Transfers to/from EPA, Net | $ | 103,901,000 | $ | (103,901,000) | $ | - |
| **Total Outlays** | | 103,901,000 | | (103,901,000) | | - |
| **Net Income** | $ | **103,901,000** | $ | **180,612,147** | $ | **284,513,147** |

## *Note 38. Antideficiency Act Violations*

During FY 2004, the EPA awarded a contract in the amount of $193,545 for the analysis of drinking-water samples. The funding was available for FY 2004 and FY 2005. However, the contract performance period crossed three fiscal years: FY 2004, FY 2005, and FY 2006. As a result, the obligation of funds went beyond the appropriation resulting in an Antideficiency Act violation. On July 14, 2010 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.

The EPA experienced an Antideficiency Act violation in November 2010 when EPA made an expenditure in excess of the funds available in the Inland Oil Spill Program account due to an inadvertent reporting error in monitoring the cash flow. The required notification letters are awaiting OMB clearance.

**Environmental Protection Agency**
**As of September 30, 2011**
**(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. No deferred maintenance was reported for any of the four categories.

## 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, 2011
# (Dollars in Thousands)

## 3. Supplemental Combined Statement of Budgetary Resources For the Period Ending September 30, 2011

| BUDGETARY RESOURCES | EPM | FIFRA | LUST | S&T | STAG | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|
| Unobligated Balance Brought Forward, October 1 | $ 481,430 | $ 1,776 | $ 7,163 | $ 253,199 | $ 1,717,294 | $ 2,165,479 | $ 4,626,341 |
| Recoveries of prior year unpaid obligations | 18,183 | | 6,633 | 6,047 | 67,859 | 171,942 | 270,664 |
| Budgetary Authority: | | | | | | | |
| Appropriation | 2,761,994 | | | 815,110 | 3,766,446 | 1,305,266 | 8,648,816 |
| Borrowing Authority | | | | | | | 0 |
| Spending Authority from Offsetting Collections: | | | | | | | |
| Collected | 41,297 | 20,983 | 51 | 7,113 | 7,285 | 563,450 | 640,179 |
| Change in receivables from Federal sources | (2,668) | | | 734 | | 13,115 | 11,181 |
| Advance received | 20,988 | 1,721 | (10) | (1,039) | | 57,664 | 79,324 |
| Without advance from Federal sources | (30,898) | | | 2,423 | | 12,658 | (15,817) |
| Expenditure Transfers from trust funds | | | | 25,484 | | 9,926 | 35,410 |
| Nonexpenditure transers, net anticipated and actual | 1,750 | | 113,101 | | | 1,257,724 | 1,372,575 |
| Temporarily not available pursuant to Public Law | | | (226) | | | (327) | (553) |
| Permanently not available | (16,061) | | | (10,687) | (147,532) | (5,413) | (179,693) |
| **Total Budgetary Resources** | **$ 3,276,015** | **$ 24,480** | **$ 126,712** | **$ 1,098,384** | **$ 5,411,352** | **$ 5,551,484** | **$ 15,488,427** |
| | | | | | | | |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | | |
| Obligations Incurred: | | | | | | | |
| Direct | $ 2,916,254 | $ | $ 118,878 | $ 905,157 | $ 4,552,822 | $ 2,739,219 | $ 11,232,330 |
| Reimbursable | 65,946 | 22,339 | | 4,913 | | 665,049 | 758,247 |
| Total Obligations Incurred | 2,982,200 | 22,339 | 118,878 | 910,070 | 4,552,822 | 3,404,268 | 11,990,577 |
| Unobligated Balances: | | | | | | | |
| Unobligated funds apportioned | 174,028 | 2,141 | 4,345 | 150,025 | 855,714 | 2,140,559 | 3,326,812 |
| Unobligated balance not available | 119,787 | | 3,489 | 38,289 | 2,816 | 6,657 | 171,038 |
| **Total Status of Budgetary Resources** | **$ 3,276,015** | **$ 24,480** | **$ 126,712** | **$ 1,098,384** | **$ 5,411,352** | **$ 5,551,484** | **$ 15,488,427** |
| | | | | | | | |
| **CHANGE IN OBLIGATED BALANCE** | | | | | | | |
| **Obligated Balance, Net** | | | | | | | |
| Unpaid obligations brought forward, October 1 | $ 1,218,961 | $ 2,427 | $ 263,464 | $ 411,565 | $ 10,081,435 | $ 1,895,057 | $ 13,872,909 |
| Less: Uncollected customer payments from Federal sources brought forward, October 1 | (156,949) | | | (35,065) | | (247,942) | (439,956) |
| Total unpaid obligated balance, net | 1,062,012 | 2,427 | 263,464 | 376,500 | 10,081,435 | 1,647,115 | 13,432,953 |
| Obligations incurred net | 2,982,200 | 22,339 | 118,878 | 910,070 | 4,552,822 | 3,404,268 | 11,990,577 |
| Less: Gross outlays | (2,776,330) | (23,337) | (207,759) | (893,623) | (5,555,301) | (3,361,578) | (12,817,928) |
| Less: Recoveries of prior year unpaid obligations, actual | (18,183) | | (6,633) | (6,047) | (67,859) | (171,942) | (270,664) |
| Change in uncollected customer payments from Federal sources | 33,565 | | | (3,717) | | (28,320) | 1,528 |
| Total | $ 1,283,264 | $ 1,429 | $ 167,950 | $ 383,183 | $ 9,011,097 | $ 1,489,543 | $ 12,336,466 |
| | | | | | | | |
| Obligated Balance, net, end of period: | | | | | | | |
| Unpaid obligations | 1,406,648 | 1,430 | 167,950 | 421,966 | 9,011,098 | 1,765,802 | 12,774,894 |
| | | | | | | | |
| Less: Uncollected customer payments from Federal sources | (123,384) | | | (38,781) | | (276,263) | (438,428) |
| Total, unpaid obligated balance, net, end of period | $ 1,283,264 | $ 1,430 | $ 167,950 | $ 383,185 | $ 9,011,098 | $ 1,489,539 | $ 12,336,466 |
| | | | | | | | |
| **NET OUTLAYS** | | | | | | | |
| Gross outlays | $ 2,776,330 | $ 23,337 | $ 207,759 | $ 893,623 | $ 5,555,301 | $ 3,361,578 | $ 12,817,928 |
| Less: Offsetting collections | (62,285) | (22,704) | (41) | (30,998) | (7,285) | (628,492) | (751,805) |
| Less: Distributed Offsetting Receipts | | | | | | (1,291,761) | (1,291,761) |
| **Total, Net Outlays** | $ 2,714,045 | $ 633 | $ 207,718 | $ 862,625 | $ 5,548,016 | $ 1,441,325 | $ 10,774,362 |

**Environmental Protection Agency**
**Required Supplemental Stewardship Information**
**For the Year Ended September 30, 2011**
**(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 more innovative and effective approaches to reducing environmental risks. EPA is unique among scientific institutions 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.

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 development of recreational water quality criteria; 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 2011, the full cost of the Agency's Research and Development activities totaled over $678M. Below is a breakout of the expenses (dollars in thousands):

| | FY 2007 | FY2008 | FY2009 | FY2010 | FY2011 |
|---|---|---|---|---|---|
| Programmatic Expenses | $624,088 | $597,080 | $600,552 | $590,790 | $597,558 |
| Allocated Expenses | $100,553 | $103,773 | $119,630 | $71,958 | $80,730 |

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. 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 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|---|
| Construction Grants | $9,975 | $11,517 | $30,950 | $18,186 | $35,339 |
| Clean Water SRF | $1,399,616 | $1,063,825 | $836,502 | $2,966,479 | $2,299,721 |
| Safe Drinking Water SRF | $962,903 | $816,038 | $906,803 | $1,938,296 | $1,454,274 |
| Other Infrastructure Grants | $381,481 | $388,555 | $306,366 | $264,227 | $269,699 |
| Allocated Expenses | $443,716 | $396,253 | $414,460 | $631,799 | $548,375 |

***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 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|---|
| Training and Awareness Grants | $32,845 | $30,768 | $37,981 | $25,714 | $23,386 |
| Fellowships | $12,185 | $9,650 | $6,818 | $6,905 | $9,538 |
| Allocated Expenses | $7,255 | $7,025 | $8,924 | $3,973 | $4,448 |

**Environmental Protection Agency**
**Supplemental Information and Other Reporting Requirements**
**Balance Sheet for Superfund Trust Fund**
**For the Periods Ending September 30, 2011 and 2010**
**(Dollars in Thousands)**
**(Unaudited)**

| | | FY 2011 | | FY 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Intragovernmental: | | | | |
| Fund Balance With Treasury (Note S1) | $ | 114,540 | $ | 106,247 |
| Investments | | 3,577,146 | | 3,740,700 |
| Accounts Receivable, Net | | 10,560 | | 27,323 |
| Other | | 8,076 | | 12,941 |
| Total Intragovernmental | $ | 3,710,322 | $ | 3,887,211 |
| Accounts Receivable, Net | | 454,606 | | 364,065 |
| Property, Plant & Equipment, Net | | 109,272 | | 101,714 |
| Other | | 1,006 | | 1,075 |
| **Total Assets** | $ | **4,275,206** | **$** | **4,354,065** |
| **LIABILITIES** | | | | |
| Intragovernmental: | | | | |
| Accounts Payable and Accrued Liabilities | | 53,778 | | 45,641 |
| Other | | 61,080 | | 62,260 |
| Total Intragovernmental | $ | 114,858 | $ | 107,901 |
| Accounts Payable & Accrued Liabilities | $ | 141,464 | $ | 178,045 |
| Pensions & Other Actuarial Liabilities | | 7,778 | | 6,420 |
| Cashout Advances, Superfund (Note S2) | | 790,069 | | 636,673 |
| Payroll & Benefits Payable | | 47,174 | | 45,792 |
| Other | | 30,244 | | 38,736 |
| Total Liabilities | $ | 1,131,587 | $ | 1,013,567 |
| **NET POSITION** | | | | |
| Cumulative Results of Operations | | 3,143,619 | | 3,340,498 |
| Total Net Position | | 3,143,619 | | 3,340,498 |
| **Total Liabilities and Net Position** | **$** | **4,275,206** | **$** | **4,354,065** |

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

**Environmental Protection Agency**
**Supplemental Information and Other Reporting Requirements**
**Statement of Net Cost for Superfund Trust Fund**
**For the Periods Ending September 30, 2011 and 2010**
**(Dollars in Thousands)**
**(Unaudited)**

| | FY 2011 | FY 2010 |
|---|---|---|
| **COSTS** | | |
| Gross Costs | $ 1,908,317 | $ 1,844,712 |
| Expenses from Other Appropriations | 71,457 | 30,349 |
| Total Costs | 1,979,774 | 1,875,061 |
| Less: | | |
| Earned Revenue | 532,006 | 484,165 |
| **NET COST OF OPERATIONS** | **$ 1,447,768** | **$ 1,390,896** |

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

**Environmental Protection Agency**
**Supplemental Information and Other Reporting Requirements**
**Statement of Changes in Net Position for Superfund Trust Fund**
**For the Periods Ending September 30, 2011 and 2010**
**(Dollars in Thousands)**
**(Unaudited)**

| | | FY 2011 Earmarked Funds | | FY 2010 Earmarked Funds |
|---|---|---|---|---|
| **Cumulative Results of Operations:** | | | | |
| **Net Position - Beginning of Period** | | 3,340,498 | | 3,416,536 |
| Beginning Balances, as Adjusted | $ | 3,340,498 | $ | 3,416,536 |
| **Budgetary Financing Sources:** | | | | |
| Nonexchange Revenue - Securities Investment | | 27,266 | | 14,968 |
| Nonexchange Revenue - Other | | 3,596 | | 3,396 |
| Transfers In/Out | | (35,410) | | (39,168) |
| Trust Fund Appropriations | | 1,156,073 | | 1,280,570 |
| Income from Other Appropriations | | 71,457 | | 30,349 |
| Total Budgetary Financing Sources | $ | 1,222,982 | $ | 1,290,115 |
| **Other Financing Sources (Non-Exchange)** | | | | |
| Transfers In/Out | | 1 | | - |
| Imputed Financing Sources | | 27,906 | | 24,743 |
| Total Other Financing Sources | $ | 27,907 | $ | 24,743 |
| Net Cost of Operations | | (1,447,768) | | (1,390,896) |
| Net Change | | (196,879) | | (76,038) |
| **Cumulative Results of Operations** | $ | **3,143,619** | $ | **3,340,498** |

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

**Environmental Protection Agency**
**Supplemental Information and Other Reporting Requirements**
**Statement of Budgetary Resources for Superfund Trust Fund**
**For the Periods Ending September 30, 2011 and 2010**
**(Dollars in Thousands)**
**(Unaudited)**

| | FY 2011 | FY 2010 |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated Balance, Brought Forward, October 1: | $ 2,059,687 | $ 1,605,363 |
| Adjusted Subtotal | 2,059,687 | 1,605,363 |
| Recoveries of Prior Year Unpaid Obligations | 154,843 | 171,423 |
| Budgetary Authority: | | |
| Appropriation | 35,410 | 36,809 |
| Spending Authority from Offsetting Collections | | |
| Earned: | | |
| Collected | 313,039 | 518,936 |
| Change in Receivables from Federal Sources | 2,864 | 47 |
| Change in Unfilled Customer Orders: | | |
| Advance Received | 63,378 | 244,146 |
| Without Advance from Federal Sources | (3,828) | 4,423 |
| Total Spending Authority from Offsetting Collections | 375,453 | 767,552 |
| Nonexpenditure Transfers, Net, Anticipated and Actual | 1,257,724 | 1,273,244 |
| Temporarily Not Available Pursuant to Public Law | (250) | (2,600) |
| Permanently Not Available | - | (4,102) |
| **Total Budgetary Resources** | $ 3,882,867 | $ 3,847,690 |
| | | |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations Incurred: | | |
| Direct | $ 1,450,802 | $ 1,475,861 |
| Reimbursable | 396,582 | 312,141 |
| Total Obligations Incurred | 1,847,384 | 1,788,002 |
| Unobligated Balances: | | |
| Apportioned | 2,033,533 | 2,058,813 |
| Total Unobligated Balances | 2,033,533 | 2,058,813 |
| Unobligated Balances Not Available | 1,950 | 874 |
| **Total Status of Budgetary Resources (Note S6)** | $ 3,882,867 | $ 3,847,690 |

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

# Environmental Protection Agency
# Supplemental Information and Other Reporting Requirements
# Statement of Budgetary Resources for Superfund Trust Fund
# For the Periods Ending September 30, 2011 and 2010
# (Dollars in Thousands)
# (Unaudited)

| | FY 2011 | FY 2010 |
|---|---|---|
| **CHANGE IN OBLIGATED BALANCE** | | |
| Obligated Balance, Net: | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 1,692,915 | $ 1,861,908 |
| Adjusted Total | 1,692,915 | 1,861,908 |
| Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 | (123,366) | (118,896) |
| Total Unpaid Obligated Balance, Net | 1,569,549 | 1,743,012 |
| Obligations Incurred, Net | 1,847,384 | 1,788,002 |
| Less: Gross Outlays | (1,814,706) | (1,785,572) |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual | (154,843) | (171,423) |
| Change in Uncollected Customer Payments from Federal Sources | 963 | (4,471) |
| Total, Change in Obligated Balance | 1,448,347 | 1,569,549 |
| | | |
| Obligated Balance, Net, End of Period: | | |
| Unpaid Obligations | 1,570,749 | 1,692,915 |
| Less: Uncollected Customer Payments from Federal Sources | (122,402) | (123,366) |
| Total, Unpaid Obligated Balance, Net, End of Period | $ 1,448,347 | $ 1,569,549 |
| | | |
| **NET OUTLAYS** | | |
| Net Outlays: | | |
| Gross Outlays (Note S6) | $ 1,814,706 | $ 1,785,572 |
| Less: Offsetting Collections (Note S6) | (376,417) | (763,081) |
| Less: Distributed Offsetting Receipts* (Note S6) | (97,623) | (53,247) |
| **Total, Net Outlays** | $ 1,340,666 | $ 969,244 |

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

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

**Environmental Protection Agency**
**Supplemental Information and Other Reporting Requirements**
**Related Notes to Superfund Trust Financial Statements**
**For the Periods Ending September 30, 2011 and 2010**
**(Dollars in Thousands)**
**(Unaudited)**

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

Fund Balance with Treasury for the Superfund as of September 30, 2011 and 2010 is $114.5 million and $106.2 million, respectively. Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

| **Status of Fund Balances:** | **FY 2011** | **FY 2010** |
|---|---|---|
| Unobligated Amounts in Fund Balance: | | |
| Available for Obligation | $ 2,033,533 | $ 2,058,813 |
| Unavailable for Obligation | 1,951 | 874 |
| Net Receivables from Invested Balances | (3,368,754) | (3,526,672) |
| Balances in Treasury Trust Fund | 15 | (1,115) |
| Obligated Balance not yet Disbursed | 1,447,795 | 1,574,347 |
| **Totals** | $ **114,540** | $ **106,247** |

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

## *Note S2. Cashout Advances, Superfund*

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, 2011 and 2010, cashout advances are $790 million and $637 million.

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

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2011, the total remaining state credits have been estimated at $22.2 million. The estimated ending credit balance on September 30, 2010 was $20.9 million.

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

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2011, EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $11.5 million. As of September 30, 2010, EPA had 6 for $15.6 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

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

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

During FYs 2011 and 2010, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.  This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

| | FY 2011 | | | FY 2010 | | |
|---|---|---|---|---|---|---|
| | **Income from Other Appropriations** | **Expenses from Other Appropriations** | **Net Effect** | **Income from Other Appropriations** | **Expenses from Other Appropriations** | **Net Effect** |
| Superfund | $ 71,457 | (71,457) | $ - | $ 30,349 | (30,349) | $ - |
| All Others | (71,457) | 71,457 | - | (30,349) | 30,349 | - |
| **Total** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are $48 thousand for FY 2011 and $194 thousand for FY 2010.

## *Note S6. Reconciliation of the Statement of Budgetary Resources to the President's Budget*

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2010 Statement of Budgetary Resources, will be reconciled to the amounts included in the Budget of the United States Government when they become available.  The Budget of the United States Government with actual numbers for FY 2011 has not yet been published. We expect it will be published by March 2012, and it will be available on the OMB website at http://www.whitehouse.gov/omb.  The actual amounts published for the year ended September 30, 2010 are included in EPA's FY 2010 financial statement disclosures.

| **FY 2010** | **Budgetary Resources** | **Obligations** | **Offsetting Receipts** | **Net Outlays** |
|---|---|---|---|---|
| Statement of Budgetary Resources | $ 3,847,690 | $ 1,788,002 | $ 53,247 | $ 1,022,491 |
| Rounding Differences** | (690) | (2) | | 509 |
| **Reported in Budget of the U. S. Government** | **$ 3,847,000** | **$ 1,788,000** | **$ 53,247** | **$ 1,023,000** |

* Balances are rounded to millions in the Budget Appendix.

**_Note S7. Superfund Eliminations_**

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

| | FY 2011 | FY 2010 |
|---|---|---|
| Advances | $5,506 | $9,265 |
| Expenditure Transfers Payable | $28,663 | $25,555 |
| Accrued Liabilities | $950 | $2,214 |
| Expenses | $25,337 | $33,419 |
| Transfers | $35,410 | $38,016 |

# *Agency Response to Draft Report*

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

November 10, 2011

OFFICE OF
CHIEF FINANICAL OFFICER

**MEMORANDUM**

**SUBJECT:** Audit of EPA's Fiscal Year 2011 and 2010 Consolidated Financial Statements

**FROM:** Barbara J. Bennett **/s/ Original Signed By:**
Chief Financial Officer

Craig Hooks, Assistant Administrator **/s/ Original Signed By:**
Office of Administration and Resources Management

Cynthia Giles, Assistant Administrator **/s/ Original Signed By:**
Office of Enforcement and Compliance Assurance

**TO:** Arthur A. Elkins, Jr.
Inspector General

Fiscal Year 2011 marks another successful financial statements audit cycle for the U.S. Environmental Protection Agency. This year, we continued agency partnerships with a focus on strengthening fiscal integrity, enhancing core business operations and contributing to agencywide performance management systems. We are proud of the many accomplishments and thank you for identifying additional areas for improvement in the draft Office of Inspector General's Audit Report. The audit work performed will help shape future financial management initiatives.

Our offices worked together to expand stakeholder involvement thereby engaging all parts of the agency in fiscal stewardship yielding significant results. Attached are the agency's responses to this audit report. Detailed corrective action plans will be provided to you and your staff within 90 days of the issuance of the final audit report.

Please let me know if you have any questions or your staff can contact Stefan Silzer, Director, Office of Financial Management of (202) 564-5389 regarding the audit.

Attachment

cc: Craig Hooks, Assistant Administrator, Administration and Resources Management
Cynthia Giles, Assistant Administrator, Office of Enforcement and Compliance Assurance
Melissa Heist, Assistant Inspector General for Audit
Maryann Froehlich, Deputy Chief Financial Officer
Joshua Baylson, Associate Chief Financial Officer
Stefan Silzer, Director, Office of Financial Management
Raffael Stein, Director, Office of Financial Services
Renee Page, Director, Office of Administration
Jeanne Conklin, Deputy Director, Office of Financial Management
Paul Curtis, Director, Financial Statements Audit
Jim Wood, Director, Cincinnati Finance Center
Chris Osborne, Acting Staff Director, Reporting and Analysis Staff
Dale Miller, Acting Staff Director, Financial Policy and Planning Staff

Attachment

**Response to Draft OIG Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements**

### 1 - Accounts Receivable Detail Not Provided Timely by Regions

We recommend that the Assistant Administrator for Enforcement and Compliance Assurance:

1. Request that regional enforcement officials assist Cincinnati Finance Center by implementing the EPA's newly updated Resource Management Directives System policy, which includes the requirement of forwarding legal documentation within 5 business days and designating regional contacts so that receivables are recorded timely.

**Response: (Concur)**

The Office of Enforcement and Compliance Assurance will continue to work with the regions and CFC and outline additional actions to be taken in the implementation of the EPA's newly updated RMDS policy including the requirement of forwarding legal documentation within 5 business days and designating regional contacts so that receivables are recorded timely. This effort requires the coordination of headquarters enforcement offices, the Department of Justice, the Environmental Appeals Board and the Office of Administrative Law Judges in addition to the regional offices to work with CFC to create accounts receivable in a timely manner.

We request the following corrections be made in the draft audit report.

- In the case of non-Superfund civil judicial cases, RMDS 2540-9-43 (Procedure 3), issued on April 13, 2011, states that the DOJ will notify and provide CFC with documentation when a final order is issued requiring the payment of a civil penalty.
- In October 2011, the OECA issued internal procedures governing penalties assessed under headquarters initiated administrative enforcement actions.
- For Superfund enforcement-related accounts receivable, RMDS 2550D-14-T1 covers five types of statutory Superfund accounts receivable (i.e., cost recoveries, cash outs, Superfund state contract cost share payments, future response costs, and civil and stipulated penalties).
- Among the 39 exceptions noted in the draft audit report, some of these involved cases for which DOJ or headquarters did not provide timely notification to CFC.

Over the course of the last year, OECA has taken the following steps to address this issue. First, the Office of Civil Enforcement worked closely with other OECA offices and with the Office of the Chief Financial Officer to revise the RMDS policy governing non-Superfund penalties. Second, by memorandum dated October 4, 2011, signed by OECA's former Principal Deputy Assistant Administrator Catherine McCabe and OCFO's Deputy Chief Financial Officer Maryann Froehlich, OECA and OCFO advised the Regional Administrators, Deputy Regional Administrators and Senior Enforcement Managers of the new procedures issued by OCFO requiring the notification to CFC when penalty accounts receivable are created. Third, as required under Procedure 3, OECA issued internal procedures for EPA headquarters-originated administrative enforcement cases.

In addition on November 17, 2011, OCE and OCFO will be presenting a webinar for the regions, headquarters and staff at the EAB and the OALJ to explain the revised RMDS policy, how to coordinate with CFC on a timely and consistent basis and to explain the performance measure that requires notification to CFC within 5 business days of the effective date of a final administrative order assessing civil penalties and Superfund penalty actions.

With regard to Superfund-related enforcement accounts receivable, the Office of Site Remediation Enforcement is developing a training course, to be delivered to all regions, on how to effectively manage Superfund accounts receivable. The training will include a section that emphasizes the need for regional offices to forward executed copies of settlement agreements, and other legal documents, establishing amounts due to CFC within 5 business days as provided in RMDS 2550D-14-T1.

Finally, we have been working with OCFO on a FY 2012 performance measure for notifying and providing CFC with documentation regarding penalty and other enforcement-related accounts receivable within 5 business days. OCFO has committed to provide quarterly reports to senior management in OECA and the regions assessing the extent to which the regions and headquarters are meeting this performance metric. Throughout FY 2012, we will be working with regional enforcement managers, OCFO and the Department of Justice to ensure that enforcement-related accounts receivable are created in a timely manner.

**2 - Federal Reimbursable Costs Not Billed Timely**

We recommend that the Chief Financial Officer:

2. Review unbilled federal reimbursable expenses, determine their collectability and bill appropriate funds before the funding period is cancelled.

**Response: (Concur)**

The CFC works diligently to research, resolve, and bill outstanding reimbursable costs and will continue to research and resolve unbilled costs particularly before the funding period is cancelled. CFC reviews and bills all active funds-in Interagency Agreements on a quarterly basis. Expenditure reports for unique budget organization are reviewed by previously billed amount prior to creating a bill for new costs. In addition, CFC will research methods to allocate costs if it cannot be identified to an agreement and research their collectability once identified to an IA.

3. Create and implement a process to reconcile expenses incurred and costs billed under individual reimbursable agreements.

**Response: (Concur)**

CFC currently processes expense reports under individual reimbursable agreements. These reports are maintained in the agreement file along with a log of bills, date the bills were issued and remaining balance on the agreement. CFC will continue to maintain these records either manually in the agreement files or within the Compass financial system.

4. Develop a process or implement a reporting system to track, for each reimbursable agreement, the expenses that have been billed for each budget fiscal year.

**Response: (Concur)**

CFC manually tracks these costs in each agreement file using the OCFO Reporting and Business Intelligence Tool and Compass Data Warehouse reports. CFC is also exploring using functionality within Compass to link the budget organizations and agreement for reimbursable costs. This should eliminate charging to generic or "unlinked" budget organizations.

**3 - EPA's Processes for Cancelling Treasury Symbols Caused Inappropriate Balances**

We recommend that the Chief Financial Officer:

5. Revise the cancellation procedures to ensure accounts are properly stated.

**Response: (Non-Concur)**

The Treasury financial management guidance supports the agency's position in regards to how it cancels a Treasury Account Symbol. The EPA cancellation procedures support this guidance and are properly stated.

6. Post the proper Allowance for Loss.

**Response: (Non-Concur)**

**The EPA has posted the appropriate adjustments to close the TAS and establish the correct balances in the 3200 miscellaneous receipt account.**

7. Revise the *Year-End Closing Instructions,* to prescribe proper procedures for closing accounts.

**Response: (Non-Concur)**

The EPA Year End Closing Instructions already provide proper procedures for closing accounts.

8. Prior to year-end closing, review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements.

**Response: (Non-Concur)**

The EPA properly handled cancellation of the TAS; no further work is deemed necessary.

**4 - EPA Double Counted Contractor-Held Property**

We recommend that the Assistant Administrator for Administration and Resources Management:

9. Develop and implement policies and procedures to address responsibility for the removal of EPA property from its financial system when it is transferred to contractors.

**Response: (Concur)**

The Office of Administration and Resources Management will review current policies and procedures and revise as needed to ensure they address responsibilities for the removal from its financial system when it is transferred to contractors. Current procedures are in place to inform contracting officers, project managers, contractors and agency property personnel on how to handle property transfers to contractors. While the appropriate agency guidance exists in the Contract Management Manual and the Property Policy and Procedures Manual, agency and contractor compliance remains a challenge. Additionally, frequent turnover of positions necessitates an increase in both training and cross training of COs and Agency Property Managers. Agency property management duties are collateral duties that, in some cases, are rotated among program level staff.

OARM is committed to developing a training program for all parties associated with the contract property process during FY 2012. As part of an on-going review and improvement program, OARM will continue to provide periodic training information to COs on the importance of ensuring that all contracts having contract property clauses are identified as such in the U.S. Environmental Protection Agency Acquisition System. Additional guidance and training is being developed to improve communications and eliminate this issue. In addition, the agency's Contractor Property Coordinator sent an informational memo regarding potential double counting issues to APMs on October 13, 2011.

The following points highlight significant action taken by OARM during FY 2011 to address the issue:

- The CPC provided training to contracting officers at the annual training conference and attended three APM's monthly teleconferences to address the issues and answer questions.
- OARM implemented a quarterly assessment and management certification program on property management and reporting. This program will aid in the improvement of the agency's compliance with federal and EPA property policies, improve data

accuracy through verification and validation and ensure the effectiveness of management and oversight systems that support government property tracking and reporting systems.

- The Operating Division Directors and Regional Acquisition Managers are provided with reports on a quarterly basis, from EAS and Federal Procurement Data System-Next Generation on contracts under their purview that have government property and/or government property clauses. Each ODD and RAM is required to: 1) review the information for accuracy and completeness, 2) make any necessary corrections, and 3) validate that all necessary information has been provided or when it will be provided to the CPC. Using the data from both EAS and FPDS-NG, OARM has the reporting capability to identify contracts containing CHP and/or the government property clauses, as well as a management tool to verify that COs are forwarding contracts containing CHP to the CPC in compliance with *Contracts Management Manual* 42.5. These two reports provide an independent process methodology for identifying and verifying the universe of the EPA's contracts containing CHP.
- OARM has also created a new position for data quality as part of its Strategic Acquisition Human Capital Plan and found new avenues to electronically collect information on government property from contracts.

10. Ensure that all EPA property that has been transferred to contractors is removed from EPA's financial system.

**Response: (Concur)**

OARM has already taken steps to remedy the issues surrounding data collection and maintenance for Government property. A more comprehensive and accurate list of contractors having contracts and agency contract property clauses has been compiled and is being used to validate the FY 2011 annual reporting. The list contains 396 contracts: 1) 69 had reportable contract property greater than or equal to $25,000, 2) 191 had no property, and 2) 136 had property but no property at the $25,000 level. A review is underway to identify any duplicative recording and ensure corrective action where necessary.

**5 - EPA Headquarters Cannot Account for 1,284 Property Items**

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

11. Conduct planned property training and require completion of the course by all EPA managers.

**Response: (Concur)**

The planned property training course has been developed and is posted on the agency's website. Over the next week, the Assistant Administrator for OARM will send a notification letter to the agency's senior managers outlining the training course instructions and training commencement.

12. Address the missing personal property items in accordance with agency procedures.

**Response: (Concur)**

OARM is currently addressing the missing personal property items in accordance with agency procedures. OARM is currently working with the Board of Survey to investigate the remaining items from previous years. The Board plans to make a decision on missing items shortly and it is anticipated the recommendation will be to mark the missing items as inactive in the agency's financial system.

**6 - EPA Should Secure Marketable Securities**

We recommend that the Office of Chief Financial Officer:

13. Develop and implement procedures to perform inspections of the safe on a regular basis to verify the contents against accounting records.

**Response: (Concur)**

CFC will create and maintain a log of accountable items in the safe.

14. Move the safe to a secure area, such a locked room, instead of keeping the safe in an open area.

**Response: (Non-Concur)**

The safe is currently in a secure area and is located behind the CFC administrative assistant's desk out of the general flow of the office. The safe is the size of a four drawer file cabinet and weighs over 1,000 pounds. The building has a guard sitting in the lobby 24 hours/7 days a week and non-duty hours access to the building is restricted and monitored through a sign-in sheet.

**7 - EPA Recognized Earned Revenue in Excess of Expenditures**

We recommend that the Chief Financial Officer:

15. Review the entries and accounting models used to record expenditures and recognize earned revenue to assess their impact on the financial statements and to ensure that they result in the proper recognition of revenue.

**Response: (Concur)**

The accounting model will be reviewed and verified.

16. Ensure that exchange revenue is only recognized at the time goods or services are provided.

**Response: (Concur)**

The EPA concurs.

**8 - EPA is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup**

We recommend that the Chief Financial Officer:

17. Resume payments to the oils spill contractors as soon as adequate Oil Spill Response Trust funds are available.

**Response: (Concur)**

The EPA will process the payments to the contractors as soon as adequate funds are available.

18. Include in the payments the interest penalties prescribed by the Prompt Payment Act for invoices that are paid past their due dates.

**Response: (Concur)**

The EPA will include the interest on all payments over 30 days in accordance with the Prompt Payment Act.

**9 - EPA Violated the Antideficiency Act in Its Oil Spill Response Account**

We recommend that the EPA Administrator:

19. Finalize the reporting of the Antideficiency Act violation to the President, through the Office of Management and Budget Director, Congress and the Comptroller General, as required.

**Response: (Concur)**

The agency will continue to work with OMB to finalize the submission of the Antideficiency Act letters. The EPA Administrator signed the letters on October 25, 2011 and they were delivered to OMB. The required notification letters are awaiting OMB clearance.

We recommend that the Chief Financial Officer:

20. Work with USCG to come to a mutual agreement on what constitutes acceptable cost documentation so that reimbursements do not continue to be delayed.

**Response: (Concur)**

The OCFO and U.S. Coast Guard have been in discussions for the past several months to identify a process to ensure the timely submission and reimbursement of agency costs while adhering to the cost documentation requirements of the U.S. Coast Guard.

**Responsible Managers**:

/s/ Original Signed By: November 10, 2011
______________________________Signature/Date
Stefan Silzer, Director, Office of Financial Management

/s/ Original Signed By: November 10, 2011
______________________________Signature/Date
Raffael Stein, Director, Office of Financial Services

/s/ Original Signed By: November 10, 2011
______________________________Signature/Date
Craig Hooks, Assistant Administrator for Administration and Resources Management

/s/ Original Signed By: November 10, 2011
______________________________Signature/Date
Cynthia Giles, Assistant Administrator for Enforcement and Compliance Assurance

# Distribution

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Assistant Administrator for Administration and Resources Management
Assistant Administrator for Enforcement and Compliance Assurance
Assistant Administrator for Environmental Information and Chief Information Officer
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for External Affairs and Environmental Education
Acting Director, Office of Policy and Resource Management, Office of Administration and Resources Management
Director, Office of Administration, Office of Administration and Resources Management
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Director, Payroll Management and Outreach Staff, Office of the Chief Financial Officer
Agency Audit Follow-Up Coordinator
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Administration and Resources Management
Audit Follow-Up Coordinator, Office of Enforcement and Compliance Assurance
Audit Follow-Up Coordinator, Office of Environmental Information
Audit Follow-Up Coordinator, Office of Solid Waste and Emergency Response
Audit Follow-Up Coordinator, Office of Grants and Debarment, Office of Administration and Resources Management
Audit Follow-Up Coordinator, Office of Financial Management, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of Financial Services, Office of the Chief Financial Officer