OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

Operating efficiently and effectively

EPA’s Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

Report No. 22-F-0007 November 15, 2021

Abbreviations:		
	CFC	Cincinnati Finance Center
	EPA	U.S. Environmental Protection Agency
	FFMIA	Federal Financial Management Improvement Act of 1996
	OCFO	Office of the Chief Financial Officer
	OIG	Office of Inspector General
	OMB	Office of Management and Budget
	U.S.C.	United States Code
	WIFIA	Water Infrastructure Finance and Innovation Act of 2014

22-F-0007
November 15, 2021

Why We Did This Audit

We performed this audit in accordance with the Government Management Reform Act of 1994, which requires the U.S. Environmental Protection Agency's Office of Inspector General to audit the financial statements prepared by the Agency each year. Our primary objectives were to determine whether:

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

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

This audit supports an EPA mission-related effort:

- *Operating efficiently and effectively.*

This audit addresses a top EPA management challenge:

- *Fulfilling mandated reporting requirements.*

Address inquiries to our public affairs office at (202) 566-2391 or OIG_WEBCOMMENTS@epa.gov.

List of OIG reports.

EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

EPA Receives an Unmodified Opinion for Fiscal Years 2021 and 2020 (Restated)

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2021 and 2020 (restated), meaning 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.

Significant Deficiencies Noted

We noted the following significant deficiencies:

- The EPA did not reconcile cash differences with the U.S. Department of the Treasury.
- The EPA did not recognize revenue for the Water Infrastructure Finance and Innovation Act of 2014 fee fund expenses.
- Accounts receivable source documentation was not provided in a timely manner by EPA regions.
- The Office of the Chief Financial Officer needs to conduct periodic reviews of users' accounts within the EPA's Contract Payment System.

Noncompliance with Laws, Regulations, Contracts, and Grant Agreements Noted

We noted the following instance of noncompliance with laws and regulations: the EPA did not comply with Office of Management and Budget Circular A-136 form and content requirements for the balance sheet.

Recommendations and Planned Agency Corrective Actions

The EPA generally agreed with our findings and recommendations but disagreed with some findings. The EPA has already completed corrective actions on several of our findings, and some corrective actions are ongoing.

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

OFFICE OF
INSPECTOR GENERAL

November 15, 2021

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements
Report No. 22-F-0007

FROM: Paul C. Curtis, Director
Financial Directorate
Office of Audit

TO: Faisal Amin, Chief Financial Officer

Lawrence Starfield, Acting Assistant Administrator
Office of Enforcement and Compliance Assurance

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was OA-FY21-0170. This report contains findings that describe the problems the OIG has identified and the corrective actions the OIG recommends. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer and the Office of Enforcement and Compliance Assurance have primary responsibility for the issues discussed in the report.

In accordance with EPA Manual 2750, your offices provided acceptable planned corrective actions and estimated milestone dates in response to the OIG's recommendations. All recommendations are resolved, and no final response to this report is required. If you submit a response, however, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with 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.

We will post this report to our website at www.epa.gov/oig.

Attachments:
1. Significant Deficiencies.
2. Compliance with Laws and Regulations.
3. Status of Prior Audit Report Recommendations.
4. Status of Recommendations.

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Inspector General's Report on EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

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Inspector General's Report on EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Environmental Protection Agency, which comprise the consolidated balance sheets, as of September 30, 2021, and September 30, 2020 (restated), and the related consolidated statements of net cost, net cost by major program, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the comptroller general of the United States of America; and Office of Management and Budget Bulletin 21-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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. Department of the Treasury collects and accounts for excise taxes that are deposited into the Leaking Underground Storage Tank Trust Fund. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to the EPA as authorized in legislation. Since Treasury, and not the EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for 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 major program, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Restatement of Fiscal Year 2020

As described in Note 36 to the financial statements, the fiscal year 2020 financial statements have been restated to correct misstatements related to imputed costs for Pension, Health, and Life insurance and to eliminate intragovernmental receivables and payables. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis sections be presented to supplement the EPA's financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the OMB and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of the financial reporting that places the basic consolidated financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during the audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Internal Control over Financial Reporting

Opinion on Internal Control. In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the EPA's internal control over financial reporting as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements and to comply with the OMB's audit guidance, but not to express an opinion on the effectiveness of the EPA's internal control. Accordingly, we do not express an opinion on the effectiveness of the EPA's internal control over financial reporting.

Material Weakness and Significant Deficiencies. Our consideration of the internal control was for the limited purpose of expressing an opinion on the EPA's financial statements and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, such deficiencies in internal control may exist that were not identified during the course of our audit. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters, which we discuss below, involving the internal control and its operation that we consider to be significant deficiencies. These issues are summarized below and detailed in Attachment 1.

Significant Deficiencies

EPA Did Not Reconcile Cash Differences with Treasury

We found that the EPA did not reconcile $2,109,083.84 in cash differences between the EPA's and Treasury's cash balances. These differences remained unreconciled for nine months—from December 2020 through August 2021. Treasury requires agencies to perform timely reconciliations of their Fund Balance with Treasury's accounts. The EPA adjusted these recurring cash differences to comply with Treasury's monthly reporting requirements and agree with Treasury's balances. The EPA reversed the adjustments the following month, restoring the unreconciled cash differences in the EPA's balances. Not adequately reconciling all cash differences increases the risk of unrecorded transactions; fraud, waste, and mismanagement of funds; and misstatement of EPA financial statements.

EPA Did Not Recognize Revenue for Water Infrastructure Finance and Innovation Act of 2014 Fee Fund Expenses

We found that the EPA did not recognize $4,513,689 and $2,057,300 in revenue for the WIFIA fee fund for fiscal years 2021 and 2020, respectively. Federal accounting standards require agencies to recognize revenue as expenses are incurred. This error occurred because the EPA did not establish the correct accounting model for WIFIA fee fund expenses to reduce unearned revenue and recognize earned revenue. When the EPA does not properly recognize revenue, the financial statements could be materially misstated.

Accounts Receivable Source Documentation Not Provided Timely by Regions

EPA regions did not timely submit supporting source documents to the Cincinnati Finance Center for over $50.7 million in accounts receivable, which then delayed recording and processing those receivables. In one case, Region 2 submitted receivable documentation over six months after the consent decree for that case was effective. In another case, Region 9 did not timely submit documentation for three receivables totaling approximately $8.1 million. As a result, the CFC did not record these four receivables in the proper fiscal year. EPA policies state that responsible offices must forward to the CFC source documents supporting an accounts receivable for settlements or orders demonstrating a debt owed to the Agency within five business days as specified in the applicable EPA Resource Management directives. The regional program office, the office of regional counsel, and the regional legal enforcement office staff are responsible for providing these documents to the CFC. When the CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and the EPA may not collect all that it is owed. Furthermore, the EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

Office of the Chief Financial Officer Needs to Conduct Periodic Reviews of Users' Accounts Within EPA's Contract Payment System

The OCFO has not conducted periodic reviews of user accounts within the EPA's Contract Payment System. The system reports and tracks contract payments and uploads the accounting data associated with the payments into the EPA's core financial system. EPA users, such as contract officers, project officers, and alternate project officers, have access rights in the Contract Payment System to enter, approve, and disapprove contract invoices.

Attachment 3 contains the status of issues reported in prior years' reports on the EPA's consolidated financial statements. The issues included in Attachment 3 should be considered among the EPA's significant deficiencies for fiscal year 2021. 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 Federal Managers' Financial Integrity Act Report with Our Evaluation of Internal Control

OMB Bulletin 21-04 requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit that were not reported in the Agency's Federal Managers' Financial Integrity Act report.

For financial statement audit and financial reporting purposes, OMB Bulletin 21-04 defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control over financial reporting, 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.

Details concerning our findings on significant deficiencies can be found in Attachment 1.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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 the Agency's 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. We also performed certain other limited procedures as described in *Codification of Statements on Auditing Standards,* AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin 21-04 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, or 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.

We did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements.

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 OMB Memorandum M-09-06, *Implementation Guidance for the Federal Financial Management Improvement Act,* dated January 9, 2009, to determine whether there was any 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 OMB Circular A-136. Attachment 2 provides additional details, as well as our recommendations on actions that should be taken on this matter. We will not issue a separate management letter.

EPA Did Not Comply with Office of Management and Budget Circular A-136

We found that the EPA did not comply with the required form and content on its fiscal year 2021 balance sheet. The OMB requires agencies to use line titles and the format detailed in its Circular A-136, *Financial Reporting Requirements,* dated August 10, 2021. The EPA did not revise the line titles and format of its balance sheet to meet the requirements. As a result, the EPA did not comply with federal financial reporting requirements.

Other Governmental Reporting Requirements

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

We also performed audit work to meet the requirements found in 42 U.S.C. § 9611(k) with respect to the Hazardous Substance Superfund Trust Fund and the stipulation 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 statement audits, we reported weaknesses, as detailed in Attachment 3, that impacted our audit objectives. Those weaknesses include that:

- The EPA did not capitalize lab renovation costs.
- Originating offices did not forward accounts receivable source documents in a timely manner to the finance center.
- The EPA should improve its efforts to resolve its long-standing cash differences with Treasury.
- The EPA improperly recorded e-Manifest receivables and earned revenue.
- The EPA needs to improve its financial statement preparation process.

This report is intended solely for the information and use of the management of the EPA, the OMB, and Congress, and it 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 Directorate
Office of Audit
Office of Inspector General
U.S. Environmental Protection Agency
November 9, 2021

Attachment 1

Significant Deficiencies

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1 – EPA Did Not Reconcile Cash Differences with Treasury

We found that the EPA did not reconcile $2,109,083.84 in cash differences between the EPA's and Treasury's cash balances. These differences remained unreconciled for nine months—from December 2020 through August 2021. Treasury requires agencies to perform timely reconciliations of their Fund Balance with Treasury's accounts. The EPA adjusted these recurring cash differences to comply with Treasury's monthly reporting requirements and agree with Treasury's balances. The EPA reversed the adjustments the following month, restoring the unreconciled cash difference in the EPA's balances. Not adequately reconciling all cash differences increases the risk of unrecorded transactions, fraud, waste, mismanagement of funds, and misstatement of EPA financial statements.

The *Treasury Financial Manual*, Volume 1, Part 2, Chapter 5100, "Fund Balance with Treasury," Section 5125, states that:

> Agency reconciliation of [Fund Balance with Treasury] accounts is a key internal control process and it ensures the accuracy of the government's receipt and disbursement data. Therefore, agencies must perform timely reconciliations of their agency's United States Standard General Ledger (USSGL) account 101000 to Fiscal Service [Central Accounting Reporting System Account] Statement and implement effective and efficient reconciliation processes.

Section 5130.10 states that:

> Agencies must post account transactions to the [United States Standard General Ledger] and must prepare an adjusted trial balance at least monthly to verify that debit and credit postings are equal and to validate the data. They also must ensure that the balance in the [United States Standard General Ledger] account 101000 for each fund symbol agrees with their internal supporting documents.

Additionally, Section 5130.20 states that federal agencies must compare their Fund Balance with Treasury transactions in their general ledgers with the Fiscal Service reports and must reconcile any differences. According to Section 5145, by not having a timely and effective reconciliation process, agencies could increase the risk of fraud, waste, and mismanagement of funds, as well as affect their ability to accurately measure the full cost of the government's programs.

The EPA's Resource Management Directive 2540-03-P1, *Fund Balance with Treasury Management Standard Form 224 Reconciliation*, requires the Accounting and Cost Analysis Division to monthly review the EPA's Fund Balance with Treasury in its financial system and report issues to the respective EPA finance center. Every month, the finance centers and the Fees and Collection Branch are required to reclassify the Budget Fiscal Service Fund Balance with Treasury to the EPA's Fund Balance with Treasury in the accounting system of record for their respective agency location codes. Finance centers are also required to provide comments, as needed, to the Accounting and Cost Analysis Division in the monthly cash differences report.

We found that as of August 31, 2021, the EPA had not resolved $2,109,083.84 in cash differences between the EPA's and Treasury's cash balances. These differences were unreconciled for nine months. The differences are detailed in Table 1-1.

Table 1-1: Unreconciled cash differences

Treasury symbol	Dollar amount (absolute value)
6818/190108	$885,708.88
6819/200108	356,297.29
6820/210108	867,077.67
Total	**$2,109,083.84**

Source: OIG analysis of EPA data. (EPA OIG table)

The EPA records a monthly adjustment to clear cash differences with Treasury and reverses the adjustment the following month. The monthly adjustments allow the EPA to agree with Treasury's balances at the time of reporting; however, the *Treasury Financial Manual* requires the EPA to reconcile the differences. Recurring cash differences in the monthly adjustments suggest that the EPA has not properly reconciled its balances.

Upon our inquiries, the EPA stated that there are various reasons for the cash differences detailed in Table 1-1, such as timecard corrections or adjustments, and that the differences are being reviewed and efforts are underway to resolve the ongoing differences.

By not adequately reconciling all cash differences, the EPA increases the risk of unrecorded transactions, fraud, waste, and mismanagement of funds. Unrecorded transactions could misstate the Agency's Fund Balance with Treasury and EPA financial statements.

We have reported findings regarding the need for the EPA to improve its efforts to resolve cash differences with Treasury in previous audits. While the EPA has made some progress in resolving its cash differences, we continue to find unreconciled recurring differences during our audits.

Recommendation

We recommend that the chief financial officer:

1. Timely reconcile EPA cash differences with the U.S. Department of the Treasury.

Agency Response and OIG Assessment

The EPA concurred with our recommendation and provided acceptable planned corrective actions. The EPA's estimated completion date for corrective actions is September 30, 2022. The Agency's response can be found in Appendix II.

2 – EPA Did Not Recognize Revenue for Water Infrastructure Finance and Innovation Act of 2014 Fee Fund Expenses

We found that the EPA did not recognize $4,513,689 and $2,057,300 in revenue for the WIFIA fee fund for fiscal years 2021 and 2020, respectively. Federal accounting standards require agencies to recognize revenue as expenses are incurred. This error occurred because the EPA did not establish the correct accounting model for WIFIA fee fund expenses to reduce unearned revenue and recognize earned revenue. When the EPA does not properly recognize revenue, the financial statements could be materially misstated.

Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that:

> When advance fees or payments are received, … revenue should not be recognized until costs are incurred from providing the goods and services (regardless of whether the fee or payment is refundable). An increase in cash and an increase in liabilities, such as "unearned revenue," should be recorded when the cash is received.

WIFIA at 33 U.S.C. § 3909 authorizes the EPA to collect and spend fees to cover all or a portion of the costs of servicing WIFIA loans.

The EPA recorded WIFIA fees collected as unearned revenue. When the EPA incurred $4,513,689 and $2,057,300 in expenses related to the unearned revenue in fiscal years 2021 and 2020, respectively, it did not properly recognize earned revenue. The EPA must recognize revenue from fees collected when WIFIA fee fund expenses are incurred. These errors occurred because the EPA did not establish the correct accounting model to properly decrease unearned revenue and increase earned revenue when expenses are made. When the EPA does not use the proper accounting model, such as for recognizing revenue when funds are expensed, the financial statements could be materially misstated.

Recommendations

We recommend that the chief financial officer:

2. Update the Water Infrastructure Finance and Innovation Act accounting model to properly recognize earned revenue and unearned revenue as fee fund expenses are incurred.

3. Reclassify unearned revenue to earned revenue for Water Infrastructure Finance and Innovation Act fee fund expenses incurred during fiscal years 2021 and 2020.

Agency Response and OIG Assessment

The Agency agreed with our findings and recommendations and has completed the corrective actions.

3 – Accounts Receivable Source Documentation Not Provided Timely by Regions

EPA regions did not timely submit supporting source documents to the CFC for over $50.7 million in accounts receivable, which then delayed recording and processing those receivables. In one case, Region 2 submitted receivable documentation over six months after the consent decree for that case was effective. In another case, Region 9 did not timely submit documentation for three receivables totaling approximately $8.1 million. As a result, the CFC did not record these four receivables in the proper fiscal year. EPA policies state that responsible offices must forward to the CFC source documents supporting an accounts receivable for settlements or orders demonstrating a debt owed to the Agency within five business days as specified in the applicable EPA Resource Management directives. The regional program office, the office of regional counsel, and the regional legal enforcement office staff are responsible for providing these documents to the CFC. When the CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and the EPA may not collect all that it is owed. Furthermore, the EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government,* transactions should be "promptly recorded to maintain their relevance and value to management in controlling operations and making decisions." Statement of Federal Financial Accounting Standards 1, *Accounting for Selected Assets and Liabilities*, requires that a receivable "be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided." Statement of Federal Financial Accounting Standards 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* requires that accounts receivable be recognized "when a collecting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets through its established assessment processes to the extent the amount is measurable."

The EPA's Resource Management Directive System 2550D-14-P1, *Financial Management of the Superfund Program, Superfund Accounts Receivable and Billings*, requires the office of regional counsel, the legal enforcement office, or the regional program office, as applicable, to forward copies of all signed administrative settlement agreements and EPA documents that formally assess stipulated penalties within five business days of the effective date of the document. The office of regional counsel or the legal enforcement office must forward copies of entered civil judgements, including consent decrees, to the CFC within five business days of receipt of notice. The office of regional counsel or the legal enforcement office must ensure that other source documents, such as Superfund State Contracts or other official notices requiring payment, are forwarded to the CFC within five business days of final signature.

Resource Management Directive System 2540-9-P3, *Financial and Accounting Management, Administrative and Civil Judicial Penalties,* specifically addresses "the process for recognizing civil penalties owed to the Agency resulting from administrative and civil judicial enforcement actions." The directive requires that the originating office ensure documentation of administrative penalties and bankruptcy proceedings are provided to the CFC within five business days of receipt of the order or documentation. For regionally initiated administrative enforcement actions, the office of regional counsel or regional equivalent are to ensure that penalties are entered in the EPA Case Tracking System, which automatically sends a request to the CFC to establish a billing document.

We found that EPA regional enforcement staff did not timely submit legal source documentation, such as consent decrees and administrative orders, to the CFC for over $50.7 million in accounts receivable, which then delayed recording and processing those receivables. The CFC received associated source documents between one day and over six months after the due date. Table 3-1 provides a summary of the relevant exceptions found throughout our audit.

Table 3-1: Summary of receivables support not recorded timely

OIG analysis description	Number of receivables	Number of exceptions	Number of business days late	Amount
U.S. Department of Justice report reconciliation	46	8	1 to 32 days	$28,287,715.00
Integrated Compliance Information System report reconciliation	71	1	69 days	$116,445.00
Superfund control	29	3	2 to 8 days	$11,785,762.16
Cut-off testing	4	4	4 to 138 days	$10,519,000.00
Total	**150**	**16**		**$50,708,922.16**

Source: OIG analysis of receivables tested. (EPA OIG table)

In one case, Region 2 submitted documentation for a $2.4 million receivable over six months after the consent decree was effective. The regional enforcement staff sent the consent decree in October 2021, outside of the proper accounting period. That required the CFC to process a journal voucher, which is a manual adjustment created by the OCFO to adjust for financial statement purposes, to correct the understated accounts receivable in the fiscal year 2021 financial statements. In another case, Region 9 did not timely submit documentation for three receivables totaling approximately $8.1 million. As a result, the CFC did not record these four receivables in the proper fiscal year.

The regional enforcement staff are required to effectively communicate with the finance center regarding the status of settlement agreements to prevent untimely recording of accounts receivable. When the CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and the EPA may not collect all that it is owed. Furthermore, the EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements. The EPA has policies and procedures in place to direct the regions to provide documents timely. The frequency of the delays indicates that the regions are not adhering to those policies and procedures. Therefore, we believe that regional offices should work with the CFC to resolve this control issue.

Recommendations

We recommend that the assistant administrator for Enforcement and Compliance Assurance:

4. Enforce the existing policies and procedures, which includes forwarding accounts receivable source documents to the Cincinnati Finance Center, in accordance with the time frame provided in the applicable resource management directives.

5. Implement a system that tracks the dates when accounts receivable source documents need to be submitted and are submitted by the Office of Enforcement and Compliance Assurance to the Cincinnati Finance Center.

We recommend that the chief financial officer:

6. Record the three receivables totaling approximately $8.1 million in the fiscal year 2021 financial statements.

Agency Response and OIG Assessment

The Agency agreed with our recommendations and has proposed ongoing corrective actions.

4 – Office of the Chief Financial Officer Needs to Conduct Periodic Reviews of Users' Accounts Within EPA's Contract Payment System

The OCFO has not conducted periodic reviews of user accounts within the EPA's Contract Payment System. The system reports and tracks contract payments and uploads the accounting data associated with the payments into the EPA's core financial system. EPA users, such as contract officers, project officers, and alternate project officers, have access rights in the Contract Payment System to enter, approve, and disapprove contract invoices.

The EPA's information security procedure—CIO 2150-P-01.2, *Information Security – Access Control Procedure*—requires system owners of EPA-operated systems to conduct periodic reviews of user accounts and disable, remove, or terminate the accounts, as appropriate. However, the OCFO lacks a strategy to conduct these required reviews to verify users' access and prevent unauthorized access to sensitive financial data.

In addition, CIO 2150-P-04.2, *Information Security – Security Assessment and Authorization Procedures*, requires system owners of EPA-operated systems to ensure that service providers:

- Document and manage discovered weaknesses and planned remedial actions by entering a Plan of Action and Milestones into the Agency Information Security Repository within:
    - 30 days of when the risk is determined to be "high," and the weakness cannot be or is not remediated or mitigated within 30 days of discovery.
    - 60 days of when the risk is determined to be "medium," and the weakness cannot be or is not corrected within 60 days of discovery.
    - 90 days of when the risk is determined to be "low," and the weakness cannot be or is not corrected within 90 days of discovery.
- Document a senior information official or risk executive's decision to accept a weakness in a Plan of Action and Milestones.

The OCFO commented that it has not conducted periodic reviews of user accounts within the Contract Payment System because of other priorities and limited resources.

Not conducting these required reviews exposes the EPA to operational risks that could jeopardize the confidentiality, integrity, and availability of financial data and access to the system. Unauthorized personnel could expose the Contract Payment System to unidentified threats and vulnerabilities that could put the system and the information it processes, stores, or transmits at risk of being disclosed, modified, or destroyed.

We issued a discussion document on September 8, 2021, with proposed recommendations to develop a strategy to conduct user account reviews and create a Plan of Action and Milestones to document the decision to either mitigate or accept the risk of not conducting periodic reviews of user accounts. In the OCFO's response dated September 29, 2021, it provided the OIG with its *User Access Control Management Plan*, which outlines activities to complete the required user account reviews within the Contract Payment System by December 31, 2021.

Recommendation

We recommend that the chief financial officer:

7. Complete the review of user accounts within the Contract Payment System as outlined in the Office of the Chief Financial Officer *User Access Control Management Plan* by the planned milestone. If all the activities are not completed by that date, the Office of the Chief Financial Officer should create a Plan of Action and Milestones within the Agency Information Security Repository in accordance with the requirements described in CIO 2150-P-04.2, *Information Security – Security Assessment and Authorization Procedures*.

Agency Response and OIG Assessment

The Agency concurred with the recommendation and provided documentation that all corrective actions were completed on November 9, 2021. The OIG concurs with the actions taken and considers Recommendation 7 complete.

Attachment 2

Compliance with Laws and Regulations

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5 – EPA Did Not Comply with OMB Circular A-136

We found that the EPA did not comply with the required form and content on its fiscal year 2021 balance sheet. The OMB requires agencies to use line titles and the format detailed in its Circular A-136, *Financial Reporting Requirements,* dated August 10, 2021. The EPA did not revise the line titles and format of its balance sheet to meet the requirements. As a result, the EPA did not comply with federal financial reporting requirements.

Circular A-136, which is updated annually, sets forth financial reporting requirements for federal agencies that must submit annual audited financial statements. Section II.3.2.2, "Balance Sheet Template," states that entities must use the asset and liability line titles on the numbered lines shown in the balance sheet template provided in that section. It also states that the "commitments and contingencies" line should not contain balance amounts and should only be included as a heading to direct readers to the applicable financial statement footnote. Section II.3.2.3 states that under federal accounting standards, stewardship land information is classified as basic information, requiring the balance sheet to include a reference to a note disclosure.

Based on our preliminary examination of the balance sheet, we found that the EPA did not use the required titles for certain asset and liability lines. The differences are detailed in Table 5-1.

Table 5-1: Differences between EPA's balance sheet and Circular A-136 balance sheet template

Circular A-136 balance sheet line title	EPA's balance sheet line title
Assets – Intragovernmental:	
6. Other Assets	Other
10. Loans receivable, net	Direct Loans Receivable, Net
Assets-With the Public:	
17. Other Assets	Other
Liabilities-Intragovernmental:	
22. Accounts payable	Accounts Payable and Accrued Liabilities
24. Debt	Debt Associated With Loans
Not in Circular A-136	Custodial Liability
26. Other Liabilities	Other
Liabilities-With the Public:	
28. Accounts payable	Accounts payable and Accrued Liabilities
30. Federal employee [and veteran] benefits payable	Pensions and Other Actuarial Liabilities
31. Environmental and disposal liabilities	Environmental Cleanup Costs
Not in Circular A-136	Cashout Advances, Superfund
32. Benefits due and payable	Payroll and Benefits Payable
37. Other Liabilities	Other

Source: OIG analysis of EPA data and OMB Circular A-136, section II.3.2.2, "Balance Sheet Template." (EPA OIG table)

We also found that the EPA erroneously included the commitments and contingencies line under the liabilities section. The line should have been included as a heading below the "Total liabilities" line. In addition, the EPA did not include in its balance sheet the "Stewardship PP&E" heading to direct the reader to the applicable financial statement footnote. The EPA did not follow the prescribed template for the net position section of the balance sheet. Figures 5-1 and 5-2 demonstrate the differences between the EPA's and Circular A-136's net position section.

Figure 5-1: Line titles for the net position section of the balance sheet according to Circular A-136's template

Net Position:

41.1 Unexpended Appropriations-Funds from Dedicated Collections (Note 20)
41.2 Unexpended Appropriations-Funds from Other than Dedicated Collections
41. Total Unexpended Appropriations (Combined or Consolidated)
42.1 Cumulative Results of Operations-Funds from Dedicated Collections (Note 20)
42.2 Cumulative Results of Operations-Funds from other than Dedicated Collections
42. Total Cumulative Results of Operations (Combined or Consolidated)
43. Total net position

Source: OMB Circular A-136, section II.3.2.2, "Balance Sheet Template." (OMB image)

Figure 5-2: Line titles on the net position section of EPA's balance sheet

NET POSITION

Unexpended Appropriations - Funds from Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections
Total Net Position - Funds from Dedicated Collections (Note 18)

Unexpended Appropriations - All Other Funds
Cumululative Results of Operations - All Other Funds
Total Net Position - Other Funds

Total Net Position

Source: EPA's fiscal year 2021 balance sheet. (EPA image)

The EPA was aware that the circular included a new format required for the balance sheet. The circular was updated on August 27, 2020, to streamline reporting requirements and reflect current federal generally accepted accounting principles. This update introduced new form and content for the balance sheet for which early adoption was allowed. All entities are required to follow the new format in preparing their fiscal year 2021 financial statements. The EPA followed its prior-year balance sheet form and content without making the appropriate revisions to comply with Circular A-136's new format requirements. By not complying with reporting requirements, the EPA undermines the trust and reliability of its financial statements.

Recommendation

We recommend that the chief financial officer:

8. Update the fiscal year 2021 financial statements to comply with Office of Management and Budget's Circular A-136, specifically, the balance sheet line items.

Agency Response and OIG Assessment

The EPA concurred with our recommendation and completed most of the Circular A-136 form and content issues. However, we noted several uncorrected line items in the balance sheet, which consists mostly of account groupings. The amounts are not material to the overall financial statements. The Agency's response can be found in Appendix II.

Attachment 3

Status of Prior Audit Report Recommendations

The EPA continues to strengthen its audit management practices and procedures to address audit findings in a timely manner and to complete corrective actions expeditiously and effectively. In fiscal year 2021, the EPA's chief financial officer, as the agency follow-up official, continued to encourage managers to evaluate the OIG's recommendations thoroughly, develop suitable and attainable corrective actions, and implement the corrective actions in the agreed upon time frame. The OCFO accomplished the following actions to strengthen its audit management procedures:

- Worked closely with the agency audit follow-up coordinators during fiscal year 2021 to ensure that corrective action dates were being met and the required certification memorandums were being submitted.

- Provided monthly reporting for the agencywide metric on the number of late audit corrective actions. The metric measures the completion of Agency-identified corrective actions that were not completed in a timely manner. The intended purpose of the monthly reporting is to facilitate the implementation of Agency corrective actions to OIG audit recommendations and decrease the number of late audit corrective actions.

- Launched a new audit tracking tool—called the Enterprise Audit Management System—for tracking OIG and Government Accountability Office audits and evaluations. The Enterprise Audit Management System facilitates the tracking and reporting of the Agency's corrective actions.

- Prepared a monthly OIG and Government Accountability Office tracker intended to provide Agency senior leadership with visibility on OIG and Government Accountability Office audits and evaluations. The tracker includes the most recent audit and evaluation updates and is distributed monthly to Agency senior leaders.

- Maintained the audit community intranet site, which serves as a one-stop-shop resource for the audit follow-up coordinators and liaisons. This collaborative site includes resources and reference materials, such as standard operating procedures, response templates, frequently asked questions, reporting links, deadlines, and other useful information.

- Provided training during the OCFO technical training series on the Agency's audit and evaluation processes. The training provided an overview of the audit follow-up coordinator's roles and responsibilities and emphasized the importance of preparing effective corrective actions and completing them in a timely manner.

- Held periodic meetings with audit follow-up coordinators and audit liaisons to discuss issues and concerns and to emphasize adherence to corrective action due dates and the need to keep the Enterprise Audit Management System current.

These and other efforts are a testament to the OCFO's continued commitment to improving the Agency's audit and evaluation management practices. In addition, the EPA maintained its commitment to engage early with the OIG on audit and evaluation findings and to develop effective corrective actions that address OIG recommendations.

As noted in the table below, however, there are still recommendations from previous financial statement audits that remain either unresolved or unimplemented.

Table 3-1: Significant deficiency issues not fully implemented

EPA Did Not Capitalize Lab Renovation Costs During our fiscal year 2014 audit, we found that EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovations as a capital improvement. The Agency capitalized and booked the Research Triangle Park lab renovation costs and related depreciation. We recommended that the chief financial officer capitalize and book the Research Triangle Park lab renovation costs and calculate depreciation; improve and maintain support for how EPA lab renovation projects are funded; review funding sources of all current and future lab renovations to ensure correct funding is utilized; develop policies and procedures for capital improvements/betterments to real property, and request the Office of General Counsel to determine whether the legal opinion represents a legally acceptable position regarding the definition of "construction" and to provide adequate examples to guide determinations of when renovation work should be funded out of Agency programs. One corrective action was partially completed: the EPA's Office of General Counsel indicated continued agreement with its 1999 legal opinion regarding EPA construction accounting 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. Corrective actions for other recommendations related to this finding were initially due in September 2017; however, the Agency revised the estimated milestone date to February 28, 2018. On July 18, 2018, the Office of General Counsel stated that determining whether renovation work should be funded out of program Agency dollars or buildings and facilities funds is very fact-specific; therefore, providing global examples was not feasible. The Office of General Counsel has no further information to provide and believes its review is complete. The OIG will continue to report the issue as not fully resolved.
Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center During our fiscal year 2014, we found that the EPA and the U.S. Department of Justice did not forward accounts receivable source documents to the CFC in a timely manner. We recommended that the assistant administrator for Enforcement and Compliance Assurance require enforcement officers to include the CFC on the stipulated penalty letters mailing list; remind personnel to timely forward legal documents, and work with the Department of Justice to ensure timely document submission. We also recommended that the chief financial officer work with the Office of Enforcement and Compliance Assurance to update EPA Superfund guidance to ensure timely submission of Superfund accounts receivable control forms to the finance center. Finally, we recommended that the deputy assistant administrator for Administration and Resources Management, under the Office of Mission Support, require the Office of Grants and Debarment to instruct personnel to forward source documents for grant disallowed costs timely to the finance center. During fiscal year 2015, the EPA's Office of Enforcement and Compliance Assurance issued a memorandum reminding the regions to provide accounts receivable enforcement documentation to the finance center in a timely manner. While we have noted some improvements in the CFC's timely receipt of legal documents, we still identified instances of untimely receipt during fiscal years 2015 through 2021. Therefore, the Agency's corrective actions are not completely effective, and we will continue to evaluate whether the Agency timely receives legal source documents in fiscal year 2022.

EPA Should Improve Its Efforts to Resolve Long-Standing Cash Differences with Treasury During our fiscal year 2018 audit, we found that the EPA had not resolved $2.2 million in long-standing cash differences between the EPA's and Treasury's balances. Based on our finding, we recommended that the chief financial officer require the Accounting and Cost Analysis Division and the Las Vegas and Cincinnati Finance Centers to research and resolve cash differences. The Agency agreed with our finding and recommendation. According to the Agency, corrective action was completed on September 13, 2019. We continued to find recurring differences in fiscal years 2020 and 2021. Therefore, we do not consider the corrective actions complete.
EPA Improperly Recorded e-Manifest Receivables and Earned Revenue During our fiscal year 2019 audit, the EPA did not properly record $15,682,808 of e-Manifest receivables. Federal accounting standards require federal entities to recognize accounts receivable when a legal claim exists, as well as to recognize exchange revenue when goods or services are provided to the public or another government entity at a price. The EPA did not establish proper accounting models to record account receivables for e-Manifest fees, interest, and penalties, or to recognize earned revenue from federal versus nonfederal sources at the transaction level. As a result, the EPA is noncompliant with accounting standards because account receivables and earned revenue are understated during the year. Consequently, interest, penalties, and federal revenue are misstated in the financial statements. We recommended that the chief financial officer update the accounting models to properly record collections and not reduce an account receivable account; establish accounting models to properly record e-Manifest account receivables and recognize earned revenue at the transaction level; establish accounting models to properly classify and record interest, fines, penalties, and fees; and establish accounting models to properly record receivables, collections, and earned revenue from federal versus nonfederal vendors. The corrective actions have not been completed as of our fiscal year 2021 audit. The EPA's estimated completion date for corrective actions was originally September 30, 2021; subsequently, the EPA revised the estimated completion date to March 31, 2022.
EPA Needs to Improve Its Financial Statement Preparation Process During our fiscal year 2019 audit, we found multiple instances whereby the Agency had major misstatements of its financial transactions and financial statements. We recommended that the chief financial officer evaluate and improve the EPA's process for preparing financial statements and provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. The EPA agreed with our findings and recommendations. The Agency's estimated completion date for corrective actions was originally July 31, 2020, for Recommendation 1; subsequently, the EPA revised its estimated completion date to September 30, 2021. The EPA's estimated completion date for Recommendation 2 was February 29, 2020. During fiscal year 2020, we continued to find misstatements and adjustment errors in the EPA's financial statement preparation process. We recommended that the chief financial officer develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner. The EPA's estimated planned completion date for our fiscal year 2020 recommendation is December 31, 2021.

Source: OIG analysis of prior year recommendations and the Agency's corrective actions. (EPA OIG table)

Attachment 4

Status of Recommendations

		RECOMMENDATIONS				
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Potential Monetary Benefits (in $000s)
1	9	Timely reconcile EPA cash differences with the U.S. Department of the Treasury.	R	Chief Financial Officer	9/30/22	
2	10	Update the Water Infrastructure Finance and Innovation Act accounting model to properly recognize earned revenue and unearned revenue as fee fund expenses are incurred.	C	Chief Financial Officer	10/27/21	
3	10	Reclassify unearned revenue to earned revenue for Water Infrastructure Finance and Innovation Act fee fund expenses incurred during fiscal years 2021 and 2020.	C	Chief Financial Officer	10/15/21	
4	12	Enforce the existing policies and procedures, which includes forwarding accounts receivable source documents to the Cincinnati Finance Center, in accordance with the time frame provided in the applicable resource management directives.	U	Assistant Administrator for Enforcement and Compliance Assurance		
5	13	Implement a system that tracks the dates when accounts receivable source documents need to be submitted and are submitted by the Office of Enforcement and Compliance Assurance to the Cincinnati Finance Center.	U	Assistant Administrator for Enforcement and Compliance Assurance		
6	13	Record the three receivables totaling approximately $8.1 million in the fiscal year 2021 financial statements.	C	Chief Financial Officer	11/4/21	$8,100
7	15	Complete the review of user accounts within the Contract Payment System as outlined in the Office of the Chief Financial Officer *User Access Control Management Plan* by the planned milestone. If all the activities are not completed by that date, the Office of the Chief Financial Officer should create a Plan of Action and Milestones within the Agency Information Security Repository in accordance with the requirements described in CIO 2150-P-04.2, *Information Security – Security Assessment and Authorization Procedures*.	C	Chief Financial Officer	11/9/21	
8	18	Update the fiscal year 2021 financial statements to comply with Office of Management and Budget's Circular A-136, specifically, the balance sheet line items.	C	Chief Financial Officer	11/4/21	

[1] C = Corrective action completed.
R = Recommendation resolved with corrective action pending.
U = Recommendation unresolved with resolution efforts in progress.

EPA's FYs 2021 and 2020 (Restated) Consolidated Financial Statements

EPA's Fiscal Year 2021 and 2020
Consolidated Financial Statements (With Restatement)

Financial Section

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Principal Financial Statements

United States Environmental Protection Agency
Consolidated Balance Sheet
As of September 30, 2021 and 2020 (Restated)
(Dollars in Thousands)

	2021	Restated 2020
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 11,778,430	$ 10,823,112
Investments, Net (Note 4)	6,155,838	5,969,666
Accounts Receivable, Net (Restated) (Note 5 and 36)	7,602	28,001
Advances and Prepayments	245,934	198,268
Total Intragovernmental	18,187,804	17,019,047
With the Public:		
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Restated) (Note 5 and 36)	580,736	503,725
Loans Receivable, Net (Note 7)	586,138	196,470
General Property, Plant and Equipment, Net (Note 9)	670,637	659,668
Other Assets (Note 6)	7,726	8,209
Total With the Public:	1,845,247	1,368,082
Total Assets	**$ 20,033,051**	**$ 18,387,129**
Stewardship Property Plant and Equipment (Note 11)		
LIABILITIES		
Intragovernmental:		
Accounts Payable (Restated) (Note 8 and 36)	$ 151,102	$ 127,139
Debt (Note 10)	746,839	221,652
Advances from Others and Deferred Revenue	154,235	102,699
Other Liabilities		
Liability to the General Fund for Custodial Assets (Note 12)	51,241	72,018
Other (Note 13)	60,827	55,084
Total Intragovernmental	1,164,244	578,592
With the Public:		
Accounts Payable (Note 8)	56,319	52,696
Federal Employee Benefits Payable (Note 29)	232,635	235,230
Environmental and Disposal Liabilities (Note 18)	25,723	38,383
Advances from Others and Deferred Revenue	125,526	141,368
Other Liabilities		
Deferred Revenue (Note 15)	3,476,737	3,472,784
Other (Note 13)	618,667	550,719
Total With the Public:	4,535,607	4,491,180
Total Liabilities	**$ 5,699,851**	**$ 5,069,772**
Commitments and Contingencies (Note 16)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 17)	$ 187	$ (189)
Unexpended Appropriations - Funds from Other than Dedicated Collections	10,400,345	9,600,037
Total Unexpended Appropriations	10,400,532	9,599,848
Cumulative Results of Operations - Funds from Dedicated Collections (Note 17)	3,551,640	3,307,079
Cumulative Results of Operations - Funds from Other than Dedicated Collections	381,028	410,430
Total Cumulative Results of Operations	3,932,668	3,717,509
Total Net Position	14,333,200	13,317,357
Total Liabilites and Net Position	**$ 20,033,051**	**$ 18,387,129**

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

3.

United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Years Ending September 30, 2021 and 2020
(Dollars in Thousands)

	2021	(Restated) 2020
COSTS		
Gross Costs (Note 36)	$ 9,138,699	$ 9,422,484
Earned Revenue	555,481	514,164
NET COST OF OPERATIONS (Note 32 and 36)	$ **8,583,218**	$ **8,908,320**

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

4.

United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2021
(Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs	$ 2,820,994	$ 86,157	$ 765,510	$ 1,364,410	$ 3,710,627	$ 698,694	$ 9,446,392
WCF Elimination	-	-	-	-	-	(307,693)	(307,693)
Total Costs	2,820,994	86,157	765,510	1,364,410	3,710,627	391,001	9,138,699
Less:							
Earned Revenue	79,315	-	5,001	295,471	-	483,387	863,174
WCF Elimination	-	-	-	-	-	(307,693)	(307,693)
Total Earned Revenue	79,315	-	5,001	295,471	-	175,694	555,481
NET COST OF OPERATIONS	**$ 2,741,679**	**$ 86,157**	**$ 760,509**	**$ 1,068,939**	**$ 3,710,627**	**$ 215,307**	**$ 8,583,218**

United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2020 (Restated)
(Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs (Note 36)	$ 2,793,833	$ 97,770	$ 721,616	$ 1,520,983	$ 3,999,283	$ 563,190	$ 9,696,675
WCF Elimination	-	-	-	-	-	(274,191)	(274,191)
Total Costs	2,793,833	97,770	721,616	1,520,983	3,999,283	288,999	9,422,484
Less:							
Earned Revenue	26,615	-	6,978	362,342	-	392,420	788,355
WCF Elimination	-	-	-	-	-	(274,191)	(274,191)
Total Earned Revenue	26,615	-	6,978	362,342	-	118,229	514,164
NET COST OF OPERATIONS	**$ 2,767,218**	**$ 97,770**	**$ 714,638**	**$ 1,158,641**	**$ 3,999,283**	**$ 170,770**	**$ 8,908,320**

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

United States Environmental Protection Agency
Consolidated Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2021
(Dollars in Thousands)

	Funds from Dedicated Collections	Funds from Other than Dedicated Collections	Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 3,307,079	$ 410,430	$ 3,717,509
Budgetary Financing Sources:			
Appropriations Used	(376)	8,351,063	8,350,687
Nonexchange Revenue - Securities Investment (Note 31)	6,421	-	6,421
Nonexchange Revenue - Other (Note 31)	270,567	-	270,567
Transfers In/Out	(72,312)	70,871	(1,441)
Trust Fund Appropriations	1,153,462	(1,153,462)	-
Total Budgetary Financing Sources	1,357,762	7,268,472	8,626,234
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 28)	26,006	146,137	172,143
Other Financing Sources	769	(769)	-
Total Other Financing Sources	26,775	145,368	172,143
Net Cost of Operations	$ (1,139,976)	$ (7,443,242)	$ (8,583,218)
Net Change	244,561	(29,402)	215,159
Cumulative Results of Operations	**$ 3,551,640**	**$ 381,028**	**$ 3,932,668**

	Funds from Dedicated Collections	Funds from Other than Dedicated Collections	Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ (189)	$ 9,600,037	$ 9,599,848
Budgetary Financing Sources:			
Appropriations Received	-	9,200,494	9,200,494
Other Adjustments (Note 30)	-	(49,123)	(49,123)
Appropriations Used	376	(8,351,063)	(8,350,687)
Total Budgetary Financing Sources	376	800,308	800,684
Total Unexpended Appropriations	**187**	**10,400,345**	**10,400,532**
TOTAL NET POSITION	**$ 3,551,827**	**$ 10,781,373**	**$ 14,333,200**

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

6.

United States Environmental Protection Agency
Consolidated Statement of Changes in Net Position (Restated)
For the Fiscal Year Ending September 30, 2020
(Dollars in Thousands)

	Funds from Dedicated Collections	Funds from Other than Dedicated Collections	Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 3,170,594	$ 497,399	$ 3,667,993
Budgetary Financing Sources:			
Other Adjustments	(1,072)	-	(1,072)
Appropriations Used	(3)	8,458,703	8,458,700
Nonexchange Revenue - Securities Investment (Note 31)	90,116	-	90,116
Nonexchange Revenue - Other (Note 31)	239,795	-	239,795
Transfers In/Out	(26,636)	47,609	20,973
Transfers In/Out - Nonmonetary	544	(325)	219
Trust Fund Appropriations	1,076,535	(1,076,535)	-
Total Budgetary Financing Sources	1,379,279	7,429,452	8,808,731
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 28 and 36)	24,250	124,855	149,105
Other Financing Sources	415	(415)	-
Total Other Financing Sources	24,665	124,440	149,105
Net Cost of Operations	$ (1,267,459)	$ (7,640,861)	$ (8,908,320)
Net Change	136,485	(86,969)	49,516
Cumulative Results of Operations	$ 3,307,079	$ 410,430	$ 3,717,509

	Funds from Dedicated Collections	Funds from Other than Dedicated Collections	Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ (1,264)	$ 8,929,585	$ 8,928,321
Budgetary Financing Sources:			
Appropriations Received	-	9,148,119	9,148,119
Other Adjustments (Note 30)	1,072	(18,964)	(17,892)
Appropriations Used	3	(8,458,703)	(8,458,700)
Total Budgetary Financing Sources	1,075	670,452	671,527
Total Unexpended Appropriations	(189)	9,600,037	9,599,848
TOTAL NET POSITION	$ 3,306,890	$ 10,010,467	$ 13,317,357

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

7.

United States Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2021 and 2020
(Dollars in Thousands)

	2021		2020	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
BUDGETARY RESOURCES				
Unobligated Balance From Prior Year Budget Authority, Net (discretionary and mandatory) (Note 23)	$ 5,951,313	$ 615,240	$ 5,808,190	$ 20,914
Appropriations (discretionary and mandatory)	10,832,321	-	10,737,950	-
Borrowing Authority (discretionary and mandatory)	-	4,726,214	-	3,576,684
Spending Authority (discretionary and mandatory)	463,239	141,081	398,507	5,805
Total Budgetary Resources	**$ 17,246,873**	**$ 5,482,535**	**$ 16,944,647**	**$ 3,603,403**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward adjustments (total)	$ 11,874,288	$ 5,482,535	$ 11,304,380	$ 2,988,163
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,279,575	-	5,446,701	615,240
Unapportioned, Unexpired accounts	1,996	-	4,562	-
Expired Unobligated Balance, End of Year	91,014	-	189,004	-
Unobligated Balance, End of Year (total): (Note 24)	5,372,585	-	5,640,267	615,240
Total Status of Budgetary Resources	**$ 17,246,873**	**$ 5,482,535**	**$ 16,944,647**	**$ 3,603,403**
OUTLAYS, NET AND DISBURSEMENTS, NET				
Outlays, Net (total) (discretionary and mandatory)	$ 9,852,094		$ 10,092,803	
Distributed Offsetting Receipts (-) (Note 26)	(1,481,411)		(1,369,396)	
Agency Outlays, Net (discretionary and mandatory)	$ 8,370,683		$ 8,723,407	
Disbursements, Net (total) (mandatory)		$ 494,357		$ 221,381

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, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 41,035	$ 171,950
Other	22,085	(16,486)
Total Cash Collections	63,120	155,464
Accrual Adjustment	(20,623)	13,714
Total Custodial Revenue (Note 21)	$ 42,497	$ 169,178
Disposition of Collections:		
Transferred to Others (General Fund)	$ 21,273	$ 155,055
Increases/Decreases in Amounts to be Transferred	21,224	14,123
Total Disposition of Collections	$ 42,497	$ 169,178
Net Custodial Revenue Activity	$ -	$ -

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

9.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

The FY 2021 financial statements are presented on a consolidated basis for the Balance Sheet, Statement of Net Cost, Statement of Net Costs by Major Program, and Statement of Changes in Net Position. The Statement of Custodial Activity and the Statement of Budgetary Resources are presented on a combined basis. The financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (the 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.

C. Budgets and Budgetary Accounting

I. General Funds

Congress enacts 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. Annual appropriations for the Science and Technology (S&T), Environmental Programs and Management (EPM) and for the Office of Inspector General (OIG) are available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant for the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available in the appropriation is reduced at the U.S. Treasury (Treasury).

The EPA has three-year appropriation accounts and a no-year revolving fund 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 the Hazardous Waste Electronic Manifest System Fund (e-Manifest) to recover the full cost of providing the hazardous waste electronic manifest fund system related services.

The EPA receives two-year appropriated funds to carry out the Frank R. Lautenberg Chemical Safety for the 21st Century Act. Under the Act, the Agency is authorized to collect users fees (up to $25 million annually) from chemical manufacturers and processors. Fees collected will defray costs for new chemical reviews and a range of Toxic Substances Control Act Service Fee Fund (TSCA) implementation activities for existing chemicals.

The Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) established a Federal credit program administered by the EPA for eligible water and wastewater infrastructure projects. The program is financed from appropriations to cover the estimated long-term cost of the loan. The long-term cost of the loans is defined as the net present value of the estimated cash flows associated with the loans. A permanent indefinite appropriation is available to finance the costs of re-estimated loans that occur in subsequent years after the loans are disbursed. The Agency received two-year appropriations in fiscal years 2021 and 2020 to finance the administrative portion of the program.

EPA re-estimates the risk on each individual loan annually. Proceeds issued by EPA cannot exceed forty-nine percent of eligible project costs. Project costs must exceed a minimum of $20 million for large communities and $5 million for communities with populations of 25,000 or less. After substantial completion of a project, the borrower may defer up to five years to start loan repayment and cannot exceed thirty-five years for the final loan maturity date.

Funds transferred from other federal agencies are processed as non-expenditure transfers. 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.

II. Revolving Funds

Funding of the Reregistration and Expedited Processing Fund (FIFRA) and Hazardous Waste Electronic Manifest System Fund (e-Manifest) 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, continuity of operations, and postage.

The EPA Damage Assessment and Restoration Revolving Fund was established through the U.S. Department of the Treasury and OMB for funds received for critical damage assessments and restoration of natural resources injured as a result of the Deepwater Horizon oil spill.

III. Special Funds

The Environmental Services Receipts Account Fund obtains fees associated with environmental programs. The Pesticide Registration Improvement Act Fund (PRIA) collects pesticide registration service fees for specified registration and amended registration and associated tolerance actions which set maximum residue levels for food and feed. The Toxic Substances Control Act Fund (TSCA) collects user fees to defray costs for new chemical reviews and range of implementation activities for existing chemicals.

IV. Deposit Funds

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

V. Trust Funds

Congress enacts an annual appropriation for the Hazardous Substance Superfund, Leaking Underground Storage Tank (LUST) and the Inland Oil Spill Programs accounts to remain available until expended. Transfer accounts for the Superfund and LUST Trust Funds have been established to record appropriations moving from the Trust Fund to allocation accounts for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the expenditure account, the Agency draws down monies from the Superfund and LUST Trust Funds held 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 enacts the Inland Oil Spill Programs appropriation amount to the EPA's Inland Oil Spill Programs account.

In 2015, the EPA established a receipt account for Superfund special account collections. Special accounts are comprised of reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3). This allows the Agency to invest the funds until drawdowns are needed for special accounts disbursements.

VI. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

VII. Allocation Transfers

The EPA is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations from one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. The EPA allocates funds, as the parent, to the Center for Disease Control. The EPA receives allocation transfers, as the child, from the Bureau of Land Management.

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 a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are 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 OMB directives and the U.S. Treasury regulations.

EPA uses a modified matching principle since federal entities recognize unfunded liabilities (without budgetary resources) in accordance 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*.

I. Superfund

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operations 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 PRPs under CERCLA Section 122(b)(3) which are placed into 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 are deposited in the Superfund Trust Fund.

II. Other Funds

Funds under the Federal 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 operations and capital expenditures. The WIFIA program receives additional funding to support awarding, servicing and collecting loans through application fees collected in the program fund. WIFIA authorizes the EPA to charge fees to recover all or a portion of the Agency's cost of providing credit assistance and the costs of retaining expert firms, including financial, engineering, and legal services, to assist in the underwriting and servicing of federal credit instruments. The fees are to cover costs to the extent not covered by congressional appropriations.

The FIFRA and PRIA funds receive funding through fees collected for services provided and interest on invested funds and can obligate collections up to the amount of anticipated collections within the fiscal year on the approved letter of apportionment. The Hazardous Waste Electronic Manifest System Fund receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System and can obligate collections up to the amount of anticipated collections on the approved letter of apportionment. The Toxic Substances Control Act Fund (TSCA) collects user fees to defray costs for new chemical reviews and arrange of implementation activities for existing chemicals and can obligate collections up to the amount of anticipated collections on the approved letter of apportionment. The WCF receives revenue through fees collected from the Agency program offices for services provided. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements.

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 General 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. (See Note 2.)

G. Investments in U.S. Government Securities

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts or premiums. Discounts or premiums 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 they generally are held to maturity. (See Note 4.)

H. 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.)

I. Accounts Receivable and Interest Receivable

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by the 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 also records allocations receivable from the Superfund Trust Fund, which are eliminated in the consolidated totals.

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.

Most remaining receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, and refunds receivable for the STAG appropriation. (See Note 5.)

J. 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.

K. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. 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. Loan proceeds are disbursed pursuant to the terms of the loan agreement. Interest is calculated semi-annually on a per loan basis. Repayments are made pursuant to the terms of the loan agreement with the option to repay loan amounts early.

L. 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 and Science and Technology appropriations, remains in the respective Trust Funds managed by Treasury.

M. Property, Plant, and Equipment

The 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 contractor-held 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. For contractor-held property, detailed records are maintained and accounted for in contractor systems, not in EPA's FAS. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to fifteen years.

Personal property includes capital leases. To be defined as a capital lease, a lease, at its inception, must 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 containing real property (therefore considered in the real property category as well), have a $150 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 a site-specific response action 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 useful 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 the 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 EPA's FAS and depreciated utilizing the straight-line method based upon the asset's in-service date and useful life.

Real property consists of land, buildings, capital and leasehold improvements and capital leases. In FY 2017, the EPA increased the capitalization threshold for real property, other than land, to $150 thousand from $85 thousand for buildings and improvements and $25 thousand for plumbing, heating, and sanitation projects. The new threshold was applied prospectively. 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 50 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.

Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software that was internally developed by Agency employees. In FY 2017, the EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets, reviewed capitalization of other federal entities, and evaluated the materiality of software account balances. Based on the review, the Agency increased the capitalization threshold from $250 thousand to $5 million to better align with major software acquisition investments. The $5 million threshold was applied prospectively to software acquisitions and modifications/enhancements placed into service after September 30, 2016. Software assets placed into service prior to October 1, 2016 were capitalized at the $250 thousand threshold. Internal use software is capitalized at full cost (direct and indirect) and amortized using the straight-line method over its useful life, not exceeding five years.

Internal use software purchased or developed for the working capital fund is capitalized at $250 thousand and is amortized using the straight-line method over its useful life, not exceeding five years.

N. 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.

O. Debt

Debt payable to Treasury results from loans from Treasury to fund the non-subsidy portion of the WIFIA direct loans. The Agency borrows the funds from Treasury when the loan disbursements agreed upon in the loan agreement are made. Principal payments are made to Treasury periodically based on the collection of loan receivables. (See Note 10)

P. Accrued Unfunded Annual Leave

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

Q. 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 to 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.

R. 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.

S. Deepwater Horizon Oil Spill

The April 20, 2010 Deepwater Horizon (DWH) oil spill was the largest oil spill in U.S. history. In the wake of the spill, the National Contingency Plan regulation was revised to reflect the EPA's designation as a DWH Natural Resource Trustee. The DWH Natural Resources Damage Assessment is a legal process pursuant to the Oil Pollution Act and the April 4, 2016 Consent Decree between the U.S., the five Gulf states, and British Petroleum (BP) entered by a federal court in New Orleans. Under the Consent Decree, a payment schedule was set forth for BP to pay $7.1 billion in natural resource damages. The Natural Resource Damage Assessments (NRDA) trustees are then jointly responsible to use those funds in the manner set forth in Appendix 2 of the Consent Decree to restore natural resources injured by the DWH oil spill. In FY 2016, the EPA received an advance of $184 thousand from BP and $2 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill. As additional projects are identified, the EPA may continue to receive funding through the 2016 Consent Decree to implement its DWH NRDA Trustee responsibilities in the Agency's Damage Assessment and Restoration Revolving Trust Fund.

T. 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, including environmental and grant liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

United States Environmental Protection Agency
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U. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised August 10, 2021. As a result the form and content of the Balance Sheet and Statement of Changes in Net Position has changed to conform with OMB Circular No. A-136.

Note 2. Fund Balance With Treasury (FBWT)

Fund Balance with Treasury as September 30, 2021 and 2020 consists of the following:

	2021			2020		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	$ 138,254	$ -	$ 138,254	$ 152,246	$ -	$ 152,246
LUST	43,540	-	43,540	28,191	-	28,191
Oil Spill & Misc.	27,351	-	27,351	12,643	-	12,643
Revolving Funds:						
FIFRA/Tolerance	38,362	-	38,362	52,574	-	52,574
Working Capital	109,800	-	109,800	87,215	-	87,215
E-Manifest	19,312	-	19,312	10,790	-	10,790
NRDA	2,161	-	2,161	1,916	-	1,916
WIFIA	30,837	-	30,837	6	-	6
Appropriated	10,798,706	-	10,798,706	9,936,774	-	9,936,774
Other Fund Types	566,449	3,658	570,107	535,447	5,310	540,757
Total	$ 11,774,772	$ 3,658	$ 11,778,430	$ 10,817,802	$ 5,310	$ 10,823,112

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 the EPA for other entities.

Status of Fund Balances:	2021	2020
Unobligated Amounts in Fund Balance:		
Available for Obligation	$ 5,278,005	$ 6,094,950
Unavailable for Obligation	97,541	191,669
Net Receivables from Invested Balances	(5,055,979)	(5,033,099)
Balances in Treasury Trust Fund (Note 33)	29,603	19,840
Obligated Balance not yet Disbursed	10,876,050	9,025,670
Non-Budgetary FBWT	553,210	524,082
Total	$ 11,778,430	$ 10,823,112

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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 September 30, 2021 and 2020, no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury. See Note 1 paragraph F for additional information.

Note 3. Cash and Other Monetary Assets

As of September 30, 2021 and 2020, the balance in the imprest fund was $10 thousand.

Note 4. Investments, Net

As of September 30, 2021 and 2020, 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 2021	$ 6,084,927	(64,613)	6,298	6,155,838	$ 6,155,838
Non-Marketable	FY 2020	$ 5,828,179	(135,189)	6,298	5,969,666	$ 5,969,666

CERCLA, as amended by SARA, authorizes the 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, the 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 17).

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 the EPA as evidence of its receipts. Treasury securities are an asset to the EPA and a liability to the U.S. Treasury. Because the 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 the EPA with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the 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. See Note 1 paragraphs G and H for additional information.

(Dollars in Thousands)

Note 5. Accounts Receivable, Net (Restated)

Accounts Receivable as of September 30, 2021 and 2020, consist of the following:

	2021	Restated 2020
Intragovernmental:		
Accounts & Interest Receivable	$ 10,775	$ 30,599
Less: Allowance for Uncollectible Accounts	(3,173)	(2,598)
Total	**$ 7,602**	**$ 28,001**

	2021	2020
With the Public:		
Unbilled Accounts Receivable	$ 131,461	$ 130,449
Accounts & Interest Receivable	2,664,810	2,556,734
Less: Allowance for Uncollectible Accounts	(2,215,535)	(2,183,458)
Total	**$ 580,736**	**$ 503,725**

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. See Note 1 paragraph I and Note 36 for additional information.

Note 6. Other Assets

Other Assets as September 30, 2021 and 2020, consist of the following:

	2021	2020
With the Public:		
Travel Advances	$ 73	$ 77
Other Advances	7,225	7,844
Inventory Purchased for Resale	428	288
Total	**$ 7,726**	**$ 8,209**

See Note 1 paragraph J for additional information.

Note 7. Loans Receivable, Net

Direct Loans Receivable 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 a cost in the year the loan is disbursed. The net loan present value is the gross loan receivable less the subsidy present value. EPA does not have any loans obligated prior to 1992.

EPA administers the WIFIA Direct Loans program. In fiscal years 2021 and 2020, the Agency received borrowing authority of $6.0 billion and $3.6 billion respectively for the non-subsidy portion of loan proceeds disbursed. The cumulative loan limit for the WIFIA Loan Program through fiscal year 2021 is $41.1 billion. For the fiscal year ended September 30, 2021 and 2020, the Agency closed $5.7 billion and $3.2 billion in WIFIA loans, respectively.

Interest on the loans is accrued based on the terms of the loan agreement. For the fiscal years ended September 30, 2021 and 2020, the WIFIA program has incurred $38.2 and $9.7 million in administrative expenses, respectively.

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Obligated after FY 1991

Direct Loan Program	2021 Loans Receivable, Gross	Interest and Fees Receivable	Foreclosed Property/ Allowance for Loan Losses	Allowance for Subsidy Cost	Value of Assets Related to Direct Loans, Net
WIFIA	$ 734,357	566	-	(148,785)	$ 586,138

Direct Loan Program	2020 Loans Receivable, Gross	Interest Receivable	Foreclosed Property/ Allowance for Loan Losses	Allowance for Subsidy Cost	Value of Assets Related to Direct Loans, Net
WIFIA	$ 220,970	-	-	(24,500)	$ 196,470

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Program	2021	2020
WIFIA	$ 545,668	$ 220,970

Subsidy Expense for Direct Loans by Program and Component
Subsidy Expense for New Direct Loans Disbursed

Direct Loan Program	2021 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	$ -	-	-	(2,577)	$ (2,577)

Direct Loan Program	2020 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	$ -	-	-	(1,043)	$ (1,043)

Modifications and Reestimates

Direct Loan Program	2021 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
WIFIA	$ -	7,226	114,482	$ 121,708

Direct Loan Program	2020 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
WIFIA	$ -	-	(23,459)	$ (23,459)

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Total Direct Loans Subsidy Expense

Direct Loan Program	2021	2020
WIFIA	$ 26,448	$ 1,043

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

Direct Loan Program	2021 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	-.03%	0.83%	0%	0%	0.80%

Direct Loan Program	2020 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	0%	0.75%	0%	0%	0.75%

The subsidy rates disclosed pertain to the current year's cohort. The rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursement of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance, Changes and Ending Balance	**2021**	**2020**
Beginning Balance of the Subsidy Allowance	$ (24,500)	$ 2
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	-	-
Fees and Other Collections	-	-
Other Subsidy Costs	$ (2,577)	$ (1,043)
Total of the Above Subsidy Expense Components	(2,577)	(1,043)
Adjustments		
Loan Modifications	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	-	-
Other	-	-
Ending Balance of the Subsidy Cost Allowance Before Reestimates	-	-
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(7,226)	-
Technical/Default Reestimate	$ (114,482)	$ (23,459)
Total of the Above Reestimate Components	(121,708)	(23,459)
Ending Balance of the Subsidy Cost Allowance	$ (148,785)	$ (24,500)

The economic assumptions of the WIFIA upward and downward adjustments were a reassessment of risk levels as well as estimated changes in future cash flows on loans. Actual interest rates used for FY 2021 loan disbursements were higher than the interest rate assumptions used during the budget formulation process at loan origination. See Note 1 paragraph K for additional information.

(Dollars in Thousands)

Note 8. Accounts Payable (Restated)

The Accounts Payable are current liabilities and consist of the following amounts as of September 30, 2021 and 2020:

	2021	Restated 2020
Intragovernmental:		
Accounts Payable	$ 3,367	$ 3,216
Accrued Liabilities	144,640	121,142
Capital Lease Liabilities	2,325	2,369
Direct Loans Subsidy Liabilities	770	412
Total	**$ 151,102**	**$ 127,139**

	2021	2020
With the Public:		
Accounts Payable	$ 56,306	$ 52,693
Advances Payable	(2)	(2)
Interest Payable	15	5
Total	**$ 56,319**	**$ 52,696**

See Note 36 for additional information.

Note 9. General Property, Plant and Equipment, Net

General property, plant, and equipment (PP&E) consist of software, real property, EPA-held and contractor-held personal property, and capital leases. See Note 1 paragraph M for additional information.

As of September 30, 2021, General PP&E Cost consisted of the following:

2021	EPA-Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	**$ 321,002**	**$ 439,787**	**$ 45,865**	**$ 33,895**	**$ 802,321**	**$ 24,485**	**$ 1,667,355**
Additions	23,898	1,109	11,959	12,010	30,623	-	79,599
Dispositions	(14,389)	-	(2,262)	(14,287)	(4,228)	-	(35,166)
Revaluations	68	-	(25)	-	-	-	43
Balance, September 30, 2021	**$ 330,579**	**$ 440,896**	**$ 55,537**	**$ 31,618**	**$ 828,716**	**$ 24,485**	**$ 1,711,831**

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(Dollars in Thousands)

As of September 30, 2021, General PP&E Accumulated Depreciation consisted of the following:

	2021						
	EPA-Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	**$ 217,928**	**$ 420,502**	**$ -**	**$ 26,484**	**$ 321,799**	**$ 20,948**	**$ 1,007,661**
Additions	(14,481)	(63)	-	-	-	-	(14,544)
Dispositions	1,518	63	-	(3,742)	-	-	(2,161)
Revaluations	68	-	-	-	-	-	68
Depreciation Expense	20,949	13,320	-	(2,891)	17,976	816	50,170
Balance, Septemeber 30, 2021	**$ 225,982**	**$ 433,822**	**$ -**	**$ 19,851**	**$ 339,775**	**$ 21,764**	**$ 1,041,194**

As of September 30, 2021, General PP&E, Net consisted of the following:

	2021						
	EPA-Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, September 30, 2021	**$ 104,597**	**$ 7,074**	**$ 55,537**	**$ 11,767**	**$ 488,941**	**$ 2,721**	**$ 670,637**

As of September 30, 2020, General PP&E Cost consisted of the following:

	2020						
	EPA-Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	**$ 304,453**	**$ 439,787**	**$ 27,046**	**$ 44,707**	**$ 794,192**	**$ 24,485**	**$ 1,634,670**
Additions	36,393	-	18,794	1,581	18,184	-	74,952
Dispositions	(19,777)	-	-	(5,633)	(10,056)	-	(35,466)
Revaluations	-	-	-	(6,760)	-	-	(6,760)
Balance, End of Year	**$ 321,069**	**$ 439,787**	**$ 45,840**	**$ 33,895**	**$ 802,320**	**$ 24,485**	**$ 1,667,396**

(Dollars in Thousands)

As of September 30, 2020, General PP&E Accumulated Depreciation consisted of the following:

	2020						
	EPA-Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	$ **212,886**	$ **398,613**	$ **-**	$ **28,593**	$ **303,239**	$ **20,132**	$ **963,463**
Dispositions	(18,780)	-	-	-	-	-	(18,780)
Revaluations	-	-	-	(2,825)	-	-	(2,825)
Depreciation Expense	23,889	21,889	-	716	18,560	816	65,870
Balance, End of Year	$ **217,995**	$ **420,502**	$ **-**	$ **26,484**	$ **321,799**	$ **20,948**	$ **1,007,728**

As of September 30, 2020, General PP&E, Net consisted of the following:

	2020						
	EPA-Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, End of Year, Net	$ **103,074**	$ **19,285**	$ **45,840**	$ **7,411**	$ **480,521**	$ **3,537**	$ **659,668**

Note 10. Debt

All debt is classified as not covered by budgetary resources, except for direct loan and guaranteed loan financing account debt to Treasury and that portion of other debt covered by budgetary resources at the Balance Sheet date.

EPA borrows funds from the Bureau of Public Debt right before funds are disbursed to the borrower for the non-subsidy portion of WIFIA loans. As of September 30, 2021 and 2020, the EPA had debt due to Treasury consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program:

	2020			2021	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
Debt to the Treasury	$ **266**	$ 221,386	$ **221,652**	$ 525,187	$ **746,839**

See Note 1 paragraph O for additional information.

(Dollars in Thousands)

Note 11. Stewardship Property, Plant and Equipment

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, 2021 and 2020, the Agency possessed the following land and land rights:

	2021	2020
Superfund Sites with Easements:		
Beginning Balance	43	40
Additions	2	3
Ending Balance	**45**	**43**
Superfund Sites with Land Acquired:		
Beginning Balance	32	$ 31
Additions	1	1
Withdrawals	(1)	-
Ending Balance	**32**	**32**

Note 12. Liability to the General Fund for Custodial Assets

Liability to the General Fund for Custodial Assets 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, 2021 and 2020, custodial liability is approximately $51,241 and $72,018 thousand, respectively.

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Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2021:

	Covered by Budgetary Resources	Not Covered by Resources	Total
Current			
Employer Contributions & Payroll Taxes	$ 29,503	$ -	$ 29,503
Liability for Deposit Funds	(2)	-	(2)
Non-Current			
Unfunded FECA Liability	-	9,018	9,018
Unfunded Unemployment Liability	-	308	308
Payable to Treasury Judgement Fund	-	22,000	22,000
Total Intragovernmental	$ 29,501	$ 31,326	$ 60,827
Other Liabilities - With the Public:			
Current			
Liability for Deposit Funds, With the Public	$ 5,626	$ -	$ 5,626
Grant Liabilities	369,003	-	369,003
Other Accrued Liabilities	147,393	-	147,393
Accrued Funded Payroll and Benefits	94,136	-	94,136
Employer Contributions Payable - Thrift Savings Plan	2,509	-	2,509
Total With the Public	$ 618,667	$ -	$ 618,667

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(Dollars in Thousands)

Other Liabilities consist of the following as of September 30, 2020:

	Covered by Budgetary Resources	Not Covered by Resources	Total
Current			
Employer Contributions & Payroll Taxes	$ 23,764	$ -	$ 23,764
Non-Current			
Unfunded FECA Liability	-	9,223	9,223
Unfunded Unemployment Liability	-	97	97
Payable to Treasury Judgement Fund	-	22,000	22,000
Total Intragovernmental	**$ 23,764**	**$ 31,320**	**$ 55,084**
Other Liabilities - With the Public			
Current			
Liability for Deposit Funds, With the Public	$ 5,945	$ -	$ 5,945
Grant Liabilities	159,004	-	159,004
Other Accrued Liabilities	317,258	-	317,258
Accrued Funded Payroll and Benefits	36,385	-	36,385
Withholdings Payable	30,297	-	30,297
Employer Contributions Payable - Thrift Savings Plan	1,792	-	1,792
Commitment and Contingencies	-	38	38
Total With the Public:	**$ 550,681**	**$ 38**	**$ 550,719**

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Other Accrued Liabilities are mostly comprised of contractor accruals.

See Note 1 paragraph N for additional information.

Note 14. Leases

The value of assets held under Capital Leases as of September 30, 2021 and 2020, are as follows:

Capital Leases:

	2021	2020
Summary of Assets Under Capital Lease:		
Real Property	$ 24,485	$ 24,485
Total	**24,485**	**24,485**
Accumulated Amortization	$ 21,764	$ 20,948

(Dollars in Thousands)

The EPA has one capital lease for land and buildings housing scientific laboratories. This lease includes 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. The EPA's lease will terminate in FY 2025.

Future Payments Due **Fiscal Year**	**Capital Leases**
2022	$ 786
2023	786
2024	786
2025	262
Total Future Minimum Lease Payments	**2,620**
Less: Imputed Interest	(295)
Net Capital Lease Liability	**2,325**
Liabilities not Covered by Budgetary Resources	$ 2,325

The capital lease payments have been adjusted to reflect payments in the lease agreement. Per the lease agreement, yearly lease payments of $4,215 thousand are due for 20 years from 1995 until 2015. Upon exercise of a 10-year renewal, the yearly lease payment will be $786 thousand from 2015 until 2024. Fiscal year 2025 is a partial year.

Note 15. Deferred Revenue

Other liabilites deferred revenue is fully comprised of cashout advances. Cashout advances are funds received by the EPA, a state, or another responsible party 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), cash-out funds received by the 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 the EPA without further appropriation by Congress. As of September 30, 2021 and 2020, cash-out advances total $3,476,737 thousand and $3,472,784 thousand, respectively.

Note 16. Commitments and Contingencies

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

a) Various personnel actions, suits, or claims brought against the Agency by employees, and others.

b) Various contract and assistance program claims brought against the Agency by vendors, grantees, and others.

c) The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.

d) 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, 2021, there was no accrued liabilities for commitments and potential loss contingencies. As of September 30, 2020, there were $38 thousand of accrued liabilities for commitments and potential loss contingencies.

A. Gold King Mine

On August 5, 2015, EPA and its contractors were conducting an investigation under the Comprehensive

Environmental Response, Compensation, and Liability Act (CERCLA) of the Gold King Mine, an inactive mine in Colorado, when a release of acid mine drainage occurred. While the EPA team was excavating above the mine adit, water began leaking from the mine adit. The small leak quickly turned into a significant breach, releasing approximately three million gallons of mine water into the North Fork of Cement Creek, a tributary of the Animas River. The plume of acid mine water traveled from Colorado's Animas River into New Mexico's San Juan River, passed through the Navajo Nation, and deposited into Utah's Lake Powell. As of September 30, 2021, EPA has received claims under the Federal Tort Claims Act from individuals and businesses situated on or near the affected waterways for alleged lost wages, loss of business income, agricultural and livestock losses, property damage, diminished property value, and personal injury. The amounts estimated related to the Gold King Mine are $314 million but they are only reasonably possible and the final outcomes are not probable.

B. Flint, Michigan

The EPA has received claims from over 9,400 individuals under the Federal Tort Claims Act for alleged injuries and property damages caused by the EPA's alleged negligence related to the water health crisis in Flint, Michigan. There is no estimated loss amount related to the water health crisis and they are only reasonably possible and the final outcomes are not probable.

C. Superfund

Under CERCLA Section 106(a), the 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 the EPA for reimbursement 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. The amounts related to Superfund are for two cases totaling $20.4 million. For these cases, they are only reasonably possible and the final outcomes are not probable. These two cases are: Land O' Lakes (Hudson Oil refinery Superfund Site) for $17.7 million (petition for reimbursement for not being liable under CERCLA); and *August Mack Environmental, Inc. v. EPA* for $2.7 million. August Mack Environmental (AME) was a contractor for Vertellus, one of three PRPs at the Big John Salvage Site in Fairmont, WV. The site was being cleaned up pursuant to a consent decree which named Vertellus the performing defendant. There is a special account at the site funded by the PRPs. Vertellus filed for bankruptcy and AME did not recover in bankruptcy the moneys it claimed it was owed by Vertellus. AME made a claim against the Superfund and/or the Special Account. R3 denied the claim and AME appealed to the ALJ who also denied it. AME then filed suit in district court. The court ruled in favor of EPA on a Motion to Dismiss and AME appealed to the 4th Circuit. The 4th Circuit ruled in AME's favor and case was remanded.

D. Environmental Liabilities

As of September 30, 2021, there are two cases pending against the EPA that are reported under Environmental Liabilities. The first case is Bob's Home Service Landfill for $900 thousand but it is only reasonably possible and the final outcome is not probable. The second case is for ThermalKem a.k.a. Phillip Services CERCLA Site. This is a claim against several EPA regions for generator liability under CERCLA based on waste sent to site from other sites being cleaned-up by EPA and/or under EPA oversight, which is also reasonably possible and the final outcome is not probable. It also includes a claim for generator liability for waste sent to site from EPA's labs and research facilities. For this second case, the estimate amount or range of potential loss is unknown.

E. Other Pending Cases

As of September 30, 2021, legal claims exist for which the potential loss could not be determined. These include cases: *United Affiliates Corp., et al. v. United States* (involving alleged taking of property for which plaintiff is seeking just compensation under the 5th Amendment); *State of New York v. Regan* (State and environmental plaintiffs allege that EPA has unreasonably delayed issuance of regulations for sources in the oil and gas sector under Clean Air

Act section 111(d)); *Resort Center Associates, LLC v. Wheeler* (Plaintiff alleges that EPA violated CERCLA and failed to perform non-discretionary duties under CERCLA in connection with designating a portion of its development property as part of the Richardson Flat Tailings Superfund site. The matter also includes 5th Amendment taking and Federal Tort Claims Act allegations); and *Hennis v. United States* (EPA built and operates an interim water treatment plant to treat ongoing discharge of mine impacted water from the Gold King Mine on plaintiff's property. Plaintiff alleges that the Government's ongoing access to, occupation, and use of his property constitutes a physical taking without just compensation).

In addition, as of September 30, 2021, legal claims exist for cases related to TSCA liability, for which the potential loss could not be determined and the total amount claimed is not material to the financial statements.

F. Judgement Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the 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 where 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. The EPA has an $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, 2021, there is no other case pending in the court.

G. Other Commitments

EPA has a commitment to fund the U.S. Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Government of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. EPA paid $2.6 million to the CEC in the period ending September 30, 2021 and $2.5 million in the period ending September 30, 2020.

EPA has a legal commitment under a noncancelable agreement, subject to the availability of funds, with the United Nations Environmental Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling $8.3 million in the period ending September 30, 2021 and $8.3 million in the period ending September 30, 2020.

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Note 17. Funds from Dedicated Collections (Unaudited) (Restated)

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet for Fiscal Year Ended 2021					
Assets					
Fund Balance with Treasury	$ 546,001	$ 43,540	$ 138,254	$ 135,505	$ 863,300
Investments	-	1,037,121	5,118,717	-	6,155,838
Accounts Receivable, Net	-	85,921	406,184	129,593	621,698
Other Assets	-	228	42,321	589,987	632,536
Total Assets	**$ 546,001**	**$ 1,166,810**	**$ 5,705,476**	**$ 855,085**	**$ 8,273,372**
Other Liabilities	-	93,864	3,806,220	821,461	4,721,545
Total Liabilities	**$ -**	**$ 93,864**	**$ 3,806,220**	**$ 821,461**	**$ 4,721,545**
Unexpended Appropriations	-	-	(104)	291	187
Cumulative Results of Operations	546,001	1,072,946	1,899,360	33,333	3,551,640
Total Liabilities and Net Position	**$ 546,001**	**$ 1,166,810**	**$ 5,705,476**	**$ 855,085**	**$ 8,273,372**
Statement of Net Cost for Fiscal Year Ended 2021					
Gross Program Costs	-	86,157	1,364,410	137,107	1,587,674
Less: Earned Revenues	13	-	295,471	152,214	447,698
Net Costs of Operations	**$ (13)**	**$ 86,157**	**$ 1,068,939**	**$ (15,107)**	**$ 1,139,976**
Statement of Changes in Net Position for Fiscal Year Ended 2021					
Net Position, Beginning of Period	$ 518,165	$ 916,564	$ 1,849,646	$ 22,511	$ 3,306,886
Nonexchange Revenue - Securities Investments	-	476	5,927	18	6,421
Nonexchange Revenue	27,823	241,786	(2,759)	3,717	270,567
Other Budgetary Finance Sources	-	-	1,089,924	(8,774)	1,081,150
Other Financing Sources	-	277	25,457	1,046	26,780
Net Cost of Operations	13	(86,157)	(1,068,939)	15,107	(1,139,976)
Change in Net Position	27,836	156,382	49,610	11,114	244,942
Net Position	**$ 546,001**	**$ 1,072,946**	**$ 1,899,256**	**$ 33,625**	**$ 3,551,828**

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	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance Sheet for Fiscal Year 2020					
Assets					
Fund Balance with Treasury	$ 518,165	$ 28,191	$ 152,246	$ 95,212	$ 793,814
Investments	-	895,016	5,074,650	-	5,969,666
Accounts Receivable, Net	-	82,281	346,291	27,135	455,707
Other Assets	-	424	44,685	201,757	246,866
Total Assets	$ **518,165**	$ **1,005,912**	$ **5,617,872**	$ **324,104**	$ **7,466,053**
Other Liabilities	-	89,348	3,768,226	301,589	4,159,163
Total Liabilities	$ -	$ **89,348**	$ **3,768,226**	$ **301,589**	$ **4,159,163**
Unexpended Appropriations	-	-	(2)	(187)	(189)
Cumulative Results of Operations	518,165	916,564	1,849,646	22,702	3,307,077
Total Liabilities and Net Position	$ **518,165**	$ **1,005,912**	$ **5,617,870**	$ **324,104**	$ **7,466,051**
Statement of Net Cost for Fiscal Year Ended 2020 (Restated)					
Gross Program Costs (Note 36)	-	97,770	1,520,983	116,583	1,735,336
Less: Earned Revenues	-	-	362,428	105,449	467,877
Net Costs of Operations (Note 36)	$ -	$ **97,770**	$ **1,158,555**	$ **11,134**	$ **1,267,459**
Statement of Changes in Net Position for the Fiscal Year Ended 2020 (Restated)					
Net Position, Beginning of Period	$ 491,972	$ 788,492	$ 1,863,347	$ 25,519	$ 3,169,330
Nonexchange Revenue - Securities Investments	-	6,282	83,301	533	90,116
Nonexchange Revenue	26,193	219,210	3,225	(8,833)	239,795
Other Budgetary Finance Sources	-	-	1,033,974	15,697	1,049,671
Other Financing Sources (Note 36)	-	350	24,356	729	25,435
Net Cost of Operations (Note 36)	-	(97,770)	(1,158,555)	(11,134)	(1,267,459)
Change in Net Position	26,193	128,072	(13,699)	(3,008)	137,558
Net Position	$ **518,165**	$ **916,564**	$ **1,849,648**	$ **22,511**	$ **3,306,888**

A. Funds from Dedicated Collections

i. 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.

ii. 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 prevent and 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 and prevention grants to inspect and 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.

iii. 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 the Department of Justice 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.

B. Other Funds from Dedicated Collections

i. 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 the 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.

ii. Pesticide Registration Fund:

The Pesticide Registration Fund was authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," and reauthorized until September 30, 2023, for the expedited processing of certain registration petitions and the 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.

iii. 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 the reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

iv. Tolerance Revolving Fund:

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees were paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. 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).

v. Hazardous Waste Electronic Manifest System

The Hazardous Waste Electronic Manifest System Fund, authorized in 2014, receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System.

Note 18. Environmental and Disposal Liabilities

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

a) Cleanup of hazardous waste and restoration of the facility when it is closed, and

b) Costs to remediate known environmental contamination resulting from the Agency's operations.

The EPA has 30 sites for which it is responsible for clean-up costs incurred under federal, state, and/or local regulations to remove, contain, or dispose of hazardous material found at these facilities.

The EPA is also required to report the estimated costs related to:

a) Clean-up from federal operations resulting in hazardous waste

b) Accidental damage to nonfederal property caused by federal operations, and

c) Other damage to federal property caused by federal operations or natural forces.

The key to distinguishing between future clean-up costs 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.

The 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, 2021, the EPA has one site that requires clean up stemming from its activities. The claimants' chances of success are characterized as reasonably possible with costs amounting to $900 thousand that may be paid out of the Treasury Judgment Fund. Secondly, in January 2020, the CDPHE found several violations of Colorado hazardous waste laws after inspecting an EPA lab where Region 8 and OECA's NEIC are co-located. $38 thousand of the penalty amount has been accrued, which is categorized under probable.

The EPA has 30 sites for which it is required to fund the environmental cleanup. As of September 30, 2021, the estimated costs for site clean-up were $25.7 million unfunded, and $971 thousand funded, respectively. In 2020 the estimated costs for site clean-up were $38.4 million unfunded, and $1,836 thousand funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the 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 2021, the estimate for unfunded clean-up cost decreased by $12.7 million from the FY 2020 estimate. This is primarily due decreased estimates of future lab cleanup actions.

Note 19. State Credits

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Contracts (SSC) when the 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 the 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 the EPA has determined to be reasonable, documented, direct out-of-pocket expenditures with the public funds for remedial action.

Once the 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 the EPA. As of September 30, 2021 and 2020, the total remaining state credits have been estimated at $17.9 million, and $20.2 million, respectively.

Note 20. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The 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, 2021, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling $10.2 million. As of September 30, 2020, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling $11.5 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by the EPA for payment. Further, the 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 the EPA.

Note 21. Custodial Revenues and Accounts Receivable

The EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectability by the EPA of the fines and penalties is based on the respondents' willingness and ability to pay. As of September 30, 2021 and 2020 Custodial Revenues and Accounts Receivable are:

	2021	2020
Fines, Penalties and Other Miscellaneous Receipts	$ 42,497	$ 169,178
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	$ 174,590	$ 191,307
Less: Allowance for Uncollectible Accounts	(144,142)	(141,118)
Total	**$ 30,448**	**$ 50,189**

Note 22. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2021 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2021 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2021 has not yet been published. We expect it will be published by early 2022, and it will be available on the Office of Management and Budget website at https://www.whitehouse.gov/

The actual amounts published for the year ended September 30, 2020 are listed immediately below (dollars in millions):

FY 2020	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 20,548	$ 14,293	$ 1,369	$ 10,093
Reported in the Budget of the U.S. Government	$ 22,447	$ 16,314	$ 1,369	$ 10,316

(Dollars in Thousands)

Note 23. 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 as of September 30, 2021 and 2020:

	2021	2020
Unobligated Balance Brought Forward, Oct 1.	$ 5,640,267	$ 5,460,757
Adjustments to Budgetary Resources Made During the Current Year		
Downward Adjustments of Prior Year Undelivered Orders	335,603	339,024
Downward Adjustments of Prior Year Delivered Orders	19,061	26,546
Permanent Reduction Prior Year Balances	(27,991)	-
Other Adjustments	(15,627)	(18,137)
Total	**311,046**	**347,433**
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	**$ 5,951,313**	**$ 5,808,190**
Temporarily Not Available - Rescinded Authority	**$ (6,428)**	**$ (2,000)**
Permanently Not Available:		
Rescinded Authority	$ 6,428	$ -
Cancelled Authority	27,991	19,140
Total Permanently Not Available	**$ 34,419**	**$ 19,140**

Note 24. 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, 2021and 2020:

	2021	2020
Unexpired Unobligated Balance	$ 5,281,571	$ 6,066,503
Expired Unobligated Balance	91,014	189,004
Total	**$ 5,372,585**	**$ 6,255,507**

(Dollars in Thousands)

Note 25. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2021 and 2020:

	2021	2020
Intragovernmental:		
Unpaid Undelivered Orders	$ 617,433	$ 448,888
Paid Undelivered Orders	300,357	335,082
With the public:		
Unpaid Undelivered Orders	20,650,862	14,213,791
Paid Undelivered Orders	297,852	820,475
Total	**$ 21,866,504**	**$ 15,818,236**

Note 26. Offsetting Receipts

Distributed offsetting receipts are amounts that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts). As of September 30, 2021 and 2020, the following receipts were generated from these activities:

	2021	2020
Trust Fund Recoveries	$ 249,937	$ 237,778
Special Fund Services	76,466	51,502
Trust Fund Appropriation	1,153,462	1,076,535
Miscellaneous Receipt and Clearing Accounts	1,546	3,581
Total	**$ 1,481,411**	**$ 1,369,396**

Note 27. Transfers-In and Out, Statement of Changes in Net Position

A. Appropriations Transfers, In/Out:

As of September 30, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
Net Transfers from Invested Funds	$ 1,525,315	$ 1,396,692
Transfer to the Department of Transportation	-	101,700
Transfers to Another Agency	29,854	809
Total of Net Transfers on the Statement of Budgetary Resources	**$ 1,555,169**	**$ 1,499,201**

(Dollars in Thousands)

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2021 and 2020, 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, 2021 and 2020:

	2021		2020	
Type of Transfer/Funds:	**Funds From Dedicated Collections**	**Other Funds**	**Funds From Dedicated Collections**	**Other Funds**
Transfers-in (out) nonexpenditure, Earmark to Science and Technology and Office of The Inspector General funds	$ -	$ 28,624	$ (42,748)	$ 42,081
Transfers-in (out) nonexpenditure, Oil Spill	20,098	-	19,581	-
Transfers-in (out) nonexpenditure, e-Manifest	-	-	23	-
Transfers-in (out), TSCA	(28,624)	-	(5,528)	-
PRIA	(708)	-	389	-
National Resource Damage Assessment	1,229	-	1,647	-
Total Transfer in (out) without Reimbursement, Budgetary	$ (8,005)	$ 28,624	$ (26,636)	$ 42,081

Note 28. Imputed Financing (Restated)

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 2021 were $128.5 million. For FY 2020, the estimates were $115.2 million (Restated).

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. The 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. The 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 2021 total imputed costs were $32.6 million.

In addition to the pension and retirement benefits described above, the 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 2021, entries for Judgment Fund payments totaled $11 million. For FY 2020, entries for Judgment Fund payments totaled $4.1 million.

(Dollars in Thousands)

Note 29. Federal Employee Benefits Payable

Payroll and benefits payable to the EPA employees for the fiscal years ending September 30, 2021 and 2020, consist of the following:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2021 Payroll and Benefits Payable			
Actuarial FECA Liability	$ -	$ 51,143	$ 51,143
Accrued Unfunded Annual Leave	-	181,492	181,492
Total - Current	$ -	**$ 232,635**	**$ 232,635**

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2020 Payroll and Benefits Payable			
Actuarial FECA Liability	$ -	$ 50,451	$ 50,451
Accrued Unfunded Annual Leave	-	184,779	184,779
Total - Current	$ -	**$ 235,230**	**$ 235,230**

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, the 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 FY 2021 present value of these estimated outflows is calculated using a discount rate of 2.414 percent in the first year, and 2.414 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

See Note 1 paragraph P for additional information.

Note 30. 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 Adjustments, Statement of Changes in Net Position for the years ended September 30, 2021 and 2020, consist of the following:

	Other Funds 2021	Other Funds 2020
Cancelled General Authority	$ 49,123	$ 18,964
Total Other Adjustments	**$ 49,123**	**$ 18,964**

(Dollars in Thousands)

Note 31. Non-Exchange Revenue, Statement of Changes in Net Position

Non-Exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for the fiscal years ended September 30, 2021 and 2020:

	2021		2020	
	Funds from Dedicated Collections	All Other Funds	Funds from Dedicated Collections	All Other Funds
Interest on Trust Fund	$ 6,421	$ -	$ 90,116	$ -
Tax Revenue, Net of Refunds	241,786	-	219,210	-
Fines and Penalties Revenue	(2,740)	-	3,239	-
Special Receipt Fund Revenue	31,521	-	17,265	81
Total Nonexchange Revenue	**$ 276,988**	**$ -**	**$ 329,830**	**$ 81**

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United States Environmental Protection Agency
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Note 32. Reconciliation of Net Cost of Operations to Net Outlays (Restated)

For the Fiscal Year Ended September 30, 2021:

	Intra-governmental	With the Public	Total 2021
NET COST	$ 1,500,235	$ 7,082,983	$ 8,583,218
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation		57,687	57,687
Property, Plant and Equipment Disposal & Revaluation		4,186	4,186
Applied Overhead/Cost Capitalization Offset		(72,607)	(72,607)
Increase/(Decrease) in Assets:			
Accounts Receivable	(20,495)	77,112	56,617
Loans Receivable	50	513,387	513,437
Investments	(70,576)	-	(70,576)
Other Assets	47,670	(624)	47,046
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	29,710	3,623	33,333
Debt Due to Treasury	525,187	-	525,187
Environmental Cleanup Costs	-	(12,660)	(12,660)
Payroll and Benefits Payable	-	(2,595)	(2,595)
Other Liabilities	56,867	56,111	112,978
Other Financing Sources:			
Other Imputed Financing	(172,143)	-	(172,143)
Total Components of Net Cost That Are Not Part of Net Outlays	1,896,505	7,706,603	9,603,108
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Inventory	-	375	375
Acquisition of Other Assets	-	-	-
Other Financing Sources:			
Transfer Out (In) Without Reimbursement	(25,286)	-	(25,286)
Total Components of Budget Outlays That Are Not Part of Net Operating Cost	(25,286)	375	(24,911)
Miscellaneous Items			
Custodial/Non-Exchange Revenue	23	22,106	22,129
Appropriated Receipts for Trust Fund/Special Funds	-	20,028	20,028
Other Temporary Timing Differences	-	**231,740**	**231,740**
NET OUTLAYS	$ 1,871,242	$ 7,980,852	$ 9,852,094

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United States Environmental Protection Agency
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For the Fiscal Year 2020: (Restated)

	Intra-governmental	With the Public	Total 2020
NET COST	**$ 1,418,263**	**$ 7,490,057**	**$ 8,908,320**
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	68,599	68,599
Property, Plant and Equipment Disposal & Revaluation	-	(1,373)	(1,373)
Year-end Credit Reform Subsidy Re-estimates	(23,459)	-	(23,459)
Other	-	57,917	57,917
Increase/(Decrease) in Assets:			
Accounts Receivable (Restated)	(6,802)	2,840	(3,962)
Loans Receivable	-	196,206	196,206
Investments	(27,990)	-	(27,990)
Other Assets	(12,323)	495	(11,828)
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities (Restated)	8,684	15,062	23,746
Debt Due to Treasury	(221,385)	-	(221,385)
Pensions and Other Actuarial Liabilities	-	(8,408)	(8,408)
Environmental Cleanup Costs	-	(5,573)	(5,573)
Cashout Advances, Superfund (Note 36)	-	100,456	100,456
Commitments and Contingencies	-	(38)	(38)
Payroll and Benefits Payable	-	(49,269)	(49,269)
Other Liabilities	19,100	(9,132)	9,968
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(115,246)	-	(115,246)
Transfer Out (In) Without Reimbursement	15,509	-	15,509
Other Imputed Financing	(33,859)	-	(33,859)
Total Components of Net Cost That Are Not Part of Net Outlays	**1,020,492**	**7,857,839**	**8,878,331**
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	567	567
Acquisition of Other Assets	-	15,915	15,915
Other	-	474,408	474,408
Total Components of Net Outlays That Are Not Part of Net Cost	-	**490,890**	**490,890**
Other Temporary Timing Differences	-	**(645,814)**	**(645,814)**
NET OUTLAYS	**$ 1,020,492**	**$ 7,702,915**	**$ 8,723,407**

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Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The reconciliation explains the relationship between the net cost of operations and net outlays by presenting components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities), components of net outlays that are not part of net cost (e.g., acquisition of capital assets), other temporary timing difference (e.g., prior period adjustments due to correction of errors). The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

(Dollars in Thousands)

Note 33. 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.

A. 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, 2021 and 2020. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2021	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 3,917	$ 3,917
Total Undistributed Balance	-	3,917	3,917
Interest Receivable	-	6,298	6,298
Investments, Net	4,970,058	142,361	5,112,419
Total - Assets	**$ 4,970,058**	**$ 152,576**	**$ 5,122,634**
Liabilities and Equity			
Equity	$ 4,970,058	$ 152,576	$ 5,122,634
Total Liabilities and Equity	**$ 4,970,058**	**$ 152,576**	**$ 5,122,634**
Receipts			
Cost Recoveries	$ -	$ 249,937	$ 249,937
Fines and Penalties	-	1,656	1,656
Total Revenue	-	251,593	251,593
Appropriations Received	-	1,153,462	1,153,462
Interest Income	-	5,927	5,927
Total Receipts	**$ -**	**$ 1,410,982**	**$ 1,410,982**
Outlays			
Transfers to/from EPA, Net	$ 1,475,171	$ (1,475,171)	$ -
Total Outlays	**$ 1,475,171**	**$ (1,475,171)**	**$ -**
Net Income	**$ 1,475,171**	**$ (64,189)**	**$ 1,410,982**

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In FY 2021, the EPA received an appropriation of $1.2 billion for Superfund. Treasury's Bureau of the Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to the 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, 2021 and 2020, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of $5.1 billion and $5.2 billion, respectively.

SUPERFUND FY 2020	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 5,759	$ 5,759
Total Undistributed Balance	-	5,759	5,759
Interest Receivable	-	6,298	6,298
Investments, Net	4,863,644	204,708	5,068,352
Total - Assets	**$ 4,863,644**	**$ 216,765**	**$ 5,080,409**
Liabilities and Equity			
Equity	$ 4,863,644	$ 216,765	$ 5,080,409
Total Liabilities and Equity	**$ 4,863,644**	**$ 216,765**	**$ 5,080,409**
Receipts			
Cost Recoveries	$ -	$ 237,778	$ 237,778
Fines and Penalties	-	4,278	4,278
Total Revenue	-	242,056	242,056
Appropriations Received	-	1,076,535	1,076,535
Interest Income	-	83,302	83,302
Total Receipts	**$ -**	**$ 1,401,893**	**$ 1,401,893**
Outlays			
Transfers to/from EPA, Net	$ 1,548,747	$ (1,548,747)	$ -
Total Outlays	**$ 1,548,747**	**$ (1,548,747)**	**$ -**
Net Income	**$ 1,548,747**	**$ (146,854)**	**$ 1,401,893**

(Dollars in Thousands)

B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2021 and 2020, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2021	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 25,686	$ 25,686
Total Undistributed Balance	-	25,686	25,686
Investments, Net	85,921	951,201	1,037,122
Total - Assets	**$ 85,921**	**$ 976,887**	**$ 1,062,808**
Liabilities and Equity			
Equity	$ 85,921	$ 976,887	$ 1,062,808
Total Liabilities and Equity	**$ 85,921**	**$ 976,887**	**$ 1,062,808**
Receipts			
Highway TF Tax	-	214,252	214,252
Airport TF Tax	-	28,268	28,268
Inland TF Tax	-	(734)	(734)
Total Revenue	-	241,786	241,786
Interest Income	-	476	476
Total Receipts	$ -	**$ 242,262**	**$ 242,262**
Outlays			
Transfers to/from EPA, Net	$ 92,203	$ (92,203)	$ -
Total Outlays	**$ 92,203**	**$ (92,203)**	$ -
Net Income	**$ 92,203**	**$ 150,059**	**$ 242,262**

United States Environmental Protection Agency
Notes to the Financial Statements
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LUST FY 2020	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 14,081	$ 14,081
Total Undistributed Balance	-	14,081	14,081
Investments, Net	82,270	812,746	895,016
Total - Assets	**$ 82,270**	**$ 826,827**	**$ 909,097**
Liabilities and Equity			
Equity	$ 82,270	$ 826,827	$ 909,097
Total Liabilities and Equity	**$ 82,270**	**$ 826,827**	**$ 909,097**
Receipts			
Highway TF Tax	$ -	$ 207,604	$ 207,604
Airport TF Tax	-	11,575	11,575
Inland TF Tax	-	31	31
Total Revenue	-	219,210	219,210
Interest Income	-	6,282	6,282
Total Receipts	$ -	$ 225,492	$ 225,492
Outlays			
Transfers to/from EPA, Net	$ 101,700	$ (101,700)	$ -
Total Outlays	**$ 101,700**	**$ (101,700)**	**$ -**
Net Income	**$ 101,700**	**$ 123,792**	**$ 225,492**

Note 34. COVID-19 Activity

On March 27, 2020, President Donald Trump signed into law The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the economic fallout of the COVID-19 pandemic in the United States. The EPA received a supplemental appropriation of $7.2 million to support Environmental Program Management, Science and Technology, Building and Facilities, and Superfund program efforts related to the virus. As of September 30, 2021 $110.2 thousand remains available for obligation.

On March 11, 2021 President Joe Biden signed into law the American Rescue Plan Act (American Rescue Plan) also called the COVID-19 Stimulus Package, to speed up the United States' recovery from the economic and health effects of the COVID-19 pandemic and the ongoing recession. The EPA received a supplemental appropriation of $100 million to support Environmental Program Management and State and Tribal Assistance Grants program efforts related to recovery from the virus. As of September 30, 2021, $86.1 million remains available for obligation.

Additional COVID-19 activities are discussed in Section I, Management's Discussion and Analysis, *Financial Analysis and Stewardship Information*.

Note 35. Reclassification of Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position for the FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows EPA's financial statements and the EPA's reclassified statements prior to the elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2020 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2021 FR will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "Non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

United States Environmental Protection Agency
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Reclassification of Balance Sheet to Line Items used for the Government-wide Balance Sheet as of September 30, 2021							
FY 2021 EPA Balance Sheet		Line Items Used to Prepare the FY 2021 Government-wide Balance Sheet					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS							**ASSETS**
Intra-Governmental Assets							**Intra-Governmental Assets**
FBWT	11,778,430	1,114,893	(251,593)	10,915,170	-	11,778,470	FBWT
Federal Investment	6,149,540	6,149,540	-	-	-	6,149,540	Federal Investments
Investments, Net	6,298	6,298	-	-	-	6,298	Interest Receivable - Investments
Total Investments, Net	6,155,838	6,155,838	-	-	-	6,155,838	*Total Reclassified Investments, Net*
Accounts Receivable, Capital Transfers	-	5,055,979	(5,055,979)	-	-	-	Accounts Receivable, Capital Transfers
Accounts Receivable, Net	7,602	124,014	-	(117,190)	-	6,824	Accounts Receivable, Net
Total Accounts Receivable	7,602	5,179,993	(5,055,979)	(117,190)	-	6,824	*Total Reclassified - A/R*
Interest Receivable - Loans and Not Otherwise Classified	516	515	-	(515)	-	-	Interest Receivable - Loans and Not Otherwise Classified
Advances to Others and Prepayments	245,934	17,695	-	228,245	-	245,940	Advances to Others and Prepayments
Total Other	246,450	18,210	-	227,730	-	245,940	*Total Reclassified Other*
Total Intra-Governmental Assets	**18,188,320**	**12,468,934**	**(5,307,572)**	**11,025,710**	-	**18,187,072**	**Total Intra-Governmental Assets**
Cash and Other Monetary Assets	10	-	-	10	-	10	Cash and Other Monetary Assets
Accounts Receivable, Net	580,736	497,683	-	82,492	-	580,175	Accounts Receivable, Net
Loans Receivable, Net	585,622	585,571	-	567	-	586,138	Loans Receivable, Net
Inventory and Related Property, Net	428	-	-	428	-	428	Inventory and Related Property, Net
General PP&E	670,637	27,996	-	657,376	-	685,372	General PP&E, Net
Other	7,298	777	-	6,521	-	7,298	Other
Total Assets	**20,033,051**	**13,580,961**	**(5,307,572)**	**11,773,104**	-	**20,046,493**	**Total Assets**
LIABILITIES							**LIABILITIES**
Intra-Governmental Liabilities							**Intra-Governmental Liabilities**
Accounts Payable	151,102	59,390	-	110,610	-	170,000	Accounts Payable
Accounts Payable, Capital Transfers	-	5,085,447	(5,055,979)	(29,468)	-	-	Accounts Payable, Capital Transfers
Debt	746,839	746,839	-	-	-	746,839	Debt
Other - Custodial Liability	51,241	22,362	-	28,109	-	50,471	Other - Custodial Liability
Other - Miscellaneous Liabilities	-	-	-	32,600	-	32,600	Benefit Program Contributions Payable
Advances from Others & Deferred Credits	154,235	139,829	-	13,296	-	153,125	Advances from Others & Deferred Credits
Interest Payable	-	-	-	-	-	-	Interest Payable
Other Liabilities	60,827	202	-	8,538	-	8,740	Other Liabilities
Total Other - Miscellaneous Liabilities	215,062	140,031	-	54,434	-	194,465	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intra-Governmental Liabilities	**1,164,244**	**6,054,069**	**(5,055,979)**	**163,685**	-	**1,161,775**	***Total Intra-Governmental Liabilities***
Accounts Payable	56,319	32,989	-	23,196	-	56,185	Accounts Payable
Federal Employee Benefits Payable	232,635	17,348	-	215,289	-	232,637	Federal Employee and Veteran Benefits
Environmental and Disposal Liabilities	25,723	-	-	25,723	-	25,723	Environmental and Disposal Liabilities
Advances and Deferred Revenue	3,602,263	3,568,981	-	11,978	-	3,580,959	Advances and Deferred Revenue
Miscellaneous Liabilities	618,667	104,154	-	537,521	-	641,675	Other Liabilities
Total Miscellaneous Liabilities	618,667	3,723,472	-	537,521	-	4,260,993	*Total Reclassified Miscellaneous Liabilities48*

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(Dollars in Thousands)

Total Liabilities	**5,699,851**	**9,777,541**	**(5,055,979)**	**977,392**	-	**5,698,954**	**Total Liabilities**
NET POSITION							NET POSITION
Unexpended Appropriations - Funds from Dedicated Collections	187	187	-	-	-	187	Net Position - Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	10,400,345	-	-	10,395,591	-	10,395,591	Net Position - Funds Other Than Those From Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections	3,551,640	3,803,233	(251,593)	-	-	3,551,640	
Cumulative Results of Operations - All Other	381,028	-	-	400,121	-	400,121	
Total Net Position	14,333,200	3,803,420	(251,593)	10,795,712	-	14,347,539	
Total Liabilities & Net Position	**20,033,051**	**13,580,961**	**(5,307,572)**	**11,773,104**	-	**20,046,493**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for For the Year Ended September 30, 2021							
FY 2021 EPA SNC		**Line Items Used to Prepare the FY 2021 Government-wide SNC**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and Other**	**Total**	**Reclassified Statement Line**
Gross Costs	9,138,699						***Non-Federal Costs***
	-	1,165,442	-	6,397,382	-	7,562,824	Non-Federal Gross Costs
	-	1,165,442	-	6,397,382	-	7,562,824	***Total Non-Federal Costs***
							Intragovernmental Costs
	-	90,956	-	346,188	-	437,144	Benefits Program Costs
	-	26,006	-	113,575	-	139,581	Imputed Costs
	-	282,533	-	664,256	-	946,789	Buy/Sell Costs
	-	-	-	110	-	110	Purchase of Assets
	-	22,737	-	-	-	22,737	Borrowing and Other Interest Expense
	-	-	-	(3,286)	-	(3,286)	Other Expenses (w/o Reciprocals)
	-	422,232	-	1,120,843	-	1,543,075	***Total Intragovernmental Costs***
Total Gross Costs	9,138,699	1,587,674	-	7,518,225	-	9,105,899	***Total Reclassified Gross Costs***
Earned Revenue	555,481	671,109	(249,937)	2,492	-	423,664	Non-Federal Earned Revenue
							Intragovernmental Revenue
	-	26,525	-	86,686	-	113,211	Buy/Sell Revenue
	-	-	-	110	-	110	Purchase of Assets Offset
	-	26,525	-	86,796	-	113,321	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	555,481	697,634	(249,937)	89,288	-	536,985	***Total Reclassified Earned Revenue***
NET COST	**8,583,218**	**890,040**	**249,937**	**7,428,937**	-	**8,568,914**	NET COST

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2021 and September 30, 2020
(Dollars in Thousands)

Reclassification of Statement on Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2021							
FY 2021 EPA SCNP		**Line Items Used to Prepare the FY 2021 Government-wide SCNP**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and Other**	**Total**	**Reclassified Statement Line**
UNEXPENDED APPROPRIATIONS							**UNEXPENDED APPROPRIATIONS**
Unexpended appropriations, Beginning Balance	9,599,848	(188)	-	9,593,529	-	9,593,341	Unexpended appropriations, Beginning Balance
Appropriations Received	9,200,494	-	-	9,152,443	-	9,152,443	Appropriations Received
Other Adjustments	(49,123)	(70)	-	70	-	-	Other Adjustments
Appropriations Transferred In/Out	-	-	-	-	-	-	Appropriations Transferred In/Out
Appropriations Used	(8,350,687)	(376)	-	(8,350,451)	-	(8,350,827)	Appropriations Used
Total Unexpended Appropriations	**10,400,532**						
CUMUL. RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	3,717,509	3,285,516	-	435,966	-	3,721,482	Cumulative Results, Beginning Balance
Other Adjustments	-	-	-	-	-	-	Other Budgetary Financing Sources
Appropriations Used	8,350,687	376	-	8,350,451	-	8,350,827	Appropriations Used
							Non-Federal Non-Exchange Revenues
Nonexchange Revenue - Securities Investment	6,421	6,421	-	-	-	6,421	Nonexchange Revenue - Securities Investment
Nonexchange	-	-	-	61,939	-	61,939	
Borrowings and other interest revenue	-	769	-	9,933	-	10,702	Borrowings and other interest revenue
Nonexchange Revenue - Other	270,567	272,223	(1,656)	(28,781)	-	241,786	Other Taxes and Receipts
	-	-	-	1,002,766	-	1,002,766	Collections Transferred to a TAS other than the General Fund
	276,988	279,413	(1,656)	1,045,857	-	1,323,614	**Total Non-Federal Non-Exchange Revenues**
	-	-	-	-	-	-	Borrowings and Other Interest Revenue
	-	-	-	-	-	-	Other Taxes and Receipts
Transfers In/Out w/o Reimbursement-Budgetary	(1,441)	1,102,649	-	(1,081,322)	-	21,327	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
	-	-	-	(2,004)	-	(2,004)	Revenue and Other Fnancing Sources - Cancellations
Total Transfers In/Out w/o Reimbursement-Budgetary	-	134	-	(2,004)	-	(1,870)	*Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary*
Imputed Financing Sources	172,143	26,006	-	113,576	-	139,582	Imputed Financing Sources (Federal)
Trust Fund Appropriations	-	-	-	(1,064,079)	-	(1,064,079)	Non-entity collections transferred to the General Fund of the U.S. Government
	-	-	-	21,182	-	21,182	Accrual of collections yet to be trans. to the Gen. Fund
	-	-	-	9,431	-	9,431	Other non-budgetary financing sources
Total Financing Sources	**172,143**	**26,140**	-	**(921,894)**	-	**(895,754)**	
Net Cost of Operations	**(8,583,218)**	**(890,040)**	**(249,937)**	**(7,428,937)**	-	**(8,568,914)**	Net Cost of Operations

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(Dollars in Thousands)

Ending Balance - Cumulative Results of Operations	**3,932,668**	**3,804,054**	**(251,593)**	**400,121**	**-**	**3,952,582**	
Total Net Position	**14,333,200**	**3,803,420**	**(251,593)**	**10,795,712**	**-**	**14,347,539**	**Total Net Position**

Note 36. Restatements

During FY 2021 EPA determined that OPM imputed costs related to Pension, Health and Life insurance were materially understated for FY 2020. Only 4th quarter's costs of $28.1 million were recorded; the cost for the entire year should have been $115 million, leaving Imputed Financing Sources on the Statement of Changes in Net Position and Gross Costs on the Statement of Net Cost understated by approximately $87 million each.

The change impacts the FY2020 Gross Costs and Net Cost on the Statement of Net Costs and Other Financing Sources (Non-Exchange) Imputed Financing Sources on the Statement of Changes in Net Position.

For the Year Ended September 30, 2020	Previously Reported	Restatement	Restated Amount
Gross Cost - Statement of Net Cost	$ 9,335,328	87,156	$ 9,422,484
Net Cost of Operations - Statement of Net Cost	$ 8,821,164	87,156	$ 8,908,320
Imputed Financing Sources - Statement of Changes in Net Position	$ 61,949	87,156	$ 149,105

During FY21 EPA did not eliminate the upward reestimate for the WIFIA loan program leaving Intragovernmental: Accounts Receivable and Intragovernmental: Accounts Payable overstated by $23.9 million.

For the Year Ended September 30, 2020	Previously Reported	Restatement	Restated Amount
Accounts Receivable	$ 31,474	(23,872)	$ 7,602
Accounts Payable	$ 126,460	23,872	$ 150,332

See Note 1 paragraph R for additional information.

Required Supplementary Information (Unaudited)

United States Environmental Protection Agency
September 30, 2021 and 2020
(Dollars in Thousands)

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:

	2021	2020
Asset Category		
Buildings	$ 119,869	$ 128,924
Total Deferred Maintenance	$ 119,869	$ 128,924

In Fiscal Year 2021, in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs*: *Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, the EPA presents Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

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. Repair and Improvement (R&I) projects are identified and prioritized on a local basis.
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.	No significant changes.

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 ensure 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.	No significant changes.

Beginning in FY 2015, requirements for recognizing and reporting significant and expected-to-be-permanent impairment of general PP&E (except Internal Use Software) remaining in use are in SFFAS No. 44, *Accounting for Impairment of General Property, Plant, and Equipment (G-PP&E) Remaining in Use*.

This statement establishes accounting and financial reporting standards for impairment of general property, plant, and equipment remaining in use, except for internal use software. G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction work in progress. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.

This statement does not anticipate that entities will have to establish additional or separate procedures beyond those that may already exist, such as those related to deferred maintenance and repairs, to search for impairments. Impairments can be identified and brought to management's attention in a variety of ways. Although a presumption exists that there are existing processes and internal controls in place to reasonably assure identification and communication of potential material impairments, this statement does not require entities to conduct an annual or other periodic survey solely for the purpose of applying these standards.

Management may determine that existing processes and internal controls are not sufficient to reasonably assure identification of potential material impairments and impairments and implement appropriate additional processes and internal controls.

Supplemental Combined Statement of Budgetary Resources (Unaudited)

United States Environmental Protection Agency
For the Fiscal Year Ended September 30, 2021
(Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State Tribal Assistance Agreements	Other	Totals
BUDGETARY RESOURCES							
Unobligated Balance From Prior Year Budget Authority, Net	$ 539,838	$ 8,766	$ 162,251	$ 3,756,194	$ 1,104,803	$ 994,703	$ 6,566,555
Appropriations (discretionary and mandatory)	2,835,674	92,203	729,329	1,471,761	4,368,401	1,334,951	10,832,319
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	4,726,214	4,726,214
Spending Authority From Offsetting Collection	(29,616)	-	40,360	23,171	-	570,405	604,320
Total Budgetary Resources	$ 3,345,896	$ 100,969	$ 931,940	$ 5,251,126	$ 5,473,204	$ 7,626,273	$ 22,729,408
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	$ 2,921,422	$ 92,830	$ 797,138	$ 1,696,484	$ 4,557,270	$ 7,291,679	$ 17,356,823
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	353,252	8,139	118,440	3,554,042	915,934	329,768	5,279,575
Unapportioned, Unexpired Accounts	-	-	-	600	-	1,396	1,996
Expired Unobligated Balance, End of Year	71,222	-	16,362	-	-	3,430	91,014
Unobligated Balance, End of Year (total):	424,474	8,139	134,802	3,554,642	915,934	334,594	5,372,585
Total Status of Budgetary Resources	$ 3,345,896	$ 100,969	$ 931,940	$ 5,251,126	$ 5,473,204	$ 7,626,273	$ 22,729,408
OUTLAYS, NET							
Outlays, Net (total) (discretionary and mandatory)	$ 2,616,620	$ 84,808	$ 737,246	$ 1,382,313	$ 3,714,197	$ 1,316,911	$ 9,852,095
Distributed Offsetting Receipts (-) (Note 26)	-	-	-	(1,403,399)	-	(78,012)	(1,481,411)
Agency Outlays, Net (discretionary and mandatory)	$ 2,616,620	$ 84,808	$ 737,246	$ (21,086)	$ 3,714,197	$ 1,238,899	$ 8,370,684
Disbursements, Net (total) (mandatory)						$ 494,357	$ 494,357

Agency Response to Draft Report

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

November 10, 2021

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY21-0170, *"EPA's Fiscal Years 2021 and 2020 (Restated) Consolidated Financial Statements,"* dated November 9, 2021

FROM: Faisal Amin, Chief Financial Officer
Office of the Chief Financial Officer

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TO: Paul C. Curtis, Director
Financial Directorate
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Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency's overall position, along with its position on the report's recommendations.

AGENCY'S OVERALL POSITION

The draft report contains six recommendations for the Office of the Chief Financial Officer and two recommendations for the Office of Enforcement and Compliance Assurance. The OCFO and the OECA agree with the Office of Inspector General's recommendations; however, the OCFO has provided clarification below on some of the OIG's positions. Additionally, the OECA has identified areas within the report where information may have been misrepresented or misstated (see Attachment A – *"OECA's Review and Comment of the OIG's Position Paper No. 1 Accounts Receivable Source Documentation Not Provided Timely by Regions"*).

OCFO RESPONSE

OIG Statement: We found that the EPA did not reconcile $2,109,083.84 in cash differences between the EPA's and the Treasury's cash balances.

Response:
The agency concurs with the OIG's recommendation but notes that although the absolute value of the differences is $2,109,083.84, the net value of the differences is $337,666.08.

Unreconciled cash differences	
Treasury symbol	**Dollar amount**
6818/190108	$885,708.88
6819/200108	(356,297.29)
6820/210108	(867,077.67)
Total	**$337,666.08**

OIG Statement: We found that the EPA did not recognize $4,513,689 and $2,057,300 in revenue for the WIFIA fee fund for fiscal years 2021 and 2020, respectively. Federal accounting standards require agencies to recognize revenue as expenses are incurred. This error occurred because the EPA did not establish the correct accounting model for WIFIA fee fund expenses to reduce unearned revenue and recognize earned revenue. When the EPA does not properly recognize revenue, the financial statements could be materially misstated.

Response:
Although the agency concurs with the OIG's recommendations, the accounting models lacked only the transaction to recognize earned revenue and reduce unearned revenue; all the incurred expenses for the Water Infrastructure Finance and Innovation Act Fee Fund were properly recorded as expenses in Compass.

OIG Statement: We found that the EPA did not comply with the required form and content on its fiscal year 2021 balance sheet. The Office of Management and Budget requires agencies to use line titles and the format detailed in its Circular A-136, *Financial Reporting Requirements,* dated August 10, 2021. The EPA did not revise the line titles and format of its balance sheet to meet the requirements. As a result, the EPA did not comply with federal financial reporting requirements. By not complying with reporting requirements, the EPA undermines the trust and reliability of its financial statements.

Response:
The EPA agrees it did not update the titles for certain asset and liability lines in the balance sheet as noted in Table 5-1 of the report. The EPA realizes federal guidelines are a critical component to maintain trust and reliability in the EPA's financial statements. However, although some line titles need to be updated, the financial statements are accurate and reflect reliable data.

The differences stated in Table 5-1, Differences between EPA's balance sheet and Circular A-136 balance sheet template, labeled as "*Not in Circular A-136"* for the EPA's balance sheet line title "Custodial Liability" and "Cashout Advances, Superfund" are not instances of noncompliance. These two EPA balance sheet line titles are in agreement with the A-136 as per *Section II.3.2.2, "Balance Sheet Template,"* where it states "*An entity may disaggregate* *a required line title into two or more entity-specific line titles. The detail must sum to the total that would otherwise be required for the numbered line item."* These two-line titles are unique to the EPA and they do properly sum to the total that would otherwise be required for the numbered line item.

The agency agrees that Circular A-136 Section II.3.2.2, "Balance Sheet Template," states that entities must use the asset and liability line titles on the numbered lines shown in the balance sheet template provided in that section. However, the OMB's Circular A-136 does not state that agencies "must" use the line titles in the net position section.

The agency agrees that the balance sheet presentation needs to be updated, yet these needed revisions do not "*undermine the trust and reliability of its financial statements*." The asset and liability line titles not being verbatim with the OMB's Circular A-136 on the balance sheet has no negative impact on the accuracy and reliability of the financial statements.

For full compliance with the new OMB Circular A-136 balance sheet format, the agency has:

- Updated the balance sheet presentation to be verbatim for the line titles.
- Added the Stewardship PP&E line item to the balance sheet.
- Added the Commitments and Contingencies line item to the balance sheet.
- Updated the Net Position section for line titles.

As stated above, these revisions are simply changes in form and not changes in substance to the displayed balance sheet, which accurately presents the agency's financial position as of September 30, 2021.

<u>OECA RESPONSE:</u>
The OECA agrees with the OIG that it is important for the EPA's enforcement offices to submit timely supporting enforcement documentation to the Cincinnati Finance Center. However, the timeliness figures in the OIG's draft report are unclear and do not accurately reflect the EPA's timeliness performance in FY 2021. We request that the OIG correct several factual errors noted below. Further, we request that the OIG disaggregate its review of this measure to show where the EPA needs improvement and where the EPA has met or exceeded the timeliness goal, according to the EPA's policy.

The OIG's accounts receivable timeliness table states that the EPA and the Department of Justice had 150 receivables, 16 of which were late in FY 2021. According to this table, the OIG obtained this data from a DOJ report, an Integrated Compliance Information System (ICIS) report, "Superfund Control," and "Cut-Off testing." While we appreciate the emails the OIG provided to the OECA on November 1, 2021, we do not fully understand what "Superfund Control" and "Cut-Off testing" mean, where the associated numbers come from, how they align with the applicable Resource Management Directives, or why the OIG reviewed samples of accounts receivable and not the entire universe of accounts receivable data. We suggest the best place to obtain accounts receivable timeliness information is from EPA's Compass system, which houses the EPA's financial data and is the system the agency uses to track its obligations under the applicable directives. The data in the quarterly reports that the OECA sends to regional managers on the EPA's timeliness performance are taken from Compass. Please see the data in Appendices

A and B of the attached OECA's Review and Comment of the OIG's Position Paper No. 1 Accounts Receivable Source Documentation Not Provided Timely by Regions (October 28, 2021). Only when the OECA and the OIG are reviewing the same data can we meaningfully understand and discuss the EPA's timeliness performance. We would like to meet with you to discuss the appropriate data sources for review of enforcement documentation.

The OIG's draft report highlights two examples of specific late accounts receivable related to consent decrees–one from Region 2 and another from Region 9. The CFC sends quarterly reports to the DOJ and manages the timeliness measure for civil judicial consent decrees on behalf of the EPA. The Region 2 document was sent late to the CFC, but the $2.4 million receivable amount is misleading. Because only 25 percent of the debt could be collected, the true value of this debt was approximately $600,000, not $2.4 million. For the $8 million in receivables from Region 9, representing three related consent decrees, the DOJ was late sending the consent decree to Region 9. There was little the EPA could have done to achieve timeliness in this instance. In addition, the OIG's draft report states that these receivables were not recorded in the proper fiscal year as a result of the documentation not being timely provided. However, the court entered the consent decrees on September 28, 2021, and the receivables would have likely been recorded after the fiscal year ended even if the documentation had been provided within the allowed five days. This is a relatively common occurrence when settlements are completed at the end of the fiscal year. We request that the OIG correct the information with regard to the Region 2 and Region 9 examples.

The OECA is responsible for managing the timeliness of sending the CFC administrative penalty orders and final EPA stipulated penalty demand letters. For administrative penalty orders, the EPA has been meeting the five-business day submittal standard set forth in the Resource Management Directive System 2540-9-P3 at least 95 percent of the time for the past four years, including FY 2021. In FY 2018, the EPA was timely 95 percent of the time (1,014 of 1,070 instances); in FY 2019, the EPA was timely 96 percent of the time (881 of 920 instances); in FY 2020, the EPA was timely 95 percent of the time (874 of 920 instances); and in FY 2021, the EPA was timely 98 percent of the time (897 of 918 instances). Please see Appendix A of the attached OECA letter for more detailed information. The EPA has been meeting or exceeding the 95 percent goal for several years, and the OECA will continue our focus on this measure. Accordingly, we do not believe that this task warrants continued OIG annual review, and we request that the scope of the OIG's review of accounts receivable for FY 2021 and in the future exclude administrative penalty orders.

The second type of enforcement document timeliness measure that the OECA manages is final EPA stipulated penalty demand letters. When a party enters into a settlement with the EPA, the settlement may require the party to perform certain actions. If the party fails to perform those actions, the party is subject to stipulated penalties. The EPA may issue a stipulated penalty demand letter to the party stating the party violated a provision of the settlement and request the party pay a stipulated penalty. After the EPA issues the final stipulated penalty demand letter, the EPA must send the letter to the CFC within five business days. While the EPA had a timeliness rate of 19 percent in FY 2017 (timely in 7 out of 37 instances), since then the OECA has taken aggressive measures to increase that percentage to 90 percent in FY 2021 (timely in 18 out of 20 instances). See Appendix B in the attached OECA letter for more detailed information.

Stipulated penalty demand letters may also come from other sources besides the EPA, such as the DOJ or a co-plaintiff (e.g., state). Additionally, a defendant may self-report the violation and submit a stipulated penalty payment to the EPA without a government entity issuing a demand letter. The EPA has been working with and implementing protocols with the DOJ, co-plaintiffs, and defendants to send demand letters and self-reporting letters to the CFC within five business days of the debt being triggered (as a result of an action that triggers the penalty obligation); however, these instances are outside of what the OCFO's RMDS policies require of the EPA, outside the control of the EPA, and thus outside the scope of this measure. As such, we respectfully request the OIG's review of accounts receivable focus on final EPA-issued stipulated demand letters and not stipulated penalty demand letters from other sources and self-reporting stipulated penalties by defendants for which the EPA has no control.

The analysis in the OIG's draft report is also misleading because it fails to recognize significant results achieved as a result of changes the OECA has implemented to improve the timeliness of the EPA's submissions to the CFC of final EPA stipulated penalty demand letters. As noted above, we request that the OIG's report show where the EPA needs improvement and where the EPA has met or exceeded the timeliness goal, according to the EPA's policy. We look forward to discussing with you the corrective actions taken in FY 2021 and planned for FY 2022 to continue to improve the EPA's timeliness.

AGENCY RESPONSE TO DRAFT REPORT RECOMMENDATIONS

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
1	Timely reconcile EPA cash differences with the U.S. Department of the Treasury.	OCFO/ OC	Concur. The OCFO has established a workgroup that will resolve the cash differences and enhance the standard operating procedures to ensure timely cash reconciliation.	September 30, 2022
2	Update the Water Infrastructure Finance and Innovation Act accounting model to properly recognize earned revenue and unearned revenue as fee fund expenses are incurred.	OCFO/ OC	Concur. The posting models have been updated.	Completed October 27, 2021
3	Reclassify unearned revenue to earned revenue for Water Infrastructure Finance and Innovation Act fee fund expenses incurred during fiscal years 2021 and 2020.	OCFO/ OC	Concur. The unearned revenue for those expenses has been reclassified to earned revenue.	Completed October 15, 2021

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
4	Enforce the existing policies and procedures, which includes forwarding accounts receivable source documents to the Cincinnati Finance Center, in accordance with the time frame provided in the applicable resource management directives.	OECA	Concur. The OECA agrees that existing EPA policies, particularly the OCFO's Resource Management Directives, should be followed. The OECA has been sending quarterly reports on the EPA's timeliness performance to regional managers for years, including in FY 2021, and follows up with regional managers to identify systemic problems causing untimely submissions. The OECA will continue this practice in FY 2022 and beyond.	Completed and Ongoing

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
5	Implement a system that tracks the dates when accounts receivable source documents need to be submitted and are submitted by the Office of Enforcement and Compliance Assurance to the Cincinnati Finance Center.	OECA	Concur. The OECA concurs with the substance/intent of the recommendation. The OECA believes there are benefits to having such a system and is working with several EPA offices to develop an electronic case management system that has these capabilities (i.e., regions will automatically transmit accounts receivable documentation to the Cincinnati Finance Center). Currently, there is an agency effort to develop and implement this new system, and while the OECA serves as a partner, it is being led by another agency office. Accordingly, we will continue to support the agency on the development of this new system; however, due to our limited role in the development of this system, we cannot commit to when implementation will be completed.	Ongoing
6	Record the three receivables totaling approximately $8.1 million in the fiscal year 2021 financial statements.	OCFO/ OC	Concur. The three receivables have been recorded in the FY 2021 financial statements.	Completed November 4, 2021

No.	Recommendation	Office	High-Level Corrective Action(s)	Estimated Completion Date
7	Complete the review of user accounts within the Contract Payment System as outlined in the Office of the Chief Financial Officer's User Access Control Management Plan by the planned milestone. If all the activities are not completed by that date, the Office of the Chief Financial Officer should create a Plan of Action and Milestones within the Agency Information Security Repository in accordance with the requirements described in CIO 2150-P-04.2, Information Security – Security Assessment and Authorization Procedures.	OCFO/ OTS	Concur. The OCFO's Office of Technology Solutions completed the annual review of CPS user accounts before the planned milestone. PTS POA&M #19 was created in the Agency Information Security Repository, XACTA. Supporting artifacts were attached to the POA&M and the status updated to "Complete." Only OISP can change the status to "Closed." Artifacts uploaded include the CPS User Access Plan (with scheduled milestones) and spreadsheet containing recertification information for CPS Users.	Completed November 9, 2021
8	Update the fiscal year 2021 financial statements to comply with Office of Management and Budget's Circular A-136, specifically, the balance sheet line items.	OCFO/ OC	Concur. The FY 2021 financial statements have been updated to comply with the OMB's Circular A-136.	Completed November 4, 2021

CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO's Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761.

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