

Independent Audit of the EPA's Fiscal Year 2025 Consolidated Financial Statements

December 31, 2025 | Report No. 26-F-0007



Abbreviations

C.F.R.	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
GAO	U.S. Government Accountability Office
GGRF	Greenhouse Gas Reduction Fund
OCFO	Office of the Chief Financial Officer
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
SSC	Superfund State Contract
U.S.C.	United States Code

Cover Image

EPA headquarters building. (EPA image)

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At a Glance

Independent Audit of the EPA's Fiscal Year 2025 Consolidated Financial Statements

Why We Did This Audit

To accomplish this objective:

We performed this audit in accordance with the Chief Financial Officers Act of 1990, as codified at 31 U.S.C. § 3521(e), which requires the U.S. Environmental Protection Agency 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 financial statements were fairly stated in all material respects in accordance with generally accepted accounting principles.
- The EPA's internal controls over financial reporting were in place.
- The EPA's management complied with applicable laws, regulations, contracts, and grant agreements.

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

To support this EPA mission-related effort:

- *Operating efficiently and effectively.*

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

[List of OIG reports.](#)

Disclaimer of Opinion for Fiscal Year 2025

We rendered a disclaimer of opinion on the EPA's consolidated financial statements for fiscal year 2025, meaning that we were unable to obtain sufficient evidence to determine whether they were fairly presented and free of material misstatement because of the interaction and possible cumulative effect of multiple uncertainties, including those related to ongoing litigation and U.S. Government Accountability Office inquiries.

We were unable to form an opinion on whether the financial statements as a whole were fairly presented and free of material misstatement.

Material Weaknesses and Significant Deficiencies Noted

We noted four material weaknesses related to the fiscal year 2025 financial statements:

- Incomplete identification of pending or threatened litigation, claims or assessments, environmental liabilities, and other activities.
- Inaccurate information for revenue accruals. As a result, the EPA misstated its revenue by an absolute value of approximately \$10.5 million, which represents a net overstatement of more than \$5.6 million.
- Undocumented approval of configuration changes to its core financial system, contrary to the Agency's configuration management procedures.
- Inadequate oversight of findings and corrective action plans from grant recipients' single audits.

In addition, for the fiscal year 2025 financial statements, the EPA did not fully correct one material weakness, one instance of noncompliance, and three significant deficiencies that we identified in prior-year financial statement audits.

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

The EPA did not determine compliance with the Federal Financial Management Improvement Act of 1996 with respect to some financial management systems that support its core financial system.

Recommendations and Planned Agency Corrective Actions

We make nine recommendations, including that the EPA develop or update internal controls over the disclosure of required information to the OIG, configuration management, accruals, single audit findings, and financial management systems. The Agency agreed with our recommendations and provided high-level intended corrective actions. We consider our recommendations resolved with corrective actions pending and resolution efforts underway.



OFFICE OF INSPECTOR GENERAL
U.S. ENVIRONMENTAL PROTECTION AGENCY

December 31, 2025

MEMORANDUM

SUBJECT: Independent Audit of the EPA's Fiscal Year 2025 Consolidated Financial Statements
Report No. 26-F-0007

FROM: Nicole N. Murley, Deputy Inspector General performing the duties of the
Inspector General *Nicole N. Murley*

TO: Paige Hanson, Chief Financial Officer and Chief Administrative Officer
Office of Finance and Administration

Teresa Seidel, Director for the Great Lakes National Program Office

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was OA-FY25-0066. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of Finance and Administration and the Great Lakes National Program Office are responsible for the issues discussed in the report.

In accordance with EPA Manual 2750, your office provided acceptable planned corrective actions and estimated milestone dates for all recommendations. These recommendations are considered resolved with corrective actions pending. A final response pertaining to these recommendations is not required; however, if your office submits a response, it will be posted on the OIG's website, along with our memorandum commenting on the response. The response should be provided as an Adobe PDF file that complies with the requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that your office does not want released to the public; if the response contains such data, your office 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. Material Weaknesses.
2. Compliance with Laws and Regulations.
3. Status of Recommendations and Potential Monetary Benefits.

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Independent Auditor's Report on the EPA's Fiscal Year 2025 Consolidated Financial Statements

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the U.S. Environmental Protection Agency, which comprise the consolidated balance sheet as of September 30, 2025; the related consolidated statement of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the year then ended; and the related notes to the financial statements.

We do not express an opinion on the accompanying consolidated financial statements of the EPA. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements. Thus, the financial statements may contain undetected misstatements that are both material and pervasive.

Basis for Disclaimer of Opinion

Due to the interaction and possible cumulative effect of multiple uncertainties, including those related to ongoing Greenhouse Gas Reduction Fund, or GGRF, litigation and U. S. Government Accountability Office, or GAO, inquiries, we were unable to form an opinion on whether the financial statements as a whole were fairly presented and free of material misstatement.

In the fiscal year 2025 financial statements, the EPA reported approximately \$20 billion in GGRF disbursements to grantees through a third-party financial agent as an expense. The EPA's note disclosures in the financial statements did not include a description of this significant unusual transaction.¹ In response to our request for additional information into the nature of the transaction, its accounting treatment, and other topics, the EPA declined to answer and indicated that our questions and analysis could have an impact on the ongoing litigation. Similarly, because other EPA actions are the subject of ongoing litigation and inquiries, we were unable to determine whether the EPA has complied with applicable laws, regulations, and grant agreements. Because the amounts at issue collectively total \$30 billion, which includes the \$20 billion in GGRF disbursements indicated above, \$7 billion in Solar for

¹ The GAO and the Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual* states, "If the auditor identifies significant unusual transactions (i.e., those outside the entity's normal course of business), the auditor should inquire of management about ... the nature of these transactions."

All grants, and \$3 billion in Environmental and Climate Justice grants and which is approximately three times more than the EPA's typical annual budget, they are material.

Because of these circumstances, we were unable to test material balances in multiple financial statements, such as net assets and net costs. Moreover, based on our evaluation, if the various courts and the GAO ultimately determine that the EPA was not in compliance with applicable laws, regulations, or grant agreements, the scope of noncompliance of this magnitude could have a material effect on the financial statements.

Emphasis of Matter

As described in note 28 to the financial statements, "Restatements," the EPA identified that certain amounts recorded in construction in progress in fiscal year 2024 should have been expensed during fiscal year 2024. As a result, the EPA restated its fiscal year 2024 financial statements. The change impacted the fiscal year 2024 balance sheet, statement of net cost, and statement of changes in net position. We noted issues in property, including construction in progress in fiscal year 2024, for which the corrective actions have not been fully implemented.

Our opinion is not modified with respect to these corrections.

Responsibilities of Management for the Financial Statements

The EPA's management is responsible for the fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, as well as for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the EPA's consolidated financial statements in accordance with U.S. generally accepted auditing standards; generally accepted government auditing standards; and Office of Management and Budget, or OMB, Bulletin 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matter described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

The American Institute of Certified Public Accountants' *Statements on Auditing Standards* requires us to be independent of the EPA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the “Management’s Discussion and Analysis” and “Required Supplementary Information” sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards because of the significance of the matter described in the “Basis for Disclaimer of Opinion” section. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the EPA’s consolidated financial statements as of September 30, 2025, we considered the EPA’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the EPA’s internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982.

Our consideration of the internal control over financial reporting 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 or to express an opinion on the effectiveness of EPA’s internal control over financial reporting; therefore, such deficiencies in internal control may exist that we did not identify during our audit. A deficiency in internal control over financial reporting exists when the design or operation of 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.

We noted certain matters involving internal controls and their operation that we consider to be material weaknesses. These issues are summarized below and detailed in Attachment A.

Material Weaknesses

The EPA Did Not Disclose Material Litigation and Other Actions

The EPA did not provide a complete identification of pending or threatened litigation, claims or assessments, environmental liabilities, and other activities for fiscal year 2025 to the Office of Inspector General, or OIG, in support of our audit of the Agency's financial statements. According to the GAO, management should implement internal controls through policies. GAO standards for financial audits direct auditors to ask management to identify previous audits, attestation engagements, and other studies that relate to the objectives of the audit. In addition, the GAO, the Council of the Inspectors General on Integrity and Efficiency, and the American Institute of Certified Public Accountants provide that management is responsible for having policies to identify and disclose current, pending, or threatened litigation and claims. When we do not have complete access to required information, our ability to review appropriate evidence to support our audit findings is hampered.

The EPA Did Not Provide Accurate Information for Its Revenue Accruals

In multiple instances, the EPA did not provide accurate information for the Superfund trust fund oversight accrual; the Superfund state contract, or SSC, accrual; and the Great Lakes Legacy Act accrual. According to the GAO's *Standards for Internal Control in the Federal Government*, management must process information to ensure that it is "appropriate, current, complete, accurate, accessible, and provided on a timely basis." Furthermore, Agency directives describe the processes for managing the financial aspects of the revenue accruals. However, Agency personnel did not consistently follow these processes to ensure that the EPA's financial information was accurate. As a result, the EPA misstated its revenue in its fiscal year 2025 financial statements by an absolute value of approximately \$10.5 million, which represents a net overstatement of more than \$5.6 million. In addition, more than \$824,000 in Superfund appropriations could have been used for other site cleanup projects had they not been included in the SSC accrual. Without accurate information, revenue accruals and the financial statements may be misstated.

Configuration Changes to Compass Financials Were Implemented by a Contractor Without Documented EPA Approval

The EPA did not document approval of configuration changes to its core financial system, Compass Financials, contrary to the EPA Office of the Chief Financial Officer's, or OCFO's,² configuration management procedures. Specifically, there is no documented evidence that the EPA obtained approval from the OCFO's Change Control Board before a contractor implemented three configuration changes to Compass Financials. This lack of documented approval occurred because the OCFO does not have procedures that specifically govern configuration changes for systems managed by contractors, which

² Effective November 16, 2025, the EPA merged the OCFO and the Office of Mission Support to establish the Office of Finance and Administration. Since the scope of our audit was the fiscal year 2025 financial statements and the chief financial officer remains the responsible action officer for the Office of Finance and Administration, we continue to refer to the OCFO for the purposes of this report.

may have different requirements than systems managed by the Agency. If the EPA does not have procedures to govern Agency approval of all configuration changes before they are implemented, regardless of who will be implementing them and what system they will be implemented on, there is an increased risk that the changes made could cause errors in the EPA's financial data.

The EPA Is Not Properly Monitoring Single Audit Findings and Corrective Action Plans

The EPA may not always be providing adequate oversight of findings and corrective action plans from its grant recipients' single audits. Specifically, we found deficiencies in the EPA's tracking of grant recipient single audit findings. If addressed, single audit findings could improve nonfederal entity accountability and aid the Agency in making award decisions and reducing improper payments. However, as of September 2025, 57 of 207 single audit findings, or approximately 28 percent, have corrective actions that have not been implemented.

Report on Compliance and Other Matters

In connection with our engagement to audit the EPA's consolidated financial statements as of September 30, 2025, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

We identified an instance of noncompliance that could result in a material misstatement to the audited financial statements. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

As discussed in the "Basis for Disclaimer of Opinion" section, we are unable to determine whether the EPA has complied with applicable laws, regulations, contracts, and grant agreements. Because the amounts at issue collectively total \$30 billion, which is about three times more than the EPA's typical annual budget, they are material.

We also performed tests of the EPA's compliance with certain provisions referred to in section 803(a) of the Federal Financial Management Improvement Act of 1996, or FFMIA. Providing an opinion on compliance with the FFMIA was not an objective of our engagement, and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance with FFMIA requirements. This issue is summarized below and detailed in Attachment B.

The EPA Did Not Evaluate Some Financial Management Systems When Determining Compliance with the Federal Financial Management Improvement Act of 1996

The EPA did not determine compliance with the FFMIA with respect to some financial management systems that support its core financial system, Compass Financials. This occurred because the OCFO did

not provide adequate instructions in its *FY 2025 EPA Guidance on Risk Management and Internal Controls*. The guidance did not explicitly state that the EPA needs to assess all interrelated financial management systems that impact the Agency's financial statements. If the EPA does not consider all the financial management systems supporting its financial operations, it is at risk of not identifying deficiencies in the internal controls of interconnected systems. This could potentially result in misstatements in financial reporting.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

We also performed audit work to comply with 42 U.S.C. § 9611(k), including the requirement to conduct an annual audit of payments, obligations, reimbursements, or other uses of the Hazardous Substance Superfund Trust Fund. The material weakness about revenue accruals reported above also relates to Superfund.

Status of Prior Audit Report Recommendations

In prior financial statement audit reports, we issued recommendations to address material weaknesses and significant deficiencies that we identified as a result of our previous financial statement audit work. As of the end of fiscal year 2025, the EPA had not fully implemented corrective actions addressing all our prior recommendations; as a result, one material weakness, one instance of noncompliance, and three significant deficiencies still remain. They were as follows:

- Noncompliance: The EPA had not fully implemented provisions of OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. (OIG Report No. [25-F-0010](#), *Independent Audit of the EPA's Fiscal Years 2024 and 2023 (Restated) Consolidated Financial Statements*, dated November 15, 2024.)
- Material weakness: The EPA did not have adequate internal controls in place to record the 2022 Clean School Bus Rebates Program funds for fiscal years 2024 and 2023. (OIG Report No. [25-F-0010](#), *Independent Audit of the EPA's Fiscal Years 2024 and 2023 (Restated) Consolidated Financial Statements*, dated November 15, 2024.) For fiscal year 2025, we identified issues with the Agency's accounting treatment of the \$20 billion GGRF programs, meaning that this material weakness continued.
- Significant deficiency: EPA property balances were not reliable. (OIG Report No. [25-F-0010](#), *Independent Audit of the EPA's Fiscal Years 2024 and 2023 (Restated) Consolidated Financial Statements*, dated November 15, 2024.)
- Significant deficiency: The EPA did not provide accurate information for its revenue accruals. (OIG Report No. [24-F-0009](#), *Audit of the EPA's Fiscal Years 2023 and 2022 (Restated) Consolidated Financial Statements*, dated November 15, 2023.)

- Significant deficiency: Originating offices did not timely forward accounts receivable source documents to the finance center. (OIG Report No. [15-1-0021, Audit of EPA's Fiscal Years 2014 and 2013 \(Restated\) Consolidated Financial Statements](#), dated November 17, 2014.)

The EPA's Response to Findings

The GAO's *Government Auditing Standards* requires the auditor to perform limited procedures on the EPA's response to the findings identified in our engagement and described in Attachments A and B. The EPA's response was not subjected to other auditing procedures, and accordingly, we express no opinion on the response.

The GAO's *Government Auditing Standards* also requires auditors to explain any reasons for disagreement with the Agency's audit report comments. The EPA provided two technical comments indicating that the Agency offered meetings with the OIG, the EPA general counsel, and the U.S. Department of Justice to discuss ongoing GGRF litigation. The EPA added that the OIG did not accept the offers to meet in order to not interfere with active investigations or litigation.

OIG Response: As indicated in the "Basis for Disclaimer of Opinion" section, the EPA declined to answer our questions and indicated that our questions and analysis could have an impact on ongoing litigation. Because of this scope limitation and other EPA actions that are the subject of ongoing litigation and inquiries, we were unable to test material balances in the financial statements. Our decision to disclaim would not have been impacted by additional meetings with the EPA general counsel or the Department of Justice. Further, the EPA provided written comments on our draft findings and did not indicate that further meetings would provide additional context on the issues identified.

Purpose of Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance and Other Matters" sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the EPA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

Damon Jackson

Damon Jackson, CPA
Director, Financial Directorate, Office of Audit
U.S. EPA Office of Inspector General
Washington, D.C.
November 4, 2025

Material Weaknesses

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1 – The EPA Did Not Disclose Material Litigation and Other Actions

The EPA did not provide a complete identification of pending or threatened litigation, claims or assessments, environmental liabilities, and other activities for fiscal year 2025 to the OIG in support of our audit of the Agency's financial statements. According to the GAO, management should implement internal controls through policies. GAO standards for financial audits direct auditors to ask management to identify previous audits, attestation engagements, and other studies that relate to the objectives of the audit. In addition, the GAO, the Council of the Inspectors General on Integrity and Efficiency, and the American Institute of Certified Public Accountants provide that management is responsible for having policies to identify and disclose current, pending, or threatened litigation and claims. When we do not have complete access to required information, our ability to review appropriate evidence to support our audit findings is hampered.

Undisclosed Litigation

On June 13, 2025, the OCFO sent a Legal Counsel Request letter to the EPA Office of General Counsel, or OGC, requesting assistance in responding to our inquiry for the identification and disclosure of pending or threatened litigation, claims and assessments, environmental liabilities, and other legal activities in connection with our annual financial statement audit. The OCFO's request directed the OGC to provide us with "information involving any cases with respect to which the Office of General Counsel has been engaged and has devoted substantive attention on behalf of the agency in the form of legal consultation or representation, even those cases where you believe the Judgment Fund or other external financing will pay any potential loss."

On August 19, 2025, the OGC provided us with an interim list of pending and threatened litigation cases. When we inquired why the list did not include ongoing litigation relating to the EPA's GGRF and Environmental and Climate Justice lawsuits alleging wrongful termination of grants,³ the OGC stated that the GGRF and Environmental and Climate Justice grant "lawsuits are outside the scope of the report and were therefore not included." When we requested further clarification, the OGC reiterated its belief that the GGRF and Environmental and Climate Justice grant lawsuits were not within the scope of the OCFO request, indicating that the OCFO's June 13, 2025 request limited the scope of the financial audit to only certain statutes.

On September 4, 2025, the OCFO sent the OGC a revised Legal Counsel Request to provide us with a list of pending and threatened litigation matters. On September 8, 2025, the OGC provided us with a list of additional cases, including litigation matters involving the GGRF and the Environmental and Climate Justice grants. In addition, on September 11, 2025, the EPA Office of Grants and Debarment informed us

³ The Inflation Reduction Act of 2022 amended the Clean Air Act to create the GGRF and appropriated \$27 billion for this purpose. Of the \$27 billion, approximately \$20 billion was used to establish the National Clean Investment Fund Grant Program and the Clean Communities Investment Accelerator Grant Program. The grants in these two programs are collectively referred to as the "GGRF grants," and the recipients are referred to as the "GGRF grant recipients." The remaining \$7 billion was used to establish the Solar for All Grant Program.

that, as of September 9, 2025, the Agency had received formal disputes from 49 of the 60 Solar for All grant recipients. On October 6, 2025, Solar for All grant recipients filed suit against the EPA in the U.S. District Court for the District of Rhode Island.

On October 9, 2025, the OGC provided us with its final list of pending and threatened litigation cases. This list did not include Solar for All litigation as threatened litigation. Moreover, during a meeting with us, the OGC changed its original reason for not providing GGRF litigation matters in its August 19, 2025 list, stating that the information was not provided because there were no punitive damages to report.

Undisclosed Other Matters

Additionally, we note that the OCFO did not update the information that it is responsible for submitting to us regarding other governmental agency inquiries. Specifically, the OCFO did not disclose pending inquiries conducted by the GAO regarding application of the Impoundment Control Act to Environmental and Climate Justice grants and the Clean School Bus Rebates Program. The Agency also did not disclose a third GAO inquiry regarding the implementation of Inflation Reduction Act funding.

On June 16, 2025, we requested that the OCFO provide us with “a list of recent studies that relate to our audit objectives, together with information on any actions taken (both completed and in progress) in response to the recommendations in these studies. In addition to audits and other reviews by audit organizations, please include any relevant evaluations, reviews, and legal proceedings or other studies conducted either internally or by external organizations.” In response to our June 16, 2025 request, the Agency provided a list of EPA OIG audits.

In addition, during a meeting with the Agency, we asked the EPA whether there were any ongoing audits, investigations, or other inquiries being conducted by other governmental agencies relevant to the financial statement audit. The Agency stated there were not any relevant actions by other governmental agencies. However, during the course of our audit, we were made aware of the ongoing inquiries being conducted by the GAO, which is another governmental organization. When we questioned the EPA about these specific ongoing actions, the Agency provided additional information on them.

Disclosure Requirements

As required by 31 U.S.C. § 3515, the EPA must prepare financial statements each fiscal year that cover “all accounts and associated activities of each office, bureau, and activity of the agency.” As further required by 31 U.S.C. § 3521, the OIG must audit those statements in accordance with the GAO’s *Government Auditing Standards*. In addition, OMB Bulletin 24-02, *Audit Requirements for Federal Financial Statements*, says that the GAO and the Council of the Inspectors General on Integrity and Efficiency’s *Financial Audit Manual* provides “methodology and guidance for conducting audits of Federal financial statements in accordance with relevant auditing standards and OMB guidance” and that auditors should comply with statements on auditing standards issued by the American Institute of Certified Public Accountants.

The GAO's *Government Auditing Standards* requires us to "ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented" and to "inquire of management of the audited entity whether any investigations or legal proceedings have been initiated or are in the process with respect to the period under audit, and should evaluate the effect of initiated or in-process investigations or legal proceedings on the current audit."

The *Financial Audit Manual* states that "management is responsible for implementing policies and procedures to identify ... and disclose litigation [and] claims ... as a basis for the preparation of financial statements in conformity with U.S. GAAP [generally accepted accounting principles]." Similarly, the American Institute of Certified Public Accountants' *Statements on Auditing Standards* provides that:

Management is responsible for adopting policies and procedures to identify, evaluate, and account for litigation, claims, and assessments as a basis for the preparation of financial statements, in accordance with the requirements of the applicable financial reporting framework.

The GAO's *Standards for Internal Control in the Federal Government* states, "Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system." It also states, "Management should implement control activities through policies."

The OCFO is responsible for ensuring that litigation and other matters are fully disclosed to the OIG during our financial statement audits and for having appropriate internal controls in place to enable the disclosure. While the OCFO issues an annual Legal Counsel Request to the OGC to provide the required information to us, the EPA does not have a policy to clearly set forth what information must be provided, including what the full scope of the response should be, whether matters that do not involve punitive damages should be included, and what steps the EPA should take to determine when threatened litigation should be included. There are also no internal controls in place to ensure that the OCFO provides the OIG with all required information.

While the Agency confirmed that it provided all relevant information to date, we cannot be certain that the Agency has sufficient internal controls to completely identify pending or threatened litigation, claims and assessments, environmental liabilities, and other activities for fiscal year 2025 in support of the Agency's financial statements. When we do not have complete access to required information, our ability to review appropriate evidence to support our audit findings is hampered.

Recommendation

We recommend that the chief financial officer:

1. Develop and implement a policy regarding the disclosure of all information required by the *Financial Audit Manual* and U.S. generally accepted accounting principles in support of the OIG's

annual financial statement audits. Doing so will aid the OIG's review of material, relevant information to support the audit findings. This policy should, at a minimum, address:

- a. The disclosure in response to the Legal Counsel Request letter of pending or threatened litigation, claims and assessments, environmental liabilities, and other legal activities related to audits of the EPA's financial statements.
- b. The disclosure of all other governmental agency inquiries, reviews, and audits of EPA programs relevant to the financial statement audit.

Agency Response and OIG Assessment

The Agency's response to our draft report is in Appendix 2. The EPA agreed with Recommendation 1, which we consider resolved with corrective actions pending.

2 – The EPA Did Not Provide Accurate Information for Its Revenue Accruals

In multiple instances, the EPA did not provide accurate information for the Superfund trust fund oversight accrual, the SSC accrual, and the Great Lakes Legacy Act accrual. According to the GAO's *Standards for Internal Control in the Federal Government*, management must process information to ensure that it is "appropriate, current, complete, accurate, accessible, and provided on a timely basis." Furthermore, Agency directives describe the processes for managing the financial aspects of the revenue accruals. However, Agency personnel did not consistently follow these processes to ensure that the EPA's financial information was accurate. As a result, the EPA misstated its revenue in its fiscal year 2025 financial statements by an absolute value of approximately \$10.5 million, which represents a net overstatement of more than \$5.6 million. In addition, more than \$824,000 in Superfund appropriations could have been used for other site cleanup projects had they not been included in the SSC accrual. Without accurate information, revenue accruals and the financial statements may be misstated.

Standards and Agency Directives Require Accurate Information

The GAO's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. As part of the Control Activities component, management is to design "control activities so that all transactions are completely and accurately recorded." Also, as part of the Information and Communication component, management is to process:

[O]btained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.

The EPA's *Financial Management of the Superfund Program: State Cost Share Provisions for Superfund State Contracts and Remedial Cooperative Agreements*, Resource Management Directive System No. 2550D-09-P1, contains the policies and procedures for managing the financial aspects of Superfund program remedial state cost share provisions in the SSCs. As provided in the directive, the EPA regional program offices are responsible for the overall management of the SSCs in the regions. The directive further specifies that regional program offices are responsible for evaluating and recommending either the approval or disapproval of a state's claim for cost share credit. On a quarterly basis, regional program offices are to provide SSC credit information to the Cincinnati Finance Division to support the SSC accrual.

In addition, the *Financial Management of the Superfund Program: State Cost Share Provisions for Superfund State Contracts and Remedial Cooperative Agreements* directive instructs the regional offices to conduct the SSC financial closeout process, which includes the reconciliation of the state's final cost share and the reclassification of disbursements when applicable. When the EPA has not used reimbursable resources concurrently with Superfund appropriated obligations, a reclassification of funds may be appropriate. The directive further states that the SSC accrual calculation for a financially closed SSC should be reviewed and adjusted, if needed, to reflect a zero-accrual balance.

The EPA's *Financial Management of the Superfund Program: Superfund Accounts Receivable and Billings*, Resource Management Directive System No. 2550D-14-P1, contains the policy and procedures for handling Superfund accounts receivable. The directive identifies the Cincinnati Finance Division as responsible for recording and tracking all amounts demanded under unilateral administrative orders. The directive further states:

A demand for payment, such as is issued under a Superfund Unilateral Administrative Order or a demand for payment of costs in a letter sent to Potentially Responsible Parties is not categorized as an accounts receivable. Payments received under a Superfund UAO [unilateral administrative order] are not eligible for placement in a Special Account due to the lack of a bilateral agreement, such as a settlement agreement.

This directive also specifies that regional program offices are responsible for reviewing unbilled estimates for Superfund oversight costs applicable to fiscal year-end reporting and that the Cincinnati Finance Division is responsible for preparing the Superfund unbilled oversight accrual.

Lastly, the EPA's *Accounts Receivable - Non-Federal Sponsor Cost Share Provisions for Great Lakes Legacy Act Project Agreements*, Resource Management Directive System No. 2540-09-P6, contains the procedures for financial management of Great Lakes Legacy Act cost share provisions. The Great Lakes Legacy Act of 2002 requires a minimum of a 35 percent nonfederal cost share for all projects carried out under the Act.

We found multiple instances in which the Agency did not provide accurate information for its revenue accruals during fiscal year 2025. Specifically, we identified the issues described in the below sections.

The Superfund Trust Fund Oversight Accrual

The EPA did not properly analyze the oversight accrual to determine whether information was appropriate for the accrual. During our review of the oversight accrual entries, we found multiple exceptions that resulted in a revenue overstatement of \$5,644,239.69, as well as one incorrectly recorded unilateral administrative order oversight bill that overstated revenue by \$2,418,407.88. This represents a total overstatement of \$8,062,647.57. Errors included the following:

- Superfund sites that did not meet the criteria for being recognized as accruals were erroneously included in the oversight accrual.

- Superfund special account expenses for which revenue was already recognized were erroneously included in the Cincinnati Finance Division's monthly oversight expense report and were, therefore, erroneously included in the oversight accrual, causing revenue to be recognized twice.
- A Superfund oversight bill that originated from a unilateral administrative order was erroneously recorded as an account receivable.

The Superfund State Contract Accrual

The EPA did not properly analyze the SSC accrual to ensure that it contained updated and accurate information. Of the 21 SSC accrual entries that we reviewed, nine contained inaccurate information, which understated revenue by \$2,059,333.65. In addition, we identified \$824,163.72 in Superfund appropriated funds that could have been available for other site cleanup projects had they not been included in the SSC accrual. Reclassification errors occurred because the regions did not follow the Agency SSC closeout process and did not review the SSC accrual entries to financially close the lines and reclassify funds. Errors included the following:

- Amendments to the SSCs were not accurately included in the SSC accrual.
- Credits were not accurately included in the SSC accrual.
- Sufficient support was not provided for some of the entries in the SSC accrual.

The Great Lakes Legacy Act Accrual

The Great Lakes National Program Office did not properly analyze the Great Lakes Legacy Act accrual to ensure that it contained updated and accurate information. We found that the Great Lakes Legacy Act accrual contained inaccurate cost share percentages and in-kind contributions, which understated revenue by \$384,646.70. The errors occurred because the Great Lakes National Program Office did not always follow Agency directives and processes to provide accurate information to the Cincinnati Finance Division. Errors included the following:

- Nonfederal sponsor cost share percentages on the accrual differed from the project agreements.
- A nonfederal sponsor in-kind contribution on the accrual erroneously included \$2 million in collections.

Recommendations

We recommend that the chief financial officer:

2. Require the Cincinnati Finance Division to perform regular analyses of the Superfund trust fund oversight accrual, including identifying and removing special account expenses and funds from the monthly oversight expense report, to ensure the accuracy of the accrual each fiscal quarter.

3. Require the EPA regional program offices to perform regular analyses of the Superfund state contract accrual to ensure the accuracy of the accrual each fiscal quarter.

We recommend that the director for the Great Lakes National Program Office:

4. Perform regular analyses of the Great Lakes Legacy Act accrual to ensure the accuracy of the accrual each fiscal quarter.

Agency Response and OIG Assessment

The Agency's response to our draft report is in Appendix 2. The EPA agreed with Recommendations 2, 3, and 4, which we consider resolved with corrective actions pending.

3 – Configuration Changes to Compass Financials Were Implemented by a Contractor Without Documented EPA Approval

The EPA did not document approval of configuration changes to its core financial system, Compass Financials, contrary to the OCFO's configuration management procedures. Specifically, there is no documented evidence that the EPA obtained approval from the OCFO's Change Control Board before a contractor implemented three configuration changes to Compass Financials. This lack of documented approval occurred because the OCFO does not have procedures that specifically govern configuration changes for systems managed by contractors, which may have different requirements than systems managed by the Agency. If the EPA does not have procedures to govern Agency approval of all configuration changes before they are implemented, regardless of who will be implementing them and what system they will be implemented on, there is an increased risk that the changes made could cause errors in the EPA's financial data.

What is Compass Financials?

Compass Financials is the EPA's core financial system and is used for budget management, expenditure tracking, and financial reporting to support financial management information requirements. The system is classified as a moderate impact security system—in other words, a system where the loss of confidentiality, integrity, or availability could be expected to have a serious adverse effect on organizational operations, organizational assets, or individuals.

The EPA's *Information Security – System and Services Acquisition (SA) Procedure*, Directive No. CIO 2150.3-P-15.2, signed December 19, 2023, requires developers of EPA systems that are considered to be either moderate impact or high security systems to document, manage, and control the integrity of changes to configuration items; implement only organization-approved changes; and document approved changes and their potential security and privacy impacts. Furthermore, the OCFO's *Configuration Management Standard Operating Procedures*, dated April 9, 2024, requires the OCFO to maintain documentation of approved configuration changes. With respect to Compass Financials configuration changes, the OCFO is to document Change Control Board approvals in the Agency's configuration management tool. The configuration management tool is a repository for Change Control Board configuration change approvals.

Despite these requirements, the OCFO did not document approval of three configuration changes made by the Compass Financials contractor in the Agency's configuration management tool. These configuration changes were designed to ensure the EPA's compliance with federal requirements and tax updates. Because it did not enter the changes into the configuration management tool, the EPA lacks documented evidence that it obtained the required approvals from the Change Control Board before the contractor implemented the changes.

While the *Configuration Management Standard Operating Procedures* establishes requirements for systems managed by the OCFO, the procedures do not include specific steps governing configuration management of systems managed by contractors. If the EPA does not have procedures to govern

Agency approval of all configuration changes prior to implementation, unapproved system changes could be made, which could increase the risk of processing errors in the EPA's financial data.

Recommendation

We recommend that the chief financial officer:

5. Develop and implement procedures that include specific steps for configuration management of systems managed by contractors that are consistent with the EPA's *Configuration Management Standard Operating Procedures*, dated April 9, 2024. Doing so will promote the effectiveness of the Agency's configuration management processes and prevent contractors from making unapproved changes to EPA systems.

Agency Response and OIG Assessment

The Agency's response to our draft report is in Appendix 2. The EPA agreed with Recommendation 5, which we consider resolved with corrective actions pending.

4 – The EPA Is Not Properly Monitoring Single Audit Findings and Corrective Action Plans

The EPA may not always be providing adequate oversight of findings and corrective action plans from grant recipients' single audits. Specifically, we found deficiencies in the EPA's tracking of grant recipient single audit findings. If addressed, single audit findings could improve nonfederal entity accountability and aid the Agency in making award decisions and reducing improper payments. As of September 2025, 57 of 207 single audit findings, or approximately 28 percent, have corrective actions that have not been implemented.

The majority of the 57 single audit findings with corrective actions that have not been implemented indicate that the audited EPA grant recipients are not in compliance with internal control standards. Some key issues identified include insufficient segregation of duties, lack of account reconciliation, absence of transaction oversight, and failure to implement processes aimed at mitigating risks. These deficiencies could lead to the misuse or waste of government funds.

According to 2 C.F.R. § 200.519, the oversight exercised by federal agencies or pass-through entities may be used to assess risk. For example, recent monitoring or other reviews performed by an oversight entity that disclosed no significant problems would indicate lower risk, whereas monitoring that disclosed significant problems would indicate higher risk. Consideration should be given to the control environment over federal programs, including such factors as the expectation of management's adherence to federal statutes, regulations, and federal award terms and conditions, as well as the competence and experience of personnel who administer the federal programs.

As provided in 2 C.F.R. § 200.513, the awarding federal agency responsibilities include tracking the effectiveness of single audits and audit findings. Audit findings identify, among other things, questioned costs, significant deficiencies, and material weaknesses. The federal agency should develop a baseline, metrics, and targets to track the effectiveness of the federal agency's process to follow up on audit findings. Nonfederal entities submit information related to audits to the Federal Audit Clearinghouse, as required by the OMB. As provided in 2 C.F.R. § 200.521, the federal agency or pass-through entity must issue a management decision on audit findings within six months of the Federal Audit Clearinghouse's acceptance of the audit report. This management decision must, among other things, indicate whether the finding is sustained and outline expected auditee corrective actions. The auditee must initiate and proceed with corrective action as rapidly as possible, and corrective action should begin no later than upon receipt of the audit report.

According to OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, agencies should perform a root-cause analysis of internal control deficiencies "to ensure that subsequent strategies and plans address the root of the problem and not just the symptoms. Identifying and developing an understanding of the root cause of control deficiencies is management's responsibility. Management should incorporate IG [inspector general] and GAO audit findings as part of its identification process." Circular No. A-123 further provides that management

should ensure that accurate records of the status of internal control deficiencies are maintained and updated. Additionally, the circular specifies that “management is responsible for establishing and integrating internal control into its operations in a risk-based and cost beneficial manner, in order to provide reasonable assurance that the entity’s internal control over operations, reporting, and compliance is operating effectively.”

According to the Payment Integrity Information Act of 2019, agencies should establish and maintain sufficient internal controls, including an appropriate control environment, that effectively prevent improper payments from being made.

The OCFO has yet to establish a sufficient tracking system to effectively monitor findings and corrective action plans through a risk-based approach. The lack of a framework to ensure that grant recipient internal control deficiencies are tracked and corrected, consistent with OMB Circular No. A-123, hinders the Agency's ability to adequately oversee areas that pose potential risks, thereby limiting the Agency's capacity to mitigate those risks effectively.

Failure to sufficiently monitor findings and corrective action plans creates a significant risk of improper use of government funds and can lead to material errors. Material errors, such as an increased risk of misstatements of financial data, impact the credibility of the EPA’s financial statements and reduce reliance on them as a fair representation of the Agency’s financial condition and activity. In addition, the lack of oversight presents a high audit risk in terms of timely responses and resolutions.

Recommendations

We recommend that the chief financial officer:

6. Develop a process to properly track single audit findings and corrective action plans. At a minimum, this process should track the estimated completion dates of the corrective action plans and have the ability to generate reports to ensure proper oversight and mitigate the risk of material errors.
7. Perform annual risk assessments of all single audits to allow proper oversight of all outstanding corrective action plans, to decrease the risk of misstatements of financial data, and to improve the credibility of the EPA’s financial statements.

Agency Response and OIG Assessment

The Agency’s response to our draft report is in Appendix 2. The EPA agreed with Recommendations 6 and 7, which we consider resolved with corrective actions pending.

Compliance with Laws and Regulations

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5 – The EPA Did Not Evaluate Some Financial Management Systems When Determining Compliance with the Federal Financial Management Improvement Act of 1996

The EPA did not determine compliance with the FFMIA with respect to some financial management systems that support its core financial system, Compass Financials. This occurred because the OCFO did not provide adequate instructions in its *FY 2025 EPA Guidance on Risk Management and Internal Controls*. The guidance did not explicitly state that the EPA needs to assess all interrelated financial management systems that impact the Agency's financial statements. If the EPA does not consider all the financial management systems supporting its financial operations, it is at risk of not identifying deficiencies in the internal controls of interconnected systems. This could potentially result in misstatements in financial reporting.

Section 803(a) of the FFMIA requires that agencies' financial management systems comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. OMB Memorandum M-23-06, *Appendix D, Management of Financial Management Systems - Risk and Compliance*, which was issued on December 23, 2022, as an appendix to OMB Circular No. A-123, provides that agencies should use a risk-based approach with documented methods to determine whether their financial management systems comply substantially with FFMIA requirements. For agencies using service providers for financial management systems, documented methods to assess compliance with FFMIA requirements may include separate evaluations, ongoing monitoring, or the review of third-party assessments like *System and Organization Controls 1* reports.⁴ The OCFO provided instructions to the EPA on how to implement OMB Memorandum M-23-06 in its *FY 2025 EPA Guidance on Risk Management and Internal Controls*, which included a section titled "OMB A-123, Appendix D, Management of Financial Management Systems."

What is a financial management system?

Financial management systems support an agency's core financial system and include those systems necessary to achieve financial management, operational, performance, and reporting objectives. This definition encompasses the financial data portion of mixed systems, as well as service providers. A mixed system is an information system that supports both financial and nonfinancial functions of the federal government or its components, while a service provider is an external organization, such as a contractor, that performs operational processes for another entity.

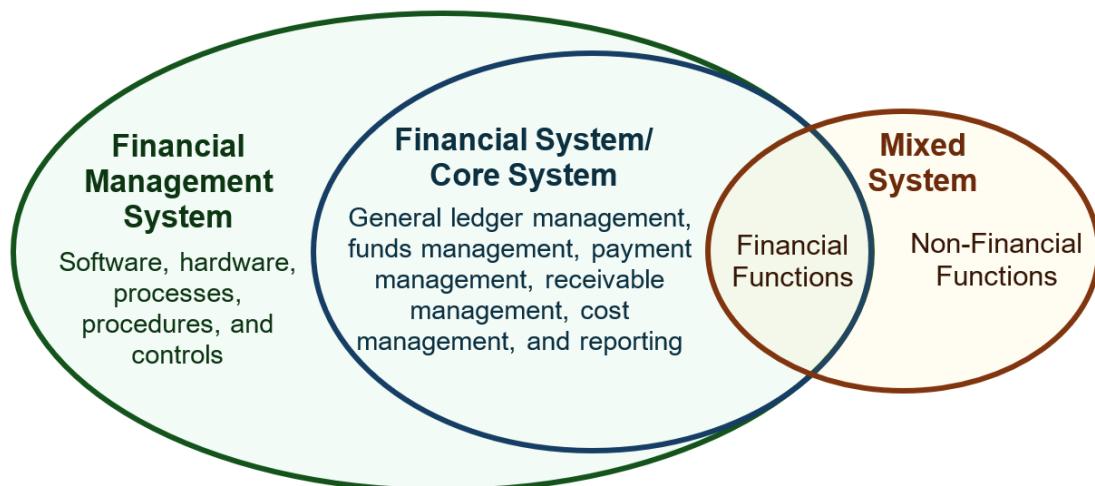
Throughout the EPA, several different financial management systems are used. These financial management systems interrelate and support the EPA's core financial system, Compass Financials.

The GAO's *Standards for Internal Control in the Federal Government*, GAO-14-704G, dated September 2014, states that management may use external service providers to perform certain operational processes like accounting and payroll; however, management remains responsible for the

⁴ A *System and Organization Controls 1* report summarizes the findings of an attestation engagement conducted by a certified public accountant about a service provider's controls that may impact financial reporting. Agencies like the EPA often use these reports to understand the security controls and deficiencies related to a contractor-owned system that they are using.

performance of processes assigned to service providers. Furthermore, the *Standards for Internal Control in the Federal Government* states that management must understand the controls the service provider has designed, has implemented, and operates, as well as how those controls affect the internal control system of the management's agency. Management may be required to implement complementary user entity controls to further enhance the effectiveness of the service provider's internal controls.⁵ Figure 1 illustrates how financial management systems interrelate and support a core financial system.

Figure 1: How financial management systems interrelate to support the core financial system



Source: OMB Memorandum M-23-06, *Appendix D, Management of Financial Management Systems – Risk and Compliance*. (EPA OIG adaptation of OMB image)

However, the EPA did not use consistent approaches when applying its *FY 2025 EPA Guidance on Risk Management and Internal Controls* to determine which financial management systems should be assessed for compliance with FFMIA and Appendix D requirements. The EPA Office of Mission Support indicated that it evaluated only EPA systems managed by its office, not financial management systems managed by service providers. The OCFO said that it took a risk-based approach to assess just one system—Compass Financials—from its portfolio of ten systems. However, the office did not provide documentation of its risk-based approach. The OCFO further stated that it assessed Compass Financials only because it is the Agency's primary system for creating general ledger accounts and that it did not assess other financial systems, such as the Budget Formulation System and PeoplePlus, because they do not contain any financial data and only transmit data to Compass Financials. This approach, however, is contrary to OMB Memorandum M-23-06, which requires assessments for financial management systems that support the core financial system.

The EPA also did not properly consider some service providers when assessing FFMIA compliance. Although the *FY 2025 EPA Guidance on Risk Management and Internal Controls* assessment procedures include steps to evaluate service providers, some EPA staff we talked to said that their offices did not assess service providers. The EPA currently uses two systems that it does not manage: the

⁵ Complementary user entity controls are security and operational measures that a system user must implement for a service provider's controls to be effective.

U.S. Department of Interior's Federal Personnel and Payroll System and the U.S. Department of Treasury's Invoice Processing Platform. Because other federal agencies own and manage those two systems, the EPA staff we talked to stated that those agencies should assess and report on FFMIA compliance for the systems. However, this is contrary to OMB Memorandum M-23-06, which requires agencies using service providers for financial management systems to determine FFMIA compliance for service providers either by ongoing monitoring, separate evaluations, or the use of third-party assessments. The EPA does receive annual *System and Organization Controls 1* reports for the Federal Personnel and Payroll System and Invoice Processing Platform, but the EPA staff we talked to are unaware whether the Agency uses these reports for internal control assessments. Since these two service providers were not considered as part of the EPA's assessment of FFMIA compliance, there is also no evidence that the EPA used ongoing monitoring, separate evaluations, or other methods to determine FFMIA compliance. If the Agency does not determine FFMIA compliance for service providers to identify possible internal control deficiencies, the confidentiality, integrity, and availability of the EPA's financial data could be at risk of being compromised.

We identified that, as a result of these deficiencies, the EPA did not assess the following systems for FFMIA compliance:

- Budget Formulation System.
- PeoplePlus.
- Department of Treasury's Invoice Processing Platform.
- Department of Interior's Federal Personnel and Payroll System.

We associated these systems with material dollar amounts in the EPA's audited fiscal years 2024 and 2023 consolidated financial statements, as shown in Table 1. These systems have the potential to create financial risk in the EPA's financial reporting processes if their controls are not properly designed, implemented, or maintained to ensure data accuracy and completeness.

Table 1: Associated material amounts for selected unassessed systems

System	Type of system	Owner	Applicable general ledger account	Associated material amounts (\$ in millions)
Budget Formulation System	Mixed Financial	EPA	Statement of Budgetary Resources	Supports all amounts disclosed in the Statement of Budgetary Resources
PeoplePlus*	Mixed Financial	EPA	Employee salaries, leave, and benefits	\$186.8
Invoice Processing Platform	Mixed Financial	Department of Treasury (service provider)	Fund Balance with Treasury	\$83.4

System	Type of system	Owner	Applicable general ledger account	Associated material amounts (\$ in millions)
Federal Personnel and Payroll System*	Mixed Financial	Department of Interior (service provider)	Pension and post-employment benefits payable	\$40.4

Source: OIG analysis of system security plans, service providers' *System and Organization Controls 1* reports, and the EPA's audited fiscal years 2024 and 2023 consolidated financial statements. (EPA OIG table)

*This system is involved with payroll and employee benefits calculations.

The EPA did not consider some of the financial management systems that support Compass Financials because the OCFO did not provide adequate instructions in its *FY 2025 EPA Guidance on Risk Management and Internal Controls*. The guidance did not explicitly state that the EPA needs to assess all interrelated financial management systems, including mixed financial systems and service providers, that can have an impact on financial reporting in the Agency's financial statements. If the EPA does not consider all types of financial management systems supporting its financial operations and core financial system, it is at risk of not identifying deficiencies in the internal controls of interconnected systems. This could potentially result in misstatements in financial reporting. By not evaluating service provider systems and the associated *System and Organization Controls 1* reports, the EPA introduces preventable risks that could negatively affect the data in Compass Financials.

Recommendations

We recommend that the chief financial officer:

8. Update the *EPA Guidance on Risk Management and Internal Controls* section titled "OMB A-123, Appendix D, Management of Financial Management Systems" to specify a uniform, agencywide approach to assessing financial management systems, including mixed financial systems and service providers, that can impact financial data in Compass Financials and have a material effect on the EPA's financial statements. Doing so will promote the effectiveness of the Agency's determination of financial management systems that support core financial reporting.
9. Establish and regularly update a portfolio of the EPA's financial management systems, including mixed financial systems and service providers, that should be assessed as part of the Agency's strategy to comply with Office of Management and Budget Memorandum M-23-06, *Appendix D, Management of Financial Management Systems - Risk and Compliance*, dated December 23, 2022. With respect to the portfolio identified, maintain documentation with the rationale for excluding any systems from the Agency's annual Federal Financial Management Improvement Act system assessments. Doing so will promote the efficiency of the Agency's determination of financial management systems that support the core financial system.

Agency Response and OIG Assessment

The Agency's response to our draft report is in Appendix 2. The EPA agreed with Recommendations 8 and 9, which we consider resolved with corrective actions pending.

Status of Recommendations and Potential Monetary Benefits

Rec. No.	Page No.	Recommendation	Status*	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	11	Develop and implement a policy regarding the disclosure of all information required by the <i>Financial Audit Manual</i> and U.S. generally accepted accounting principles in support of the OIG's annual financial statement audits. Doing so will aid the OIG's review of material, relevant information to support the audit findings. This policy should, at a minimum, address: <ul style="list-style-type: none"> a. The disclosure in response to the Legal Counsel Request letter of pending or threatened litigation, claims and assessments, environmental liabilities, and other legal activities related to audits of the EPA's financial statements. b. The disclosure of all other governmental agency inquiries, reviews, and audits of EPA programs relevant to the financial statement audit. 	R	Chief Financial Officer	9/1/26	—
2	15	Require the Cincinnati Finance Division to perform regular analyses of the Superfund trust fund oversight accrual, including identifying and removing special account expenses and funds from the monthly oversight expense report, to ensure the accuracy of the accrual each fiscal quarter.	R	Chief Financial Officer	12/31/25	\$8,063
3	16	Require the EPA regional program offices to perform regular analyses of the Superfund state contract accrual to ensure the accuracy of the accrual each fiscal quarter.	R	Chief Financial Officer	2/26/26	\$2,059 \$824
4	16	Perform regular analyses of the Great Lakes Legacy Act accrual to ensure the accuracy of the accrual each fiscal quarter.	R	Director, Great Lakes National Program Office	11/10/25	\$385
5	18	Develop and implement procedures that include specific steps for configuration management of systems managed by contractors that are consistent with the EPA's <i>Configuration Management Standard Operating Procedures</i> , dated April 9, 2024. Doing so will promote the effectiveness of the Agency's configuration management processes and prevent contractors from making unapproved changes to EPA systems.	R	Chief Financial Officer	9/15/26	—
6	20	Develop a process to properly track single audit findings and corrective action plans. At a minimum, this process should track the estimated completion dates of the corrective action plans and have the ability to generate reports to ensure proper oversight and mitigate the risk of material errors.	R	Chief Financial Officer	9/1/26	—
7	20	Perform annual risk assessments of all single audits to allow proper oversight of all outstanding corrective action plans, to decrease the risk of misstatements of financial data, and to improve the credibility of the EPA's financial statements.	R	Chief Financial Officer	4/1/26	—

Rec. No.	Page No.	Recommendation	Status*	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
8	25	Update the <i>EPA Guidance on Risk Management and Internal Controls</i> section titled “OMB A-123, Appendix D, Management of Financial Management Systems” to specify a uniform, agencywide approach to assessing financial management systems, including mixed financial systems and service providers, that can impact financial data in Compass Financials and have a material effect on the EPA’s financial statements. Doing so will promote the effectiveness of the Agency’s determination of financial management systems that support core financial reporting.	R	Chief Financial Officer	4/1/26	—
9	25	Establish and regularly update a portfolio of the EPA’s financial management systems, including mixed financial systems and service providers, that should be assessed as part of the Agency’s strategy to comply with Office of Management and Budget Memorandum M-23-06, <i>Appendix D, Management of Financial Management Systems - Risk and Compliance</i> , dated December 23, 2022. With respect to the portfolio identified, maintain documentation with the rationale for excluding any systems from the Agency’s annual Federal Financial Management Improvement Act system assessments. Doing so will promote the efficiency of the Agency’s determination of financial management systems that support the core financial system.	R	Chief Financial Officer	6/1/26	—

* C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

*The EPA's Fiscal Year 2025
Consolidated Financial Statements*

**EPA's Fiscal Year 2025
Single Year Financial Statements**

**Financial Section
(Unaudited)**

(Unaudited)

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Principal Financial Statements (Unaudited)

United States Environmental Protection Agency Consolidated Balance Sheet As of September 30, 2025 (Dollars in Thousands)

	<u>2025</u>
ASSETS	
Intragovernmental Assets	
Fund Balance with Treasury (Note 2)	\$ 71,571,950
Investments, Net (Note 3)	12,992,493
Accounts Receivable, Net (Note 4)	8,895
Advances and Prepayments	<u>2,050,088</u>
Total Intragovernmental Assets	<u>86,623,426</u>
Other than Intragovernmental Assets	
Accounts Receivable, Net (Note 4)	341,401
Loans Receivable, Net (Note 6)	9,001,134
Inventory and Related Property, Net (Note 5)	736
Property, Plant, and Equipment, Net (Note 8)	649,545
Advances and Prepayments	<u>526,629</u>
Total Other than Intragovernmental Assets	<u>10,519,445</u>
Total Assets	<u>\$ 97,142,871</u>
Stewardship Property Plant and Equipment (Note 10)	
LIABILITIES	
Intragovernmental Liabilities	
Accounts Payable (Note 7)	\$ 529
Debt (Note 9)	9,720,511
Advances from Others and Deferred Revenue	168,148
Other Liabilities	
Liability to the General Fund for Custodial Assets (Note 11)	69,641
Other Liabilities (Note 12)	<u>512,530</u>
Total Intragovernmental Liabilities	<u>10,471,359</u>
Other than Intragovernmental Liabilities	
Accounts Payable (Note 7)	95,366
Federal Employee Salary, Leave and Benefits Payable (Note 23)	244,690
Pension and Post-Employment Benefits Payable (Note 23)	37,259
Environmental and Disposal Liabilities (Note 17)	44,553
Advances from Others and Deferred Revenue (Note 14)	3,554,975
Other Liabilities (Note 12)	<u>1,080,268</u>
Total Other than Intragovernmental Liabilities	<u>5,057,111</u>
Total Liabilities	<u>\$ 15,528,470</u>
Commitments and Contingencies (Note 15)	
NET POSITION	
Unexpended Appropriations	
Funds from Dedicated Collections (Note 16)	\$ 2
Funds from Other than Dedicated Collections	<u>71,505,665</u>
Total Unexpended Appropriations (Consolidated)	<u>71,505,667</u>
Cumulative Results of Operations	
Funds from Dedicated Collections (Note 16)	10,572,457
Funds from Other than Dedicated Collections	<u>(463,723)</u>
Total Cumulative Results of Operations (Consolidated)	<u>10,108,734</u>
Total Net Position	<u>81,614,401</u>
Total Liabilities and Net Position	<u>\$ 97,142,871</u>

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

(Unaudited)

**United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)**

2025

COSTS

Gross Costs	\$ 38,039,108
Less: Earned Revenue	<u>939,908</u>
NET COST OF OPERATIONS (Note 25)	\$ <u>37,099,200</u>

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

(Unaudited)

**United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)**

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs	\$ 3,948,510	\$ 94,349	\$ 822,817	\$ 2,251,849	\$ 29,545,514	\$ 1,798,452	\$ 38,461,491
WCF Elimination	-	-	-	-	-	(422,383)	(422,383)
Total Costs	<u>3,948,510</u>	<u>94,349</u>	<u>822,817</u>	<u>2,251,849</u>	<u>29,545,514</u>	<u>1,376,069</u>	<u>38,039,108</u>
Less:							
Earned Revenue	124,340	-	4,479	303,170	-	930,302	1,362,291
WCF Elimination	-	-	-	-	-	(422,383)	(422,383)
Total Earned Revenue	<u>124,340</u>	<u>-</u>	<u>4,479</u>	<u>303,170</u>	<u>-</u>	<u>507,919</u>	<u>939,908</u>
NET COST OF OPERATIONS	<u>\$ 3,824,170</u>	<u>\$ 94,349</u>	<u>\$ 818,338</u>	<u>\$ 1,948,679</u>	<u>\$ 29,545,514</u>	<u>\$ 868,150</u>	<u>\$ 37,099,200</u>

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

(Unaudited)

**United States Environmental Protection Agency
Consolidated Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)**

	Funds from Dedicated Collections <small>(Note 16)</small>	Funds from Other Than Dedicated Collections	Consolidated Totals
UNEXPENDED APPROPRIATIONS			
Beginning Balance	\$ 61	\$ 83,687,121	\$ 83,687,182
Appropriations Received	-	24,975,673	24,975,673
Appropriations Transferred In/(Out)	-	(40,000)	(40,000)
Other Adjustments	(59)	(1,604,057)	(1,604,116)
Appropriations Used	-	(35,513,072)	(35,513,072)
Net Change in Unexpended Appropriations	(59)	(12,181,456)	(12,181,515)
Total Unexpended Appropriations	\$ 2	\$ 71,505,665	\$ 71,505,667
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balance	\$ 10,079,989	\$ (576,861)	\$ 9,503,128
Corrections of Errors (Note 28)	-	(130,918)	(130,918)
Beginning Balance, as Adjusted	10,079,989	(707,779)	9,372,210
Other Adjustments	-	(248,913)	(248,913)
Appropriations Used	-	35,513,072	35,513,072
Non-Exchange Revenue (Note 24)	2,344,289	-	2,344,289
Transfers-In/(Out) Without Reimbursements	102,382	(180,839)	(78,457)
Imputed Financing (Note 22)	60,863	299,529	360,392
Other	-	(54,659)	(54,659)
Net Cost of Operations	(2,015,066)	(35,084,134)	(37,099,200)
Net Change in Cumulative Results of Operations	492,468	244,056	736,524
Total Cumulative Results of Operations	10,572,457	(463,723)	10,108,734
Net Position	\$ 10,572,459	\$ 71,041,942	\$ 81,614,401

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

(Unaudited)

**United States Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)**

	2025	
	<u>Budgetary</u>	<u>Non-Budgetary Credit Reform Financing Account</u>
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget		
Authority, Net (Discretionary and Mandatory) (Note 21)	\$ 36,111,201	\$ 719,306
Appropriations (Discretionary and Mandatory)	27,619,886	5,598
Borrowing Authority (Discretionary and Mandatory)	-	74,817
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	<u>901,825</u>	<u>1,260,886</u>
Total Budgetary Resources	<u>\$ 64,632,912</u>	<u>\$ 2,060,607</u>
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	\$ 34,262,578	\$ 2,060,607
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	23,728,064	-
Unapportioned, Unexpired Accounts	13,158	-
Expired Unobligated Balance, End of Year	<u>6,629,112</u>	<u>-</u>
Unobligated Balance, End of Year (Total): (Note 21)	<u>30,370,334</u>	<u>-</u>
Total Budgetary Resources	<u>\$ 64,632,912</u>	<u>\$ 2,060,607</u>
OUTLAYS, NET AND DISBURSEMENTS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 37,758,669	
Distributed Offsetting Receipts (-) (Note 21)	<u>(782,308)</u>	
Agency Outlays, Net (Discretionary and Mandatory)	<u>\$ 36,976,361</u>	
Disbursements, Net (Total) (Mandatory)		<u>\$ 2,855,314</u>

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

(Unaudited)

**United States Environmental Protection Agency
Statement of Custodial Activity
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)**

2025

Total Custodial Revenue

Sources of Cash Collections:

Fines and Penalties	\$ 5,880
Other	<u>65,003</u>
Total Cash Collections	70,883
Accrual Adjustments	<u>(62,852)</u>
Total Custodial Revenue (Note 20)	\$ <u>8,031</u>

Disposition of Collections

Transferred to Others (General Fund)	\$ 70,894
(Increase)/Decrease in Amounts Yet to be Transferred	<u>(62,863)</u>
Total Disposition of Collections	\$ <u>8,031</u>

Custodial Revenue Less Disposition of Collections

\$ -

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

The U.S. Environmental Protection Agency (the EPA or Agency) 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 EPA is a component of the U.S Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

The FY 2025 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 EPA 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* revised July 14, 2025, 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 user 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.

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

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 loans. 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 reestimated loans that occur in subsequent years after the loans are disbursed. The Agency received a two-year appropriation in fiscal year 2025 to finance the administrative portion of the program.

EPA reestimates the risk on each individual loan annually. Proceeds issued by EPA generally cannot exceed 49% of eligible project costs, but under certain circumstances small communities can receive up to 80%. 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 Pesticides 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).

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

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 settlements from other federal agencies and 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, and 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 with FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 5 *Accounting for Liabilities of the Federal Government*.

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

E. Revenue and Other Financing Sources

As a component of the Government-wide reporting entity, the entity is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in entity and Government-wide financial reports.

The reporting entity's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The following EPA policies and procedures to account for the 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 settlements from other federal agencies and 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 e-Manifest 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 TSCA Fund collects user fees to defray costs for new chemical reviews and a range 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).

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

F. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is an asset of a reporting entity and a liability of the General Fund. Similarly, investments in Federal Government securities that are held by Dedicated Collections accounts are assets of the reporting entity responsible for the Dedicated Collections and liabilities of the General Fund. In both cases, the amounts represent commitments by the Government to provide resources for particular programs, but they do not represent assets to the Government as a whole.

When the reporting entity seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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.

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.

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.

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. 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.

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

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. 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 are tangible assets that have an estimated useful life of two or more years, are not intended for sale in the ordinary course of business and are intended to be used or available for use by the entity.

The EPA accounts for leases in accordance with SFFAS 54. Federal lessees recognize a lease liability and a leased asset at the commencement of the lease term, unless it meets any of the scope exclusions or the definition/criteria of short-term leases, or contracts or agreements that transfer ownership, or intragovernmental leases. The lease liability is measured at the present value of payments expected to be made during the lease term. The future lease payments are discounted using the estimated rate that would be charged for borrowing the lease payment amounts for the lease term. The amortization of the discount on the lease liability is calculated and recognized as interest expense for the period. Payments are allocated first to the accrued interest liability and then to the lease liability.

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

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
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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, property owned by the reporting entity in the hands of or leased to others, land rights that do not meet the definition of a lease and contracts or agreements that transfer ownership. 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, modifications, and 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.

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 "Federal Employee Salary, Leave and Benefits Payable". Sick leave earned but not taken is not accrued as a liability; it is expensed as it is used.

(Unaudited)
United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Year Ending September 30, 2025
(Dollars in Thousands)

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 the current period financial statements.

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 advances from BP and 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.

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 and footnotes in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised July 14, 2025. As a result, the form and content of the Balance Sheet, Statement of Changes in Net Position and footnotes have been changed to conform with OMB Circular No. A-136.

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Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury consists of the following as of September 30:

	2025		
	Entity Assets	Non-Entity Assets	Total
Trust Funds:			
Superfund	\$ 305,438	\$ -	\$ 305,438
LUST	30,821	-	30,821
Oil Spill & Misc.	14,536	-	14,536
Revolving Funds:			
FIFRA/Tolerance	32,055	-	32,055
Working Capital	165,968	-	165,968
E-Manifest	63,894	-	63,894
NRDA	2,505	-	2,505
Appropriated			
Other Fund Types	70,265,041	-	70,265,041
Total	<u>688,082</u>	<u>3,610</u>	<u>691,692</u>
	<u>\$ 71,568,340</u>	<u>\$ 3,610</u>	<u>\$ 71,571,950</u>

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 Balance with Treasury	2025
Unobligated Balance	\$ 31,982,996
Net Receivables from Invested Balances	(9,518,856)
Balances in Treasury Trust Fund	146,994
Obligated Balance not yet Disbursed	48,285,916
Non-Budgetary Fund Balance with Treasury	<u>674,900</u>
Total	<u>\$ 71,571,950</u>

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 generally balances in expired funds, which are available only for adjustments of existing obligations. As of September 30, 2025, 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.

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Note 3. Investments, Net

Investments consist of the following as of September 30:

Intragovernmental Investments as of September 30

Intragovernmental Securities:	Cost/ Acquisition Value	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Non- Marketable FY 2025	\$ 13,315,327	Straight Line	\$ 330,225	\$ 7,391	\$ 12,992,493	\$ 12,992,493

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 16).

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 sources other than intragovernmental 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.

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Note 4. Accounts Receivable, Net

Accounts Receivable consist of the following as of September 30:

	2025
Intragovernmental:	
Accounts & Interest Receivable	\$ 9,431
Less: Allowance for Uncollectible Accounts	<u>(536)</u>
Total	<u>\$ 8,895</u>
	2025
Other Than Intragovernmental:	
Unbilled Accounts Receivable	\$ 101,674
Accounts & Interest Receivable	2,488,158
Less: Allowance for Uncollectible Accounts	<u>(2,248,431)</u>
Total	<u>\$ 341,401</u>

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 for additional information.

Note 5. Inventory and Related Property, Net

Inventory and related property consist of the following as of September 30:

	2025
Inventory Purchased for Resale	\$ 736
Total	<u>\$ 736</u>

Note 6. 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. The EPA does not have any loans obligated prior to 1992.

The EPA administers the WIFIA Direct Loans program. In fiscal year 2025 the Agency received borrowing authority of \$3 billion for the non-subsidy portion of loan proceeds disbursed. For the fiscal year ended September 30, 2025, the Agency closed \$4 billion in WIFIA loans.

Interest on the loans is accrued based on the terms of the loan agreement. For the fiscal year ended September 30, 2025, the WIFIA program has incurred \$30 million in administrative expenses.

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Obligated after FY 1991

Direct Loan Program	2025 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	\$ 11,168,000	9,119	-	(2,175,985)	\$ 9,001,134

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Program	2025
WIFIA	\$ 3,551,551

Subsidy Expense for Direct Loans by Program and Component

Subsidy Expense for New Direct Loans Disbursed

Direct Loan Program	2025 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
	-				
WIFIA	\$ -	-	-	2,167	\$ 2,167

Modifications and Reestimates

Direct Loan Program	2025 Total Modifications	Interest Rate Reestimates	Technical Reestimates	FAI Reestimates	Total Reestimates
	-				
WIFIA	\$ (2,690)	301,405	68,643	-	\$ 370,048

Total Direct Loans Subsidy Expense

Direct Loan Program	2025
WIFIA	\$ 1,126,314

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

Direct Loan Program	2025 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
	0%				
WIFIA	0%	0.64%	0%	0%	0.64%

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 reestimates.

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Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance, Changes and Ending Balance

	2025
Beginning Balance of the Subsidy Allowance	\$ (1,619,012)
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component	
Other Subsidy Costs	(1,126,314)
Total of the Above Subsidy Expense Components	\$ (1,126,314)

Adjustments

Loan Modifications	(2,690)
Subsidy Allowance Amortization	199,816
Other	2,167
Ending Balance of the Subsidy Cost Allowance Before Reestimates	(2,546,033)
Add or Subtract Subsidy Reestimates by Component	
Interest Rate Reestimates	301,405
Technical/Default Reestimates	68,643
Total of the Above Reestimate Components	\$ 370,048
Ending Balance of the Subsidy Cost Allowance	\$ (2,175,985)

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 2025 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.

	2025
Beginning balance of loans receivable, net	\$ 6,025,415
Add loan disbursements	3,551,551
Less principal and interest payments received	(105,708)
Add interest accruals	86,315
Add fees accrued	534
Add upward reestimates	(1,980,940)
Less downward reestimates	2,545,206
Loan modifications	(2,690)
Subsidy allowance	(1,118,549)
Ending balance of loans receivable, net	\$ 9,001,134

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Note 7. Accounts Payable

Accounts Payable are current liabilities and consist of the following amounts as of September 30:

	<u>Covered by Budgetary Resources</u>	<u>2025</u>
Intragovernmental:		
Accounts Payable		\$ 529
Total		<u>\$ 529</u>
Other Than Intragovernmental:		
Accounts Payable		\$ 59,659
Advances Payable		4
Interest Payable		15
Disbursements in Transit		<u>35,688</u>
Total		<u>\$ 95,366</u>

Note 8. Property, Plant, and Equipment, Net (Restated, see Note 28)

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, 2025, PP&E Cost consisted of the following:

	<u>2025</u>						(Restated)
	<u>EPA- Held Equipment</u>	<u>Software (Production)</u>	<u>Software (Development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, Beginning of Year	<u>\$ 334,065</u>	<u>\$ 440,896</u>	<u>\$ 155,870</u>	<u>\$ 16,546</u>	<u>\$ 864,458</u>	<u>\$ 24,666</u>	<u>\$ 1,836,501</u>
Additions	30,008	8,338	28,035	29	951	346	67,707
Dispositions	(16,044)	-	(14,631)	-	-	-	(30,675)
Revaluations	(455)	-	-	(1,516)	26,788	(29)	24,788
Balance, September 30, 2025	<u>\$ 347,574</u>	<u>\$ 449,234</u>	<u>\$ 169,274</u>	<u>\$ 15,059</u>	<u>\$ 892,197</u>	<u>\$ 24,983</u>	<u>\$ 1,898,321</u>

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As of September 30, 2025, PP&E Accumulated Depreciation consisted of the following:

	2025						
				(Restated)			
	<u>EPA-Held Equipment</u>	<u>Software (Production)</u>	<u>Software (Development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, Beginning of Year	\$ 247,513	\$ 439,721	\$ -	\$ 9,989	\$ 495,008	\$ 24,212	\$ 1,216,443
Dispositions	(14,905)	-	-	-	-	-	(14,905)
Revaluations	139	-	-	-	187	188	514
Depreciation Expense	18,148	5,759	-	2,219	20,145	453	46,724
Balance, September 30, 2025	\$ 250,895	\$ 445,480	\$ -	\$ 12,208	\$ 515,340	\$ 24,853	\$ 1,248,776

As of September 30, 2025, PP&E, Net consisted of the following:

	2025						
				(Restated)			
	<u>EPA-Held Equipment</u>	<u>Software (Production)</u>	<u>Software (Development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, September 30, 2025	\$ 96,679	\$ 3,754	\$ 169,274	\$ 2,851	\$ 376,857	\$ 130	\$ 649,545

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Note 9. 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.

The EPA borrows funds from the Federal Financing Bank right before funds are disbursed to the borrower for the non-subsidy portion of WIFIA loans. As of September 30, 2025, the EPA had debt due to Treasury consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program:

	2025				
	Beginning Balance	Borrowing	Repayment	Interest	Ending Balance
Debt Owed to the Federal Financing Bank	\$ 6,881,726	\$ 4,039,119	\$ (1,200,334)	\$ -	\$ 9,720,511

Note 10. 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, 2025, the Agency possessed the following land and land rights:

	2025
Superfund Sites with Easements:	
Beginning Balance	50
Additions	1
Withdrawals	(1)
Ending Balance	50
Superfund Sites with Land Acquired:	
Beginning Balance	33
Additions	3
Withdrawals	-
Ending Balance	36

Note 11. 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, 2025, custodial liability is approximately \$69,641.

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Note 12. Other Liabilities

Other Liabilities consist of the following as of September 30, 2025:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Intragovernmental Other Liabilities:			
Current			
Employer Contributions & Payroll Taxes	\$ 18,634	\$ -	\$ 18,634
Other Accrued Liabilities	159,853	-	159,853
Loan Reestimates	-	301,405	301,405
GSA Technology Modernization Liability	-	1,169	1,169
Non-Current			
Unfunded FECA Liability	-	8,918	8,918
Unfunded Unemployment Liability	-	551	551
Payable to Treasury Judgement Fund	-	22,000	22,000
Total Intragovernmental Other Liabilities	\$ 178,487	\$ 334,043	\$ 512,530

Other than Intragovernmental Other Liabilities:

Current

Liability for Deposit Funds, Other Than Intragovernmental	\$ 392	\$ 3,654	\$ 4,046
Other Accrued Liabilities	214,873	-	214,873
Grant Liabilities	861,513	-	861,513
Capital Lease Liabilities (Note 13)	-	152	152
Liability for Clearing Accounts	-	(316)	(316)
Total Other than Intragovernmental Other Liabilities	\$ 1,076,778	\$ 3,490	\$ 1,080,268

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.

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Note 13. Leases

The value of assets held under Capital Leases as of September 30, 2025, are as follows:

Capital Leases:

	2025
Summary of Assets Under Capital Lease:	
Real Property	\$ 24,983
Total	24,983
Accumulated Amortization	\$ 24,853

Future Payments Due

Fiscal Year

	Capital Leases
2026	\$ 91
2027	58
2028	10
Total Future Minimum Lease Payments	159
Less: Imputed Interest	(7)
Net Capital Lease Liability	152
Liabilities not Covered by Budgetary Resources	152

Note 14. Advances from Others and Deferred Revenue

Advances from Others and Deferred Revenue consist of the following as of September 30:

	2025
Other Than Intragovernmental:	
Cashout Advances, Superfund	\$ 3,376,539
Unearned Advances	178,436
Total	3,554,975

Cashout advances are funds received or receivable 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), cashout 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.

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Note 15. Commitments and Contingencies

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

The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the incurrence of a liability, and the likelihood of loss can range from probable to remote. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, identifies the probability classifications used to assess the range for the likelihood of loss as probable (more likely than not to occur), reasonably possible (more than remote but less than probable), and remote (possibility of future confirming event occurring is slight).

	<u>Accrued Liabilities</u>	<u>Estimated Range of Loss- Lower End</u>	<u>Estimated Range of Loss- Upper End</u>
FY 2025			
Legal Contingencies:			
Reasonably Possible	\$ -	\$ -	\$1,400,050,000

A. Flint, Michigan

The EPA has received claims from over 9,400 individuals seeking damages under the Federal Tort Claims Act for alleged personal injuries and property damage caused by the EPA's alleged negligence related to the water health crisis in Flint, Michigan. There is currently no estimated loss amount related to these claims; the chance of an unfavorable outcome for EPA is reasonably possible.

B. 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. As of September 30, 2025, there is one open case related to Superfund and it is considered to have a reasonably possible likelihood of an unfavorable outcome for EPA.

The case is **Prudent Technologies, Inc. v. The United States**, a Contracts Dispute Act case on a Superfund contract for remediation of residential yards. There is currently no estimated loss amount related to this case; the chance of an unfavorable outcome for EPA is reasonably possible.

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C. Environmental Liabilities

As of September 30, 2025, there are no cases pending against the EPA that are reported under Environmental Liabilities for which the likelihood of an unfavorable outcome for EPA has been determined to be either probable or reasonably possible.

D. Other Pending Cases

As of September 30, 2025, several legal claims exist for which the potential loss could not be determined; all have a reasonably possible likelihood of an unfavorable outcome for EPA.

- **United Affiliates Corp., et al. v. United States** – Claim involves an alleged taking of property for which plaintiff is seeking just compensation under the 5th Amendment; it arises from EPA's withdrawal of certification for certain disposal sites of mining waste.
- **Alaska v. United States** - Alaska is seeking damages regarding allegations that EPA's 2023 Final Determination issued under the Clean Water Act Section 404(c) regarding the Pebble Deposit in Alaska constitutes a breach of contract and breach of covenant of good faith.
- **Northern Dynasty Minerals, Ltd., Pebble Limited Partnership, Pebble West Claims Corp., and Pebble East Claims Corp. v. United States** - Plaintiffs (collectively, "PLP") allege that EPA's 2023 Final Determination issued under the Clean Water Act Section 404(c) regarding the Pebble Deposit constitutes a categorical taking, or in the alternative, an ad hoc permanent taking, because it blocks any economically viable use of PLP's mineral rights. The complaint also alleges that the action constitutes a temporary taking even if it were to be withdrawn or vacated.
- **National Association of Diversity Officers in Higher Education at al. v. Trump et al.**- Several higher education associations, a non-profit representing the interests of restaurant workers, and the mayor and city council of Baltimore filed suit against Donald Trump in his official capacity, as well as six federal agencies, challenging certain provisions in Executive Order 14151 and Executive Order 14173.
- **National Council of Nonprofits et al. v. Office of Management and Budget et al.**- A coalition of non-profits filed suit in the U.S. District Court for the District of Columbia against OMB. The Complaint alleges that OMB Memo M-25-13 regarding a pause on federal financial assistance (i) violates the Administrative Procedure Act because it is arbitrary and capricious, (ii) violates the Administrative Procedure Act because it is in excess of the OMB's statutory authority, and (iii) violates the First Amendment of the Constitution.
- **National Urban League et al. v. Donald J. Trump et al.**- Three non-profit recipients of federal financial assistance filed suit in the U.S. District Court for the District of Columbia seeking declaratory and injunctive relief. The complaint alleges that Executive Order (EO) 14151 ("Ending Radical and Wasteful DEI Programs and Preferencing" (Jan. 20, 2025); EO 14168 ("Defending Women from Gender Ideology Extremism and Restoring Biological Truth to the Federal Government") (Jan. 20, 2025); EO 14173 ("Ending Illegal Discrimination and Restoring Merit-Based Opportunity") (Jan. 21, 2025), and related agency actions, are ultra vires (usurping legislative function and acting contrary to statute), arbitrary and capricious, and unconstitutional in violation of the First and Fifth Amendments to the U.S. Constitution.

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- **State of New Jersey et al. v. U.S. Office of Management and Budget-** Twenty-two states led by New Jersey filed suit in the District of Massachusetts challenging the termination of various grants on the basis of 2C.F.R. § 200.340(a)(4).
- **State of New York et al. v. Trump et al.-** A coalition of 22 states and the District of Columbia, led by the Attorney General of Rhode Island, filed suit in the U.S. District Court for the District of Rhode Island seeking declaratory and injunctive relief and vacatur under the Administrative Procedure Act with respect to OMB Memo M-25-13 regarding a pause on federal financial assistance.
- **The Sustainability Institute et al. v. Trump et al.-** A complaint was filed by multiple plaintiffs against seven agencies/officials. The factual allegations pertaining to EPA concern lack of access to awarded grants and disruption to operations, including potential layoffs, and to projects regarding the following: Plaintiff Bronx River Alliance was awarded both a Community Change (CCG) and an EJ Collaborative Problem Solving Grant (ECPS) grant; Plaintiff CleanAIRE was awarded an ECPS grant; Plaintiff Leadership Counsel for Justice and Accountability was awarded a CCG grant; Plaintiff City of Baltimore, MD was awarded both a Solid Waste Infrastructure for Recycling (SWIFR) and an Environmental Justice Government to Government (EJG2G) grant; and Plaintiff City of New Haven, CT was awarded both an EJG2G and a Climate Pollution Reduction Program grant.
- **Thakur, et al. v. Trump, et al.-** Plaintiffs filed a class action complaint for declaratory and injunctive relief. Plaintiffs are six University of California professors who have been principal investigators on research grants awarded by several Federal Agencies. EPA is a defendant in the case. Plaintiffs have styled the action as a class action brought on behalf of all University of California researchers whose research grants have been, or will be, terminated. Plaintiffs allege that defendant agencies illegally terminated research grants in violation of separation of powers, the first amendment, the fifth amendment, and the APA.
- **Woonasquatucket River Watershed Council et al.-** The Woonasquatucket River Watershed Council, Eastern Rhode Island Conservation District, Green Infrastructure Center and National Council of Nonprofits filed a complaint against five Executive branch defendants, including EPA and Lee Zeldin in his official capacity. The complaint alleges the freeze of grant funds authorized by IRA and IIJA violates the Administrative Procedure Act
- **City of Fresno et al. v. Turner et al.-** City of Fresno (CA), City of Eureka (CA), City of South Lake Tahoe (CA), City of St. Paul (MN), County of Sacramento (CA), County of Monroe (NY), and Monroe County Airport Authority (NY) filed a complaint against HUD and several other federal agencies, including EPA. The complaint, which specifically mentions EPA Brownfields grants among others, relates to Agencies conditioning of grants to give effect to Administration policy priorities. Plaintiffs allege the Agency grant conditions amount to a violation of separation of powers, spending clause, tenth amendment, fifth amendment, and are arbitrary and capricious.

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- **Building Materials Re-Use Association v. EPA**- Building Materials Re-Use Association (represented by Earthjustice) sued EPA and the Administrator in the District for the District of Columbia for eliminating a program and funding under the Inflation Reduction Act section 60112 (a grant and technical assistance program associated with environmental product declarations for low-embodied greenhouse gas building materials and products). The complaint claims EPA's action was (1) unconstitutional because it violated the separation of powers; (2) unconstitutional because it violated the Presentment Clauses; (3) arbitrary and capricious under the Administrative Procedure Act (APA); and (4) contrary to law under the APA. They seek (1) declaratory judgment; (2) injunctive relief; and (3) attorney's fees (EAJA fees).
- **American Association of University Professors et al v. Trump et al.**- American Association of University Professors and other plaintiffs filed a complaint against EPA and other agencies alleging that the agencies' grant funding decisions violated the APA, the First Amendment, and Titles VI, VII, and IX of the Civil Rights Act.
- **Appalachian Voices et al. v. EPA et al.** - Appalachian Voices filed a complaint against EPA on behalf of itself, 22 other named plaintiffs, and all others similarly situated. The class action complaint alleges that EPA has unlawfully terminated the Environmental and Climate Justice Block Grant program created under the Inflation Reduction Act as section 138 of the Clean Air Act. The plaintiffs allege a violation of separation of powers, the presentment clauses, and the APA. The complaint seeks class certification and declaratory and injunctive relief.

E. Gain Contingency

The Agency is involved in litigation with several grantees disputing the termination of grant funding for two Greenhouse Gas Reduction Fund programs (*Climate United Fund et al. v. Citibank, N.A.*, Case No. 1:25-cv-00698; on appeal in the United States Court of Appeals for the D.C. Circuit, Case no. 25-5122). The complaint was filed on March 8, 2025, in the United States District Court for the District of Columbia. On September 2, 2025, on appeal from the D.C. District Court, the Court of Appeals for the District of Columbia Circuit vacated the district court's initial injunction on jurisdictional grounds; plaintiffs filed a motion for rehearing *en banc* on September 10, 2025, which EPA opposed. The outcome is uncertain, and EPA's legal counsel considers the likelihood of an unfavorable outcome for the agency reasonably possible (i.e., the chance of an unfavorable outcome is less than probable, but more than remote), therefore the potential gain from recovery of previously disbursed grant funds has not been recognized in the financial statements.

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

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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's share of funding to CEC in FY 2025 was \$2,550 thousand.

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Note 16. Funds from Dedicated Collections

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Balance Sheet as of September 30, 2025							
Intragovernmental Assets							
Fund Balance with Treasury, Net	\$ 670,761	\$ 30,821	\$ 640,599	\$ 130,312	\$ 1,472,493	\$ (335,161)	\$ 1,137,332
Investments, Net	-	1,795,549	11,196,944	-	12,992,493	-	12,992,493
Accounts Receivable, Net	-	99,775	9,419,288	165	9,519,228	(9,518,879)	349
Advances and Prepayments	-	441	18,907	3,546	22,894	-	22,894
Total Intragovernmental Assets	670,761	1,926,586	21,275,738	134,023	24,007,108	(9,854,040)	14,153,068
Other Than Intragovernmental Assets							
Accounts Receivable, Net	-	-	257,655	2,207	259,862	-	259,862
Property, Plant, and Equipment, Net	-	29	63,406	24,660	88,095	-	88,095
Advances and Prepayments	-	-	725	-	725	-	725
Total Other Than Intragovernmental Assets	-	29	321,786	26,867	348,682	-	348,682
Total Assets	\$ 670,761	\$ 1,926,615	\$ 21,597,524	\$ 160,890	\$ 24,355,790	\$ (9,854,040)	\$ 14,501,750
Intragovernmental Liabilities							
Accounts Payable	\$ -	\$ 99,777	\$ 9,443,586	\$ -	\$ 9,543,363	\$ (9,518,856)	\$ 24,507
Advances from Others and Deferred Revenue	-	-	159,527	2,246	161,773	-	161,773
Liability to the General Fund for Custodial Assets	-	-	22,362	-	22,362	-	22,362
Other Liabilities	-	140	72,043	3,044	75,227	-	75,227
Total Intragovernmental Liabilities	-	99,917	9,697,518	5,290	9,802,725	(9,518,856)	283,869
Other Than Intragovernmental Liabilities							
Accounts Payable	-	17	49,318	531	49,866	-	49,866
Federal Employee Salary, Leave and Benefits Payable	-	180	12,163	1,390	13,733	-	13,733
Pension and Post-Employment Benefits Payable	-	-	6,852	-	6,852	-	6,852
Advances from Others and Deferred Revenue	-	-	61,330	41,480	102,810	-	102,810
Deferred Revenue	-	-	3,376,539	-	3,376,539	-	3,376,539
Other Liabilities	-	7,567	84,878	3,177	95,622	-	95,622
Total Other Than Intragovernmental Liabilities	-	7,764	3,591,080	46,578	3,645,422	-	3,645,422
Total Liabilities	\$ -	\$ 107,681	\$ 13,288,598	\$ 51,868	\$ 13,448,147	\$ (9,518,856)	\$ 3,929,291
Unexpended Appropriations	\$ -	\$ -	\$ -	\$ 2	\$ 2	\$ -	\$ 2
Cumulative Results of Operations	670,761	1,818,934	8,308,926	109,020	10,907,641	(335,184)	10,572,457
Total Liabilities and Net Position	\$ 670,761	\$ 1,926,615	\$ 21,597,524	\$ 160,890	\$ 24,355,790	\$ (9,854,040)	\$ 14,501,750

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	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Statement of Net Cost as of September 30, 2025							
Gross Program Costs	\$ -	\$ 94,349	\$ 2,251,849	\$ 107,702	\$ 2,453,900	\$ -	\$ 2,453,900
Less: Earned Revenues	\$ 33,639	\$ -	\$ 637,570	\$ 102,025	\$ 773,234	\$ (334,400)	\$ 438,834
Net Costs of Operations	\$ (33,639)	\$ 94,349	\$ 1,614,279	\$ 5,677	\$ 1,680,666	\$ 334,400	\$ 2,015,066
Statement of Changes in Net Position as of September 30, 2025							
Unexpended Appropriations							
Beginning Balance	\$ -	\$ -	\$ -	\$ 61	\$ 61	\$ -	\$ 61
Other Adjustments	-	-	-	(59)	(59)	-	(59)
Total Unexpended Appropriations	\$ -	\$ -	\$ -	\$ 2	\$ 2	\$ -	\$ 2
Cumulative Results of Operations							
Beginning Balance	\$ 637,122	\$ 1,595,285	\$ 7,749,668	\$ 97,937	\$ 10,080,012	\$ (23)	\$ 10,079,989
Other Than Intragovernmental Non-Exchange Revenue							
Excise tax & customs	-	228,656	1,555,667	-	1,784,323	-	1,784,323
Misc. taxes & receipts	-	72,290	487,272	1,165	560,727	(761)	559,966
Total Other Than Intragovernmental Non-Exchange Revenue	-	300,946	2,042,939	1,165	2,345,050	(761)	2,344,289
Transfers-In/(Out) Without Reimbursement	-	17,000	69,807	15,575	102,382	-	102,382
Imputed Financing	-	52	60,791	20	60,863	-	60,863
Net Cost of Operations	\$ 33,639	<u>(94,349)</u>	<u>(1,614,279)</u>	<u>(5,677)</u>	<u>(1,680,666)</u>	<u>(334,400)</u>	<u>(2,015,066)</u>
Net Change in Cumulative Results of Operations	\$ 33,639	<u>223,649</u>	<u>559,258</u>	<u>11,083</u>	<u>827,629</u>	<u>(335,161)</u>	<u>492,468</u>
Cumulative Results of Operations: Ending Net Position, End of Period	\$ 670,761	\$ 1,818,934	\$ 8,308,926	\$ 109,020	\$ 10,907,641	\$ (335,184)	\$ 10,572,457
	\$ 670,761	\$ 1,818,934	\$ 8,308,926	\$ 109,022	\$ 10,907,643	\$ (335,184)	\$ 10,572,459

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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, 2027, 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.

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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 (e-Manifest) was established as a result of the Hazardous Waste Manifest Establishment Act (Public Law 112-195, October 5, 2012). The “e-Manifest Act” authorized the EPA to implement a national electronic manifest system and required that the costs of developing and operating the new e-Manifest system be recovered from user fees charged to those who use hazardous waste manifests to track off-site shipments of their wastes. To that end, the EPA charges and collects fees from facilities for each manifest they submit.

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Note 17. 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 27 sites for which it is responsible for cleanup 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) Cleanup 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 cleanup 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 cleanup cost as a liability and record changes to the estimate in subsequent years.

As of September 30, 2025, the EPA has no sites that require cleanup stemming from its activities.

The EPA has 27 sites for which it is required to fund the environmental cleanup. As of September 30, 2025, the estimated costs for site cleanup were \$45 million unfunded, and no amount funded. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

Note 18. 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 remedial actions in their states. The SSC defines the states' role in the remedial action and obtains the states' assurance that they will share in the cost of the remedial actions. 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, 2025, the total remaining state credits have been estimated at \$20 million.

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Note 19. 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 claims against the Superfund Trust Fund for portions of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2025, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling \$16 million. A liability is not recognized for these amounts until all work has been performed by the PRPs and has been approved by the EPA for payment. Further, the EPA will not disburse any funds under these agreements until the PRPs' application, claim and claims adjustment processes have been reviewed and approved by the EPA.

Note 20. Custodial Revenues

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. EPA's mission requires it to collect nonexchange revenue for Cellulose Biofuel Waiver Credits from the public. The custodial collections do not affect EPA's net cost or net position. Instead, the collections are transferred to Treasury where the impact on financial statements is shown.

	2025
For the Fiscal Year Ended September 30, 2025	
Fines, Penalties, Interest and Other Revenue	\$ <u>8,031</u>
 As of September 30, 2025	 2025
Accounts Receivable for Fines, Penalties, Interest and Other Revenue:	
Accounts Receivable	\$ 188,847
Less: Allowance for Uncollectible Accounts	<u>(141,908)</u>
Total	<u>\$ 46,939</u>

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Note 21. Statement of Budgetary Resources

The purpose of Federal budgetary accounting is to control, monitor, and report on funds made available to Federal agencies by law and help ensure compliance with law.

The following budget terms from OMB Circular A-11, Section 20.3 are commonly used:

- **Appropriation:** A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- **Budgetary resources:** Amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- **Distributed offsetting receipts:** Amounts that an agency collects from the public or from other U.S. 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).
- **Offsetting collections:** Payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority.
- **Offsetting receipts:** Payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.
- **Obligation:** A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- **Outlay:** A payment to liquidate an obligation. Outlays generally are equal to cash disbursements and are the measure of Government spending.

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2024 Statement of Budgetary Resources, are reconciled to the amounts included in the FY 2024 Budget of the United States Government. Differences between the FY 2024 Statement of Budgetary Resources and the FY 2024 Budget of the United States Government are due to the reporting of expired funds in the Statement of Budgetary Resources. The Budget of the United States Government with actual numbers for FY 2025 has not yet been published. We expect it will be published by early 2026, and it will be available on the Office of Management and Budget website at <https://www.whitehouse.gov/>.

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The actual amounts published for the year ended September 30, 2024 are listed immediately below (dollars in millions):

FY 2024	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	<u>\$ 86,220</u>	<u>\$ 55,873</u>	<u>\$ 701</u>	<u>\$ 17,427</u>
Reported in the Budget of the U.S. Government	<u>\$ 86,295</u>	<u>\$ 56,221</u>	<u>\$ 701</u>	<u>\$ 17,427</u>

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:

	2025
Unobligated Balance Brought Forward, Oct 1.	<u>\$ 30,346,069</u>
Adjustments to Budgetary Resources Made During the Current Year	
Downward Adjustments of Prior Year Undelivered Orders	7,384,024
Downward Adjustments of Prior Year Delivered Orders	24,593
Permanent Reduction Prior Year Balances	(1,586,161)
Other Adjustments	(57,324)
Total	<u>5,765,132</u>
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	<u>\$ 36,111,201</u>
Temporarily Not Available - Rescinded Authority	<u>\$ (17,624)</u>
Permanently Not Available:	
Rescinded Authority	\$ (1,586,161)
Cancelled Authority	(18,159)
Total Permanently Not Available	<u>\$ (1,604,320)</u>

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:

	2025
Unexpired Unobligated Balance	\$ 23,741,222
Expired Unobligated Balance	6,629,112
Total	<u>\$ 30,370,334</u>

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Budgetary resources obligated for undelivered orders as of September 30:

	2025
Intragovernmental:	
Unpaid Undelivered Orders	\$ 2,407,278
Paid Undelivered Orders	2,187,458
Other Than Intragovernmental:	
Unpaid Undelivered Orders	56,821,832
Paid Undelivered Orders	<u>511,267</u>
Total	<u>\$ 61,927,835</u>

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, the following receipts were generated from these activities:

	2025
Trust Fund Recoveries	\$ 334,400
Special Fund Services	62,698
Trust Fund Appropriation	128,478
Loan Modification Receipt Account	246,746
Miscellaneous Receipt and Clearing Accounts	<u>9,986</u>
Total	<u>\$ 782,308</u>

Note 22. Imputed Financing

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each Agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each Agency. In FY 2023, the Agency began recording OPM amounts quarterly; previously it was recorded annually. The estimates for FY 2025 are \$317 million.

SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts* and SFFAS No. 30, *Inter-Entity Cost Implementation*, requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. 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 2025 total imputed costs were \$41 million.

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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 2025, entries for Judgment Fund payments totaled \$2 million.

Note 23. Federal Employee Benefits Payable

Payroll and benefits payable to the EPA employees consist of the following for the Fiscal Year Ending September 30:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2025 Federal Employee Salary, Leave and Benefits Payable			
Employer Contributions Payable - Thrift Savings Plan	\$ 1,636	\$ -	\$ 1,636
Accrued Unfunded Annual Leave	- -	185,582	185,582
Accrued Payroll and Benefits	<u>57,472</u>	<u>-</u>	<u>57,472</u>
Total Benefits Payable	<u>59,108</u>	<u>185,582</u>	<u>244,690</u>
FY 2025 Pension and Post-Employment Benefits Payable			
Actuarial FECA Liability	- -	37,259	37,259
Total Benefits Payable	<u>\$ - -</u>	<u>\$ 37,259</u>	<u>\$ 37,259</u>

FECA (Federal Employees' Compensation Act) 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 allocates 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 2025 present value of these estimated outflows is calculated using a discount rate of 3.221 percent in the first year for wage benefits and 2.944 percent in the first year for medical benefits, and 3.221 percent in the years thereafter for wage benefits and 2.944 percent in the years thereafter for medical benefits. The estimated future costs are recorded as an unfunded liability.

See Note 1 paragraph P for additional information.

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Note 24. Non-Exchange Revenue, Statement of Changes in Net Position

Non-Exchange Revenue on the Statement of Changes in Net Position for the Fiscal Year Ending September 30:

	2025	
	Funds from	All Other
	Dedicated	Funds
Interest on Trust Fund	\$ 559,650	\$ -
Tax Revenue, Net of Refunds	1,784,323	-
Fines and Penalties Revenue	316	-
Total Nonexchange Revenue	\$ 2,344,289	\$ -

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Note 25. Reconciliation of Net Cost of Operations to Net Outlays

For the Fiscal Year Ending September 30, 2025:

	Intra- governmental	Other Than Intra- governmental	Total FY25
NET COST	\$ 2,457,812	\$ 34,641,388	\$ 37,099,200
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation			
Inventory Depletion Expense	-	(39,236)	(39,236)
Property, Plant and Equipment Disposal & Revaluation	-	(1,124)	(1,124)
Gains on Changes From Lease Modifications	-	2,167	2,167
Applied Overhead/Cost Capitalization Offset	-	78,031	78,031
Gains/Losses on All Other Investments	-	(3,431)	(3,431)
Increase/(Decrease) in Assets:			
Accounts Receivable	791	(94,705)	(93,914)
Loans Receivable	-	2,975,719	2,975,719
Investments	4,934	-	4,934
Other Assets	30,854	416,692	447,546
(Increase)/Decrease in Liabilities:			
Accounts Payable	18,028	(35,796)	(17,768)
Loans Guarantee Liability (Non-FCRA)/Loans Payable	(2,838,785)	-	(2,838,785)
Environmental and Disposal Liabilities	-	(1,744)	(1,744)
Federal Employee Salary, Leave and Benefits Payable	-	(464)	(464)
Post Employment Benefits Payable	-	3,100	3,100
Other Liabilities	(331,078)	(115,698)	(446,776)
Other Financing Sources:			
Other Imputed Financing	(360,392)	-	(360,392)
Total Components of Net Cost That Are Not Part of Net Outlays	(1,017,836)	37,807,076	36,789,240
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of Prior Year Agencies Credit Reform Subsidy			
Reestimates	-	123,301	123,301
Acquisition of Inventory	115	324	439
Acquisition of Investments	-	257,541	257,541
Other Financing Sources:			
Transfer Out (In) Without Reimbursement	86,521	-	86,521
Total Components of Budget Outlays That Are Not Part of Net Operating Cost	86,636	381,166	467,802
Miscellaneous Items			
Distributed Offsetting Receipts	(782,308)	-	(782,308)
Custodial/Non-Exchange Revenue	656,663	-	656,663
Non-Entity Activity	(248,912)	-	(248,912)
Appropriated Receipts for Trust Fund/Special Funds	\$ 23,088	\$ -	\$ 23,088
Other Temporary Timing Differences	-	70,788	70,788
NET OUTLAYS	\$ (1,282,669)	\$ 38,259,030	\$ 36,976,361

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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.

Note 26. Amounts Held by Treasury

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, 2025. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represent amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

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, 2025, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of \$9 billion.

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	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
SUPERFUND FY 2025			
Undistributed Balances			
Uninvested Fund Balance	\$ <u>-</u>	\$ <u>133,550</u>	\$ <u>133,550</u>
Total Undistributed Balance	\$ <u>-</u>	\$ <u>133,550</u>	\$ <u>133,550</u>
Interest Receivable	\$ <u>-</u>	\$ <u>6,326</u>	\$ <u>6,326</u>
Investments, Net	\$ <u>9,419,079</u>	\$ <u>1,771,539</u>	\$ <u>11,190,618</u>
Total - Assets	\$ <u>9,419,079</u>	\$ <u>1,911,415</u>	\$ <u>11,330,494</u>
Liabilities and Equity			
Equity	\$ <u>9,419,079</u>	\$ <u>1,911,415</u>	\$ <u>11,330,494</u>
Total Liabilities and Equity	\$ <u>9,419,079</u>	\$ <u>1,911,415</u>	\$ <u>11,330,494</u>
Receipts			
Chemicals	\$ <u>-</u>	\$ <u>582,885</u>	\$ <u>582,885</u>
Imported Petroleum Product- Superfund Tax	\$ <u>-</u>	\$ <u>358,913</u>	\$ <u>358,913</u>
Petroleum- Domestic Superfund Tax	\$ <u>-</u>	\$ <u>609,382</u>	\$ <u>609,382</u>
Imported Chemical Substances	\$ <u>-</u>	\$ <u>4,487</u>	\$ <u>4,487</u>
Cost Recoveries	\$ <u>-</u>	\$ <u>334,400</u>	\$ <u>334,400</u>
Fines and Penalties	\$ <u>-</u>	\$ <u>761</u>	\$ <u>761</u>
Total Revenue	\$ <u>-</u>	\$ <u>1,890,828</u>	\$ <u>1,890,828</u>
Appropriations Received	\$ <u>-</u>	\$ <u>111,478</u>	\$ <u>111,478</u>
Interest Income	\$ <u>-</u>	\$ <u>486,195</u>	\$ <u>486,195</u>
Total Receipts	\$ <u>-</u>	\$ <u>2,488,501</u>	\$ <u>2,488,501</u>
Outlays			
Transfers to/from EPA, Net	\$ <u>2,494,876</u>	\$ <u>(2,494,876)</u>	\$ <u>-</u>
Total Outlays	\$ <u>2,494,876</u>	\$ <u>(2,494,876)</u>	\$ <u>-</u>
Net Income	\$ <u>2,494,876</u>	\$ <u>(6,375)</u>	\$ <u>2,488,501</u>

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B. LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2025, 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.

	EPA	Treasury	Combined
LUST FY 2025			
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 13,444	\$ 13,444
Total Undistributed Balance	- -	13,444	13,444
Interest Receivable	- -	1,066	1,066
Investments, Net	99,777	1,694,706	1,794,483
Total - Assets	\$ 99,777	\$ 1,709,216	\$ 1,808,993
Liabilities and Equity			
Equity	\$ 99,777	\$ 1,709,216	\$ 1,808,993
Total Liabilities and Equity	\$ 99,777	\$ 1,709,216	\$ 1,808,993
Receipts			
Highway TF Tax	\$ -	\$ 218,312	\$ 218,312
Airport TF Tax	- -	10,295	10,295
Inland TF Tax	- -	49	49
Total Revenue	- -	228,656	228,656
Appropriations Received	- -	17,000	17,000
Interest Income	- -	72,290	72,290
Total Receipts	\$ -	\$ 317,946	\$ 317,946
Outlays			
Transfers to/from EPA, Net	\$ 106,214	\$ (106,214)	\$ - -
Total Outlays	\$ 106,214	\$ (106,214)	\$ - -
Net Income	\$ 106,214	\$ 211,732	\$ 317,946

Note 27. Reclassified Financial Statement for Government-wide Reporting

To prepare the *Financial Report of the U.S. Government (Financial Report)*, 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 Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost. Treasury eliminates intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the *Financial Report* statements. This note shows the agency's financial statements and reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated *Financial Report* line items. A copy of the 2024 *Financial Report* can be found here: [Bureau of the Fiscal Service - Reports, Statements & Publications \(treasury.gov\)](#) and a copy of the 2025 *Financial Report* will be posted to this site as soon as it is released.

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

The term “other than intragovernmental” 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.

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost For the Year Ended September 30, 2025							
FY 2025 EPA SNC		Line Items Used to Prepare the FY 2025 Government-wide SNC					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations Between Dedicated & Other than Dedicated	Total	Reclassified Statement Line
Gross Costs	\$ 38,039,108						<i>Other Than Intragovernmental Gross Costs</i>
	-	1,744,743	-	33,581,697	-	35,326,440	Other Than Intragovernmental Gross Costs
	-	1,744,743	-	33,581,697	-	35,326,440	Total Other Than Intragovernmental Gross Costs
							<i>Intragovernmental Gross Costs</i>
	-	115,933	-	447,550	-	563,483	Benefits Program Costs
	-	3,388	-	315,710	-	319,098	Imputed Costs
	-	589,835	-	845,907	-	1,435,742	Buy/Sell Costs
	-	-	-	115	-	115	Purchase of Assets
	-	-	-	347,024	-	347,024	Borrowing and Other Interest Expense
	-	-	-	201	-	201	Other Expenses (w/o Reciprocals)
	-	709,156	-	1,956,507	-	2,665,663	Total Intragovernmental Gross Costs
Total Gross Costs	\$ 38,039,108	\$ 2,453,899	\$ -	\$ 35,538,204	\$ -	\$ 37,992,103	Total Reclassified Gross Costs
Earned Revenue							Other Than Intragovernmental Earned Revenue
	\$ 939,908	\$ -	\$ -	\$ 589,388	\$ -	\$ 589,388	<i>Intragovernmental Revenue</i>
	-	35,888	-	131,549	-	167,437	Buy/Sell Revenue
	-	-	-	115	-	115	Purchase of Assets Offset
	-	402,946	(334,400)	(68,546)	-	-	Intragovernmental Earned Revenue
	-	438,834	(334,400)	63,118	-	167,552	Total Intragovernmental Earned Revenue
Total Earned Revenue	\$ 939,908	\$ 438,834	\$ (334,400)	\$ 652,506	\$ -	\$ 756,940	Total Reclassified Earned Revenue
NET COST	\$ 37,099,200	\$ 2,015,065	\$ 334,400	\$ 34,885,698	\$ -	\$ 37,235,163	NET COST

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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, 2025							
FY 2025 EPA SCNP		Line Items Used to Prepare the FY 2025 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	61	10,079,915	-	83,106,793	-	93,186,708	Net Position, Beginning of Period
Corrections of Errors	-	-	-	(130,918)	-	(130,918)	Corrections of Errors
Total Correction of Errors	-	-	-	(130,918)	-	(130,918)	Total Correction of Errors
Other Adjustments							Appropriations Received as Adjusted (Rescissions and Other Adjustments)
	(59)	59	-	23,371,498	-	23,371,557	
Appropriations Used	-	-	-	(35,513,072)	-	(35,513,072)	Appropriations Used
Total Unexpended Appropriations	2						
CUMUL. RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	10,079,989	-	-	-	-	-	
Appropriations Used	-	-	-	35,513,072	-	35,513,072	Appropriations Expended
Nonexchange Revenue - Securities Investment	-	-	-	-	-	-	Nonexchange Revenue - Securities Investment
Nonexchange Revenue							Federal Non-Exchange Revenues
	-	1,784,323	-	(1,784,323)	-	-	Excise Taxes
	-	559,966	(761)	(605,794)	-	(46,589)	Other Taxes and Receipts
	-	2,344,289	(761)	(2,390,117)	-	(46,589)	Total Federal Non-Exchange Revenues
							Non-Federal Non-Exchange Revenues
	-	-	-	559,650	-	559,650	Federal Securities Interest Revenue Including Associated Gains and Losses
	-	-	-	81,167	-	81,167	Borrowings and Other Interest Revenue
	-	-	-	1,784,323	-	1,784,323	Other Taxes and Receipts
	-	-	-	807,084	-	807,084	Collection Transfers to TAS Other Than General Fund
	2,344,289	-	-	3,232,224	-	3,232,224	Total Non-Federal Non-Exchange Revenues
Transfers In/Out w/o Reimbursement-Budgetary							Appropriation of Unavailable Special or Trust Fund Receipts Transfers-in
	-	28,906	-	(28,906)	-	-	
	-	(28,906)	-	28,906	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-out
	-	21,353	-	193	-	21,546	Non-Expenditure Transfers-in of Unexpended Appropriations and Financing Sources
	-	(5,971)	-	45,971	-	40,000	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources

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	-	128,478	-	(128,478)	-	-	Expenditure Transfers-in of Financing Sources
	-	19,385	-	82,507	-	101,892	Expenditure Transfers-out of Financing Sources
<i>Total Transfers In/Out w/o Reimbursement-Budgetary</i>	102,382	163,245	-	193	-	163,438	<i>Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary</i>
Imputed Financing Sources	60,863	60,863	-	258,235	-	319,098	Imputed Financing Sources (Federal)
Trust Fund Appropriations	-	-	-	976,072	-	976,072	Non-Entity Collections Transferred to the General Fund of the U.S. Gov.
	-	-	-	(8,198)	-	(8,198)	Accrual of Collections Yet to be Trans. to the Gen. Fund
	-	-	-	-	-	-	Other Non-Budgetary Financing Sources
Total Financing Sources	163,245	224,167	-	24,597,800	-	24,821,967	
Net Cost of Operations	(2,015,066)	2,015,065	334,400	34,885,698	-	37,235,163	Net Cost of Operations
Ending Balance - Cumulative Results of Operations	10,572,457	-	-	-	-	-	
Total Net Position	10,572,459	10,633,306	(335,161)	73,530,084	-	83,828,229	Total Net Position

Note 28. Restatements

In FY 2025, it was identified that certain amounts recorded in construction in progress should have been expensed. As a result, EPA is restating its FY 2024 financial statements. The change impacted the FY 2024 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

For the Year Ended September 30, 2024	Previously Reported	Restatement	Restated Amount
Balance Sheet:			
Property, Plant and Equipment, Net	\$ 757,995	\$ (130,918)	\$ 627,077
Total Assets	\$ 105,479,128	\$ (130,918)	\$ 105,348,210
Cumulative Results of Operations- Funds from Other than Dedicated Collections	\$ (576,861)	\$ (130,918)	\$ (707,779)
Total Cumulative Results of Operations (Consolidated)	\$ 9,503,128	\$ (130,918)	\$ 9,372,210
Total Net Position	\$ 93,190,310	\$ (130,918)	\$ 93,059,392
Total Liabilities and Net Position	\$ 105,479,128	\$ (130,918)	\$ 105,348,210
Statement of Net Cost:			
Gross Costs	\$ 15,099,758	\$ 130,918	\$ 15,230,676
Net Cost of Operations	\$ 14,301,887	\$ 130,918	\$ 14,432,805
Statement of Net Cost by Major Program:			
Gross Costs - Other	\$ 1,814,001	\$ 130,918	\$ 1,944,919
Net Cost of Operations Totals	\$ 14,301,887	\$ 130,918	\$ 14,432,805
Statement of Changes in Net Position:			
Cumulative Results of Operations (Consolidated Totals)	\$ 9,503,128	\$ (130,918)	\$ 9,372,210
Net Position (Consolidated Totals)	\$ 93,190,310	\$ (130,918)	\$ 93,059,392

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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 September 30, 2025:

Asset Category	2025
Buildings	\$ 187,442
EPA Held Equipment	<u>3,019</u>
Total Deferred Maintenance	<u><u>\$ 190,461</u></u>

Required Supplementary Information (Unaudited) Cont.

In Fiscal Year 2025, 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 policies are 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.

Required Supplementary Information (Unaudited) Cont.

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 manufacturer'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 <i>system critical</i> or <i>minor</i> . 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.

Required Supplementary Information (Unaudited) Cont.

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.

Land:

Estimated Acreage by Predominant Use

Below details the predominant use of Land in Property, Plant and Equipment on the balance sheet by acreage.

	<u>Commercial</u>	<u>Conservation and Preservation</u>	<u>Operational</u>	<u>Total Estimated Acreage</u>
PP&E Land				
Start of FY 2025	-	-		601
End of FY 2025	-	-		601
Held for Disposal or Exchange (also included in the balances above)				
Start of FY 2025	-	-		10
End of FY 2025	-	-		142

All of EPA's land is for the Agency's operational facilities. The rights to this land are permanent and fully devoted to support the operational facilities contained therein.

Supplemental Combining Statement of Budgetary Resources (Unaudited)

United States Environmental Protection Agency For the Fiscal Year Ending September 30, 2025 (Dollars in Thousands)

	Leaking Environmental Programs & Management	Underground Storage Tanks	Science & Technology	Superfund	State Tribal Assistance Agreements	Other	Totals
BUDGETARY RESOURCES							
Unobligated Balance From Prior Year Budget Authority, Net	\$ 2,878,361	\$ 16,132	\$ 35,791	\$ 5,094,349	\$ 26,601,080	\$ 2,204,794	\$ 36,830,507
Appropriations (discretionary and mandatory)	413,867	89,000	-	2,451,935	19,200,949	5,469,733	27,625,484
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	74,817	74,817
Spending Authority From Offsetting Collection	(12,160)	17,214	(1,693)	15,825	-	2,143,525	2,162,711
Total Budgetary Resources	\$ 3,280,068	\$ 122,346	\$ 34,098	\$ 7,562,109	\$ 45,802,029	\$ 9,892,869	\$ 66,693,519
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	\$ 2,334,496	\$ 110,112	\$ 891	\$ 2,257,208	\$ 23,437,236	\$ 8,183,242	\$ 36,323,185
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	853,616	12,234	171	5,291,083	15,934,872	1,636,088	23,728,064
Unapportioned, Unexpired Accounts	-	-	-	13,158	-	-	13,158
Expired Unobligated Balance, End of Year	91,956	-	33,036	660	6,429,921	73,539	6,629,112
Unobligated Balance, End of Year (total):	\$ 945,572	\$ 12,234	\$ 33,207	\$ 5,304,901	\$ 22,364,793	\$ 1,709,627	\$ 30,370,334
Total Status of Budgetary Resources	\$ 3,280,068	\$ 122,346	\$ 34,098	\$ 7,562,109	\$ 45,802,029	\$ 9,892,869	\$ 66,693,519
OUTLAYS, NET							
Outlays, Net (total) (discretionary and mandatory)	\$ 750,477	\$ 93,349	\$ 36,036	\$ 2,130,984	\$ 29,711,639	\$ 5,036,184	\$ 37,758,669
Distributed Offsetting Receipts (-)	-	(17,000)	-	(445,878)	-	(319,430)	(782,308)
Agency Outlays, Net (discretionary and mandatory)	\$ 750,477	\$ 76,349	\$ 36,036	\$ 1,685,106	\$ 29,711,639	\$ 4,716,754	\$ 36,976,361
Disbursements, Net (total) (mandatory)						\$ 2,855,314	\$ 2,855,314

Agency's Response to Draft Report



OFFICE OF FINANCE AND ADMINISTRATION

WASHINGTON, D.C. 20460

December 29, 2025

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY25-0066, *"Independent Audit of the EPA's Fiscal Year 2025 Consolidated Financial Statements,"* dated November 15, 2025

FROM: C. Paige Hanson, Chief Financial Officer and Chief Administrative Officer

TO: Katherine Trimble, Assistant Inspector General
Office of Audit

Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. Effective November 16, 2025, the Office of the Chief Financial Officer and the Office of Mission Support reorganized into the Office of Finance and Administration (OFA). This response references the new office name. EPA's current leadership has taken many decisive actions to protect the integrity of taxpayer dollars. The objective of a federal audit as it pertains to finances is to provide our investors, the American People, a clear-eyed view of the finances in service to them. The agency believes the American People are better served by the Office of Inspector General (OIG) reflecting in the audit the agency's commitment to financial integrity and actions taken since January 20th improving financial stewardship, especially those taken in response to OIG warnings and recommendations.

AGENCY'S OVERALL POSITION

The following is a summary of the U.S. Environmental Protection Agency's overall position, along with its position on the report's recommendations. The draft report contains eight recommendations for the OFA and one recommendation for the Great Lakes National Program Office. This response has been coordinated with the Great Lakes National Program Office. The agency offers the following recommendations to provide fuller transparency to the American People in our continued efforts to strengthen the agency's commitment to financial management and oversight.

AGENCY RESPONSE TO OIG STATEMENTS

The agency believes the Office of Inspector General's language lacks clarity or misrepresents the full picture in the following statements in the OIG's Draft Report.

OIG Finding: Thus, the financial statements may contain undetected misstatements that are both material and pervasive.

Agency Response: The agency does not believe there are misstatements that are material or pervasive, and therefore, respectfully request the OIG to add “.... *although none were identified in what we could examine*” to the sentence. At no time during auditor engagement have the auditors indicated a belief that there are in fact material or pervasive misstatements, only that their own federal auditing rules and circumstances outside of agency control prevent them from fully engaging to the point of being able to assert in the affirmative.

OIG Finding: EPA did not provide a complete identification of pending or threatened litigation, claims, or assessments, environmental liabilities, and other activities.

Agency Response: The agency does not agree with this statement. While the initial submission did not include all pending cases, the agency quickly revised the mid-year submission and proactively raised to the Office of Inspector General to include those missing cases which were included in the final submission. Further, the agency had a plan in place by the end of the fiscal year which further strengthened internal controls. Separately but related, the allegation that Solar for All litigation should have been included is invalid because the lawsuits occurred in FY 2026, not FY 2025, the subject of this audit, and were not known in advance of filed legal action. According to the Office of General Counsel it is common for administrative disputes to be resolved without litigation ever occurring, and that it is the agency's view administrative disputes are not “pending or threatened litigation.” The Solar for All administrative disputes would not be considered “pending or threatened litigation”, and as such, the agency would not have included this information as part of the final legal litigation letter.

The OIG should revise the statement to reflect all cases being appropriately captured prior to the end of the fiscal year, including Solar for All, litigation being excluded due to it occurring in FY 2026, outside the scope of this audit.

Also, it should be noted, all GAO inquiries were shared with OIG before the conclusion of the audit. Under Administrator Zeldin's leadership, EPA had already taken corrective actions this summer to route all incoming GAO inquiries through the GAO liaison in OFA, an internal control prior administrations had not implemented.

OIG Finding: The OIG identified that the EPA failed to fully implement and integrate key elements of OMB Circular No. A-123 such as an assessment process for internal controls, governance structure for risk management and defining risk appetite, completion of annual risk profiles.

Agency Response: During FY 2025, the agency implemented the following to further mature the agency's enterprise risk management program:

- Designated Chief Risk Officer
- Established the EPA Risk Management Council (Chaired by the Associate Deputy Administrator)
- Established EPA's Enterprise Risk Management Framework
- Established EPA's Enterprise Risk Appetite Methodology
- Developed and made available the EPA Risk and Internal Control (RIC) Tool

Given this significant progress, the agency would like the decisive actions made in response to last year's finding to be reflected in the audit.

Additionally, as already shared with your, to ensure further implement requirements outlined in OMB Circular A-123, Appendix D "Management of Financial Management Systems", the agency will institute a process to review all financial and mixed-financial systems for compliance with the Federal Financial Management Improvement Act of 1996.

OIG Finding: The OIG issued a Position Paper (draft note of concern) regarding the recording of GGRF transactions in the core financial system. EPA did not answer OIG's questions as the response could have an impact on ongoing litigation.

Agency Response: OFA declined to answer specifics around GGRF litigation in an interview but offered OIG a meeting with EPA's General Counsel and/or the U.S. Department of Justice on several occasions. However, OIG did not take the agency up on these offers. The agency understands that GAO Yellow Book auditing standards discourage audit work that would interfere with active investigations or litigation. The OIG should revise their language for clarification to "The agency offered to facilitate a conversation with the Office of General Counsel and the Department of Justice to address any questions they had regarding pending litigation. The OIG did not pursue this offer in alignment with their federal auditing guidance." The current language leaves the reader with the impression the agency was not a willing participant in the audit, which is not the case.

OIG Finding: EPA did not document approval of configuration changes to its core financial system, Compass Financials, contrary to the EPA's Office of Chief Financial Officer's or OCFO's, configuration management procedures.

Agency Response: There are two sets of agency guidance that will be aligned to ensure agencywide consistencies for configuration management related to contractor-made configuration changes. Corrective action is underway to address the OIG's findings. The agency recommends the OIG to classify this as an office-level weakness for OFA due to the limited impact on the financial statements given two were related to guidance impacting for profit organizations.

OIG Finding: If addressed, single audit findings could improve nonfederal entity accountability and aid the agency in making award decisions and reducing improper payments. However, as of September 2025, 57 of 207 single audit findings, or approximately 28 percent, have corrective actions that have not been implemented.

Agency Response: The agency notes the OIG's finding may be a result of timing of their fieldwork. At the end of the fiscal year, the agency had completed a review of 171 closed single audit findings. The 36 remaining findings represent seven recipients with single audit findings that are still open/under review. The agency placed one recipient on reimbursement in FY 2025 due to the results of their single audit findings, which provides additional controls to ensure financial integrity while EPA works through corrective actions and resolves the findings. Given readers of this audit expect it to reflect the entire fiscal year and doing advance work fails to encompass the entirety of the fiscal year, the agency requests the OIG to conduct an additional review of the Single Audits encompassing the full year.

OIG Finding: In the fiscal year 2025 financial statements, the EPA reported an approximately \$20 billion GGRF disbursement as an expense. The EPA's note disclosures in the financial statements did not include a description of this significant unusual transaction.

Agency Response: OMB Circular A-136, updated July 14, 2025, specifically removed the requirement to disclose significant material variances in agency footnotes due to the single year presentation of the financial statements.

OIG Finding: Superfund special account expenses for which revenue was already recognized were erroneously included in the Cincinnati Finance Division's monthly oversight expense report and were, therefore, erroneously included in the oversight accrual, causing revenue to be recognized twice.

Agency Response: The revenue was not erroneously included and were accounted for appropriately. Per the agency's Superfund Special Accounts guidance, revenues were not recognized twice and were pursuant with Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) settlement agreements for the agency's oversight costs which can be placed into Special Accounts and subsequently used to

cover new oversight costs. In accordance with the settlement agreement, new oversight costs are billed, collected, and placed into the Special Accounts within the Superfund Trust Fund. Final collections are not placed in Special Accounts, they are placed in the Superfund Trust Fund as a cost recovery to accurately reflect the completed revenue cycle.

For Superfund State Contracts, the EPA plans to conduct a Lean Management event with the regions during FY 2026 to determine the root cause for inaccurate source documentation and implement solutions.

OIG Finding: The Great Lakes National Program Office did not properly analyze the Great Lakes Legacy Act accrual to ensure that it contained updated and accurate information.

Agency Response: The Great Lakes National Program Office has incorporated changes to ensure accuracies of the accrual each quarter. The agency respectfully requests the OIG to add language within the report, acknowledging the gross majority of the records which are in fact “appropriate, current, complete, accurate, accessible, and provided on a timely basis.”

OIG Finding: In response to our request for additional information into the nature of the transaction, its accounting treatment, and other topics, the EPA declined to answer and indicated that our questions and analysis could have an impact on the ongoing litigation. Similarly, because other EPA actions are the subject of ongoing litigation and inquiries, we were unable to determine whether the EPA has complied with applicable laws, regulations, and grant agreements.

Due to these circumstances, we were unable to test material balances in multiple financial statements, such as net assets and net costs.

Agency Response: The agency provided financial transactions, including through the agency's core financial system, COMPASS, which contains a full view of all financial activities for the agency. Additionally, supporting documentation was provided to the OIG to support its audit sampling and testing. The agency has documentation supporting all balances in all financial statements. The agency offered on several occasions to facilitate a conversation with the Office of General Counsel and the Department of Justice to address any questions they had regarding pending litigation. OIG declined that offer.

OIG Prior Year Finding: The FY 2024 Financial Statement Audit found that the agency did not follow agency guidance and resulted in property not being identified, classified, and reconciled for property received and contractor held property.

Agency Response: The agency is continuously evaluating options to improve. Additionally, the financial team and property team, formerly in OCFO and OMS

respectively, are now in the same office (Office of Finance and Administration) which was created in recent reorganizations at EPA to do our work smarter and more efficiently. Although there was no evidence of fraud or mismanagement detected, the agency has developed corrective action to address the OIG's findings.

OIG Finding: As of the end of fiscal year 2025, the EPA had not fully implemented corrective actions addressing all our prior recommendations.

- Material weakness: The EPA did not have adequate internal controls in place to record the 2022 Clean School Bus Rebates Program funds for fiscal years 2024 and 2023. (OIG Report No. 25-F0010, Independent Audit of the EPA's Fiscal Years 2024 and 2023 (Restated) Consolidated Financial Statements, dated November 15, 2024).
- Significant Deficiency: Originating offices did not timely forward accounts receivable source documents to the finance center. (OIG Report No. 25-F-0010, Audit of EPA's Fiscal Years 2014 and 2013 (Restated) Consolidated Financial Statements, dated November 17, 2014).

Agency Response: There were no new issues regarding the recording of Clean School Bus Rebates documented by the OIG during the FY 2025 audit. The corrective actions for the significant deficiency regarding timely submission of accounts receivable documentation have also been fully implemented. As a result, no new instances of late documentation were reported by the OIG during the FY 2025 audit for the Clean School Bus Rebates program.

AGENCY RESPONSE TO DRAFT REPORT RECOMMENDATIONS

Recommendation	Office	High-Level Intended Corrective Action(s)	Planned Date
<p>1. Develop and implement a policy regarding the disclosure of all information required by the Financial Audit Manual, and U.S. generally accepted accounting principles in support of the OIG's annual financial statement audits. Doing so will aid the OIG's review of material, relevant information to support audit findings. This policy should, at a minimum, address:</p> <p>a. The disclosure in response to the Legal Counsel Request letter of pending or threatened litigation, claims and assessments, environmental liabilities, and other legal activities related to audits of the EPA's financial statements.</p> <p>b. The disclosure of all other governmental agency inquiries, reviews, and audits of EPA programs relevant to the financial statement audit.</p>	OFA	<p><u>Concur.</u> Each fiscal year, in accordance with guidance from the Office of Management and Budget, the Government Accountability Office, and any instructions provided by the OIG, the Office of Finance and Administration prepare and provides guidance to the Office of General Counsel in preparation for the agency's Legal Counsel Request Letter.</p> <p>a. During FY 2025, the OFA updated the guidance in the legal counsel response request letter with further clarifying language to ensure disclosure of all pending or threatened litigation, claims and assessments, environmental liabilities, and other legal activities related to audits of the EPA's financial statements known to the agency as of the date the letter is transmitted to the OIG, as required by GAO's Government Auditing Standards, the Financial Audit Manual, and U.S. Generally Accepted Accounting Principles.</p> <p>b. The OFA will further improve the fiscal year-end instructions to include language on disclosing all other governmental agency inquiries, reviews, and audits of EPA programs relevant to the audits of the EPA's financial statements known to the agency as of the date the letter is transmitted to the OIG.</p>	<p>Completed 9/04/25</p> <p>9/01/26</p>
<p>2. Require the Cincinnati Finance Division to perform regular analyses of the Superfund trust fund oversight accrual, including identifying and removing special</p>	OFA	<p><u>Concur.</u> Auditors identified Responsible Party payments that used a Finance Object Code that should be excluded from computing the oversight accrual. The OFA's Office of Financial Operations</p>	12/31/25

<p>account expenses and funds from the monthly oversight expense report, to ensure the accuracy of the accrual each fiscal quarter.</p>		<p>and Management's Cincinnati Finance Division (OFOM-CFD) will add a step to its Standard Operating Procedure to exclude Responsible Party payments using FOCs 4215 and 4216 to ensure the payments are not included as disbursements for the Oversight Accrual.</p>	
<p>3. Require the EPA regional program offices to perform regular analyses of the Superfund state contracts accrual to ensure the accuracy of the accrual each fiscal quarter.</p>	<p>OFA</p>	<p><u>Concur</u>. The OFOM-CFD will include in its SOP details regarding requirements the regional program offices should take in analyzing the Superfund State Contract Accruals to ensure the accuracy of the data needed to compute the accrual.</p>	<p>2/26/26</p>
<p>4. Perform regular analyses of the Great Lakes Legacy Act accrual to ensure the accuracy of the accrual each fiscal quarter.</p>	<p>GLNPO</p>	<p><u>Concur</u>. The Great Lakes National Program Office has incorporated changes in alignment with the recommendation. The quarterly submittals are now being reviewed by the GLNPO Deputy Director to ensure the accuracy of accruals each fiscal year.</p>	<p>Completed 11/10/25</p>
<p>5. Develop and implement procedures that include specific steps for configuration management of systems managed by contractors that are consistent with the Office of the Chief Financial Officer's Configuration Management Standard Operating Procedures, dated April 9, 2024. Doing so will promote the effectiveness of the Agency's configuration management processes and prevent contractors from making unapproved changes to EPA systems.</p>	<p>OFA</p>	<p><u>Concur</u>. OFOM will develop procedures and implement specific steps for configuration management of financial systems managed by contractors.</p>	<p>9/15/26</p>
<p>6. Develop a process to properly track single audit findings and corrective action plans. At a minimum, this process should track the estimated completion dates of the corrective action plans and have the ability to generate reports to have proper oversight and mitigate the risk of material errors.</p>	<p>OFA</p>	<p><u>Concur</u>. The OFA's Office of the Chief Grants Officer will enhance its process for monitoring and tracking single audit findings by expanding the Single Audit Dashboard currently under development. The system will document individual findings, corresponding corrective actions, and estimated completion dates. Additionally, it will</p>	<p>9/01/26</p>

		include reporting capabilities to strengthen oversight and mitigate the risk of material errors.	
7. Perform annual risk assessments to all single audits to allow proper oversight of all outstanding corrective action plans, to decrease risk for misstatements of financial data and improve the credibility of the EPA's financial statements.	OFA	<u>Concur</u> . During FY 2026, the OFOM's Oversight and Accountability Division will perform an assessment of all outstanding single audit corrective actions to identify those with financial impact capable of increasing the risk of misstatements of financial data and will take the necessary actions to reach resolution.	4/01/26
8. Update the <i>EPA Guidance on Risk Management and Internal Controls</i> section titled "OMB A-123, Appendix D, Management of Financial Management Systems" to specify a uniform, agencywide approach to assessing financial management systems, including mixed financial systems and service providers, that can impact financial data in Compass Financials and have a material effect on the EPA's financial statements. Doing so will promote the effectiveness of the Agency's determination of financial management systems that support core financial reporting.	OFA	<u>Concur</u> . The OFOM is already working to incorporate language in the FY 2026 annual guidance, " <i>EPA's Guidance on Risk Management and Internal Controls</i> ", on the agency's risk-based criteria for determining if a system is considered a financial management system or a mixed financial management system.	4/01/26
9. Establish and regularly update a portfolio of the EPA's financial management systems, including mixed financial systems and service providers, that should be assessed as part of the Agency's strategy to comply with Office of Management and Budget Memorandum M-23-06, Appendix D, Management of Financial Management Systems - Risk and Compliance, dated December 23, 2022. With respect to the portfolio identified, maintain	OFA	<u>Concur</u> . The OFOM will perform a review of the agency's universe of systems and document the rationale for identifying, categorizing, and excluding financial management and mixed-financial systems to be assessed as part of the requirements outlined in OMB Circular A-123, Appendix D and FFMIA. This will include reviewing the System and Organization Controls 1 (SOC 1 – Type 2) reports for mixed-financial shared services and verifying that control operations were found to be effective and that the complementary user entity	6/01/26

<p>documentation with the rationale for excluding any systems from the Agency's annual Federal Financial Management Improvement Act system assessments. Doing so will promote the efficiency of the Agency's determination of financial management systems that support core financial report.</p>		<p>controls from the SOC-1 are implemented.</p>	
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In closing, it is my hypothesis that audit team, EPA Chief Financial Officer, and EPA Controller's team have chosen a profession of financial work in service to the United States Government because we care about doing good, serving others, and leaving this country even better than we found it. There rests with us a shared goal and special stewardship to help the readers of this report have a clear-eyed view of what is happening in EPA's finance department. Many parts of this draft report could leave readers feeling concern about the financial operations of EPA, which is not indicative of the reality of our financial operations. Even if beyond what is required in Generally Accepted Government Auditing Standards (GAGAS), elaborations and clarifications in your report to tell the whole story should help readers put findings in context serving the greater good of sunlight on the agency's financial operations. I respectfully request your consideration of context for the readers of financial operations and the hard work that has happened under President Trump and Administrator Zeldin's leadership to restore financial integrity and responsible stewardship to EPA dollars.

Specifically, the agency is proud of the early and decisive action taken earlier this year to stop grants awarded by the prior administration that, as the previous Inspector General warned, "escalates the risk of fraud but also the urgency for oversight."⁶ Additionally, the prior administration used EPA dollars, which should have been used to protect human health and the environment, on things like a \$4 million self-glorifying museum. Under this administration, we have carefully examined agency spend to cancel or consolidate unnecessary contracts, reduced our real estate footprint, and solicited ideas from our employees on how to do things more efficiently and save taxpayer dollars—many of those suggestions are being implemented now. We are leaning in on technology, partnering with other agencies where appropriate, and overall taking a proactive approach to financial management that should be welcome news to the Office of Inspector General. Americans should know this, and rest assured that under this administration's leadership, their funding is being treated with care and delivering for them.

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

⁶ <https://www.epa.gov/aboutepa/greenhouse-gas-reduction-fund>

Respectfully submitted,

C. Paige Hanson

C. Paige Hanson

cc: Gregg Treml
Michael Molina
Lek Kadeli
Bridget Henne
Nicole Murley
Katherine Trimble
Marcus Gullett
Damon Jackson
Meshell Jones-Peeler
Adil Gulamali
Jennifer Sutton
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U.S. Environmental Protection Agency

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Contact us:



Congressional & Media Inquiries: OIG.PublicAffairs@epa.gov



EPA OIG Hotline: OIG.Hotline@epa.gov



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