U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements

Report No. 16-F-0040 November 16, 2015

Abbreviations

AC	Access Control
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers’ Financial Integrity Act of 1982
FY	Fiscal Year
GSA	General Services Administration
LVFC	Las Vegas Finance Center
NIST	National Institute of Standards and Technology
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCI DSS	Payment Card Industry Data Security Standards
RAS	Reporting and Analysis Staff
RMDS	Resources Management Directive System
SCORPIOS	Superfund Cost Recovery Package Imaging and On-Line System
SFFAS	Statement of Federal Financial Accounting Standards
SP	Special Publication
SSC	Superfund State Contracts

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U.S. Environmental Protection Agency
Office of Inspector General

16-F-0040
November 16, 2015

At a Glance

Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements

Why We Did This Review

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

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

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

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

Send all inquiries to our public affairs office at (202) 566-2391 or www.epa.gov/oig.

Listing of OIG reports.

EPA Receives an Unmodified Opinion

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2015 and 2014, meaning that they were fairly presented and free of material misstatement.

We found the EPA's financial statements to be fairly presented and free of material misstatement.

Internal Control Material Weakness and Significant Deficiencies Noted

We noted the following material weakness:

- Software costs of about $124 million and associated amortization totaling $56 million from prior years were not properly classified.

We noted significant deficiencies involving:

- Misstating earned and unearned revenue for Superfund Special Accounts.
- Reconciling property and financial systems.
- Resolving long-standing cash differences with the U.S. Treasury.
- Clearing transactions from the suspense account.
- Reviewing cancellation of accounts receivable and collection transactions.
- Recording accounts receivable from a Superfund judgment.
- Reconciling accounts receivable subsidiary ledgers and general ledgers.
- Overbilling a state for a Superfund State Contract.
- Overseeing user access to the Payment Tracking System.
- Complying with controls for financial and mixed-financial applications.
- Managing HelpDesk procedures for distributing passwords.
- Improving a travel system's credit card data protection.

Noncompliance With Laws and Regulations Noted

We noted an instance of noncompliance with laws and regulations related to complying with federal accounting standards for recording interest.

Recommendations and Planned Agency Corrective Actions

The EPA generally agreed with our findings and recommendations. We clarified Recommendation 23 to have the EPA develop reports to reconcile accounts receivable principal and non-principal charges to the general ledger.

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

OFFICE OF
INSPECTOR GENERAL

November 16, 2015

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal Years 2015 and 2014 Consolidated Financial Statements
Report No. 16-F-0040

FROM: Paul C. Curtis, Director
Financial Statement Audits

TO: David Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

Karl Brooks, Acting Assistant Administrator
Office of Administration and Resources Management

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2015 and 2014 consolidated financial statements. We are reporting one internal control material weakness and 12 significant deficiencies. Attachment 1 contains details on the material weakness and significant deficiencies. We also noted one instance of noncompliance, which is discussed in Attachment 2.

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 the EPA in any enforcement proceeding brought by the EPA or the Department of Justice.

Action Required

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

This report will be available at www.epa.gov/oig.

Attachments

cc: See Appendix III, Distribution

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Appendices

Inspector General’s Report on EPA’s Fiscal Years 2015 and 2014 Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency (EPA), which comprise the consolidated balance sheet, as of September 30, 2015, and September 30, 2014, and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 15-02, *Audit Requirements for Federal Financial Statements*. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

Opinion

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 the EPA as of and for the years ended September 30, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters – Changes in Accounting

As discussed in Note 1 to the financial statements, Section E, Revenues and Other Financing Sources, in FY 2015 the agency developed a new business process for managing its special account funds. The change increased appropriations (mandatory) by $1.4 billion. Other cash-out collections have been treated as reimbursable authority and are accounted for as "spending authority from offsetting collections." The new business process will put all future cash outs into a receipt account to have the funds immediately invested in U.S. Government securities. The effect of this change impacts the statement of budgetary resources only.

The EPA also changed its accounting treatment to record special account settlement proceeds as unearned revenue after determining that collections previously recorded as past costs were being used for future site cleanup. The EPA reclassified $1.1 billion from equity to unearned in fiscal year (FY) 2015 to reflect this change in accounting. In FY 2015, the EPA collected an additional $290 million in past costs that was classified as unearned, intended for future site cleanups. Our report is not modified with respect to these matters.

Emphasis of Matter – Asbestos Loans

As discussed in Note 7, Loans Receivable, Net, presents information concerning the EPA's Asbestos Loan Program loans disbursed from obligations made prior to FY 1992. The note states it presents the net loan present value less the subsidy present value. The EPA has no outstanding asbestos loans as of September 30, 2015, as shown in the footnote. Accordingly, it should also no longer have a subsidy allowance for receivables that no longer exist. The amounts contained in Note 7 are not material to EPA's financial statements and our report is not modified with respect to this matter.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management. We obtained information from the EPA management about its methods for preparing Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements.

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

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the EPA's Required Supplementary Stewardship Information, 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 laws, regulations, contracts and grant agreements**—Transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements.

Opinion on Internal Controls. In planning and performing our audit, we considered the EPA's internal controls over financial reporting by obtaining an understanding of the agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. 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.

Material Weakness and Significant Deficiencies. 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, in internal control 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, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected 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, one of which we consider to be a material weaknesses. These issues are summarized below and detailed in Attachment 1.

Material Weakness

EPA's Accounting for Software Continues to Be a Material Weakness

The EPA's accounting for software, noted during our FY 2014 audit of financial statements, continues to be a material weakness. In FY 2015, the agency found that it had not properly classified software totaling approximately $124 million and associated amortization totaling $56 million from the current and prior years. In FY 2014, the agency found that it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors. While the agency has made progress and taken steps to correct weaknesses in this area, these problems continue to highlight the continued efforts the agency needs to take to improve its internal controls over accounting for software. Failure to properly record capital software transactions in the agency's property management system and Compass, the agency's accounting system, compromises the accuracy of the EPA's property accounts, depreciation and operating expenses, as well as the accuracy of the agency's financial statements. Consequently, we continue to report the accounting for software as a material weakness.

Significant Deficiencies

SPECIAL ACCOUNTS

EPA Incorrectly Recorded Superfund Special Account Collections and Receivables

For Superfund Special Accounts, the EPA misstated $226,336,107 of earned and unearned revenue, and incorrectly recorded $5,310,918 of Superfund accounts receivable as earned rather than unearned revenue. Statement of Federal Financial Accounting Standards (SFFAS) No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue. The EPA incorrectly recorded the special account collections for a site by recording the funds received as earned revenue for past costs. The settlement indicated the funds for the site were to be used for prospective or future costs and should have been recorded as unearned revenue. The EPA incorrectly recorded the special accounts receivable because it did not follow the terms of the consent decrees, which indicated the funds were for future work at the sites. As a result, liabilities, earned revenue and unearned revenue are misstated on the financial statements.

PROPERTY

EPA Did Not Reconcile the Property Management System to Compass

The EPA did not reconcile $356.4 million of capital equipment within Maximo (a property management system) to relevant financial data within Compass. EPA policy requires reconciliations between the property module and general ledger be performed monthly by the responsible security organization. Various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as the processing of journal vouchers to correct software costs and an integration error between Maximo and Compass. The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting.

CASH

EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury

The EPA did not resolve long-standing cash differences of $2.6 million between EPA and U.S. Treasury cash balances. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. The EPA's Office of the Chief Financial Officer (OCFO) did not have effective internal controls to adequately monitor the internal cash differences to ensure the EPA resolved all the differences with the Treasury. Unresolved differences may result in the misstating of the EPA's Fund Balance with Treasury and financial statements and increase the risk of fraud.

SUSPENSE ACCOUNT

Cincinnati Finance Center Should Clear Suspense Transactions Timely

The Cincinnati Finance Center (CFC) is not clearing transactions from the federal budget clearing (suspense) account within 60 business days after posting. As of March 31, 2015, we identified 136 federal transactions, totaling $9,020,680, remaining in suspense beyond 60 business days. EPA guidance requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing account to appropriate general ledger accounts within 60 business days. CFC did not clear the suspense account timely primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. Untimely clearing of suspense transactions was also due to opening records in Compass to apply credits for interagency agreements, reconciling cost reports prior to project officer approval, and managing Working Capital Fund funding issues. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

RECEIVABLES AND COLLECTIONS

EPA Improperly Canceled Accounts Receivable and Collections

The EPA canceled 72 accounts receivable and 113 collection transactions without proper reviews of the justification and authorizing approval in Compass. OMB Circular A-123 cites separation of duties and supervision as one of its specific management control standards. However, EPA management has not established internal control procedures for review and approval of cancellation transactions. Without approval of cancellation transactions, the EPA increases the risk of fraud, misuse and errors.

EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment

The EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree. Federal accounting standards require agencies to record accounts receivable based on legal provisions. CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document. By not recording receivables at the amount stated in the legal document, the EPA may understate accounts receivable on the financial statements.

Improvement Needed in Reconciling Accounts Receivable

The EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. The EPA did not correct reconciliation variances, separately reconcile federal and non-federal receivables, or develop accurate detail reports. We previously reported the EPA's reconciliation of accounts receivable as a significant deficiency in our FY 2014 financial audit report. In following up on the agency's proposed corrective actions, we found that the EPA did not correct the significant deficiency or completely implement its corrective actions. EPA guidance directs the agency to perform quarterly accounts receivable reconciliations, investigate discrepancies and correct any differences. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger and correct differences, the agency cannot ensure financial statements are properly stated.

EPA Overbilled Superfund State Contract Cost Share

The EPA overbilled a state $1,139,306 for one Superfund State Contract. EPA guidance directs regional finance and program offices to reconcile Superfund State Contract financial data by site. Regions use Superfund project expenditures to calculate the amount of a state's cost share billed under a Superfund State Contract. An error in the EPA's cost recovery process caused duplicate charges in the site's cost recovery report that the region did not identify. When costs are not properly reconciled, states and other entities may overpay for expenditures never incurred.

INFORMATION TECHNOLOGY

OCFO Lacked Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems

OCFO assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring the system had documentation covering key account management procedures. OMB Circular A-123 states that internal control needs to be in place over information systems. Also, the circular reiterates that general control applies to all information systems including end-user environments.

Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls

EPA financial and mixed-financial applications complied with 11 of the 28 required account management controls selected for review, or 39 percent. For the majority of the five key applications noted, the EPA implemented processes for establishing conditions for groups and role membership. However, more management emphasis is needed to ensure responsible individuals fully develop and implement required account management controls. In particular, we found that the EPA's Payment Tracking System and travel system (Concur) show the greatest need for improvement to comply with federal requirements. The possibility exists that the unauthorized access could be used to commit fraud that could go undetected for a significant amount of time.

OCFO Needs to Strengthen Password Change Procedures

OCFO needs better HelpDesk procedures for distributing passwords to users locked out of OCFO's financial systems. In particular, the OCFO HelpDesk does not have a process to verify the user's identity prior to providing new passwords over the phone. Criteria require the adequate protection of system passwords. A perpetrator could access applications— such as PeoplePlus and the Payment Tracking System—and manipulate leave records or process unauthorized financial transactions.

EPA's Travel System Needs Improved Credit Card Data Protection and Independent Compliance Reviews

The EPA's Concur travel system (1) allows users more access to credit card information than users need, and (2) lacks required independent reviews of the Concur service provider's compliance with Payment Card Industry Data Security Standards. In particular, there are currently 623 Concur users who could unnecessarily view employees' full credit card numbers in clear text. Also, Concur currently has a Service Provider Level II Validation that does not meet the standard for the number of credit card transactions processed. Concur processed 955,804 transactions through June 2015, but any service providing that processes over 300,000 transactions per year must obtain a Service Provider Level I Validation.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in the attachment should be considered among the EPA's significant deficiencies for FY 2015. We reported less significant internal control matters to the agency 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. 15-02, *Audit Requirements for Federal Financial Statements*, requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

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

The agency continues to report software as a material weakness in the design or operation of internal controls over financial reporting as of June 30, 2015.

Tests of Compliance with Laws, Regulations, Contracts and Grant Agreements

The EPA management is responsible for complying with laws, regulations, contracts and grant agreements 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, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements; and perform certain other limited procedures as described in *Codifications of Statements on Auditing Standards* AU-C 250.14-16, *Consideration of Laws and Regulations in an Audit of Financial Statements*. OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, requires that we evaluate compliance with federal financial statement system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA).We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

Opinion on Compliance With Laws, Regulations, Contracts and Grant Agreements

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

Federal Financial Management Improvement Act Noncompliance

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

The results of our tests did not disclose any instances of noncompliance with FFMIA requirements, including where the agency’s financial management systems did not substantially comply with the applicable federal accounting standard.

We identified one significant matter involving compliance with laws and regulations that came to our attention during the course of the audit. We found that the EPA did not comply with federal standards for recording interest. We also reported this issue in our 2014 audit. We will not issue a separate management letter.

EPA Did Not Comply With Federal Accounting Standards for Recording Interest

The EPA did not record all applicable interest for some Superfund and installment interest as required by applicable laws, federal accounting standards and EPA policy that require the EPA to assess interest on delinquent accounts receivable. In following up on the agency’s proposed corrective actions, we found that the EPA did not implement a correction in the Compass system related to Superfund and installment interest. By not recording all applicable interest, the EPA did not collect all the funds to which it was entitled and did not comply with applicable laws, standards and policies. We had previously reported in our audit of the FY 2014 financial statements that the EPA did not comply with accounting standards for recording interest. Further details on this noncompliance issue are in Attachment 2.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

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

Prior Audit Coverage

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

- The EPA failed to capitalize software costs.
- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over accountable personal property inventory process need improvement.
- The EPA's property management system does not reconcile to its accounting system.
- Originating offices did not timely forward accounts receivable source documents to the finance center.
- The EPA did not properly reconcile accounts receivable.
- Unneeded funds were not obligated timely.
- The EPA did not comply with federal accounting standards for recording interest.
- Compass reporting limitations impair accounting operations and internal controls.
- The EPA should improve compliance with internal controls for accounts receivable.
- CFC should clear suspense transactions timely.
- The EPA should improve controls over expense accrual reversals.
- Financial management system user account management needs improvement.

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, 2015, the Chief Financial Officer responded to our draft report.

The EPA generally agreed with our findings and recommendations. We clarified Recommendation 23 to have the EPA develop reports to reconcile accounts receivable principal and non-principal charges to the general ledger. The rationale for our conclusions and a summary of the agency comments are included in the appropriate sections of this report, and the agency's complete response is included as Appendix II to this report.

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

Paul C. Curtis
Certified Public Accountant
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 16, 2015

Attachment 1

Internal Control Material Weakness and Significant Deficiencies

Table of Contents

1 – EPA’s Accounting for Software Continues to Be a Material Weakness

The EPA’s accounting for software, noted during our FY 2014 audit of financial statements, continues to be a material weakness. In FY 2015, the agency found that it had not properly classified software totaling approximately $124 million and associated amortization totaling $56 million from the current and prior years. In FY 2014, the agency found that it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors. While the agency has made progress and taken steps to correct weaknesses in this area, these problems continue to highlight the continued efforts the agency needs to take to improve its internal controls over accounting for software. Failure to properly record capital software transactions in the agency’s property management system and Compass, the agency’s accounting system, compromises the accuracy of the EPA’s property accounts, depreciation and operating expenses, as well as the accuracy of the agency’s financial statements. Consequently, we continue to report the accounting for software as a material weakness.

After declaration of the material weakness in FY 2014 regarding the expensing of $255 million in undercapitalized software costs over a 7-year period, the EPA took steps to improve its internal accounting and controls over software costs. According to OCFO, the “Lean” process was used to evaluate the agency’s software accounting process. The agency conducted an OMB Circular A-123 review of internal controls over its capitalization of software process. OCFO met with program offices as part of its outreach efforts to validate software costs in development and asset values in production. In addition, OCFO reviewed a sample of several software projects in development and put into production over the last 7 years to validate costs and determine the correct value.

The agency identified approximately $124 million in software costs recorded in Software In-Development that should have been placed in production in the current and prior years and $56 million that should have been amortized. SFFAS No. 10, *Accounting for Internal Use Software*, requires entities to capitalize the cost of software that meets the criteria for general property, plant and equipment. The statement also requires that entities amortize in a systematic and rational manner over the estimated useful life of the software. Amortization should begin when that module or component has been successfully tested. The agency’s policy is to capitalize software costs exceeding its annual capitalization threshold of $250,000 over 7 years. However, the agency did not properly classify all appropriate software costs because:

- Software costs already incurred and recorded may not have been accurate and complete.
- Staff and officials responsible for ensuring software project costs are correctly captured may not have followed existing policies in identifying and coding information technology investments.
- Data entry errors for some transactions caused incorrect accounting.

Failure to properly record property transactions in the agency’s property management system and Compass compromises the accuracy of EPA’s property accounts, depreciation and operating expenses, as well as the accuracy of the agency's financial statements. The agency indicated it does not expect to complete corrective actions on this material weakness until 2018; thus, we continue to report this material weakness.

Recommendations

We recommend that the Chief Financial Officer:

1. Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production.

2. Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency's property management system and Compass; and that an audit trail is maintained for software projects analyzed.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. The EPA responded that it completed the corrective action for Recommendation 2 on October 21, 2015. However, we are listing the corrective action as ongoing and unresolved pending an estimated completion date.

2 – EPA Incorrectly Recorded Superfund Special Account Collections and Receivables

For Superfund Special Accounts, the EPA misstated $226,336,107 of earned and unearned revenue, and incorrectly recorded $5,310,918 of Superfund accounts receivable as earned rather than unearned revenue. SFFAS No. 7 directs agencies to record cash advances received for long-term projects as unearned revenue. The EPA incorrectly recorded the special account collections for a site by recording the funds received as earned revenue for past costs. The settlement indicated the funds for the site were to be used for prospective or future costs and should have been recorded as unearned revenue. The EPA incorrectly recorded the special accounts receivable because it did not follow the terms of the consent decrees, which indicated the funds were for future work at the sites. As a result, liabilities, earned revenue and unearned revenue are misstated on the financial statements.

Section 122(b) (3) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. 9622(b)(3), authorizes the EPA to retain and use funds received through an agreement with potentially responsible parties to address past and/or future response costs. The EPA retains these funds in site-specific accounts called “special accounts.” The EPA records special account settlement funds received for past costs at a site as earned revenue and future costs as unearned revenue.

SFFAS applies to general purpose financial reports of U.S. Government reporting entities. SFFAS No. 7 is the accounting standard for revenue and other financing sources, and directs agencies to record a cash advance for long-term projects as unearned revenue. Revenue should not be recognized until costs are incurred from providing the goods and services. The EPA’s Resources Management Directive System (RMDS) 2540-03, *Cash Management Collections and Deposits*, directs servicing finance offices to analyze each collection it receives to determine the reason for the remittance and collection type, which helps the EPA to classify the collection to the proper fund. RMDS 2550D-15-P1, *Financial Management of the Special Accounts*, directs agencies to record settlement amounts for costs to be incurred (work to be performed) in the future as unearned revenue.

The EPA received special account collections of $226,336,107 as earned revenue for past costs. However, the settlement agreement classified the funds for the site as “prospective work.” Agency personnel reported that future work is projected at the site until 2038, and stated that if the settlement agreement designated the receipts as “prospective work,” the receipts should be recorded as future costs. EPA recorded two special accounts receivable listed within the consent decrees as revenue for past costs spent instead of unearned revenue for future response actions at the sites.

The consent decrees required each of the settling defendants to make cash payments (including premiums) to resolve their alleged liability to the United States with respect to the sites. EPA personnel did not properly interpret the language of the consent decrees due to the following reasons:

- CFC did not receive a Superfund accounts receivable control form for an EPA Region 5 receivable. Regions provide CFC with Superfund control forms to help CFC accurately record and reclassify Superfund receivables. The U.S. Department of Justice provided the consent decree to CFC for this receivable, and the EPA did not request a control form from Region 5 until after we had identified the error.

- EPA Region 6's Superfund accounts receivable control form did not specify the type of special accounts receivable, and CFC did not request additional information from Region 6 to properly classify the receivable type.
- EPA personnel overlooked relevant portions of the consent decree that described the receivable type.

Recommendations

We recommend that the Chief Financial Officer:

3. Reclassify the $226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated.

4. Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded.

5. Reclassify special accounts receivable totaling $5,310,918 that were previously recorded as past costs, classifying them instead as future costs to ensure current year financial statements are properly stated.

6. Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

3 – EPA Did Not Reconcile the Property Management System to Compass

The EPA did not reconcile $356.4 million of capital equipment within Maximo (a property management system) to relevant financial data within Compass (the agency's accounting system). RMDS 2540-11-T2, *Reconciliation Requirements for Capital Property*, requires reconciliations between the property module and general ledger be performed monthly by the responsible security organization. Various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as the processing of journal vouchers to correct software costs and an integration error between Maximo and Compass. The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting.

RMDS 2540-11-T2, states, "Reconciliations between the property module and general ledger within Compass shall be performed monthly by the responsible security organization. The results of the reconciliation shall be verified quarterly by the cognizant regional finance management officer (RFMO), Research Triangle Park Finance Center, Cincinnati Finance Center (CFC) and Las Vegas Finance Center (LVFC)." The directive also states "Within 60 days of discovery of discrepancies, corrections should be entered into Maximo and Compass as necessary."

During our analysis of the fourth quarter certifications of the property reconciliations, we found several discrepancies with respect to what was reported and the amounts that should have been reported. OCFO's Reporting and Analysis Staff (RAS), CFC, and LVFC did not submit accurate quarterly certifications reflecting actual differences between Maximo and Compass, which contributed to the reconciliation issues. Specifically, we found:

- CFC only reported property before beginning budget FY 2013, omitting property with beginning budget FY 2013 through 2015. This resulted in an increased difference of $589,170 between their original certification and revised certification.
- RAS did not report adjustments it made to software and overhead corrections. The reconciliation difference increased by $327 million between their original certification and revised certification.
- LVFC originally reported a difference of $94,500. After our analysis, the amount was reduced to $5,500 due to an incorrect amount reported on their original certification.

RAS and the finance centers submitted revised certifications after we questioned OCFO staff regarding these discrepancies. According to RAS officials, various factors contributed to the EPA's failure to reconcile the property module and the general ledger, such as the processing of journal vouchers to correct software costs and an integration error between Maximo and Compass. In addition, capital equipment and software was not entered into Maximo timely. RAS stated it will not correct those balances associated with the integration errors until the Compass enhancement is completed in the third quarter of FY 2016.

Inaccurate personal property records compromise the EPA's property control system and can lead to the loss or misappropriation of agency assets. The failure to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting, including possible misstatements within the financial statements. This is a continuing issue, as we have previously reported on this issue in prior financial audit reports.

Recommendations

We recommend that the Chief Financial Officer:

7. Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.

8. Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.

9. Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS are recorded in Maximo accurately and timely.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. The EPA responded that it completed the corrective action for Recommendation 9 on October 21, 2015. However, we are listing the corrective action as ongoing pending an estimated completion date.

4 – EPA Should Improve Its Efforts to Resolve EPA's Long-Standing Cash Differences With Treasury

The EPA did not resolve long-standing cash differences of $2.6 million between EPA and U.S. Treasury cash balances. Treasury's guidance requires the EPA to correct and resolve any differences between the Treasury's and EPA's Fund Balance with Treasury. OCFO did not have effective internal controls to adequately monitor the internal cash differences to ensure the EPA resolved all the differences with the Treasury. Unresolved differences may result in the misstating of the EPA's Fund Balance with Treasury and financial statements and increase the risk of fraud.

Treasury Financial Manual, Volume 1, Section 3335, *Reconciling FMS 224, Section II*, states that agencies should reconcile regional finance center transactions separately from Intra-governmental Payments and Collections transactions by comparing transactions reported in their accounting systems with the transactions reported to Treasury by the regional finance centers and through the Intra-governmental Payment and Collection system. In the month following the reporting month, agencies should correct any disclosed differences.

The EPA's RMDS No. 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the EPA to monthly review and track differences between the Treasury's and EPA's fund balance. The directive requires the OCFO's RAS to monthly review the agency financial system of record and report issues to the respective finance center. The RAS is responsible for tracking all budget clearing account items from posting to final disposition. The EPA finance centers are required to provide comments, as needed, to the RAS on the monthly cash differences report.

OCFO prepares a monthly cash difference report by accounting point and treasury symbol, using internal statement of differences submitted by the EPA finance centers, to identify and resolve any differences between Treasury and EPA records. We found that the accounting points for the Payroll accounting point and Washington Finance Center had long-standing unresolved cash differences. As of September 30, 2015, the RAS reported $4.9 million in cash differences, including $1.2 million for Payroll and $1.4 million for Washington Finance Center unresolved for 5 and 12 months, respectively.

The OCFO did not adequately monitor the internal cash differences at the transaction level to ensure that the EPA resolved all the differences with Treasury. The RAS relied on the accounting points to resolve individual cash differences. However, the accounting points for Payroll and Washington Finance Center did not resolve their long-standing differences. Therefore, the RAS did not have effective internal controls to resolve the individual cash differences.

By not adequately monitoring and resolving all cash differences, the EPA increases the risk of unrecorded transactions and fraud. Unrecorded transactions misstate the EPA's Fund Balance with Treasury and the financial statements.

Recommendations

We recommend that the Chief Financial Officer:

10. Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.

11. Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

5 – Cincinnati Finance Center Should Clear Suspense Transactions Timely

CFC is not clearing transactions from the federal budget clearing (suspense) account within 60 business days after posting. As of March 31, 2015, we identified 136 federal transactions, totaling $9,020,680, remaining in suspense beyond 60 business days. EPA guidance requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing account to appropriate general ledger accounts within 60 business days. CFC did not clear the suspense account timely primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. Untimely clearing of suspense transactions was also due to opening records in Compass to apply credits for interagency agreements, reconciling cost reports prior to project officer approval, and managing Working Capital Fund funding issues. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund.

CFC records federal disbursements and collections in a suspense account. The accounting system notifies the project officers by email of a transaction waiting for their approval. The system sends follow-up emails at 20 days, 30 days, and then weekly if the project officer does not act on the approval request. Disbursement transactions remain in suspense until an EPA project officer approves or disapproves them. When the EPA project officer approves a disbursement, the system removes the transaction from the suspense account and charges it to the appropriate receipt or expenditure accounts. Collection transactions remain in suspense until CFC applies them to the corresponding receivable.

The EPA's RMDS No. 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, dated June 24, 2015, requires each servicing finance office to review, classify and transfer transactions posted to Treasury Account Symbol 68F3885 to the appropriate general ledger account within 60 business days.

Treasury Financial Manual, Volume 1, Bulletin No. 2011-06, dated June 30, 2012, directs federal agencies to certify annually that suspense accounts for the preceding yearend does not include any items or transactions more than 60 days old. If there are transactions more than 60 days old, the federal agency must clearly explain the reason.

CFC did not clear the suspense account timely primarily because EPA project officers did not provide timely disbursement approvals needed to clear the suspense account. CFC staff stated that they were not required to follow up with the project officers to obtain their approval. CFC relied on the system-generated reminder emails to the project officers and did not make many follow-up attempts to get the project officers' approval. Untimely clearing of suspense transactions was also due to:

- Time spent working with the EPA Office of Technology Solutions to open records in Compass to apply credits received for U.S. Department of Health and Human Services interagency agreements.
- Time spent reconciling cost reports to ensure they included appropriate costs and then waiting on the project officer approval.
- Time spent obtaining funding for Working Capital Fund expenditures.

We identified and communicated the issue of untimely clearing of suspense transactions to the agency during our FY 2014 financial statement audit. We recommended that the Assistant Administrator for Administration and Resources Management require project officers to approve federal disbursements timely and that the Chief Financial Officer require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. The agency concurred with our recommendations. According to the agency's corrective action status report as of May 6, 2015, the agency completed corrective action for the second recommendation but not the first. Since we found in our FY 2015 review that, once again, CFC did not clear the federal suspense account within 60 business days, we consider the corrective actions for both recommendations to be incomplete.

Recommendations

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

12. Complete the planned corrective actions to require project officers to approve federal disbursements timely.

We recommend that the Chief Financial Officer:

13. Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

6 – EPA Improperly Canceled Accounts Receivable and Collections

The EPA canceled 72 accounts receivable and 113 collection transactions without proper reviews of the justification and authorizing approval in Compass. OMB Circular A-123 cites separation of duties and supervision as one of its specific management control standards. However, EPA management has not established internal control procedures for review and approval of cancellation transactions. Without approval of cancellation transactions, the EPA increases the risk of fraud, misuse and errors.

OMB Circular A-123 states: "Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities."

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* states management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

We identified 72 accounts receivable and 113 collection transactions that the EPA canceled without approval in Compass. The EPA personnel who recorded the receivable and collection transactions also canceled the transactions, contrary to Government Accountability Office and OMB internal control standards and proper segregation of duties. Current EPA practice requires approval for accounts receivable and collection amendments over $100.

Within Compass, no secondary approval is necessary to cancel accounts receivables and the EPA has no procedure requiring secondary approval for cancellations. This is an internal control weakness in Compass and EPA policy. Cancellation procedures would provide the system of checks and balances necessary to ensure the integrity of accounts receivables and collections. Without approval of transaction cancellations, the EPA increases the risk of fraud, misuse and errors.

Recommendations

We recommend that the Chief Financial Officer:

14. Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.

15. Modify Compass to route accounts receivable and collection cancellations for secondary approval.

16. Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.

Agency Comments and OIG Evaluation

The agency generally concurred with our findings and recommendations, agreeing to review existing separation of duties policy and update policies and procedures if applicable. The agency responded to Recommendation 15 that the system has controls for secondary approval, but the agency did not address the act of secondary approval for canceling receivables. Therefore, we consider Recommendation 15 to be unresolved.

7 – EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment

The EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree. Federal accounting standards require agencies to record accounts receivable based on legal provisions. CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document. By not recording receivables at the amount stated in the legal document, the EPA may understate accounts receivable on the financial statements.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, requires agencies to recognize a receivable when an entity establishes a claim based on legal provisions. Agencies should recognize an allowance for estimated uncollectible amounts to reduce the gross amount of receivables to its net realizable value.

A Settling Defendant agreed to a judgment of $9 million for unreimbursed past costs and future costs to be incurred at a Superfund site. The consent decree directed the defendant to satisfy a portion of its judgment through a cash payment and the remainder from the sale of property and proceeds from insurance policy claims. Instead of recording the receivable at the judgment amount of $9 million, the EPA recorded the receivable for $714,185, which represented the amount the EPA anticipated from a cash payment and the sale of property.

The EPA recorded the receivable at the anticipated cash receipt amount of $714,185 based on its discussions with EPA regions and headquarters, instead of abiding by the provisions in the legal document. Email correspondence regarding the recording of the receivable referred to the amount of cash the EPA expected to receive from settling defendant instead of the judgment amount. According to the consent decree, the settling defendant is a responsible party pursuant to Section 107(a) of CERCLA, 42 U.S.C Section 9607(a), and is jointly and severally liable for response costs incurred and to be incurred at the site. Cash payment made by the settling defendant is to be credited toward the judgment. The remainder of the judgment is to be satisfied from sale and insurance proceeds.

The EPA looks to regions and the EPA Office of General Counsel to provide information to support the recording of accounts receivable. Recording a receivable based on the amount collected versus the amount owed violates accounting standards, which require receivables to be recorded based on legal provisions or goods or services provided. By not recording receivables at the amount stated in the legal document, the EPA could misstate accounts receivable on the financial statements.

Recommendations

We recommend that the Chief Financial Officer:

17. Require CFC to record accounts receivable as provided in legal documents.

18. Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

8 – Improvement Needed in Reconciling Accounts Receivable

The EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. The EPA did not correct reconciliation variances, separately reconcile federal and non-federal receivables, or develop accurate detail reports. We previously reported the EPA's reconciliation of accounts receivable as a significant deficiency in our FY 2014 financial audit report. In following up on the agency's proposed corrective actions, we found that the EPA did not correct the significant deficiency or completely implement its corrective actions. EPA guidance directs the agency to perform quarterly accounts receivable reconciliations, investigate discrepancies and correct any differences. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger and correct differences, the agency cannot ensure financial statements are properly stated.

The EPA's RMDS 2540-9-T2, *Receivables and Billings,* directs EPA's Reporting and Analysis Staff to perform quarterly accounts receivable reconciliations and Office of Financial Services to research discrepancies, and correct any differences.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, requires federal agencies to report receivables from federal entities separately from receivables from non-federal entities.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five standards for the minimum level of quality acceptable for internal control in government. The standard for control activities requires accurate and timely recording of transactions and events.

OMB Circular A-123*, Appendix D*, requires financial management systems to provide complete, reliable, consistent and timely financial management information on federal government operations.

We found that the EPA's accounts receivable reconciliation did not properly reconcile the accounts receivable subsidiary ledger to the general ledger. The accounts receivable subsidiary ledger maintains the activity and current balances for each account receivable. The general ledger is a control account with the total of all accounts receivable. Several factors caused the improper reconciliation:

- The EPA did not investigate variances between the accounts receivable detail and the general ledger.
- The EPA addressed only prior year variances and not variances between the bill detail and the general ledger identified during each reconciliation.
- The EPA's FY 2015 receivable reconciliations that we reviewed did not separate federal and non-federal receivables.
- The EPA included journal vouchers in its accounts receivable bill detail.
- The EPA could not prepare a 6-month reconciliation due to a Compass report issue that caused the report to not run.

We had previously found during our audit of the FY 2014 financial statements a significant deficiency in that the agency did not reconcile the accounts receivable subsidiary ledger to the general ledger. This was reported in Report No. 15-1-0021, *Audit of EPA's Fiscal Years 2014 and 2013 (Restated) Consolidated Financial Statements*, issued November 17, 2014. Table 1 below notes our FY 2014 recommendations, made to OCFO, and the status of EPA actions.

Table 1: FY 2014 recommendations, corrective actions and OIG evaluation

No.	OIG Recommendation	EPA Corrective Action	OIG Evaluation
23	Investigate variances between the general ledger control accounts and the accounts receivable subsidiary ledger bill detail and correct errors by recording entries to the control accounts and/or the accounts receivable bill detail, as needed.	Concur. OCFO corrected many of the variances from the prior year in the 3rd and 4th quarters of FY 2014. The remaining variances will be corrected in the 2nd quarter of FY 2015.	As of September 30, 2015, the EPA had not completed this corrective action. For the quarterly reconciliations we analyzed, the EPA did not investigate variances between the accounts receivable detail and the general ledger. Also, the EPA's corrective action did not completely address the problem because it only addressed prior-year variances and not variances between the bill detail and the general ledger identified during each reconciliation
24	Reconcile federal and non-federal accounts receivable separately.	Concur. OCFO will design a framework for providing timely and accurate reconciliations of federal and non-federal accounts receivable.	As of September 30, 2015, the EPA had not completed this corrective action. EPA FY 2015 receivable reconciliations we reviewed did not separate federal and non-federal receivables.
25	Develop accurate reports for accounts receivable principal charges and non-principal charges.	Concur. The agency acknowledges that we made an error for not reporting principal, interest, handling charges, and penalties correctly for March 2014. The agency has corrected the error in the subsequent reconciliation and will continue oversight for all reconciliations going forward.	The agency's corrective action was not effective for the following reasons: (1) the agency could not prepare a 6-month reconciliation due to a Compass report issue, which caused the report to not run; (2) the bill report for 9-month and year-end erroneously included bill charges (interest, handling, penalty); and (3) the year-end report included FY 2016 activity.

Source: OIG analysis of EPA data.

The agency's current accounts receivable reconciliation process does not identify and resolve differences between the accounts receivable general ledger control accounts and their corresponding accounts receivable detail accounts to ensure that both the control and detail accounts are properly stated. The purpose of a reconciliation is to identify and resolve differences between the accounts receivable subsidiary ledger bill detail and the accounts receivable general ledger control accounts to ensure accuracy and completeness in the financial statements. When the agency cannot accurately reconcile the accounts receivable subsidiary ledger to the general ledger control accounts, the agency cannot ensure:

- Accounts receivable general ledger control account balances are accurate.
- Accounts receivable subsidiary ledger bill detail is accurate.
- Federal and non-federal receivables are properly classified in the financial statements.
- Financial statements are properly stated.

Recommendations

We recommend the Chief Financial Officer:

19. Complete the corrective actions previously identified in Table 1.

20. Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.

21. Reconcile federal and non-federal accounts receivable separately.

22. Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.

23. Develop accurate reports for accounts receivable principal and non-principal charges (such as interest, handling and penalties) to reconcile such charges to the general ledger accounts.

24. Correct the Compass reporting issues that prevent the proper reports to be produced.

Agency Comments and OIG Evaluation

The agency concurred with our findings and Recommendations 19, 20, 21, 22 and 24. The agency did not concur with our recommendation to develop accurate reports (Recommendation 23). We revised our recommendation to clarify that the agency needs accurate reports to properly reconcile receivable principal and non-principal charges to the general ledger**.**

9 – EPA Overbilled Superfund State Contract Cost Share

The EPA overbilled a state $1,139,306 for one Superfund State Contract (SSC). EPA guidance directs regional finance and program offices to reconcile SSC financial data by site. Regions use Superfund project expenditures to calculate the amount of a state's cost share billed under an SSC. An error in the EPA's cost recovery process caused duplicate charges in the site's cost recovery report that the region did not identify. When costs are not properly reconciled, states and other entities may overpay for expenditures never incurred.

CERCLA, as amended, authorizes the EPA to bill states for their cost share of expenditures under the SSC program. The EPA uses the Superfund Cost Recovery Package Imaging and On-Line System (SCORPIOS) to accumulate and report costs expended on cleanup of Superfund sites.

The EPA's RMDS 2550D-09-P1, *State Cost Share Provisions for Superfund State Contracts and Remedial Cooperative Agreements*, describes the EPA's process for managing the financial aspects of Superfund state cost share provisions in Superfund state contracts. The policy directs regional finance and program offices to prepare, track, manage and reconcile SSC financial data by site.

The EPA overbilled the state for duplicate costs charged under an SSC for site 0737. The SCORPIOS cost report for site 0737 contained duplicate charges of $11,393,060.26 for two interagency agreements. Because the state's share of EPA costs expended under the SSC is 10 percent, the EPA overbilled the state $1,139,306.

Table 2: Duplicate charges included in SSC bills for site 0737

Site Number	Interagency Agreement No.	SCORPIOS Costs	Compass Costs	Duplicate Charges
0737	MO DW96412301	$9,315,872.86	$4,693,230.43	$4,622,642
0737	MO DW96952301	$19,845,510.72	$13,075,092.89	$6,770,418
Calculated Costs				$11,393,060
Cost Share				10%
Amount Overbilled				$1,139,306

Source: OIG analysis of EPA data.

A duplicate charge in the site's cost recovery report occurred when the region did not properly reconcile the site costs with Compass. As a result, the EPA misstated accounts receivables. Without reconciling SCORPIOS costs to Compass, other sites could have contained duplicate charges. Thus, the EPA may have double billed costs, creating a potential for refunds.

Recommendation

We recommend the Chief Financial Officer:

25. Work with the Assistant Administrator for Solid Waste and Emergency Response to direct the regions to track, manage and reconcile SSC financial data by site.

Agency Comments and OIG Evaluation

The agency concurred with our findings and agreed to issue new SSC model provisions that include an updated final financial statement reconciliation and new language on periodic reviews.

10 – OCFO Lacked Internal Controls When Assuming Responsibility for Account Management Procedures of Financial Systems

OCFO assumed responsibility for managing oversight of users' access to the Payment Tracking System without ensuring the system had documentation covering key account management procedures. OMB Circular A-123 states that internal control needs to be in place over information systems. Also, the circular reiterates that general control applies to all information systems including end-user environments.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, April 2013, *Security and Privacy Controls for Federal Information Systems and Organizations*, security control number Access Control (AC)-1, *Access Control Policies and Procedures*, requires an organization to develop, document, and disseminate procedures to facilitate the implementation of the access control policy and associated access controls. Additionally, NIST SP 800-53's security control number AC-2, *Account Management*, requires the organization to, among other things:

- Identify and select [organization-defined] types of information system accounts to support organization missions/business functions;
- Establish conditions for group and role membership;
- Create, enable, modify, disable, and remove information system accounts in accordance with [organization-defined procedures or conditions]; and
- Review accounts for compliance with account management requirements [on an organization defined frequency].

Account management for the Payment Tracking System is performed by the Application Management Staff under OCFO's Office of Technology Solutions. Application Management Staff use a contractor to assist with account management for the Payment Tracking System. Control of the Payment Tracking System's account management was transferred to the Application Management Staff group around July 2012. However, there was no established process for transitioning account management responsibilities when an application's account management was taken over by the Application Management Staff. There was no process to document procedures specific to OCFO applications, such as the Payment Tracking System. Additionally, no documentation was transferred or developed to establish consistent account management procedures.

Without documented procedures for access management of the Payment Tracking System application, institutional knowledge of the performance of account management procedures is not maintained, and management lacks a standard to measure whether employees are carrying out established processes as intended. The lack of oversight over access management can lead to employees being granted access to information systems without documented approval and users maintaining access to systems they no longer need to perform their duties.

Recommendations

We recommend that the Chief Financial Officer:

26. Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.

27. Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.

28. Work with the contracting officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management Staff. This should include establishing a date when the contractors would start using the updated account management documentation.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations. Subsequent to its response to the draft report, in an amended response to Recommendation 26, the agency agreed to implement a process for transferring the management of an application's user access.

11 – Financial and Mixed-Financial Applications Did Not Comply With Required Account Management Controls

EPA financial and mixed-financial applications complied with 11 of the 28 required account management controls selected for review, or 39 percent. For the majority of the five key applications noted in Table 3, the EPA implemented processes for establishing conditions for groups and role membership (control requirement AC-2c). However, more management emphasis is needed to ensure responsible individuals fully develop and implement required account management controls. In particular, we found that the EPA's Payment Tracking System and travel system (Concur) show the greatest need for improvement to comply with federal requirements. The possibility exists that the unauthorized access could be used to commit fraud that could go undetected for a significant amount of time.

Table 3: EPA's compliance with required NIST access controls for account management

	Access controls tested							
Systems	**Account manager assigned (AC-2b)**	**Establishes conditions for user group/role membership (AC-2c)**	**Authorized official approves accounts (AC-2e)**	**Monitors for the use of information system accounts (AC-2g)**	**Account managers notified of changes in need to restrict access (AC-2h)**	**Authorized information system access based on criteria (AC-2i)**	**Accounts reviewed for compliance with account management requirements (AC-2j)**	**Overall compliance percent**
Compass	✓	✓	✓	**X**	**X**	✓	✓	**71%**
Payment Tracking System	**X**	✓	**X**	**X**	**X**	**X**	**X**	**14%**
PeoplePlus	✓	✓	✓	**X**	**X**	✓	✓	**71%**
Concur	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**0%**
% Compliant	**50%**	**75%**	**50%**	**0%**	**0%**	**50%**	**50%**	**39%**

✓= Application was compliant with the access control tested.
X= Application was not fully compliant with the access control tested.

Source: Generated by OIG based on NIST SP 800-53 controls tested.

NIST SP 800-53, Revision 4, Security Control AC-2, *Account Management*, requires the organization to implement the following:

- AC-2b. Assign account managers for information system accounts.
- AC-2c. Establish conditions for group and role membership.
- AC-2e. Requires approvals by [Assignment: organization-defined personnel or roles] for requests to create information system accounts.
- AC-2g. Monitors the use of information system accounts.
- AC-2h. Notifies account managers:
    - i. When accounts are no longer required.
    - ii. When users are terminated or transferred.
    - iii. When individual information system usage or need-to-know changes.

- AC-2i. Authorizes access to the information system based on:
  i. A valid access authorization.
  ii. Intended system usage.
  iii. Other attributes as required by the organization or associated missions/business functions.
- AC-2j. Review accounts for compliance with account management requirements [on an organization defined frequency]

According to EPA representatives in OCFO, weaknesses within the agency's account management practices stem from the following:

- Creating user accounts is a manual process that relies on account management personnel's institutional knowledge.
- Account management personnel, for Compass, rely on an automated access request systems, for which the approval routing list contains unauthorized approvers, to control the access approval and notification processes.
- Within Concur, a user's access privileges can be increased by any user with those privileges without supervisory approval.
- The capability to log user account creation and system activity exists, but regular reviews of the logs for anomalies and suspicious activity are not part of established procedures.
- Account management procedures for access recertification are not established or documented.

Notwithstanding the above reasons, our analysis indicated there is a lack of oversight processes to ensure that responsible individuals (1) perform required controls and (2) report compliance with information system security controls as required by EPA policy. For the Payment Tracking System and Concur, responsible individuals had not performed user access recertifications or entered data into Xacta[1] regarding how the system complied with information system security requirements. We also noted that Concur was not listed in Xacta and, therefore, lacked management oversight of the system's compliance with mandated information system security requirements.

Account management is important because it helps to prevent unauthorized access to the EPA's systems that manage resources used to protect human health and the environment. Weaknesses in account management controls reduce the integrity of financial data and user accountability.

[1] The EPA implemented Xacta to be the EPA's official system for recording and maintaining information about the agency's compliance with mandated information system security requirements.

Recommendations

We recommend that the Chief Financial Officer:

29. Review and update account management documentation and establish procedures for financial systems, as needed, to include implementation of the following controls:

    a. Assign account managers for user accounts.
    b. Establish role conditions for system access privileges.
    c. Require approvals to create accounts.
    d. Monitor use of accounts.
    e. Notify account managers when accounts are removed or changed.
    f. Authorize access based on valid authorizations.
    g. Review accounts for appropriateness of current access privileges.

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

31. Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.

32. Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

12 – OCFO Needs to Strengthen Password Change Procedures

OCFO needs better HelpDesk procedures for distributing passwords to users locked out of OCFO's financial systems. In particular, the OCFO HelpDesk does not have a process to verify the user's identity prior to providing new passwords over the phone. NIST and EPA criteria require the adequate protection of system passwords. A perpetrator could access applications—such as PeoplePlus and the Payment Tracking System—and could manipulate leave records or process unauthorized financial transactions.

NIST SP 800-53, security control for Identification and Authentication 5, *Authenticator Management*, states that organizations must manage information system passwords by protecting them from unauthorized disclosure and modification. EPA Chief Information Officer Transmittal No. 12-003 states that, "Users should be permitted access to the HelpDesk to release their account prior to the 30 minutes lock out period if it hinders productivity." Additionally, the Transmittal No. 12-003 states that "Authenticator content must be protected from unauthorized disclosure or modification."

The conditions existed because the OCFO HelpDesk procedures need improvement. Specifically, the OCFO HelpDesk escalation procedures—supported by two separate EPA contractors who manage password resets for EPA employees—require HelpDesk personnel to (1) distribute temporary passwords to users locked out of OCFO applications verbally over the phone and (2) instruct users to change the password upon their next log in. The HelpDesk personnel create a ticket for the issue and sends an automated email with the ticket number and problem description to the user's government email address. To resolve the ticket, HelpDesk personnel verbally provide them with a temporary password. We found that individuals can obtain a new password over the phone by providing the HelpDesk with a user's name and Local Area Network identification that predominantly consist of the employee's first initial and last name.

By distributing OCFO application passwords over the phone and not assuring that the caller is the account user, HelpDesk personnel could expose passwords to unauthorized users. While automated emails are sent to the user's government email to track the creation and closing of the ticket related to the password issue, this process is not secure because the HelpDesk does not require the email recipient to refer to the email before issuing the recipient a new password verbally. A perpetrator could execute an attack on the user's account when the user would not be checking their email. This could compromise the security of the EPA's financial resources used to protect human health and the environment.

Recommendation

We recommend that the Chief Financial Officer:

33. Establish new procedures and update the OCFO HelpDesk Escalation Procedures to require validation of users before the distribution of passwords.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendation.

13 – EPA's Travel System Needs Improved Credit Card Data Protection and Independent Compliance Reviews

The EPA's Concur travel system (1) allows users more access to credit card information than users need, and (2) lacks required independent reviews of the Concur service provider's[2] compliance with Payment Card Industry Data Security Standards (PCI DSS). In particular:

- There are currently 623 Concur users who could unnecessarily view employees' full credit card numbers in clear text.
- Concur currently has a Service Provider Level II Validation that does not meet the PCI DSS standard for the number of credit card transactions processed. Concur processed 955,804 transactions through June 2015, but any service providing that processes over 300,000 transactions per year must obtain a Service Provider Level I Validation.

NIST SP 800-53, security control number AC-6, *Least Privilege*, states that the organization must only allow the authorized access to users that is necessary to accomplish their tasks in accordance with organization missions. The PCI DSS' *Requirements and Security Assessment Procedures*, Version 3.0, dated November 2013, and Version 3.1, dated April 2015, provide a minimum set of standards for protecting account data that allow the service provider to enhance with additional controls. The EPA issues MasterCard credit cards to its travelers and MasterCard has enhanced these standards by requiring service providers that process over 300,000 transactions per year to obtain a Level 1 Validation. A Level I Validation includes an annual onsite assessment conducted by a Qualified Security Assessor. Concur currently conducts a Level II Validation, which only requires Concur to conduct an annual self-assessment.

The EPA obtained travel services from the Concur service provider through issuing Task Order EP-G13C-00378 on General Services Administration (GSA) contract GS-33f-y0026. Since Concur stores credit card information to process credit card transactions between government travelers and merchants, Concur appears to meet the definition of a service provider and, therefore, is subject to enhanced PCI DSS requirements. Concur processed 955,804 transactions through June 2015 and, therefore, must obtain a Service Provider Level I Validation to meet the PCI DSS requirement. The EPA representative provided us with a GSA point of contact to discuss security concerns discovered during our audit. Upon raising this issue with GSA, its representative stated that GSA believed the PCI DSS compliance process may not apply to their contract or their government customers. The GSA representative further stated that the representative will contact others within GSA to find more information about PCI DSS compliance. However, GSA has not provided further updates on whether Concur must meet PCI DSS requirements.

Personnel have excessive access to credit card information because the EPA users with the Federal Agency Travel Administrator role in Concur can see the full credit card number for travelers under their purview. Our analysis of 10 EPA Concur users with the Federal Agency Travel Administrator role disclosed that they were mistaken about how much access they needed

[2] The PCI Security Standards Council defines a service provider as a business entity that is not a payment brand directly involved in the processing, storage or transmission of cardholder data. This also includes companies that provide services that control or could impact the security of cardholder data.

to the employee’s full credit card information. The users with the Federal Agency Travel Administrator role stated they needed access to a traveler’s full credit card information in order to perform queries of a user’s credit card history in Compass Data Warehouse. Our analysis disclosed that full credit card numbers are unnecessary to query a user’s credit card history in the Compass Data Warehouse. Users with special Compass Data Warehouse system access can view credit card history by entering the employee’s name. Also, the EPA implemented a basic Compass Data Warehouse access process that gives users the ability to obtain credit card charge history by providing the last eight digits of the card number (part of the traveler’s account number and checksum) and not the entire 16-digit number.

The PCI DSS standard was created to increase controls around cardholder data to reduce credit card fraud via its exposure. By not ensuring the Concur service provider is adequately protecting this data, the EPA and all Concur users are potentially faced with the responsibility and expense of providing breach notification and remediation services in the magnitude of the cost similar to the most recent data breaches experienced by the Office of Personnel Management. Because EPA management is unaware of the service provider’s ability to protect credit card data, the EPA lacks the information and ability to make plans needed to implement risk-based decisions to minimize the agency’s exposure. By not taking steps to restrict access to credit card data unnecessarily needed by individuals within the agency, the EPA increases the potential this data could be used for unauthorized purposes. This also places an undue financial expense on EPA in order to protect the effected employee from fraud.

Recommendations

We recommend that the Chief Financial Officer:

34. Work with the contracting officer to have the Concur service provider limit the visibility of credit card numbers for people with the Federal Agency Travel Administrator role.

35. Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

Compliance With Laws and Regulations

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14 – EPA Did Not Comply With Federal Accounting Standards for Recording Interest

The EPA did not record all applicable interest for some Superfund and installment interest as required by applicable laws, federal accounting standards and EPA policy that require the EPA to assess interest on delinquent accounts receivable. In following up on the agency's proposed corrective actions, we found that the EPA did not implement a correction in the Compass system related to Superfund and installment interest. By not recording all applicable interest, the EPA did not collect all the funds to which it was entitled and did not comply with applicable laws, standards and policies.

CERCLA Section 107 states that the amounts recoverable in an action under this section shall include interest on the amounts recoverable. Such interest shall accrue from the later of the date payment of a specified amount is demanded in writing or the date of the expenditure concerned.

The Debt Collection Act of 1982 [Public Law 97-365, Section 11(e)(1)] addresses the collection of amounts owed to the federal government and provides for a minimum annual rate of interest to be charged on overdue debts owed.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 53, states that interest receivable should be recognized for the amount of interest income earned but not received for an accounting period.

The EPA's RMDS 2550D, Chapter 14, *Superfund Accounts Receivable and Billings*, page 14, states that pursuant to Section 107 of CERCLA, the EPA will assess interest on all overdue amounts.

The EPA's RMDS 2540-9-P2, *Non-Federal Delinquent Debt*, pages 6–7, directs the agency to assess and record overdue interest, handling and penalty charges in 30-day increments for late payments as appropriate. The finance centers calculate interest, handling and penalty charges manually, or rely on the agency financial management system to automatically calculate and post all charges.

We had previously reported in our audit of the FY 2014 financial statements that the EPA did not comply with accounting standards for recording interest. Table 4 below notes our FY 2014 recommendations and status of EPA actions. These recommendations, made to OCFO, involved actions involving CFC and LVFC.

Table 4: FY 2014 recommendations, corrective actions and OIG evaluation

No.	OIG Recommendation	EPA Corrective Action	OIG Evaluation
35	Instruct CFC to perform an analysis of delinquent receivables to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards and EPA policy, and record any unrecorded interest.	Concur. OCFO will continue to review delinquent receivables to ensure interest is accruing properly and will continue to work closely on Compass issues to resolve them on a long-term basis in cases where interest has not been calculated in Compass (and it should be).	Corrective action not effective. CFC did not perform an analysis to determine whether Compass is properly recording interest. At FY 2014 year-end, CFC sampled several bills to ensure the interest was calculated correctly and in Compass for the year-end financial statements. CFC submits tickets as issues arise. At FY 2015 year-end, CFC did not perform an overarching interest review and instead reviewed interest as the receivable status was updated or when collections were received.
36	Instruct CFC to follow the terms in the legal source documents when recording interest receivables.	Concur. OCFO will explore having Compass functionality enhanced to allow for interest to be calculated from a date other than the receivable date.	As of September 30, 2015, the agency's corrective action was not complete. In FY 2015, we found that CFC personnel still relied on the Department of Justice and EPA regional personnel direction and did not record interest related to a large settlement, instead of following the provisions in the legal document.
37	Instruct LVFC to follow EPA policy and the terms of the legal source document and record the document effective date in Compass as the account receivable document date for grant receivables.	Concur. OCFO will work with the Grants Management Office to ensure source documentation for grant receivables is submitted to the LVFC in a timely manner.	LVFC began recording FY 2015 transactions for grant receivables with the effective date of the originating document. This corrective action is effective at eliminating the interest noncompliance. LVFC took sufficient corrective action for Recommendation 37 related to grant receivables. Consequently, no further recommendations are made to LVFC.
38	Determine and correct the cause of Compass system problems related to Superfund and installment interest.	Concur. OCFO implemented a fix on November 16, 2014, to correct the known system issues related to interest.	System issues related to interest were not corrected; therefore, corrective action was not effective. On November 18, 2014, Compass deleted over $7 million of interest on over 70 Superfund receivables. Compass also stopped calculating interest on numerous other receivables on April 20, 2015. When Compass deletes and/or does not calculate interest on Superfund receivables, there is no assurance interest is properly recorded.

Source: OIG analysis of EPA data.

When the EPA does not record interest, the agency may not collect all the funds to which it is entitled and does not comply with applicable laws, federal accounting standards and EPA policy.

Recommendations

We recommend that the Chief Financial Officer:

36. Complete the corrective actions previously identified in Table 4.

37. Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.

38. Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either through Compass automatic calculations or manual interest calculations prepared by CFC.

39. Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why:

    - Compass deletes Superfund interest and implement a correction.
    - Compass stops calculating interest and implement a correction.

Agency Comments and OIG Evaluation

The agency concurred with our findings and recommendations.

Attachment 3

Status of Prior Audit Report Recommendations

The EPA is continuing to strengthen its audit management to address audit follow-up issues and complete corrective actions expeditiously and effectively to improve environmental results. During FY 2015, the EPA's Chief Financial Officer, as the Agency Follow-Up Official, developed and implemented a strategy for increasing the agency's attention to its audit follow-up responsibilities, including timely completion of corrective actions in response to OIG audit recommendations. As one component of the strategy, the Chief Financial Officer issued a memorandum to senior agency leadership, reminding senior managers of their stewardship responsibilities for audit management and reviewing their Action Official roles and responsibilities. Other notable actions included:

- In December 2014, the agency launched new online training for using its Management Audit Tracking System to ensure timely and effective audit follow-up in compliance with *EPA Manual 2750: Audit Management Procedures*. All new Audit Follow-up Coordinators completed the online training, which focuses on how to use the system, including generating reports, to ensure that EPA audit data are accurate, complete and up to date.
- The EPA made oversight of audit follow-up a focus area for its FY 2015 Management Integrity Program, requiring all national program and regional offices to review a sample of their OIG audits using a questionnaire and template developed by OCFO and report findings in their FY 2015 assurance letters to the Administrator. Results indicated no agency-level internal control weaknesses in audit management.
- The agency undertook an update of EPA Manual 2750, *Audit Management Procedures,* which was last revised in FY 2013. Manual 2750 is a comprehensive audit management guide that addresses OIG, Government Accountability Office, and Defense Contract Audit Agency audits. OCFO expects to release the updated policy in December 2015.
- OCFO continued to issue first and third quarter audit management progress reports, highlighting the status of management decisions and corrective actions. The reports are shared with program office and regional managers throughout the agency to keep them informed of the status of progress on their audits.
- Additionally, OCFO continued to conduct onsite reviews of national and program offices, initiated in FY 2009 and scheduled on a rotating basis. These quality assurance/quality control reviews focus on offices' audit follow-up procedures, data entered in the Management Audit Tracking System, and availability of supporting documentation. In FY 2015, OCFO completed on-site reviews in two regional offices and one national program office.

Based on a review of Management Audit Tracking System data, OCFO reported that the number of OIG audits closed on issuance increased to 77 percent in FY 2015 (up from 57 percent in FY 2014), indicating sustained OIG-agency progress in reaching timely agreement on audit recommendations and corrective actions. In addition, the number of late corrective actions at the end of FY 2015 decreased by 28 percent from FY 2014.

Table 5: Significant deficiencies—issues not fully resolved

• **EPA Failed to Capitalize Software Costs, Leading to Restated Fiscal 2013 Financial Statements** In our FY 2014 audit, we identified the agency's accounting for software as a material weakness. In FY 2014, the agency found it had undercapitalized software by expensing approximately $255 million in software costs over a 7-year period. The undercapitalized software and related equity accounts indicate the agency has a material weakness in internal controls over identifying and capitalizing software because such controls failed to detect and correct the errors, resulting in a misstatement of the FY 2013 financial statements. During FY 2015, the agency took corrective actions to improve its accounting for software. While the agency has made progress and taken steps to correct weaknesses, all corrective actions have not been completed. Corrective actions for the remaining two recommendations are not due to be completed until 2018.
• **EPA Did Not Capitalize Lab Renovation Costs** In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovation as a capital improvement. The agency capitalized and booked the Research Triangle Park lab renovation costs and related depreciation. The EPA Office of General Counsel believed that the 1999 legal opinion is still a viable legal opinion, but did not provide examples to guide the agency's determinations of when renovation work should be funded from agency program appropriations or Building and Facilities funds. Therefore, the corrective action was partially completed. In addition, corrective actions for other recommendations related to this finding are not due until 2016.
• **EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement** In our FY 2014 audit, we noted that the EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for FY 2014. The EPA also identified 573 property items not recorded in Maximo. During FY 2015, we found that the agency made progress and has taken steps to correct its differences between the amount of personal property recorded in Maximo and the amount of physical inventory. The agency has implemented the corrective actions. However, we have not assessed the effectiveness of these actions.
• **EPA's Property Management System Does Not Reconcile to its Accounting System (Compass)** During FY 2014, we found that the EPA did not reconcile $100 million of capital equipment within its property management subsystem (Maximo) to relevant financial data within its accounting system (Compass). The inability to reconcile the property subsystem with Compass can compromise the effectiveness and reliability of financial reporting. We previously reported on this issue in our 2012 and 2013 financial statement audit reports. In FY 2014, the agency issued procedures to reconcile capital property. The agency stated it had begun to resolve the differences between Maximo and Compass; however, problems continue to exist. In FY 2015, we again reported this weakness as a significant deficiency; therefore, the EPA's corrective actions were not yet effective.
• **Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center** In FY 2014, we found that the EPA and Department of Justice did not timely forward accounts receivable source documents to finance centers. During FY 2015, the EPA's Office of Enforcement and Compliance Assurance in a memorandum reminded the regions to timely provide accounts receivable enforcement documentation to the finance center. In addition, OCFO updated the EPA's Superfund guidance to direct originating offices to timely send accounts receivable control forms to the finance center. In 2015, while we noted improvements in CFC's timely receipt of legal documents, we still identified instances of untimely receipt, principally related to stipulated penalties. Therefore, the agency's corrective actions are not completely effective and we will continue to evaluate the timeliness of receipt of accounts receivable source documents from the EPA and Department of Justice in FY 2016.

• **EPA Did Not Properly Reconcile Accounts Receivable** During FY 2014, we found the EPA did not properly reconcile its accounts receivable subsidiary ledger to the general ledger. In FY 2015, the EPA did not correct the significant deficiency or did not completely implement its corrective actions for investigating variances between the accounts receivable detail and the general ledger; reconciling federal and non-federal accounts receivable separately; or developing accurate reports. Because the EPA did not change its process from the prior year, we reported the agency's accounts receivable reconciliation process as a significant deficiency again in FY 2015.
• **Unneeded Funds Not Deobligated Timely** In FY 2014, we reported weaknesses with the agency's management of unliquidated obligations. We found $4.4 million in idle unliquidated obligations for which the EPA had not taken timely actions to notify the appropriate offices to deobligate the unneeded funds. The average age (days funds sat idle since last activity) of these funds was 732 days old, with the oldest being 996 days old. The agency concurred with our finding. The agency planned corrective action to update and implement a new unliquidated obligations tool to improve its unliquidated obligations review process and timely deobligations of funds deemed unneeded by program /regional offices. To streamline and simplify the unliquidated obligations management process, the OCFO Office of Financial Management in FY 2015 developed a new tracking tool and updated requirements for review of all open obligations. The Office of Financial Management developed and provided unliquidated obligation reviewers a comprehensive user guide and instructions upon release of the new tool. We believe the agency's corrective action is resulting in timely review of unliquidated obligations. However, there are still significant amounts of idle funds that agency unliquidated obligation reviewers have deemed valid unliquidated obligations. Many of these unliquidated obligations remain open but idle with significantly large age dates. For those unliquidated obligations that were identified for deobligation or were not reviewed by the agency's due date, we will continue to monitor these unliquidated obligations for actual deobligation and inactivity.
• **EPA Did Not Comply With Federal Accounting Standards for Recording Interest** In FY 2014, we found that the EPA did not record all applicable interest for some accounts receivable in the accounting system as required by applicable laws, federal accounting standards and EPA policy. While the EPA and the CFC have made some improvements with recording interest, we found in FY 2015 that the agency corrective actions were not effective at eliminating the noncompliance primarily due to Compass system problems. Therefore, we will continue to evaluate the agency's recording of interest in FY 2016.
• **Compass Reporting Limitations Impair Accounting Operations and Internal Controls** In FY 2012, we reported that following the agency's conversion of its accounting system to Compass, the EPA was unable to obtain reports it needed for many accounting applications. Following the conversion, accounts receivable reports used by the finance centers for reconciliations and calculating allowance for doubtful accounts were no longer available at the finance center level. Since the conversion, the EPA has not developed accounts receivable reports at the finance center level, which are needed to reconcile accounts receivable and update allowance for doubtful account estimates.
• **EPA Should Improve Compliance With Internal Controls for Accounts Receivable** During FY 2012, we found that CFC did not timely receive accounts receivable judicial legal documents from the Department of Justice and EPA. In FY 2013, the EPA revised agency accounts receivable guidance to remove the requirement for Regional Legal Enforcement Offices to forward copies of executed judicial orders to CFC within 5 workdays. In FY 2014, the Office of Enforcement and Compliance Assurance reported its corrective action as completed; however, we reported untimely receipt of accounts receivable legal documents as a significant deficiency in FY 2014. In 2015, while we noted improvements in CFC's timely receipt of legal documents, we still identified instances of untimely receipt. Therefore, we do not consider the agency's corrective actions completely effective and will continue to evaluate the effectiveness in FY 2016.

• **Cincinnati Finance Center Should Clear Suspense Transactions Timely** During our FY 2014 audit, we found that CFC was not clearing collection and disbursement transactions from the federal budget clearing (suspense) account within 60 days after posting. EPA guidance, requires each servicing finance office to classify and transfer transactions in the agency's federal budget clearing accounts to appropriate general ledger accounts within 60 days. Untimely clearing of suspense transactions influences the agency's ability to reflect financial activity in the correct fund. We recommended that the Assistant Administrator for Administration and Resources Management require project officers to approve federal disbursements timely and that the Chief Financial Officer require CFC staff to follow up with project officers and regions to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. The agency concurred with our recommendations and agreed to take corrective actions. According to the agency's corrective action status report as of May 6, 2015, the agency completed corrective action for the second recommendation but not the first. However, in our FY 2015 review, we found that, once again, the CFC did not clear the federal suspense account within 60 business days; therefore, we consider the corrective actions for both recommendations to be incomplete. We reported untimely clearance of transactions in the suspense account as a significant deficiency again in our FY 2015 report.
• **EPA Should Improve Controls Over Expense Accrual Reversals** In FY 2012, the EPA did not reverse approximately $108 million of FY 2011 year-end expense accruals. The EPA did not reverse the accrual transactions because the Compass posting configuration for the applicable fund category was inaccurate. By not reversing the accruals timely, the EPA materially overstated the accrued liability and expense amounts in the quarterly financial statements. EPA Policy Announcement No. 95-11, *Policies and Procedures for Recognizing Year-End Accounts Payable and Related Accruals*, requires the agency to "recognize and report all accounts payable and related accruals in its year-end financial reports." In our final audit report issued November 16, 2012, we recommended that the EPA update its Policy Announcement 95-11 to require reconciliations of accruals and accrual reversals. EPA officials concurred with our finding and recommendations and took corrective action by implementing an independent review of the FY 2012 accruals and reversals. The EPA also performed accrual reviews prior to the issuance of the FY 2013 quarterly financial statements. In the FY 2013 audit, the EPA extended the target due date to update Policy Announcement 95-11 until June 2014. In the FY 2014 audit, the EPA extended the target due date to update the policy until December 31, 2015, due to the additional workload and resource constraints. However, during FY 2015, the EPA revised the target due date to update the policy until December 31, 2016, as the EPA considers the opportunity to explore new methods to streamline the accrual processes and take advantage of efficiencies available in Compass upgrade scheduled for February 2016 prior to revising the policy.
• **Financial Management System User Account Management Needs Improvement** The EPA had previously considered these recommendations closed; however, OCFO agreed in FY 2014 to develop alternative corrective action for Recommendation 27 from our FY 2009 audit report. OCFO is in the process of performing those corrective actions with an estimated completion date of December 2015.

Source: OIG analysis.

Attachment 3

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	14	Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production.	C	Chief Financial Officer	9/30/18		
2	14	Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency's property management system and Compass; and that an audit trail is maintained for software projects analyzed.	U	Chief Financial Officer			
3	16	Reclassify the $226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated	C	Chief Financial Officer	10/30/15		
4	16	Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded	C	Chief Financial Officer	8/13/15		
5	16	Reclassify special accounts receivable totaling $5,310,918 that were previously recorded as past costs, classifying them instead as future costs to ensure current year financial statements are properly stated.	C	Chief Financial Officer	10/30/15		
6	16	Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.	C	Chief Financial Officer	8/13/15		
7	18	Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.	O	Chief Financial Officer	6/30/16		
8	18	Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.	C	Chief Financial Officer	10/28/15		
9	18	Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS are recorded in Maximo accurately and timely.	U	Chief Financial Officer			

		RECOMMENDATIONS				POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
10	20	Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.	C	Chief Financial Officer	9/30/15		
11	20	Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.	O	Chief Financial Officer	2/28/16		
12	22	Complete the planned corrective actions to require project officers to approve federal disbursements timely.	O	Assistant Administrator for Administration and Resources Management	3/31/16		
13	22	Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.	C	Chief Financial Officer	11/10/15		
14	23	Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.	O	Chief Financial Officer	9/30/16		
15	23	Modify Compass to route accounts receivable and collection cancellations for secondary approval.	U	Chief Financial Officer			
16	24	Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.	C	Chief Financial Officer	11/6/15		
17	25	Require CFC to record accounts receivable as provided in legal documents.	C	Chief Financial Officer	11/10/15		
18	25	Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.	C	Chief Financial Officer	11/10/15		
19	29	Complete the corrective actions previously identified in Table 1.	O	Chief Financial Officer	3/31/17		
20	29	Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.	O	Chief Financial Officer	1/31/16		
21	29	Reconcile federal and non-federal accounts receivable separately.	O	Chief Financial Officer	3/31/17		
22	29	Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.	C	Chief Financial Officer	6/15/15		
23	29	Develop accurate reports for accounts receivable principal and non-principal charges (such as interest, handling and penalties) to reconcile such charges to the general ledger accounts.	U	Chief Financial Officer			

		RECOMMENDATIONS				POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
24	29	Correct the Compass reporting issues that prevent the proper reports to be produced.	C	Chief Financial Officer	9/30/15		
25	30	Work with the Assistant Administrator for Solid Waste and Emergency Response to direct the regions to track, manage and reconcile SSC financial data by site.	O	Chief Financial Officer	12/31/15		
26	33	Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.	U	Chief Financial Officer			
27	33	Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	U	Chief Financial Officer			
28	33	Work with the contracting officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management Staff. This should include establishing a date when the contractors would start using the updated account management documentation.	U	Chief Financial Officer			
29	36	Review and update account management documentation and establish procedures for financial systems, as needed, to include implementation of the following controls: a. Assign account managers for user accounts. b. Establish role conditions for system access privileges. c. Require approvals to create accounts. d. Monitor use of accounts. e. Notify account managers when accounts are removed or changed. f. Authorize access based on valid authorizations. g. Review accounts for appropriateness of current access privileges.	U	Chief Financial Officer			
30	36	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures—specifically, periodic access reviews and proper access removal.	U	Chief Financial Officer			
31	36	Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.	U	Chief Financial Officer			
32	36	Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.	U	Chief Financial Officer			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
33	37	Establish new procedures and update the OCFO HelpDesk Escalation Procedures to require validation of users before the distribution of passwords.	U	Chief Financial Officer			
34	39	Work with the contracting officer to have the Concur service provider limit the visibility of credit card numbers for people with the Federal Agency Travel Administrator role.	O	Chief Financial Officer	7/30/16		
35	39	Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.	O	Chief Financial Officer	1/31/16		
36	43	Complete the corrective actions previously identified in Table 4.	U	Chief Financial Officer			
37	43	Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.	O	Chief Financial Officer	9/30/16		
38	43	Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either through Compass automatic calculations or manual interest calculations prepared by CFC.	U	Chief Financial Officer			
39	43	Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why: o Compass deletes Superfund interest and implement a correction. o Compass st0ps calculating interest and implement a correction.	O	Chief Financial Officer	9/30/16		

[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

Appendix I

EPA's FYs 2015 and 2014 Consolidated Financial Statements

EPA's Fiscal 2015 and 2014
Consolidated Financial Statements

FINANCIAL SECTION

Principal Financial Statements

Financial Statements

Notes to Financial Statements

Required Supplementary Information (Unaudited)

1. Deferred Maintenance
2. Stewardship Land
3. Supplemental Combined Statement of Budgetary Resources

Required Supplementary Stewardship Information (Unaudited)

1. Investment in the Nation's Research and Development
2. Investment in the Nation's Infrastructure
3. Human Capital

United States Environmental Protection Agency
Consolidated Balance Sheet
As of September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 8,646,354	$ 9,370,002
Investments (Note 4)	5,738,556	3,900,385
Accounts Receivable, Net (Note 5)	10,688	10,573
Other (Note 6)	216,802	229,018
Total Intragovernmental	14,612,400	13,509,978
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	415,757	526,859
Loans Receivable, Net - Non-Federal (Note 7)	337	398
Property, Plant & Equipment, Net (Note 9)	1,054,915	1,185,888
Other (Note 6)	6,842	3,288
Total Assets	**$ 16,090,261**	**$ 15,226,421**
Stewardship PP& E (Note 11)		
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	$ 67,037	$ 68,609
Debt Due to Treasury (Note 10)	38	62
Custodial Liability (Note 12)	35,067	96,495
Other (Notes 13 and 17)	86,998	92,435
Total Intragovernmental	189,140	257,601
Accounts Payable & Accrued Liabilities (Note 8)	529,977	535,250
Pensions & Other Actuarial Liabilities (Note 15)	46,166	49,060
Environmental Cleanup Costs (Note 21)	36,165	21,610
Cashout Advances, Superfund (Notes 1 and 16)	3,322,735	971,666
Commitments & Contingencies (Note 17)	901	901
Payroll & Benefits Payable (Note 32)	195,615	198,265
Other (Note 13)	409,793	114,183
Total Liabilities	4,730,492	2,148,536
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	16,579	(2,497)
Unexpended Appropriations - Other Funds	7,783,251	8,508,269
Cumulative Results of Operations - Funds from Dedicated Collections (Notes 1 and 18)	2,776,111	3,642,573
Cumulative Results of Operations - Other Funds	783,828	929,540
Total Net Position	11,359,769	13,077,885
Total Liabilities and Net Position	**$ 16,090,261**	**$ 15,226,421**

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

United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
COSTS		
Gross Costs (Note 19)	$ 9,512,628	$ 9,054,107
Less:		
Earned Revenue (Note 19)	775,606	548,690
NET COST OF OPERATIONS (Notes 25 and 35)	**$ 8,737,022**	**$ 8,505,417**

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

United States Environmental Protection Agency
Statement of Net Cost by Goal
For the Fiscal Year Ending September 30, 2015
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 169,915	382,821	328,868	168,421	231,381
With the Public	871,335	4,419,378	1,882,664	566,612	491,233
Total Costs	1,041,250	4,802,199	2,211,532	735,033	722,614
Less:					
Earned Revenue, Federal	23,110	(17,866)	39,688	28,375	3,559
Earned Revenue, non Federal	726	27,579	537,143	42,744	90,548
Total Earned Revenue (Note 19)	23,836	9,713	576,831	71,119	94,107
NET COST OF OPERATIONS	**$ 1,017,414**	**4,792,486**	**1,634,701**	**663,914**	**628,507**

	Consolidated Totals
Costs:	
Intragovernmental	$ 1,281,406
With the Public	8,231,222
Total Costs	9,512,628
Less:	
Earned Revenue, Federal	76,866
Earned Revenue, non Federal	698,740
Total Earned Revenue (Note 19)	775,606
NET COST OF OPERATIONS	**$ 8,737,022**

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

United States Environmental Protection Agency
Statement of Net Cost by Goal
For the Fiscal Year Ending September 30, 2014
(Dollars in Thousands)

	Clean Air	Clean & Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
Costs:					
Intragovernmental	$ 162,818	412,244	338,293	149,398	248,160
With the Public	836,368	4,160,915	1,774,828	518,293	452,790
Total Costs	999,186	4,573,159	2,113,121	667,691	700,950
Less:					
Earned Revenue, Federal	16,972	5,570	41,185	12,361	5,701
Earned Revenue, non Federal	865	24,837	350,118	44,643	46,438
Total Earned Revenue (Note 19)	17,837	30,407	391,303	57,004	52,139
NET COST OF OPERATIONS	**$ 981,349**	**4,542,752**	**1,721,818**	**610,687**	**648,811**

Costs:	Consolidated Totals
Intragovernmental	$ 1,310,913
With the Public	7,743,194
Total Costs	9,054,107
Less:	
Earned Revenue, Federal	81,789
Earned Revenue, non Federal	466,901
Total Earned Revenue (Note 19)	548,690
NET COST OF OPERATIONS	**$ 8,505,417**

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

United States Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2015
(Dollars in Thousands)

	FY 2015 Funds from Dedicated Collections	FY 2015 All Other Funds	FY 2015 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 3,642,573	929,540	4,572,113
Adjustment:			
(a) Changes in Accounting (Note 1)	(1,261,097)	-	(1,261,097)
(b) Correction (Note 1)	(9,420)	-	(9,420)
Beginning Balances, as Adjusted	2,372,056	929,540	3,301,596
Budgetary Financing Sources:			
Appropriations Used	(2,109)	8,616,081	8,613,972
Nonexchange Revenue - Securities Investment (Note 34)	26,707	-	26,707
Nonexchange Revenue - Other (Note 34)	203,384	3	203,387
Transfers In/Out (Note 30)	(10,208)	28,253	18,045
Trust Fund Appropriations	981,089	(981,089)	-
Other	(1,044)	12	(1,032)
Total Budgetary Financing Sources	1,197,819	7,663,260	8,861,079
Other Financing Sources (Non-Exchange)			
Transfers In/Out (Note 30)	29	(29)	-
Imputed Financing Sources (Note 31)	23,596	110,691	134,287
Other Financing Sources	-	-	-
Total Other Financing Sources	23,625	110,662	134,287
Net Cost of Operations	(817,388)	(7,919,634)	(8,737,022)
Net Change	404,056	(145,712)	258,344
Cumulative Results of Operations	**$ 2,776,111**	**783,828**	**3,559,940**

	FY 2015 Funds from Dedicated Collections	FY 2015 All Other Funds	FY 2015 Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ (2,497)	8,508,269	8,505,772
Beginning Balances, as Adjusted	(2,497)	8,508,269	8,505,772
Budgetary Financing Sources:			
Appropriations Received	3,674	7,958,419	7,962,093
Appropriations Transferred In/Out (Note 31)	13,293	(13,293)	-
Other Adjustments (Note 33)	-	(54,063)	(54,063)
Appropriations Used	2,109	(8,616,081)	(8,613,972)
Total Budgetary Financing Sources	19,076	(725,018)	(705,942)
Total Unexpended Appropriations	16,579	7,783,251	7,799,830
TOTAL NET POSITION	**$ 2,792,690**	**8,567,079**	**11,359,769**

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

United States Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2014
(Dollars in Thousands)

	FY 2014 Funds from Dedicated Collections	FY 2014 All Other Funds	FY 2014 Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 4,576,942	731,208	5,308,150
Beginning Balances, as Adjusted	4,576,942	731,208	5,308,150
Budgetary Financing Sources:			
Appropriations Used	1,984	8,385,104	8,387,088
Nonexchange Revenue - Securities Investment (Note 34)	29,919	-	29,919
Nonexchange Revenue - Other (Note 34)	192,559	2	192,561
Transfers In/Out (Note 30)	(1,012,576)	28,825	(983,751)
Trust Fund Appropriations	940,508	(938,387)	2,121
Other	(2,122)	-	(2,122)
Total Budgetary Financing Sources	150,272	7,475,544	7,625,816
Other Financing Sources (Non-Exchange)			
Transfers In/Out (Note 30)	(53)	(298)	(350)
Imputed Financing Sources (Note 31)	23,124	120,790	143,914
Total Other Financing Sources	23,071	120,492	143,564
Net Cost of Operations	(1,107,713)	(7,397,704)	(8,505,417)
Net Change	(934,370)	198,332	(736,037)
Cumulative Results of Operations	$ **3,642,573**	**929,540**	**4,572,113**

	FY 2014 Funds from Dedicated Collections	FY 2014 All Other Funds	FY 2014 Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ -	8,980,012	8,980,012
Budgetary Financing Sources:			
Appropriations Received	3,674	7,933,169	7,936,843
Other Adjustments (Note 33)	(4,187)	(19,808)	(23,995)
Appropriations Used	(1,984)	(8,385,104)	(8,387,088)
Total Budgetary Financing Sources	(2,497)	(471,743)	(474,240)
Total Unexpended Appropriations	(2,497)	8,508,269	8,505,772
TOTAL NET POSITION	$ **3,640,076**	**9,437,809**	**13,077,885**

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

United States Environmental Protection Agency
Combining Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1:	$ 2,963,076	$ 3,242,602
Recoveries of prior year unpaid obligations (Note 26)	227,283	397,697
Other changes in unobligated balance	(15,107)	(62,229)
Unobligated balance from prior year budget authority, net	3,175,252	3,578,070
Appropriations (discretionary and mandatory)	10,560,343	10,172,972
Borrowing Authority (discretionary and mandatory)	290	-
Spending Authority from offsetting collection (discretionary and mandatory)	738,244	887,854
Total Budgetary Resources	14,474,129	14,638,896
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	10,123,499	11,676,560
Unobligated Balance, end of year:		
Apportioned	4,242,190	2,742,774
Unapportioned	108,440	219,562
Total Unobligated balance, end of period (Note 27)	4,350,630	2,962,336
Total Status of Budgetary Resources	14,474,129	14,638,896
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	9,692,881	9,784,031
Obligations incurred, net	10,123,499	11,676,560
Outlays (gross)	(10,484,265)	(11,370,070)
Recoveries of prior year unpaid obligations	(227,283)	(397,697)
Unpaid obligations, end of year (gross)	9,104,832	9,692,826
Uncollected Payments		
Uncollected customer payments from Federal Sources, brought forward, October 1)	(259,642)	(296,176)
Change in uncollected customer payments from federal sources	24,113	36,534
Uncollected customer payments from Federal Sources, end of year	(235,529)	(259,642)
Memorandum entries:		
Obligated balance, start of year	9,433,183	9,487,855
Obligated balance, end of year (net)	8,869,303	9,433,183
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	11,298,877	11,060,827
Actual offsetting collections (discretionary and mandatory)	(762,357)	(924,388)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	24,113	36,534
Budget Authority, net (discretionary and mandatory)	10,560,633	10,172,973
Outlays, gross (discretionary and mandatory)	10,484,265	11,370,070
Actual offsetting collections (discretionary and mandatory)	(762,357)	(924,388)
Outlays, net (discretionary and mandatory)	9,721,908	10,445,682
Distributed offsetting receipts (Note 29)	(2,716,279)	(1,045,029)
Agency outlays, net (discretionary and mandatory	$ 7,005,629	$ 9,400,653

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

United States Environmental Protection Agency
Statement of Custodial Activity
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

	FY 2015	FY 2014
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 198,087	$ 119,295
Other	56,334	(2,040)
Total Cash Collections	254,421	117,255
Accrual Adjustment	(60,173)	2,218
Total Custodial Revenue (Note 24)	194,248	119,473
Disposition of Collections:		
Transferred to Others (General Fund)	254,423	117,255
Increases/Decreases in Amounts to be Transferred	(60,174)	2,218
Total Disposition of Collections	194,248	119,473
Net Custodial Revenue Activity	**$ -**	**$ -**

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

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 2015 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

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

C. Budgets and Budgetary Accounting

1. General Funds

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

The EPA's Fiscal Year 2014 Appropriation Act established a new three-year appropriation account to provide funds to carry out section 3024 of the Solid Waste Disposal Act, including the development, operation, maintenance, and upgrading of the hazardous waste electronic manifest system. The Agency is authorized to establish and collect user fees for this account that will be used for the electronic manifest system.

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

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

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

2. Revolving Funds

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

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

3. Special Funds

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

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

The National Resource Damages Trust Fund was established for funds received for critical damage assessments and restoration of natural resources injured as a result of the Deepwater Horizon oil spill.

4. Deposit Funds

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. Until determination is made, these are not EPA's funds. The amounts are reported to the US Treasury through the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

5. Trust Funds

Congress adopts an annual appropriation amount for the Superfund, Leaking Underground Storage Tank (LUST) and the Inland Oil Spill Programs Accounts to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the agency disburses obligated amounts from the transfer account, the agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the Inland Oil Spill Programs appropriation amount to the EPA's Inland Oil Spill Programs Account.
In 2015 EPA established a new receipt account for superfund special account collections. This allows the Agency to invest the funds until draw down is needed for special accounts disbursements.

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 and the American Institute of Certified Public Accountants (AICPA). 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 posted in accordance with Office of Management and Budget (OMB) directives and the US Treasury regulations.

EPA uses a modified matching principle since Federal entities recognize unfunded (without budgetary resources) liabilities in accordance with FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 5 "Accounting for Liabilities of the Federal Government."

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 SFFAS No. 7, "Accounting for Revenues and Other Financing Sources."

Superfund

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 Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3) placed in special accounts. Special Accounts and corresponding interest are classified as mandatory appropriations due to the retain and use authority under CERCLA 122(b)(3). Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

Special Accounts Funds Accounting Process Change

Below is a summary of the accounting process changes the agency made in FY 2015 and their impact.

- In FY 2015 the agency developed a new business process for managing its special accounts funds. The agency moved the Anadarko settlement collections to the Superfund Trust Fund to invest in U.S. Government Securities. A summary of the Anadarko settlement is provided below in paragraph X of this Note 1. This change impacted the budgetary accounts (US Standard General Ledger Accounts- Authority Resources from Invested Balances and Unfilled Customer Order Collected). The impact is shown on Statement of Budgetary Resources lines "Appropriations" and "Spending Authority from Offsetting Collections" as follows:

    - Appropriations (Mandatory) increased by $1.4 Billion
    - Spending Authority from Offsetting Collections was not used to record the Anadarko collection.

- In FY 2016, all new agency cash outs will go into the receipt account 68X8145.006 which allows the agency to have the funds invested immediately in U.S. Government Securities.

- For collections in FY 2015 and prior years, except for the Anadarko settlement, which is approximately $1.4 Billion, the funds are treated as Reimbursable Authority and are shown on Statement of Budgetary Resources line "Spending Authority from Offsetting Collections."

- The summary of investments in U.S. Government Securities is provided below in paragraph G of this Note 1.

- Prior to FY2015, the Agency recorded special accounts funds proceeds as earned and/or unearned revenue to account for past and prospective clean- up activities based on the consent decree. Effective FY 2015, the Agency changed its accounting treatment to record special accounts funds settlement proceeds as unearned revenue after determining that collections previously recorded as past costs were being used for future site cleanup. EPA reclassified $1.1 Billion from equity to unearned in fiscal year 2015 to reflect this change in accounting. In FY2015, EPA collected an additional $290 million in past costs that was classified as unearned revenue, intended for future site cleanups.

Other Funds

Most of the other funds, including those under the Credit Reform Act of 1990, receive program guidance and funding needed to support loan programs through appropriations which may be used within statutory limits for operating and capital expenditures. The Asbestos Direct Loan Financing fund 4322 receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

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

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

F. Funds with the Treasury

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

G. Investments in US Government Securities

Investments in US 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 Superfund Amendments and Reauthorization Act of 1986 (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 primary responsibility 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 paid 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

Cash available to the agency that is not needed immediately for current disbursements of the Superfund and LUST Trust Funds and amounts appropriated from the Superfund Trust Fund to the OIG, 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" as amended. For EPA-held property, the Fixed Assets Subsystem (FAS) maintains the official records and automatically generates depreciation entries monthly based on in-service dates.

A purchase of EPA-held or contract personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least two years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years two through five. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 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 projected 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 at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cash flows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value.

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

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

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

Software for the WCF, a revenue generating activity, is capitalized if the purchase price is $100 thousand or more with an estimated useful life of two years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to five 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 authorized for retention. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

P. Borrowing Payable to the Treasury

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

Q. Interest Payable to Treasury

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

R. Accrued Unfunded Annual Leave

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

S. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, 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.

EPA received updated information in early FY 2015 from the Bureau of Fiscal Service related to excise taxes collected in FY 2014 on behalf of the Leaking Underground Storage Tank Trust Fund. This necessitated an adjustment to beginning Net Position.

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 projects aimed at creating advances in science, health, and environmental protection that will provide long-term economic benefits.

The EPA managed almost $7.22 billion in Recovery Act funded projects and programs to achieve these goals, offered resources to help other "green" agencies, and administered environmental laws that governed Recovery activities.

As of September 30, 2015, EPA expended over $7.1 billion, with $2.1 million deobligated and returned to Treasury. The EPA, in collaboration with states, tribes, local governments, territories and other partners, administered the funds it received under the Recovery Act through four appropriations. The funds include:

- $4.4 billion for State and Tribal Assistance Grants (STAG) that in turn include:
  - $4 billion for assistance to help communities with water quality and wastewater infrastructure needs and $2 billion for drinking water infrastructure needs (Clean Water and Drinking Water State Revolving Fund programs and Water Quality Planning program);
  - $100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program);
  - $300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs);
- $600 million for the cleanup of hazardous sites (Superfund program);
- $200 million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank program); and
- $20 million for audits and investigations conducted by the Inspector General (IG).

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

An EPA Stimulus Steering Committee directed EPA's Recovery Act management and guided transparency efforts. EPA's Stewardship Plan laid out the agency's risk mitigation plan, including risk assessment, internal controls and monitoring activities. The Stewardship Plan was divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Plan was developed based on Government Accountability Office (GAO) standards for internal control. Under each functional area, risks were assessed and related control, communication and monitoring activities identified for each program. The Plan was updated based on OMB guidance.

EPA has the three-year EPM treasury account symbol 6809/110108 that was established to track the appropriate operation and maintenance of the funds. EPA's other Recovery Act programs are the following: Office of Inspector General (IG), treasury symbol 6809/120113; State and Tribal Assistance Grants, treasury symbol 6809/100102; Payment to the Superfund, treasury symbol 6809/100249; Superfund, treasury account symbol 6809/108195; and Leaking Underground Storage Tank, treasury account symbol 6809/108196. Please note almost all of these programs are now closed with only a few remaining projects remaining open – primarily for long term rate adjustments and trailing costs.

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. On September 10, 2012, the President designated EPA and USDA as additional trustees for the National Resource Damage and Assessment Council for restoration solely conjunction with injury to, destruction of, loss of, or loss of the use of natural resources, including their supporting ecosystems, resulting from the Deepwater Horizon Oil Spill. In FY 2015, EPA received an advance of $184,000 from BP and $2.056 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill.

On October 5, 2015, the United States and the five Gulf states announced a settlement with BP to resolve civil claims against BP arising from the April 20, 2010 well blowout and oil spill. The proposed settlement resolves the governments' civil claims under the CWA and natural resources damage claims under the Oil Pollution Act, as well as economic damage claims of the five Gulf States and local governments. All together this settlement is worth $20.8 billion. The settlement includes $5.5 billion for federal CWA penalties; 80% of which will go to restoration efforts in the Gulf region pursuant to the RESTORE Act. The settlement also includes $8.1 billion in natural resource damages, including $1 billion that BP already committed to pay for early restoration, for joint use by the federal and state trustees to restore injured resources. The natural resource damages money will fund Gulf restoration projects that will be selected by the federal and state trustees to meet five restoration goals and 13 restoration project categories, e.g., restoring water quality, reducing nutrients, restoring and conserving habitat, etc. For more information: http://www.justice.gov/enrd/deepwater-horizon.

W. Hurricane Sandy

On January 29, 2013, President Obama signed into law the Disaster Relief Appropriations Act (Disaster Relief Act) which provided aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, the Disaster Relief Act required Federal agencies supporting Sandy recovery and other disaster-related activities to write and implement and Internal Control Plan to prevent waste, fraud and abuse of these funds. The EPA Hurricane Sandy Internal Control Plan was reviewed and approved by OMB, GAO and the IG in FY 2013.

EPA received a post sequestration appropriation of $577 million in Hurricane Sandy funds for the following programs (all amounts are post sequestration):

- The Clean Water State Revolving Fund received $475 million for work on clean water infrastructure projects in New York and New Jersey.
- The Drinking Water State Revolving Fund received $95 million for work on drinking water infrastructure projects in New York and New Jersey.

- The Leaking Underground Storage Tanks program received $4.75 million for work on projects impacted by Hurricane Sandy.
- The Superfund program received $1.9 million for work on Superfund sites impacted by Hurricane Sandy.
- EPA also received $689,000 to make repairs to EPA facilities impacted by Hurricane Sandy and conduct additional water quality monitoring.

As of September 30, 2015, EPA obligated $576.7 million of these funds and expended $2.7 million.

X. Anadarko Settlement

On November 10, 2014, the U.S. District Court for the Southern District of New York (SDNY) approved the historic $5.15 billion settlement agreement that was announced by EPA and the Department of Justice (DOJ) on April 3, 2014, resolving fraudulent conveyance claims against Kerr-McGee Corporation and related subsidiaries of Anadarko Petroleum Corporation. The deadline for any appeals from the district court's decision passed on January 20, 2015, without any appeal being filed. The settlement agreement went into effect on January 21, 2015.

Of the environmental recovery in this settlement, nearly $1.6 billion will help pay for cleanup work associated with 16 EPA-lead sites, resulting in the largest bankruptcy-related award that EPA has ever received for environmental claims and liabilities. The settlement addresses Kerr-McGee's enormous legacy environmental and tort liabilities, including its liability at Federal Superfund sites. EPA has received the collections from DOJ regarding the Anadarko settlement.

Y. 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, 2015 and September 30, 2014, consists of the following:

	FY 2015 Entity Assets	FY 2015 Non-Entity Assets	FY 2015 Total	FY 2014 Entity Assets	FY 2014 Non-Entity Assets	FY 2014 Total
Trust Funds:						
Superfund	$ 39,078	-	39,078	$ 18,817	-	18,817
LUST	24,358	-	24,358	32,390	-	32,390
Oil Spill	7,694	-	7,694	4,020	-	4,020
Revolving Funds:						
FIFRA/Tolerance	22,400	-	22,400	16,480	-	16,480
Working Capital	72,238	-	72,238	83,214	-	83,214
Cr. Reform Finan.	36	-	36	398	-	398
e-Manifest	3,411	-	3,411	-	-	-
NRDA	3,196	-	3,196	549	-	549
Appropriated	8,044,387	-	8,044,387	8,821,029	-	8,821,029
Other Fund Types	419,081	10,475	429,556	389,306	3,799	393,105
Total	$ **8,635,879**	**10,475**	**8,646,354**	$ **9,366,203**	**3,799**	**9,370,002**

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 2015**		**FY 2014**
Unobligated Amounts in Fund Balance:				
Available for Obligation	$	4,226,754	$	894,141
Unavailable for Obligation		108,424		2,068,195
Net Receivables from Invested Balances		(4,991,953)		(3,416,491)
Balances in Treasury Trust Fund (Note 36)		3,867		12,140
Obligated Balance not yet Disbursed		8,851,913		9,433,183
Non-Budgetary FBWT		447,349		378,834
Totals	$	**8,646,354**	$	**9,370,002**

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 2015 and FY 2014 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, 2015 and September 30, 2014, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2015 and September 30, 2014 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 2015	$	5,731,240	(4,278)	3,038	5,738,556	5,738,556
Non-Marketable	FY 2014	$	3,886,652	(8,836)	4,897	3,900,385	3,900,385

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. All investments in Treasury securities are funds from dedicated collections (see Note 18).

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

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

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2015 and September 30, 2014 consist of the following:

		FY 2015	FY 2014
Intragovernmental:			
Accounts & Interest Receivable	$	11,372	11,266
Less: Allowance for Uncollectibles		(684)	(693)
Total	$	**10,688**	**10,573**
Non-Federal:			
Unbilled Accounts Receivable	$	124,494	126,170
Accounts & Interest Receivable		2,416,585	2,303,339
Less: Allowance for Uncollectibles		(2,125,322)	(1,902,650)
Total	**$**	**415,757**	**526,859**

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, 2015 and September 30, 2014 consist of the following:

Intragovernmental:		FY 2015	FY 2014
Advances to Federal Agencies	$	216,692	228,982
Advances for Postage		110	36
Total	**$**	**216,802**	**229,018**
Non-Federal:			
Travel Advances	$	339	4
Other Advances		6,121	2,914
Inventory for Sale		382	370
Total	**$**	**6,842**	**3,288**

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, 2015 and September 30, 2014 are as follows:

		FY 2015			FY 2014	
	Loans Receivable, Gross	**Allowance***	**Value of Assets Related to Direct Loans**	**Loans Receivable, Gross**	**Allowance***	**Value of Assets Related to Direct Loans**
Direct Loans Obligated After FY 1991	$ -	337	337	32	366	398
Total	**$ -**	**337**	**337**	**32**	**366**	**398**

* 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).

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

	Interest Rate Re-estimate	**Technical Re-estimate**	**Total**
Upward Subsidy Reestimate – FY 2015	$		-
Downward Subsidy Reestimate - FY 2015	2	-	2
FY 2015 Totals	**$ 2**	**-**	**2**
Upward Subsidy Reestimate – FY 2014	$ 302	96	398
Downward Subsidy Reestimate - FY 2014			-
FY 2014 Totals	**$ 302**	**96**	**398**

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

		FY 2015	FY 2014
Beginning balance of the subsidy cost allowance	$	366	27
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		-	96
Total of the above subsidy expense components		366	123
Adjustments:			
Subsidy allowance amortization		-	304
Other		(31)	-
End balance of the subsidy cost allowance before reestimates		(31)	304
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate		2	(47)
(b) Technical/default reestimate		-	(14)
Total of the above reestimate components		2	(61)
Ending Balance of the subsidy cost allowance	$	337	366

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, 2015 and September 30, 2014:

		FY 2015	FY 2014
Intragovernmental:			
Accounts Payable	$	824	533
Subsidy Payable		(339)	-
Accrued Liabilities		66,552	68,076
Total	$	**67,037**	**68,609**

Non-Federal:		**FY 2015**	**FY 2014**
Accounts Payable	$	69,361	75,387
Advances Payable		5	11
Interest Payable		5	7
Grant Liabilities		304,929	308,521
Other Accrued Liabilities		155,677	151,324
Total	$	**529,977**	**535,250**

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, 2015 and September 30, 2014, General PP&E consisted of the following:

	FY 2015			FY 2014		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$ 291,669	(188,779)	102,890	$ 291,021	(182,473)	108,548
Software	964,670	(503,328)	461,342	993,293	(420,968)	572,325
Contractor Held Equip.	37,261	(21,746)	15,515	36,085	(18,345)	17,740
Land and Buildings	707,564	(239,925)	467,639	702,658	(223,647)	479,011
Capital Leases	30,613	(23,084)	7,529	35,285	(27,021)	8,264
Total	**$ 2,031,777**	**(976,862)**	**1,054,915**	**$ 2,058,342**	**(872,454)**	**1,185,888**

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, 2015 and September 30, 2014 is as follows:

All Other Funds	FY 2015			FY 2014		
	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental:						
Debt to Treasury	$ 62	(24)	38	$ 28	34	62

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, 2015 and 2014, the Agency possesses the following land and land rights:

	FY 2015	FY 2014
Superfund Sites with Easements		
Beginning Balance	35	36
Additions	1	0
Withdrawals	0	1
Ending Balance	36	35

	FY 2015	FY 2014
Superfund Sites with Land Acquired		
Beginning Balance	34	33
Additions	1	1
Withdrawals	0	0
Ending Balance	35	34

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2015 and September 30, 2014, custodial liability is approximately $35.067 million and $96.495 million, respectively.

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2015:

Other Liabilities – Intragovernmental		**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Current				
Employer Contributions & Payroll Taxes	$	10,132	-	10,132
WCF Advances		1,155	-	1,155
Other Advances		4,881	-	4,881
Advances, HRSTF Cashout		38,310	-	38,310
Deferred HRSTF Cashout		730	-	730
Non-Current				
Unfunded FECA Liability		-	9,737	9,737
Unfunded Unemployment Liability			53	53
Payable to Treasury Judgment Fund		-	22,000	22,000
Total Intragovernmental	$	**55,208**	**31,790**	**86,998**
Other Liabilities - Non-Federal				
Current				
Unearned Advances, Non-Federal	$	378,033	-	378,033
Liability for Deposit Funds, Non-Federal		12,170	-	12,170
Non-Current				
Capital Lease Liability		-	19,590	19,590
Total Non-Federal	$	**390,203**	**19,590**	**409,793**

Other Liabilities consist of the following as of September 30, 2014:

Other Liabilities – Intragovernmental		**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Current				
Employer Contributions & Payroll Taxes	$	11,200	-	11,200
WCF Advances		1,208	-	1,208
Other Advances		6,568	-	6,568
Advances, HRSTF Cashout		30,693	-	30,693
Non-Current				
Unfunded FECA Liability		-	20,566	20,566
Unfunded Unemployment Liability		-	200	200
Payable to Treasury Judgment Fund		-	22,000	22,000
Total Intragovernmental	$	**49,669**	**42,766**	**92,435**
Other Liabilities - Non-Federal				
Current				
Unearned Advances	$	89,682	-	89,682
Liability for Deposit Funds		4,123	-	4,123
Non-Current				
Capital Lease Liability		-	20,378	20,378
Total Non-Federal	$	**93,805**	**20,378**	**114,183**

Note 14. Leases

Capital Leases:

The value of assets held under Capital Leases as of September 30, 2015 and 2014 are as follows:

Summary of Assets Under Capital Lease:		**FY 2015**	**FY 2014**
Real Property	$	30,613	35,285
Personal Property		-	-
Total		**30,613**	**35,285**
Accumulated Amortization	$	23,084	27,201

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

The total future minimum capital lease payments are listed below.

Future Payments Due **Fiscal Year**		**Capital Leases**
2016	$	4,215
2017		4,215
2018		4,215
2019		4,215
After 5 years		22,480
Total Future Minimum Lease Payments		39,340
Less: Imputed Interest		(19,750)
Net Capital Lease Liability		19,590
Liabilities not Covered by Budgetary Resource:	**$**	**19,590**

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. The 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
2016	$	89
2017		83
2018		53
2019		53
Beyond 2019		8
Total Future Minimum Lease Payments	**$**	**286**

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, 2015 and 2014 was $46.17 million and $49.06 million, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2015 present value of these estimated outflows is calculated using a discount rate of 3.143 percent in the first year, and 3.143 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, 2015 and September 30, 2014, cashouts are approximately $3,323 million and $972 million respectively.

Note 17. 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, 2015 and 2014 total accrued liabilities for commitments and potential loss contingencies is $901 thousand for both years, respectively. The recorded amount is comprised of two cases and discussed below.

Gold King Mine

On August 5, 2015, EPA was conducting an investigation of the Gold King Mine near Silverton, Colorado. While excavating part of the mine, pressurized water began leaking above the mine tunnel, spilling about three million gallons of contaminated water stored behind the collapsed material in Cement Creek, a tributary of the Animas River. In fiscal year 2015 and subsequent fiscal years, the Agency has received and anticipates receiving administrative tort legal claims for compensation from individuals and entities who may have suffered personal injury or property damage from the U.S. government actions. Subject to the materiality threshold, the Agency will begin to report on such matters when claims are filed and contingent legal liabilities are known.

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.

As of September 30, 2015, there are two cases pending against EPA that are reported under Environmental Liabilities below: Bob's Home Service Landfill ($900 thousand) and the Seaboard Chemical/Riverdale Landfill Site matter ($1 thousand) are reported as a probable liability. The $901 thousand will be recorded as an accrual.

There are two matters concerning CERCLA involving the Appvion Lower Fox River and Green Bay Site and the Hudson Oil Refinery site (associated with Land O'Lakes). The amounts are estimated at $174 million and $17.6 million respectively but they are only possible and the final outcomes are not probable

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." EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

As of September 30, 2015, there are two cases pending: Trinity Marine Products, Inc. v. United States and Frederick McKenzie et al v. United States. The Trinity Marine Products case has been denied twice, but Trinity appealed to US Court of Appeals for the Fifth Circuit. The possibility of loss is only reasonably possible so no liability has been accrued. An estimate of possible damages is $1 million to $4.4 million. For the McKenzie case, the Government has filed a motion to dismiss the complaint and the Court has decided to issue its decisions on the briefs without oral arguments. The Court has also determined that it will not rule on this case until the Trinity Marine Products case has been decided. An estimate of the possible damages is $1 million to $2.8 million.

Other Commitments

Since 1991, the United States has had a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Programme (UNEP) to provide funds to the Multilateral Fund for the Implementation of the Montreal Protocol. In keeping with this agreement, the U.S. Department of State continues to negotiate successive three-year agreements for the level of funds that the United States will provide to the Multilateral Fund for this purpose. Since 1991, the Department of State which has primary responsibility for international commitments of the U.S., has provided the bulk of funds to the Multilateral Fund, with EPA providing a lesser amount. Since commitments to the Multilateral Fund are ongoing, future EPA payments totaling $27 million have been deemed reasonably possible and are anticipated to be paid in years 2015-2017.

Note 18. Funds from Dedicated Collections (Unaudited)

Balance sheet as of September 30, 2015	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Assets					
Fund Balance with Treasury	$ 397,838	24,358	39,078	57,944	519,218
Investments	-	525,253	5,213,303	-	5,738,556
Accounts Receivable, Net	-	78,881	275,550	2,935	357,366
Other Assets	-	599	98,252	2,590	101,441
Total Assets	397,838	629,091	5,626,183	63,469	6,716,581
Other Liabilities	7	85,610	3,781,184	57,090	3,923,891
Total Liabilities	7	85,610	3,781,184	57,090	3,923,891
Unexpended Appropriation		-	13,297	3,281	16,578
Cumulative Results of Operations	397,831	543,481	1,831,702	3,098	2,776,112
Total Liabilities and Net Position	397,838	629,091	5,626,183	63,469	6,716,581
Statement of Net Cost for the Period Ended September 30, 2015					
Gross Program Costs	-	98,271	1,338,018	75,535	1,511,824
Less: Earned Revenues	-	-	634,182	60,254	694,436
Net Cost of Operations	-	98,271	703,836	15,281	817,388
Statement of Changes in Net Position for the Period ended September 30, 2015					
Net Position, Beginning of Period	370,045	462,786	1,532,727	4,001	2,369,559
Nonexchange Revenue- Securities Investments	-	587	26,118	3	26,708
Nonexchange Revenue	27,786	178,379	1,285	(4,067)	203,383
Other Budgetary Finance Sources	-	-	965,088	21,718	986,806
Other Financing Sources	-	-	23,617	5	23,622
Net Cost of Operations	-	(98,271)	(703,836)	(15,281)	(817,388)
Change in Net Position	27,786	80,695	312,272	2,378	423,131
Net Position	$ 397,831	$ 543,481	$ 1,844,999	$ 6,379	$ 2,792,690

Balance sheet as of September 30, 2014		Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Assets						
Fund Balance with Treasury	$	370,053	32,760	27,393	42,168	472,374
Investments		-	446,455	3,453,929	-	3,900,384
Accounts Receivable, Net		-	85,924	319,640	5,407	410,971
Other Assets		-	686	119,991	3,145	123,822
Total Assets		370,053	565,825	3,920,953	50,720	4,907,551
Other Liabilities		8	93,619	1,127,129	46,719	1,267,475
Total Liabilities		8	93,619	1,127,129	46,719	1,267,475
Unexpended Appropriations		-	(4,187)	-	1,690	(2,497)
Cumulative Results of Operations		370,045	476,393	2,793,824	2,311	3,642,573
Total Liabilities and Net Position		370,053	565,825	3,920,953	50,720	4,907,551
Statement of Net Cost for the Period Ended September 30, 2014						
Gross Program Costs		-	103,665	1,395,175	83,808	1,582,648
Less: Earned Revenues		-	2,829	405,391	66,715	474,935
Net Cost of Operations		-	100,836	989,784	17,093	1,107,713
Statement of Changes in Net Position for the Period ended September 30, 2014						
Net Position, Beginning of Period		358,632	1,390,286	2,827,897	127	4,576,942
Nonexchange Revenue- Securities Investments		-	4,350	25,565	3	29,918
Nonexchange Revenue		11,413	182,340	732	(1,926)	192,559
Other Budgetary Finance Sources		-	(1,004,187)	909,562	22,045	(72,580)
Other Financing Sources		-	253	19,852	845	20,950
Net Cost of Operations		-	(100,836)	(990,741)	(17,093)	(1,108,670)
Change in Net Position		11,413	(918,080)	(35,030)	3,874	(937,823)
Net Position	$	370,045	472,206	2,792,867	4,001	3,639,119

Funds from Dedicated Collections are as follows:

Environmental Services Receipt Account: The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," was established for the deposit of fee receipts associated with environmental programs, including 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 SARA as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act.

Superfund Trust Fund: In 1980, the Superfund Trust Fund, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund 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 Funds from Dedicated Collections:

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

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

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

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 19. 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 2015			FY 2014		
	Intragovern-mental	**With the Public**	**Total**	**Intragovern-mental**	**With the Public**	**Total**
Clean Air						
Program Costs	$ 169,915	871,335	1,041,250	$ 162,818	836,368	999,186
Earned Revenue	23,110	726	23,836	16,972	865	17,837
NET COST	146,805	870,609	1,017,414	145,846	835,503	981,349
Clean and Safe Water						
Program Costs	382,821	4,419,378	4,802,199	412,244	4,160,915	4,573,159
Earned Revenue	(17,866)	27,579	9,713	5,570	24,837	30,407
NET COSTS	400,687	4,391,799	4,792,486	406,674	4,136,078	4,542,752
Land Preservation & Restoration						
Program Costs	328,868	1,882,664	2,211,532	338,293	1,774,828	2,113,121
Earned Revenue	39,688	537,143	576,831	41,185	350,118	391,303
NET COSTS	289,180	1,345,521	1,634,701	297,108	1,424,710	1,721,818
Healthy Communities & Ecosystems						
Program Costs	168,421	566,612	735,033	149,398	518,293	667,691
Earned Revenue	28,375	42,744	71,119	12,361	44,643	57,004
NET COSTS	140,046	523,868	663,914	137,037	473,650	610,687
Compliance & Environmental Stewardship						
Program Costs	231,381	491,233	722,614	248,160	452,790	700,950
Earned Revenue	3,559	90,548	94,107	5,701	46,438	52,139
NET COSTS	227,822	400,685	628,507	242,459	406,352	648,811
Total						
Program Costs	1,281,406	8,231,222	9,512,628	1,310,913	7,743,194	9,054,107
Earned Revenue	76,866	698,740	775,606	81,789	466,901	548,690
NET COSTS	$ 1,204,540	7,532,482	8,737,022	$ 1,229,124	7,276,293	8,505,417

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

Note 20. Cost of Stewardship Land

EPA had one acquisition of stewardship land at a cost of $532,000 for the year ending September 30, 2015. There were relocation services costs of $70,000 related to the acquisition of stewardship land for the year ending September 30, 2015. These costs are included in the Statement of Net Cost.

Note 21. Environmental Cleanup Costs

Annually EPA is required to disclose its audited estimated future costs associated with:

1) Clean up of hazardous waste and restoration of the facility when a facility is closed, and
2) Costs to remediate known environmental contamination resulting from the Agency's operations.

EPA has 16 sites responsible for clean-up cost incurred under federal, state, and/or local regulations to remove from, contain, or dispose of hazardous material fund located at these facilities.

EPA is required to report the estimated costs related to:

- Clean-up from federal operations resulting in hazardous waste
- Accidental damage to nonfederal property caused by federal operations, and
- Other damage to federal property caused by federal operations or natural forces.

The key to distinguishing between future clean-up cost versus an environmental liability is to determine whether the event (accident, damage, etc.) has already occurred and whether we can reasonably estimate the cost to remediate the site.

EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

As of September 30, 2015, EPA has 2 sites that require clean-up stemming from its activities. Two claimants' chances of success are characterized as probable with costs amounting to $901 thousand that may be paid out of the Treasury Judgment Fund. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund clean-up work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY 2015 or in FY 2014.

Accrued Clean-up Cost

EPA has 16 sites that will require permanent closure, and EPA is responsible to fund the environmental clean-up of those sites. As of September 30, 2015 the estimated costs for site clean-up were $36.2 million unfunded and $3.8 million funded respectively. In 2014 the estimated costs for site clean-up were $21.6 million unfunded, $2 million funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2015, the estimate for unfunded clean-up cost increased by $14.6 million from the FY 2014 estimate. This increase is primarily due to the closure of several EPA buildings at the University of Nevada, Las Vegas (UNLV). Also, in FY 2015 an increase of funds of $1.8 million were incurred compared to FY 2014 as the result of the consolidating of EPA sites at UNLV.

Note 22. State Credits

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

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2015 and September 30, 2014, the total remaining state credits have been estimated at $22.4 million and $24.5 million, respectively.

Note 23. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2015, EPA had 4 outstanding preauthorized mixed funding agreements with obligations totaling $6.2 million. As of September 30, 2014, EPA had 3 outstanding preauthorized mixed funding agreements with obligations totaling $4.7 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by EPA.

Note 24. Custodial Revenues and Accounts Receivable

		FY 2015	FY 2014
Fines, Penalties and Other Miscellaneous Receipts	**$**	**194,248**	**119,474**
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:			
Accounts Receivable	$	170,246	229,581
Less: Allowance for Uncollectible Accounts		(133,444)	(132,606)
Total	**$**	**36,802**	**96,975**

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

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

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2015 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2015 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2015 has not yet been published. We expect it will be published by early 2016, and it will be available on the OMB website at http://www.whitehouse.gov/.

The actual amounts published for the year ended September 30, 2014 are listed immediately below (dollars in millions):

FY 2014		Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$	14,472	11,618	1,045	10,444
Reported in Budget of the U. S. Government	$	14,472	11,618	1,045	10,444

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

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2015 and September 30, 2014:

		FY 2015	FY 2014
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	$	227,283	397,697
Temporarily Not Available - Rescinded Authority		(7,466)	(2,002)
Permanently Not Available:			
Payments to Treasury		(28)	-
Rescinded authority		(40,000)	-
Canceled authority		(74,171)	(60,107)
Total Permanently Not Available	**$**	**(114,199)**	**(60,107)**

Note 27. Unobligated Balances Available

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

The unobligated balances available consist of the following as of September 30, 2015 and September 30, 2014:

		FY 2015	FY 2014
Unexpired Unobligated Balance	$	4,242,295	2,852,876
Expired Unobligated Balance		108,335	109,460
Total	**$**	**4,350,630**	**2,962,336**

Note 28. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2015 and September 30, 2014 were $8.65 billion and $9.25 billion, respectively.

Note 29. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For September 30, 2015 and September 30, 2014, the following receipts were generated from these activities:

		FY 2015	FY 2014
Trust Fund Recoveries	$	274,173	79,755
Special Fund Environmental Service		27,784	11,421
Trust Fund Appropriation		2,389,251	938,387
Miscellaneous Receipt and Clearing Accounts		25,071	15,466
Total	**$**	**2,716,279**	**1,045,029**

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

Appropriation Transfers, In/Out:

For September 30, 2015 and September 30, 2014, 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, and 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 follow for September 30, 2015 and September 30, 2014:

Fund/Type of Account		**FY 2015**	**FY 2014**
Army Corps of Engineers	$	-	-
Total Appropriation Transfers (Other Funds)	$	-	-
Net Transfers from Invested Funds	$	2,576,013	2,172,898
Transfers to Another Agency		-	-
Allocations Rescinded		-	-
Total of Net Transfers on Statement of Budgetary Resources	$	**2,576,013**	**2,172,898**

Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2015 and September 30, 2014, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and non-expenditure, follow for September 30, 2015 and September 30, 2014:

Type of Transfer/Funds		FY 2015 Fund from Dedicated Collections	FY 2015 Other Funds	FY 2014 Fund from Dedicated Collections	FY 2014 Other Funds
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	$	(28,089)	28,089	(28,987)	28,987
Capital Transfer					
Transfers-in nonexpenditure, Oil Spill		(18,209)		(18,209)	
Transfers-in (out) nonexpenditure, Superfund		29,296		30,947	
Transfer-out LUST		-		1,000,000	-
Total Transfer in (out) without Reimbursement, Budgetary	$	**(17,002)**	**28,089**	**983,751**	**28,987**

Note 31. Imputed Financing

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2015 were $120.1 million. For FY 2014, the estimates were $143.9 million.

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 2015 total imputed costs were $9.1 million.

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 2015 entries for Judgment Fund payments totaled $5.1 million. For FY 2014, entries for Judgment Fund payments totaled $16.6 million.

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2015 and September 30, 2014 consist of the following:

FY 2015 Payroll & Benefits Payable		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accrued Funded Payroll & Benefits	$	20,677	-	20,677
Withholdings Payable		30,347	-	30,347
Employer Contributions Payable-TSP		510	-	510
Accrued Unfunded Annual Leave		-	144,081	144,081
Total - Current	$	**51,534**	**144,081**	**195,615**

FY 2014 Payroll & Benefits Payable				
Accrued Funded Payroll and Benefits	$	15,674	-	15,674
Withholdings Payable		30,412	-	30,412
Employer Contributions Payable-TSP		1,403	-	1,403
Accrued Unfunded Annual Leave		-	150,776	150,776
Total - Current	$	**47,489**	**150,776**	**198,265**

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

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 7 years earlier. These amounts affect Unexpended Appropriations.

		Other Funds FY 2015	Other Funds FY 2014
Rescissions to General Appropriations	$	-	-
Canceled General Authority		54,063	23,995
Total Other Adjustments	$	**54,063**	**23,995**

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

Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2015 and September 30, 2014 consists of the following Funds from Dedicated Collections items:

		Funds from Dedicated Collections FY 2015	Funds from Dedicated Collections FY 2014
Interest on Trust Fund	$	26,707	29,919
Tax Revenue, Net of Refunds		178,382	182,355
Fines and Penalties Revenue		1,286	718
Special Receipt Fund Revenue		23,719	9,488
Total Nonexchange Revenue	**$**	**230,094**	**222,480**

Note 35. Reconciliation of Net Cost of Operations to Budget

		FY 2015	FY 2014
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated			
Obligations Incurred	$	10,123,499	11,676,561
Less: Spending Authority from Offsetting Collections and Recoveries		(965,527)	(1,285,551)
Obligations, Net of Offsetting Collections		9,157,972	10,391,009
Less: Offsetting Receipts		(2,716,279)	(2,029,100)
Net Obligations		6,441,693	8,361,909
Other Resources			
Transfers In/Out Without Reimbursement, Property		-	(351)
Imputed Financing Sources		134,286	143,914
Income from Other Appropriations		-	-
Net Other Resources Used to Finance Activities		134,286	143,563
Total Resources Used To Finance Activities	$	6,575,979	8,505,473
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:			
Change in Budgetary Resources Obligated	$	(316,397)	185,191
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:			
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances		5,916	9
Offsetting Receipts Not Affecting Net Cost		302,032	90,713
Resources that Finance Asset Acquistion		(41,368)	(353,695)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost		-	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations		(49,817)	(77,782)
Total Resources Used to Finance the Net Cost of Operations	$	6,526,162	8,427,691

		FY 2015	FY 2014
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:			
Components Requiring or Generating Resources in Future Periods:			
Increase in Annual Leave Liability	$	(6,696)	(7,048)
Increase in Environmental and Disposal Liability		14,556	60
Increase in Unfunded Contingencies		-	(24,299)
Upward/Downward Reestimates of Credit Subsidy Expense		(1,940)	61
Increase in Public Exchange Revenue Receivables		2,022,910	(141,954)
Increase in Workers Compensation Costs		13,872	10,027
Other		98	(42,238)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods		2,042,800	(205,391)
Components Not Requiring/Generating Resources:			
Depreciation and Amortization		167,844	191,543
Revaluation of Assets and Liabilities		-	-
Expenses Not Requiring Budgetary Resources		216	91,574
Total Components of Net Cost that Will Not Require or Generate Resources		168,060	283,117
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		2,210,860	77,726
Net Cost of Operations	**$**	**8,737,022**	**8,505,417**

Note 36. Amounts Held by Treasury (Unaudited)

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

Superfund

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2015 and September 30, 2014. 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 2015	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	101	101
Total Undisbursed Balance	-	101	101
Interest Receivable	-	3,038	3,038
Investments, Net	3,504,925	1,705,340	5,210,265
Total Assets	3,504,925	1,708,479	5,213,404
Liabilities & Equity			
Equity	3,504,925	1,708,478	5,213,403
Total Liabilities and Equity	3,504,925	1,708,478	5,213,403
Receipts			
Cost Recoveries	-	1,681,291	1,681,291
Fines & Penalties	-	1,398	1,398
Total Revenue	-	1,682,689	1,682,689
Appropriations Received	-	981,089	981,089
Interest Income	-	26,118	26,118
Total Receipts	-	2,689,896	2,689,896
Outlays			
Transfers to/from EPA, Net	1,105,206	(1,105,206)	-
Total Outlays	1,105,206	(1,105,206)	-
Net Income	$ **1,105,206**	**1,584,690**	**2,689,896**

In FY 2015, the EPA received an appropriation of $1,088 million for Superfund. Treasury's Bureau of Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BFS 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, 2015 and September 30, 2014, the Treasury Trust Fund has a liability to EPA for previously appropriated funds and special accounts of $5.2 billion and $3.4 billion, respectively.

SUPERFUND FY 2014		EPA	Treasury	Combined
Undistributed Balances				
Uninvested Fund Balance	$	-	122	122
Total Undisbursed Balance		-	122	122
Interest Receivable		-	3,242	3,242
Investments, Net		3,331,307	119,381	3,450,688
Total Assets		3,331,307	122,745	3,454,052
Liabilities & Equity				
Equity		3,331,307	122,745	3,454,052
Total Liabilities and Equity		3,331,307	122,745	3,454,052
Receipts				
Corporate Environmental		-	15	15
Cost Recoveries		-	79,754	79,754
Fines & Penalties		-	1,035	1,035
Total Revenue		-	80,804	80,804
Appropriations Received		-	940,509	940,509
Interest Income		-	25,565	25,565
Total Receipts		-	1,046,878	1,046,878
Outlays				
Transfers to/from EPA, Net		1,109,279	(1,109,279)	-
Total Outlays		1,109,279	(1,109,279)	-
Net Income	$	**1,109,279**	**(62,401)**	**1,046,878**

LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2015 and 2014, there were no fund receipts from cost recoveries. 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 2015	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 3,767	$ 3,767
Total Undisbursed Balance	-	3,767	3,767
Interest Receivable	-	-	-
Investments, Net	78,865	446,388	525,253
Total Assets	78,865	$ 450,155	$ 529,020
Liabilities & Equity			
Equity	78,865	450,155	529,020
Receipts			
Highway TF Tax	-	$ 166,941	$ 166,941
Airport TF Tax	-	99	99
Inland TF Tax	-	11,341	11,341
Total Revenue	-	178,381	178,381
Interest Income	-	587	587
Total Receipts	-	$ 178,968	$ 178,968
Outlays			
Transfers to/from EPA, Net	91,941	$ (91,941)	$ -
Total Outlays	91,941	(91,941)	-
Net Income	**$ 91,941**	**$ 87,027**	**$ 178,968**

LUST FY 2014	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	2,596	2,596
Total Undisbursed Balance	-	2,596	2,596
Interest Receivable	-	1,655	1,655
Investments, Net	85,924	358,877	444,801
Total Assets	85,924	363,128	449,052
Liabilities & Equity			
Equity	85,924	363,128	449,052
Receipts			
Highway TF Tax	-	172,913	172,913
Airport TF Tax	-	72	72
Inland TF Tax	-	9,354	9,354
Total Revenue	-	182,339	182,339
Interest Income	-	4,350	4,350
Total Receipts	-	186,689	186,689
Outlays			
Transfers to/from EPA, Net	1,094,566	(1,094,566)	-
Total Outlays	1,094,566	(1,094,566)	-
Net Income	**$ 1,094,566**	**(907,877)**	**186,689**

Note 37. Miscellaneous Receipts Act Violations and Potential Antideficiency Act Violations

The EPA experienced seven Miscellaneous Receipts Act violations that occurred between FY 1983 through 2012. EPA is also evaluating three related potential Antideficiency Act violations. EPA discovered the violations when it reviewed business processes associated with Superfund removal and remediation projects that were partially financed by state funds. In FY 2015, the EPA determined that the Agency accepted state funds in excess of its statutory authority. In addition, the Agency may have used some of those state funds to accomplish work outside the scope of its statutory authority.

Budget year	Miscellaneous Receipts Violations	Antideficiency Act Violations	Amounts returned to Treasury
1983	83	-	83
1984	164	164	-
1987	23	-	23
1989	165	165	-
1995	134	134	-
2009	394	-	394
2012	544	-	544
	1,507	463	1,044

The Miscellaneous Receipts Act violations where the Agency had not already spent the funds were rectified when the EPA transferred funds to Treasury on September 9, 2015 and a surplus warrant was issued on September 14, 2015 in the amount of $1,044. With respect to the Miscellaneous Receipts Act violations where EPA may have spent the funds for impermissible purposes, as of the date of the audit report, OMB is reviewing EPA's proposed transmission of, 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 for Antideficiency Act violations.

Required Supplementary Information (Unaudited)
Environmental Protection Agency
As of September 30, 2015, and September 30, 2014
(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.

Deferred Maintenance is described as the act of keeping fixed assets in acceptable condition.
Such activities include: Preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.

The deferred maintenance as of Fiscal Year 2015:

Asset Category	2015	2014
Buildings	$ 123,833	$ 42,833
EPA Held Equipment	250	675
Vehicles	9	Not available
Total Deferred Maintenance	$ 124,092	$ 43,508

In Fiscal Year 2015, in accordance with SFFAS No. 42, Deferred Maintenance and Repairs: *Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, agencies are required to:

1. Describe their maintenance and repairs policies and how they are applied.
2. Discuss how they rank and prioritize maintenance and repair activities among other activities.
3. Identify factors considered in determining acceptable condition standards.
4. State whether deferred maintenance and repairs relate solely to capitalized or fully depreciated general PP&E.
5. Identify PP&E for which management does not measure and/or report deferred maintenance and repairs and the rational for the exclusion of other than non-capitalized or fully depreciated general PP&E.
6. Provide beginning and ending deferred maintenance and repairs balances by
7. Explain significant changes from the prior year.

The EPA presents the above Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

Required Supplementary Information (Unaudited)

BUILDINGS	
POLICY	EXPLANATION
Maintenance and repairs policies and how they are applied.	The maintenance and repair policy is to maintain facilities and real property installed equipment to fully meet mission needs at each site. Systems are maintained to function efficiently at full capacity and to meet or exceed life expectancy of buildings and building systems.
How we rank and prioritize maintenance and repair activities among other activities.	Building and facility program projects are scored and ranked individually based on seven weighted factors to determine priority needs. High scoring projects are prioritized above lower scoring projects. The seven factors considered are: health and safety, energy conservation, environmental compliance, program requirements, repair and upkeep, space alteration, and operational urgency. Local facility managers identify and prioritize their local repair and improvement (R&I) projects.
Factors considered in determining acceptable condition standards.	The nine building systems must function at a level that fully meet mission needs. The nine building systems are: structure, roof, exterior components and finish, interior finish, HVAC, electrical, plumbing, conveyance, and specialized program support equipment. Each system is rated from 0 to 5 during facility assessments. Ratings are used to determine facility condition index and estimated deferred maintenance.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	Facilities assessments and the resulting DM&R estimates are applied to capitalize PP&E only. Full facility assessments using the NASA parametric model are used to determine facilities and systems indices and deferred maintenance estimates.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	Buildings are not excluded from DM&R estimates.
Explain significant changes from the prior year.	This is the first year detailed assessments were performed.

Required Supplementary Information (Unaudited)

EPA HELD EQUIPMENT	
POLICY	EXPLANATION
Maintenance and repairs policies and how they are applied.	Managers of the equipment consider manufacturers recommendations in determining maintenance requirements.
How we rank and prioritize maintenance and repair activities among other activities.	Equipment is maintained based on manufacture's recommendations.
Factors considered in determining acceptable condition standards.	Manufacturer recommendations.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	DM&R relates to all EPA Held Equipment as determined by individual site managers.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	Individual site managers determine the need to measure and/or report DM&R based on mission needs.
Explain significant changes from the prior year.	Individual site equipment managers decide on a case-by-case basis the need to maintain equipment.

VEHICLES	
POLICY	EXPLANATION
Maintenance and repairs policies and how they are applied.	Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer.
How we rank and prioritize maintenance and repair activities among other activities.	The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor.* System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built.
Factors considered in determining acceptable condition standards.	The vehicle is inspected to insure that it (the vehicle) and related specialized equipment are in good working order. The criteria being that the vehicle is being maintained as built and as recommended by the manufacturer.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	All vehicles are capitalized.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	None.
Explain significant changes from the prior year.	This is the first year vehicles have been reported.

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.

Required Supplementary Information (Unaudited)

3. Supplemental Combined Statement of Budgetary Resources For the Period Ending September 30, 2015

	Env. Prog. & Mgmt.	Leaking Underground Storage Tank	Superfund	Science & Tech.	State & Tribal Ass. Grants	Other	Total
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1:	$ 373,542	7,561	2,035,534	167,060	216,629	162,750	2,963,076
Recoveries of Prior Year Unpaid Obligations	34,649	1,895	94,323	22,559	53,239	20,618	227,283
Other changes in unobligated balance	(41,822)	(4,188)	(1,044)	(24,592)	-	56,539	(15,107)
Unobligated balance from prior year budget authority, net	366,369	5,268	2,128,813	165,027	269,868	239,907	3,175,252
Appropriations (discretionary and mandatory)	2,613,679	91,941	2,508,170	734,648	3,505,161	1,106,744	10,560,343
Borrowing authority (discretionary and mandatory)						290	290
Spending authority from offsetting collections	41,523	24	431,161	24,839	455	240,242	738,244
Total Budgetary Resources	$ 3,021,571	97,233	5,068,144	924,514	3,775,484	1,587,183	14,474,129
STATUS OF BUDGETARY RESOURCES							
Obligations incurred	$ 2,704,063	93,090	1,576,865	776,782	3,593,221	1,379,478	10,123,499
Unobligated balance, end of year:							
Apportioned	267,251	3,674	3,541,913	126,610	159,707	143,035	4,242,190
Unapportioned	50,256	470	9,473	21,121	22,557	4,563	108,440
Total unobligated balance, end of period	317,507	4,144	3,551,386	147,731	182,264	147,598	4,350,630
Total Status of Budgetary Resources	$ 3,021,570	97,234	5,128,251	924,513	3,775,485	1,527,076	14,474,129
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations							
Unpaid Obligations, Brought Forward, October 1 (gross)	$ 1,129,609	103,292	1,272,408	355,890	6,639,253	192,429	9,692,881
Obligations incurred	2,704,063	93,090	1,576,865	776,782	3,593,221	1,379,478	10,123,499
Outlays (gross)	(2,617,114)	(99,174)	(1,352,698)	(773,095)	(4,291,803)	(1,350,381)	(10,484,265)
Recoveries of prior year unpaid obligations	(34,649)	(1,895)	(94,323)	(22,559)	(53,239)	(20,618)	(227,283)
Unpaid obligations, end of year (gross)	$ 1,181,909	95,313	1,402,252	337,018	5,887,432	200,908	9,104,832
Uncollected Payments							
Uncollected customer payments from Federal Sources, brought forward, Oct. 1	$ (61,884)	-	(10,325)	(19,911)	-	(167,522)	(259,642)
Change in uncollected customer payments from Federal sources	(1,317)	-	2,066	2,090	-	21,274	24,113
Uncollected customer payments from Federal sources, end of year	$ (63,201)	-	(8,259)	(17,821)	-	(146,248)	(235,529)
BUDGET AUTHORITY AND OUTLAYS, NET:							
Budget authority, gross (discretionary and mandatory)	$ 2,655,202	91,965	2,939,331	759,487	3,505,616	1,347,276	11,298,877
Actual offsetting collections (discretionary and mandatory)	(40,205)	(23)	(433,227)	(26,929)	(455)	(261,518)	(762,357)
Change in uncollected customer payments from Federal sources	(1,317)	-	2,066	2,090	-	21,274	24,113
Budget authority, net (discretionary and mandatory)	$ 2,613,680	91,942	2,508,170	734,648	3,505,161	1,107,032	10,560,633
Outlays, gross (discretionary and mandatory)	$ 2,617,114	99,174	1,352,698	773,095	4,291,803	1,350,381	10,484,265
Actual offsetting collections (discretionary and mandatory)	(40,205)	(23)	(433,227)	(26,929)	(455)	(261,518)	(762,357)
Outlays, net (discretionary and mandatory)	2,576,909	99,151	919,471	746,166	4,291,348	1,088,863	9,721,908
Distributed offsetting receipts	-	-	-	-	-	(2,716,279)	(2,716,279)
Agency outlays, net (discretionary and mandatory)	$ 2,576,909	99,151	919,471	746,166	4,291,348	(1,627,416)	7,005,629

Other Information (Unaudited)

Statement of Spending For the Period Ending September 30, 2015

The Statement of Spending (SOS) presents an overview of how and where EPA is spending money. The SOS that follows reflects total budgetary resources available to the Agency, gross outlays, and fiscal year-to-date total obligations for the Agency.

"What Money is Available to Spend" represents the authority that EPA was given to spend by law and the status of that authority. In this section:

- **"Total Resources"** represents amounts approved for spending by law.
- **"Less Amount Not Agreed to be Spent"** represents amounts that EPA was allowed to spend but did not take actions to spend.
- **"Less Amount Not Available to be Spent"** represents the amount of total budgetary resources that were not approved for spending.
- **"Total Amounts Agreed to be spent"** represents the amount of spending actions taken by EPA for the fiscal year. This represents contracts, orders and other legally binding obligations of the federal government to pay for goods and services when received.

"How was the Money Spent" identifies the major categories for which EPA made payments during the year. In this section:

- **"Total Spending"** represents the sum of all payments EPA made during each year against "Amounts Agreed to be Spent". Balances include payments made to liquidate "Amounts Agreed to be Spent" originating in both the current as well as from prior fiscal years.
- **"Amounts Remaining to be Spent"** represents the difference between "Total Spending" versus "Amounts Agreed to be Spent". Since payments can relate to spending activity initiated in the current and prior years, it is not unusual for total payments in a fiscal year to exceed the amount of the new spending actions originated that year, that are reported under "Amounts Agreed to be Spent". When this condition occurs, negative amounts will be displayed as the balance of "Amounts Remaining to be Spent".

United States Environmental Protection Agency
Statement of Spending (Unaudited)
For the Fiscal Years Ending September 30, 2015 and 2014
(Dollars in Thousands)

What Money is Available to Spend?	**2015**	**2014**
Total Resources	$ 14,474,129	$ 14,638,896
Less: Amount Not Agreed to be Spent	4,303,164	894,141
Less: Amount Not Available to be Spent	47,466	2,068,195
Total Amount Agreed to be Spent	$ 10,123,499	$ 11,676,560
How was the Money Spent?		
Environmental Programs and Management		
Contracts	$ 714,345	$ 785,725
Grants	222,053	232,514
Payroll	1,427,640	1,528,866
Rent, Communications and Utilities	39,494	29,707
Structures and Equipment	191,034	184,390
Travel	22,548	18,819
	$ 2,617,114	$ 2,780,021
Leaking Underground Storage Tanks		
Contracts	$ 4,909	$ 3,069
Grants	86,006	92,469
Payroll	7,315	8,001
Rent, Communications and Utilities	71	177
Structures and Equipment	639	666
Financial Transfer	-	1,000,000
Travel	233	274
	$ 99,173	$ 1,104,656
Superfund		
Contracts	$ 793,344	$ 904,521
Grants	92,189	93,383
Payroll	384,381	410,303
Rent, Communications and Utilities	18,397	17,201
Structures and Equipment	53,992	55,325
Travel	9,395	8,266
	$ 1,351,698	$ 1,488,999
Science and Technology		
Contracts	$ 272,039	$ 288,222
Grants	77,513	75,557
Payroll	325,956	346,761
Rent, Communications and Utilities	18,999	14,304
Structures and Equipment	72,994	71,371
Travel	5,594	4,984
	$ 773,095	$ 801,199
State and Tribal Assistance Grants		
Contracts	$ 80,796	$ 35,128
Grants	4,210,342	4,147,445
Payroll	606	266
Rent, Communications and Utilities	23	33
Structures and Equipment	34	88
Travel	32	2
	$ 4,291,833	$ 4,182,962
Other Funds		
Contracts	$ 1,178,177	$ 1,220,443
Grants	3,140	23,931
Payroll	119,766	227,065
Rent, Communications and Utilities	1,695	1,047
Structures and Equipment	45,649	54,430
Travel	2,339	2,005
	$ 1,350,766	$ 1,528,921
Total Spending	$ 10,483,679	$ 11,886,758
Amounts Remianing to be Spent	(360,180)	(210,198)
Total Amounts Agreed to be Spent	$ 10,123,499	$ 11,676,560

Environmental Protection Agency
Required Supplemental Stewardship Information (Unaudited)
For the Year Ended September 30, 2015
(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. Through conducting cutting-edge science and technical analysis, ORD develops sustainable solutions to our environmental problems and employ more innovative and effective approaches to reducing environmental risks. ORD is the scientific research arm of the EPA, whose leading-edge research helps provide the solid underpinning of science and technology to the agency. Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. EPA, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding, the framework, and technologies we need to detect, abate, and avoid environmental problems.

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

For FY 2015, the full cost of the Agency's Research and Development activities totaled over $613 million. Below is a breakout of the expenses (dollars in thousands): [1]

		FY2011	FY2012	FY2013	FY2014	FY2015
Programmatic Expenses	$	597,558	580,278	531,901	510,911	535,352
Allocated Expenses	$	80,730	133,637	78,189	73,622	78,028

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development.

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

Required Supplemental Stewardship Information (Unaudited)

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

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, however, EPA continues to provide direct grant funding for the District of Columbia and territories.

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

	FY2011	FY2012	FY2013	FY2014	FY2015
Construction Grants	$ 35,339	14,306	6,944	1,447	17,462
Clean Water SRF	$ 2,299,721	1,925,057	1,976,537	1,534,453	1,715,630
Drinking Water SRF	$ 1,454,274	1,240,042	1,027,613	1,187,212	1,268,360
Other Infrastructure Grants	$ 269,699	196,085	166,050	118,706	96,439
Allocated Expenses	$ 548,375	777,375	524,326	516,102	590,595

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

Required Supplemental Stewardship Information (Unaudited)

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):

		FY2011	FY2012	FY2013	FY2014	FY2015
Training and Awareness Grants	$	23,386	21,233	20,769	23,255	27,047
Fellowships	$	9,538	10,514	11,157	8,082	6,579
Allocated Expenses	$	4,448	7,311	4,118	4,226	5,146

Appendix II

Agency Response to Draft Report

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

NOV 10 2015

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY15-0176, "*Audit of EPA's Fiscal 2015 and 2014 Consolidated Financial Statements,*" dated November 9, 2015

FROM: David A. Bloom
Deputy Chief Financial Officer

TO: Paul C. Curtis, Director
Financial Statement Audits

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

AGENCY'S OVERALL POSITION

The agency concurs with 38 of the recommendations and non-concurs with one recommendation. We have attached technical comments which explains the agency's position on some of the report findings.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1	Continue planned corrective actions and its outreach to program offices to validate all software costs in development and asset values in production.	Concur. The agency will continue to review software project cost in-development and in-production to correct the values of the software assets. Also, the agency will validate all software expenses before they are	September 30, 2018 September 30, 2016

		entered into the agency fixed assets system.	
2	Require staff to ensure all software costs, including adjustments, are accurately recorded in the agency's property management system and Compass; and that an audit trail is maintained for software projects analyzed.	Concur. OCFO/OFM will continue to validate all software expenses and record them into FAS. All documentation for the software transactions will be kept in a project file.	October 21, 2015 (ongoing activity)
3	Reclassify the $226,336,107 in special account collections recorded as past costs to future costs to ensure the current year financial statements are properly stated.	Concur. The agency changed its accounting practice to record special accounts settlement proceeds as unearned revenue as these collections are generally used for future clean-up activities. The FY 2015 financial statements reflect this change. OECA is evaluating how this change will affect enforcement settlements and will coordinate with OCFO. (See attached technical comments.)	Completed October 30, 2015
4	Develop and implement policies and procedures to require finance offices to review the terms of settlement agreements, and communicate with regional counsel or program offices when necessary to ensure special account funds are correctly recorded.	Concur. OCFO already has established procedures contained in EPA's Resource Management Directives System 2550D-14-T1, Superfund Accounts Receivables and Billings. It was revised on August 13, 2015, in coordination with Office of Enforcement and Compliance Assurance, to require the Superfund Accounts Receivable Standard Control Form to be completed by legal counsel and forwarded to CFC. CFC will ensure that regional contacts fill out the control form completely for both administrative and judicial documents, including the fund type(s) to be used as the basis for the receivable.	Completed August 13, 2015
5	Reclassify special accounts receivable totaling $5,310,918 that were previously recorded as past costs, classifying them	Concur. The agency changed its accounting practice to record special accounts settlement proceeds as unearned revenue as these collections are generally	Completed October 30, 2015

	instead as future costs to ensure current year financial statements are properly stated.	used for future clean-up activities. The FY 2015 financial statements reflect this change. OECA is evaluating how this change will affect enforcement settlements and will coordinate with OCFO. (See attached technical comments.)	
6	Develop and implement policies and procedures to require CFC to review the terms of Superfund agreements, and communicate with regional counsel or program offices to ensure special account funds are correctly recorded.	Concur. OCFO already has established procedures contained in EPA's Resource Management Directives System 2550D-14-T1, Superfund Accounts Receivables and Billings. It was revised on 8/13/15, in coordination with Office of Enforcement and Compliance Assurance, to require the Superfund Accounts Receivable Standard Control Form to be completed by legal counsel and forwarded to CFC. CFC will ensure that regional contacts fill out the control form completely for both administrative and judicial documents, including the fund type(s) to be used as the basis for the receivable.	Completed August 13, 2015
7	Complete the planned corrective actions and continue to research and resolve differences between Compass and the property management system timely.	Concur. OCFO has developed a process to research and resolve differences between Compass and the agency property management system. To date, the agency has resolved over $50M of the differences between Compass and Maximo. The agency will continue to clear the differences and anticipates completing by June 30, 2016.	June 30, 2016
8	Advise all regional finance management officers and finance centers of the requirement that quarterly certifications must reflect an accurate accounting of any differences between Maximo and Compass.	Concur. The policy has been sent to all FMO's ensuring policy is followed. We currently have concurrence from all Security Orgs.	Completed October 28, 2015

9	Work with the Assistant Administrator for Administration and Resources Management to ensure all capital software adjustments made by RAS are recorded in Maximo accurately and timely.	Concur. OCFO will ensure that software adjustments are processed correctly in the agency property module in Compass (e.g., FAS); however, no coordination with OARM is required because software transactions are not entered into MAXIMO.	Completed October 21, 2015 (ongoing activity)
10	Require RAS to monitor and work with the finance centers to resolve all internal cash differences to ensure the EPA resolves all the differences with the Treasury.	Concur. In September, RAS initiated a process to require the Centers to provide the transactional details for the identifiable differences, not including timing differences, per the revised policy RMDS 2540-03-P1. RAS will continue to monitor all internal cash differences working with the finance centers to report their differences at the transaction level.	Completed September 30, 2015
11	Require the Payroll accounting point and Washington Finance Center to research and resolve cash differences.	Concur. The Office of Financial Services will update our reconciliation procedures and reinforce our current reconciliation procedures to research and resolve cash differences for payroll and the WFC.	February 28, 2016
12	Complete the planned corrective actions to require project officers to approve federal disbursements timely.	Concur. In September of each fiscal year, OGD issues this guidance for consideration in assessing Project Officer and Supervisor/Manager compliance with key grants and IA management policies during end-of-year performance appraisals and developing next year's PARS performance agreements. IASSC has completed a comprehensive review of the existing EPA 1610 manual and identified necessary changes, including a description of the billing requirement. That	Completed September 30, 2015 March 31, 2016

		description will be contained in the revised version of the Manual.	
13	Require CFC staff to follow up with project officers and regions more often to obtain the necessary disbursement approvals and information needed to clear transactions timely from the federal budget clearing (suspense) account. When project officers do not respond and approve disbursements timely, elevate the matter for resolution.	Concur. The Cincinnati Finance Center (CFC) has procedures in place to monitor, follow-up, and address suspense account items that remain for more than 60 days. CFC will continue to stress the importance of clearing items out of the suspense account in less than 60 days. The Payment Branch Chief will review the open items more frequently and elevate on a shorter time table.	Completed (ongoing activity)
14	Develop and implement a policy and/or procedure to require secondary approval for the cancellation of accounts receivable and collection transactions in Compass to ensure that canceled transactions are appropriate and approved according to internal control standards.	OCFO will review the existing separation of duties policy to ensure that it's being implemented as designed. Under the reorganization, OCFO will review all waivers and take appropriate action based on our new structure. Based upon the review, OCFO will update policy/procedures if applicable.	September 30, 2016
15	Modify Compass to route accounts receivable and collection cancellations for secondary approval.	Concur. Secondary approval already exists in Compass.	N/A
16	Review and analyze the accounts receivable and collections canceled without secondary approval and correct inappropriate cancellations.	Concur. CFC has reviewed all of the 72 cancellations cited in the position paper and all have appropriate documentation supporting the cancellation, either in the file or attached in Compass.	Completed November 6, 2015
17	Require CFC to record accounts receivable as provided in legal documents.	Concur. CFC will continue to record the accounts receivable as provided in legal documents. See the attached technical comments for the specific issue cited in the audit report.	Completed (ongoing activity)
18	Perform a thorough review of existing receivables to ensure the amounts recorded are consistent with amounts in legal documents.	Concur. CFC reviews all settlement documents to ensure the accounts receivables are established for the amounts due (or claim amounts related to	Completed (ongoing activity)

		bankruptcies). They will continue to thoroughly review documents to ensure receivables are established for the appropriate amounts.	
19	Complete the corrective actions previously identified.	See below for information for Recommendations 20 thru 24 for the agency's planned actions to complete these recommendations.	See dates for Recommendations 20 through 24
20	Reconcile the balances in its accounts receivable general ledger accounts to its subsidiary ledger quarterly.	Concur. Starting in FY 2016, RAS will reconcile balances in the accounts receivable general ledger account to its subsidiary ledgers going forward. [RAS]	January 31, 2016
21	Reconcile federal and non-federal accounts receivable separately.	Concur. RAS designed a framework for providing separate timely and accurate reconciliations of federal and non-federal accounts receivable. Changes within Compass are needed to implement this design. Due to the pending Compass version enhancement, system changes have been placed on hold until CVE is completed. CVE implementation is currently scheduled as Compass 7.3 for February 2016. We will obtain an estimate of when change will be made in Compass.	March 31, 2017
22	Resolve variances between the general level and receivable detail report for receivable principal, interest, handling and penalties; and correct errors at the transaction level.	Concur. The scope of the recommendation in 2014 was to correct the remaining FY 2011 period 16 billing document activity that did not post to the general ledger. This was completed June 30, 2015. The Reporting and Analysis Staff continues to identify and correct the variances that occur during the current year.	Completed June 30, 2015 (continuing activity)
24	Correct the Compass reporting issues that prevent the proper reports to be produced.	Concur. OCFO implemented redundancy amongst staff to ensure backup in the event a report does not execute.	Completed September 30, 2015
25	Work with the Assistant Administrator for Solid Waste and Emergency	The agency agrees that the regions should continue to follow the practices outlined in the	December 31, 2015

	Response to direct the regions to track, manage and reconcile SSC financial data by site.	Resource Management Directive System 2550D-09-P1 related to tracking, managing and reconciling SSC financial data by site. By the end of the calendar year, OSWER will issue new SSC model provisions that include an updated final financial reconciliation provision and new language on periodic financial review, which reinforce for both states and regions the need to carefully track site-specific remedial action costs and state cost share payments.	
26	Implement an internal control process for transferring the management of an application's user access to the Application Management Staff.	Concur. Upon the reallocation of resources, OCFO will transfer the management of all application user access processes to the OTS Application Management Staff.	TBD/based on available resources
27	Conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	Concur. Upon allocation of resources, OTS will conduct an inventory of OCFO systems managed by the Application Management Staff and create or update supporting access management documentation for each application.	TBD/based on available resources
28	Work with the contracting officer to update applicable contract clauses and distribute updated access management documentation to contractors supporting the user account management function for applications managed by the Application Management Staff. This should include establishing a date when the contractors would start using the updated account management documentation.	Concur. Upon the reallocation of resources, we will work with the contracting officer to update the contract clauses and update distribute access management documentation.	TBD/based on available resources
29	Review and update account management documentation and establish procedures for	Concur. Upon the reallocation of resources, OCFO will review the account management	TBD/based on available resources

	financial systems, as needed, to include implementation of the following controls: a. Assign account managers for user accounts. b. Establish role conditions for system access privileges. c. Require approvals to create accounts. d. Monitor use of accounts. e. Notify account managers when accounts are removed or changed. f. Authorize access based on valid authorizations. g. Review accounts for appropriateness of current access privileges.	documentation, document the results of the review and make any necessary updates/additions.	
30	Issue a memorandum to personnel responsible for controlling access to financial systems emphasizing the importance of following access control procedures—specifically, periodic access reviews and proper access removal.	Concur. OCFO will issue a memorandum emphasizing access control procedures.	TBD/based on available resources
31	Conduct an inventory of all financial applications and ensure the systems are entered into Xacta for monitoring of compliance with required information systems security controls.	Concur. OCFO will conduct an inventory or all financial applications and ensure the systems are entered in XACTA.	TBD/based on available resources
32	Implement a process to notify the Chief Financial Officer of the status of corrective actions entered into Xacta.	Concur. OTS will implement a process to notify the CFO of the status of corrective actions in XACTA, in addition to current practices including: OCFO's PISO conducting weekly meetings with OCFO ISSOs and reviewing the corrective actions/POAMs in XACTA, along with OCFO's CMA and risk assessment processes.	TBD/based on available resources

33	Establish new procedures and update the OCFO HelpDesk Escalation Procedures to require validation of users before the distribution of passwords.	Concur. OCFO will change the procedure to add an encrypted email to the user's EPA address to communicate the temporary password while the Help Desk analyst remains on the phone and verifies that the individual was able to log in.	TBD/based on available resources
34	Work with the contracting officer to update the EPA's task order with the Concur service provider to include a clause limiting visibility of credit card numbers for people with the Federal Agency Travel Administrator role.	Concur. OCFO will bring the issue of the visibility of credit card numbers to the attention of the Concur service provider to evaluate the feasibility of limiting the visibility of credit card numbers with the Federal Agency Travel Administrator role.	July 30, 2016
35	Formally raise the concern to the General Services Administration that the Concur vendor does not perform the required assessment to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes and request that the General Services Administration work with the service provider to conduct and provide its government clients the appropriate assessment report.	Concur. OCFO will contact the GSA of OIG's finding that the required assessments are not being performed as required to meet the Payment Card Industry Data Security Standards for the number of credit card transactions it processes.	January 31, 2016
36	Complete the corrective actions previously identified.	See below for information for Recommendations 37 thru 39 for the agency's planned actions to complete these recommendations.	See dates for Recommendations 37 through 39.
37	Perform a comprehensive analysis of delinquent accounts receivable to determine whether interest is being properly recorded in Compass in accordance with the applicable laws, federal accounting standards, and EPA policy, and record any unrecorded interest.	Concur. On a daily basis, CFC staff analyze, review, and update Superfund receivables. As issues arise, help tickets are submitted. CFC pulled a sample of receivables and manually compared interest to what Compass accrued, and found that the differences were immaterial. CFC will continue to review	September 30, 2016

		interest on Superfund receivables and submit help tickets for any differences that may arise. After the new version of Compass is rolled out in 2016, CFC will complete a larger review of receivables to ensure that the new version of Compass is calculating interest appropriately.	
38	Follow the terms in the legal source documents when recording interest by ensuring interest is recorded in the system when a receivable becomes past due, either through Compass automatic calculations or manual interest calculations prepared by CFC.	Concur. CFC will ensure that Compass is set to accrue interest when a debt becomes delinquent. Compass was customized to account for Superfund interest to accrue on a daily basis. Since it is based on the receivable date, Compass would start accruing interest on day 2 (though the debt is not delinquent until day 30 or later). To resolve this, the interest flag is checked so that interest does not accrue when first established. Once the debt becomes delinquent, staff has to manually uncheck the waiver flag so that interest will begin accruing. Until this is changed in Compass, staff will have to continue to manually uncheck the flag.	TBD
39	Determine and correct the cause of Compass system problems related to Superfund and installment interest, to include determining why: ■ Compass deletes Superfund interest and implement a correction. ■ Compass stops calculating interest and implement a correction.	Concur. Many of the causes for the Compass system problems related to Superfund will be resolved with the Compass version enhancement scheduled for implementation in 2016. OCFO will validate how the enhanced system handles Superfund and installment interest and submit requests for any further system adjustments that might be needed. In the interim, CFC will continue to monitor Superfund and installment interest calculations to ensure they are correct.	September 30, 2016

Disagreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
23	Develop accurate reports for accounts receivable principal charges and non-principal charges that do not include interest, handling and penalties; or journal vouchers.	Non-concur. The use of line numbers in the bill report designates interest, penalties and handling charges. This is necessary to ensure that the proper calculation of these charges with applicable laws and agency policy in Compass. The bill report RAS uses clearly identifies the interest, handling and penalty amounts. Journal vouchers should also be included as bill detail. To the extent practical, the agency makes corrections within the individual billing documents. In other cases, in order to properly reflect balances in the general ledger accounts, journal vouchers are required to fairly state the accounts receivable balances.	N/A

CONTACT INFORMATION

If you have any questions regarding this response, please contact Stefan Silzer, Director, Office of Financial Management on (202) 564-4905.

Attachment

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Technical Comments Related to OIG's Draft Audit Report No. OA-FY154-0176, "*Audit of EPA's Fiscal 2015 and 2014 Consolidated Financial Statements,"* dated November 10, 2015

OIG Finding #2 - "*EPA Incorrectly Recorded Superfund Special Account Collections and Receivables*"

OIG Statement: In the last statement of the first paragraph OIG stated that," In addition, not having the funds available in the future to fund site clean-up costs could require additional funds from taxpayers."

Agency Position on Finding: This is an incorrect statement. Whether the funds are recorded as past costs (earned revenue) placed into a special account (i.e., "TR2B" fund code) or future costs (unearned revenue) placed into a special account (i.e., "TR2" fund code), they are available for future work at a site by the fact they are in a special account. Their designation as earned or unearned revenue would not change their availability to be used for future site clean-up costs and would not have any effect as to whether additional funds from taxpayers will be needed for the site.

OIG Finding #7 - "*EPA Did Not Record More Than $8 Million in Accounts Receivable for a $9 Million Superfund Judgment*"

OIG Statement: OIG stated that, "*EPA did not record as a Superfund accounts receivable more than $8 million of a $9 million judgment in a consent decree…CFC recorded the receivable based on discussions at the direction of EPA personnel instead of amounts due to the EPA as stipulated in the provisions of the legal document."*

Agency Position on Finding: CFC reviews and records accounts receivables per the payment terms of the settlement documents. For the settlement outlined above, there is not an accounts receivable due and owing in the amount of $9 million from LPA in this settlement. All of the site costs (past and future) are a joint and several liability for all of the PRPs at the Portland Harbor site. However, when a PRP settles with the United States, both parties agree to a payment amount which is usually less than the full joint and several amount incurred by the EPA and the PRPs at any given site. Thus, the amount to be entered as an accounts receivable is the amount the settlement document says that particular PRP owes the United States as a payment, not the overall judgment amount. In certain instances, for purposes of recovering proceeds from a PRP's insurance policies, the PRP may confess to how much money it owes the EPA (the United States), which then allows the United States to pursue insurance proceeds based on that amount. The size of the confessed judgment is not indicative of the amount that the United States could recover from insurance, as that depends on various factors specific to the insurance policies on hand. If a PRP were to make a confession to judgment for a lesser amount, or not make a confession to judgment at all, then, due to how insurance law works, the insurance companies would have a good argument for reducing any possible payouts considerably, as they would argue that the PRPs remaining liability is limited to only that lesser amount. Any insurance recovery is always quite speculative, we may recover funds, or not recover any at all.

Appendix III

Distribution

Office of the Administrator
Chief Financial Officer
Assistant Administrator for Administration and Resources Management
Assistant Administrator for Solid Waste and Emergency Response
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Agency Audit Follow-Up Coordinator
Assistant Deputy Chief Financial Officer
Director, Office of Policy and Resource Management, Office of Administration and Resources Management
Director, Office of Grants and Debarment, Office of Administration and Resources Management
Director, Office of Acquisition Management, Office of Administration and Resources Management
Director, Office of Administration, Office of Administration and Resources Management
Director, Office of Superfund Remediation and Technology Innovation, Office of Solid Waste and Emergency Response
Director, Office of Budget, Office of the Chief Financial Officer
Director, Office of Financial Management, Office of the Chief Financial Officer
Deputy Director of Operations, Office of Financial Services, Office of the Chief Financial Officer
Director, Financial Policy and Planning Staff, Office of the Chief Financial Officer
Director, Research Triangle Park Finance Center, Office of the Chief Financial Officer
Director, Cincinnati Finance Center, Office of the Chief Financial *Officer*
Director, Las Vegas Finance Center, Office of the Chief Financial Officer
Director, Office of Planning, Analysis and Accountability, Office of the Chief Financial Officer
Director, Reporting and Analysis Staff, Office of the Chief Financial Officer
Director, Office of Technology Solutions, Office of the Chief Financial Officer
Deputy Director of Strategic Planning and Oversight, Office of Financial Services Office of the Chief Financial Officer
Deputy Director, Office of Policy and Resource Management, Office of Administration and Resources Management
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 Solid Waste and Emergency Response
Audit Follow-Up Coordinator, Office of Grants and Debarment, Office of Administration and Resources Management