U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements

Report No. 21-F-0014 **November 16, 2020**

Abbreviations

EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
GAO	U.S. Government Accountability Office
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
U.S.C.	United States Code

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U.S. Environmental Protection Agency
Office of Inspector General

21-F-0014
November 16, 2020

At a Glance

Why We Did This Audit

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

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

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

This report addresses the following:

- *Operating efficiently and effectively.*

This report addresses a top EPA management challenge:

- *Fulfilling mandated reporting requirements.*

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List of OIG reports.

EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements

EPA Receives an Unmodified Opinion for FYs 2020 and 2019

We rendered an unmodified opinion on the EPA's consolidated financial statements for fiscal years 2020 and 2019 (restated), meaning they were fairly presented and free of material misstatement.

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

Significant Deficiencies Noted

We noted the following significant deficiencies:

- The EPA continues to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes.
- The EPA improperly recorded adjustments totaling over $141 million of unearned revenue.

Compliance with Laws, Regulations, Contracts, and Grant Agreements

We did not note any significant noncompliance with laws, regulations, contracts, and grant agreements.

Recommendations and Planned Agency Corrective Actions

The EPA agreed with our recommendations but disagreed with some of the OIG statements made about the first significant deficiency listed above. The EPA disagreed that it was unable to detect errors and did not exercise due diligence. The Agency also disagreed that it did not properly detect a $4 billion error. We stand by our position that the lack of due diligence is evidenced by the errors we found during this audit and that if the EPA had adequately prepared and reviewed the adjustment, the error would not have been entered into the EPA's accounting system.

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

OFFICE OF
INSPECTOR GENERAL

November 16, 2020

MEMORANDUM

SUBJECT: EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements
Report No. 21-F-0014

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

TO: David Bloom, Deputy Chief Financial Officer

Attached is our report on the U.S. Environmental Protection Agency's fiscal years 2020 and 2019 (restated) consolidated financial statements. The project number for this audit was OA&E-FY20-0206. We are reporting two significant deficiencies. Attachment 1 contains details on the significant deficiencies. We did not note any instances of noncompliance. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report.

The Agency agreed with the recommendations in this report. All recommendations are resolved, and no final response to this report is required. If you submit a response, however, it will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

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

Attachments
1. Significant Deficiencies
2. Status of Prior Audit Report Recommendations
3. Status of Current Recommendations and Potential Monetary Benefits

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Inspector General's Report on EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Environmental Protection Agency, which comprise the consolidated balance sheets, as of September 30, 2020, and September 30, 2019 (restated), and the related consolidated statements of net cost, net cost by major program, changes in net position, and custodial activity; the combined statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial statements contained in *Government Auditing Standards* issued by the comptroller general of the United States; and Office of Management and Budget Bulletin 19-03, *Audit Requirements for Federal Financial Statements.* These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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

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

Opinion

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by major program, changes in net position, custodial activity, and combined budgetary resources of the EPA as of and for the years ended September 30, 2020 and 2019, in conformity with accounting principles generally accepted in the United States.

Emphasis of Matter—Restatement Fiscal Year 2019

As described in Note 37, the EPA made certain restatements in its fiscal year 2019 financial statements to correct misstatements for Superfund cashout advances. Our opinion is not modified with respect to these corrections.

Required Supplementary Information

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

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

Report on Internal Control over Financial Reporting

Opinion on Internal Control. In planning and performing our audit, we considered the EPA's internal control over financial reporting by obtaining an understanding of the Agency's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements and complying with OMB audit guidance, but not for the purpose of expressing an opinion on effectiveness of EPAs' internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal control included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, or FMFIA.

Material Weakness and Significant Deficiencies. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or 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 is important enough to merit attention by those charged with governance.

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

Significant Deficiencies

FINANCIAL STATEMENT PREPARATION

EPA Needs to Improve Its Financial Statement Preparation Processes

We found that the EPA continues to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes. The OMB requires that information in the financial statements be presented in accordance with generally accepted accounting principles. During its financial statement preparation process, however, the EPA did not detect and correct multiple misstatements and adjustment errors before they were entered into the EPA's accounting system or statements. Not properly recording financial adjustments and not exercising due diligence in the preparation of the financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

REVENUE

EPA Recorded Improper Adjustments to Superfund Special Account Unearned Revenue in FYs 2020 and 2019

During our audit of the EPA's FYs 2020 and 2019 financial statements, we found that the EPA improperly recorded adjustments totaling over $141 million of unearned revenue. The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events. A $120 million error, which impacted both the FYs 2020 and 2019 financial statements, occurred because the Agency omitted relevant data in its analysis of its FY 2019 Superfund oversight accrual. A $21.5 million error, which impacted unearned revenue in the FY 2020 financial statement, occurred because the Agency posted the adjustment to a wrong account and incorrectly impacted unearned revenue. The EPA did not adequately consider the effect that the adjustments would have on the FY 2020 financial statements. Both errors could have been found and corrected if the Agency performed a more complete analysis of its financial statement adjustments. When the EPA does not properly analyze the effect of adjustments, it could materially misstate its financial position and impact the reliability of its financial statements.

Attachment 2 contains the status of issues reported in prior years' reports on the EPA's consolidated financial statements. The issues included in Attachment 2 should be considered among the EPA's significant deficiencies for FY 2020. We reported less significant internal control matters to the Agency during the course of the audit. We will not issue a separate management letter.

Comparison of EPA's FMFIA Report with Our Evaluation of Internal Control

OMB Bulletin 19-03 requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements. The OIG is also required to identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB Bulletin 19-03 defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

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

EPA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements. We also performed certain other limited procedures as described in *Codification of Statements on Auditing Standards,* AU-C 250.14-16, "Consideration of Laws and Regulations in an Audit of Financial Statements." OMB Bulletin 19-03 requires that we evaluate compliance with federal financial statement system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996, or FFMIA. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the EPA.

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

Providing an opinion on compliance with certain provisions of laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

We did not identify any significant matters involving compliance with laws, regulations, contracts, and grant agreements that came to our attention during the course of the audit.

Federal Financial Management Improvement Act Noncompliance

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

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

We did not identify any significant matters involving compliance with laws, regulations, contracts, or grant agreements related to the Agency's financial management systems that came to our attention during the course of the audit.

Audit Work Required Under the Hazardous Substance Superfund Trust Fund

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

Prior Audit Coverage

During previous financial or financial-related audits, we reported weaknesses, as detailed in Attachment 2, that impacted our audit objectives in the following areas:

- The EPA did not capitalize lab renovation costs.
- The EPA's internal controls over the accountable personal property inventory process need improvement.
- Originating offices did not forward accounts receivable source documents in a timely manner to the finance center.
- The EPA materially overstated earned revenue.
- The EPA should improve its efforts to resolve its long-standing cash differences with the U.S. Treasury.
- The EPA improperly recorded e-Manifest receivables and earned revenue.
- The EPA needs to improve its financial statement preparation process.

Agency Response and OIG Assessment

The EPA agreed with our recommendations but disagreed with some of the OIG statements made about the first significant deficiency discussed above and in Attachment 1. The EPA disagreed that it was unable to detect errors and did not exercise due diligence. The Agency also disagreed that it did not properly detect a $4 billion error. We stand by our position that the lack of due diligence is evidenced by the errors we found during this audit and that if the EPA had adequately prepared and reviewed the adjustment, the error would not have been entered into the EPA's accounting system.

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

Paul C. Curtis
Certified Public Accountant
Director, Financial Directorate
Office of Audit
Office of Inspector General
U.S. Environmental Protection Agency
November 9, 2020

Attachment 1

Significant Deficiencies

Table of Contents

1—EPA Needs to Improve Its Financial Statement Preparation Processes

We found that the EPA continues to make misstatements and adjustment errors during its consolidated financial statement and component financial statement preparation processes. The OMB requires that information in the financial statements be presented in accordance with generally accepted accounting principles. During its financial statement preparation process, however, the EPA did not detect and correct multiple misstatements and adjustment errors before they were entered into the EPA's accounting system or statements. Not properly recording financial adjustments and not exercising due diligence in the preparation of the financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

OMB Circular A-136, *Financial Reporting Requirements*, Section II.3, requires that information in the financial statements be presented in accordance with the generally accepted accounting principles for federal entities issued by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards. In addition, the GAO's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government, one of which is the standard for control activities. Under this standard, management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal controls. Management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standard for control activities additionally requires accurate and timely recording of transactions and events.

We reported in previous audits the need for the EPA to improve its financial statement preparation process, as detailed in Attachment 2. However, we continue to find misstatements and adjustment errors in the EPA's financial statement preparation processes. During our audit of the EPA's FY 2020 consolidated financial statements, we found the following misstatements and adjustment errors:

- **Incorrect adjustments.** The EPA incorrectly recorded an adjustment totaling approximately $4 billion in its accounting system. The error occurred because the EPA's preparation, analysis, and review of the adjustment before it was entered into the EPA's accounting system did not detect or prevent the adjustment from being entered incorrectly. The Agency subsequently recorded a financial statement adjustment to mitigate the impact of the error.

- **Misstated unearned revenue.** The EPA misstated Superfund special account unearned revenue balances by $120 million. The EPA made incorrect entries related to the removal of the Superfund special account oversight accrual from its FY 2019 financial statements.

- **Negative unexpended appropriations.** The EPA made errors totaling approximately $1.3 million that caused a negative balance in the "Unexpended Appropriations – Funds from Dedicated Collections" line item in its FY 2020 balance sheet. The negative amounts were the result of uncorrected errors that affect the equity accounts.

- **Financial statement preparation errors.** We found 26 errors in the EPA's FY 2020 draft financial statements. On multiple occasions, the EPA did not assign the correct accounts to line items in the footnote disclosures, reported incorrect amounts, omitted account activity, and was not consistent with prior year audited financial statements.

During audits of the EPA's component financial statements, we found the following misstatements and errors:

- **Toxic Substances Control Act Service Fee Fund financial statements for the period from inception (June 22, 2016) through September 30, 2018.** We found that the EPA overstated its expenses from other appropriations by $8.4 million. The EPA made errors in multiple iterations of its calculation for expenses from other appropriations. Management did not have an adequate review process in place to ensure proper reporting of costs incurred against other appropriations to support Toxic Substances Control Act Service Fee Fund activities.

- **FY 2019 Pesticide Registration Improvement Act Fund financial statements.** We found multiple instances where the EPA misstated its adjustments and financial statements. We found that the Agency misreported contract expenses by approximately $156,000, and statement of budgetary resources by approximately $48,000. We also found that the EPA incorrectly calculated its payroll accrual.

- **FY 2019 Hazardous Waste Electronic Manifest System Fund financial statements.** We found that the EPA misreported accounts receivable and earned revenue by approximately $151,000, and accrued liabilities by approximately $183,000. We also found various errors totaling at least $110,000.

The EPA did not detect and correct, during its financial statement preparation processes, the errors and misstatements stated above. After we conducted account analyses of the activity and questioned the Agency, staff stated that the EPA will prepare additional adjustments and revise the current adjustments to correct the errors and misstatements we found. These issues highlight the need for the EPA to strengthen its processes so that amounts and accounts are accurate and properly posted in its accounting system, as well as to comply with federal accounting standards.

Failure to properly record financial adjustments and exercise due diligence in the preparation and management review of the financial statements compromises the accuracy of the financial statements and the reliance on them to be free of material misstatement.

Recommendation

We recommend that the chief financial officer:

1. Develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.

Agency Response and OIG Assessment

The EPA agreed with our recommendation; however, the EPA disagreed that it was unable to detect errors and did not exercise due diligence. The Agency also disagreed that it did not properly detect a $4 billion error. We stand by our position that the lack of due diligence is evidenced by the errors we found during this audit and that if the EPA had adequately prepared and reviewed the adjustment, the error would not have been entered into the EPA's accounting system.

2—EPA Recorded Improper Adjustments to Superfund Special Account Unearned Revenue in FYs 2020 and 2019

During our audit of the EPA's FYs 2020 and 2019 financial statements, we found that the EPA improperly recorded adjustments totaling over $141 million of unearned revenue. The GAO's *Standards for Internal Control in the Federal Government* requires accurate and timely recording of transactions and events. A $120 million error, which impacted both the FYs 2020 and 2019 financial statements, occurred because the Agency omitted relevant data in its analysis of its FY 2019 Superfund oversight accrual. A $21.5 million error, which impacted unearned revenue in the FY 2020 financial statements, occurred because the Agency posted the adjustment to a wrong account and incorrectly impacted unearned revenue. The EPA did not adequately consider the effect that the adjustments would have on the FY 2020 financial statements. Both errors could have been found and corrected if the Agency performed a more complete analysis of its financial statement adjustments. When the EPA does not properly analyze the effect of adjustments, it could materially misstate its financial position and impact the reliability of its financial statements.

OMB Circular A-136, *Financial Reporting Requirements*, Section II.3, requires that information in the financial statements be presented in accordance with the generally accepted accounting principles for federal entities issued by the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards. In addition, the GAO's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government, one of which is the standard for control activities. Under this standard, management should design control activities to achieve objectives and respond to risks. The standard for control activities requires appropriate documentation of transactions and internal controls. Management is to clearly document internal control, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination. The standard for control activities additionally requires accurate and timely recording of transactions and events.

We found that the EPA improperly recorded adjustments in its FY 2020 draft financial statements and its FY 2019 financial statements, as summarized in Table 1.

Table 1: Adjustments incorrectly affecting unearned revenue in fiscal year 2020 draft financial statements

Fiscal year affected	Description of error	Dollar amount
2019 and 2020	The Agency incorrectly impacted unearned revenue while removing the Superfund oversight accrual in FY 2019. The issue carried over into FY 2020.	$119,923,132.53
2020	The Agency made a FY 2020 draft financial statement adjustment as a result of an OIG FY 2019 finding. The adjustment improperly impacted unearned revenue when it should have impacted a receivable account.	21,498,292.10
	TOTAL	**$141,421,424.63**

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

In FY 2019, the Agency changed the way it accounted for Superfund special account activity. Following the Agency's accounting change, it decided to remove the Superfund oversight accrual from its financial system. However, the FY 2019 adjustments of approximately $120 million to remove the Superfund oversight accrual were not accurate.

In FY 2020, the EPA recorded two improper adjustments totaling over $141 million:

- **A repeat of the approximately $120 million error from the incorrect Superfund oversight accrual prior year adjustments in FY 2019.** Since the Agency was no longer posting the Superfund special account oversight accrual, this adjustment was incorrect.

- **An approximately $21.5 million receivable adjustment in the unearned revenue account.** The adjustment resulted from an incomplete accounting entry that the OIG identified in FY 2019. The Agency did not make the adjustment in FY 2019 and then recorded an incorrect adjustment in its FY 2020 draft financial statements, decreasing unearned revenue when it should have decreased a receivable account to eliminate intragovernmental activity.

The EPA did not detect the $120 million or the $21.5 million error during its financial statement preparation processes. These errors occurred because the Agency performed incomplete analyses of the Superfund oversight accrual and other financial statement adjustments. When the EPA does not properly analyze the effect of adjustments, it could materially misstate its financial position and impact the reliability of its financial statements.

Recommendation

We recommend that the chief financial officer:

2. Develop a plan to evaluate and improve the EPA’s process for preparing adjustments, including an analysis of the impact of adjustments on general ledger accounts, and improve the management review process to ensure general ledger impact is proper in the financial statements.

Agency Response and OIG Assessment

The EPA agreed with our findings and recommendation and has completed corrective actions.

Status of Prior Audit Report Recommendations

The EPA explained to us that it continued to strengthen its audit and evaluation management practices and procedures to address the OIG's audit and evaluation findings in a timely manner and to complete corrective actions expeditiously and effectively. In FY 2020, the EPA's chief financial officer, as the Agency follow-up official, continued to encourage senior managers to evaluate the OIG's recommendations thoroughly, develop suitable and attainable corrective actions, and implement the corrective actions in the agreed-upon time frame. The EPA also accomplished other notable actions to strengthen its audit and evaluation management procedures:

- Worked closely with Agency audit follow-up coordinators during FY 2020 to ensure that estimated milestone dates for planned corrective actions were being met and the required certification memorandums were being submitted. Efforts by the Office of the Chief Financial Officer were critical, significantly helping the OIG to accurately portray the status of recommendations and associated corrective actions in our spring and fall *Semiannual Report to Congress*.

- Continuously provides monthly reporting for the agencywide metric on the number of planned corrective actions that were not completed by their estimated milestone date. The intended purpose is to facilitate the implementation of Agency corrective actions to OIG recommendations and decrease the number of late corrective actions.

- Developed an OIG and GAO tracker intended to provide Agency senior management with visibility on OIG and GAO audits and evaluations. The tracker includes the most recent audit and evaluation information. It is updated by the OCFO and distributed by the Office of the Administrator monthly.

- Established the *OIG GAO Audit Community* SharePoint site that serves as a "one-stop-shop" resource for the Agency's audit follow-up coordinators and liaisons. This collaborative site includes audit and evaluation resources and reference materials, such as standard operating procedures, audit templates, frequently asked questions, reporting links and deadlines, and other useful information.

- Provided training during the OCFO Technical Series on the Agency's audit and evaluation processes. The training included an update on existing and new processes for OIG audit and evaluation work, specifically work completed under the *Quality Standards for Inspection and Evaluation*, also called the "Blue Book."

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

- Began establishing a new tracking tool, called the Enterprise Audit Management System, that will enable the Agency to track active OIG and GAO audits and evaluations and to post information about audit and evaluation follow-up activities. This new tool will accommodate data entry, tracking, and reporting for all phases of the audit and evaluation life cycles.

The OCFO continues its commitment to improve the Agency's audit and evaluation management practices and to engage early with the OIG on audit and evaluation findings to develop effective corrective actions that address OIG recommendations; however, we continue to identify significant deficiencies that remain outstanding in our financial statement audits. The table below describes the recommendations from previous financial statement audits that remain either unresolved or unimplemented.

Significant deficiency issues not fully resolved or implemented

EPA Did Not Capitalize Lab Renovation Costs In our FY 2014 audit, we found that the EPA did not capitalize approximately $8 million of Research Triangle Park lab renovations. As a result, the EPA did not properly classify the lab renovations as a capital improvement. The Agency capitalized and booked the Research Triangle Park lab renovation costs and related depreciation. One corrective action was partially completed: the EPA's Office of General Counsel indicated continued agreement with its 1999 legal opinion regarding EPA construction accounting but did not provide examples to guide the Agency's determinations of when renovation work should be funded from Agency program appropriations or Building and Facilities funds. Corrective actions for other recommendations related to this finding were initially due in September 2017; however, the Agency revised the estimated milestone date to February 28, 2018. On July 18, 2018, the Office of General Counsel stated that determining whether renovation work should be funded out of program Agency dollars or Buildings and Facilities funds is very fact-specific; therefore, providing global examples was not feasible. The Office of General Counsel has no further information to provide and believes its review is complete. The OIG will continue to report the issue as not fully resolved.
EPA's Internal Controls Over Accountable Personal Property Inventory Process Need Improvement In our FY 2014 audit, we noted that the EPA reported a $2.6 million difference between the amount of accountable personal property recorded in the property management system (Maximo) and the amount of physical inventory for FY 2014. The EPA also identified 573 property items not recorded in Maximo. During our FY 2019 audit, we found that the Agency made significant progress to correct the differences between the amount of personal property recorded in the Agency's property management system (Sunflower) and the amount of physical inventory. While the Agency has taken steps to correct weaknesses, not all corrective actions implemented were completely effective. For example, the Agency was unable to provide supporting documentation for the investigations conducted by the Board of Survey, which is part of the EPA's Facilities Management and Services Division that serves as a fact-finding body to determine the circumstances and conditions of EPA property that is declared lost, damaged, or destroyed. Because of the FY 2020 coronavirus pandemic, the Agency was unable to physically access and provide us with supporting documentation related to the Board of Survey investigations. As a result, we are unable to assess the effectiveness of the Agency's corrective actions.
Originating Offices Did Not Timely Forward Accounts Receivable Source Documents to the Finance Center In FY 2014, we found that the EPA and the U.S. Department of Justice did not forward accounts receivable source documents to the Cincinnati Finance Center in a timely manner. During FY 2015, the EPA's Office of Enforcement and Compliance Assurance issued a memorandum reminding the regions to provide accounts receivable enforcement documentation to the finance center in a timely manner. While we have noted some improvements in the finance center's timely receipt of legal documents, we still identified instances of untimely receipt in FYs 2015 through 2020. Therefore, the Agency's corrective actions are not completely effective, and we will continue to evaluate whether the finance center receives legal source documents in a timely manner in FY 2021.

EPA Materially Overstated Earned Revenue During FY 2018, the EPA did not properly eliminate internal Working Capital Fund earned revenue of $147 million. Based on our findings, we recommended that the chief financial officer update the EPA's standard operating procedures for Working Capital Fund elimination entries to include verification of entries and proper ending balances. During FY 2019, we found that the EPA updated its standard operating procedures to include verification of entries and proper ending balances; however, the EPA's FY 2019 Working Capital Fund elimination entry did not properly eliminate Working Capital Fund earned revenue balances. During FY 2020, we found again that the EPA's Working Capital Fund elimination entry did not properly eliminate Working Capital Fund earned revenue balances. Therefore, the EPA's corrective action was not completely effective.
EPA Should Improve Its Efforts to Resolve Long-Standing Cash Differences with Treasury During our FY 2018 audit, we found that the EPA had not resolved $2.2 million in long-standing cash differences between the EPA and Treasury balances. Based on our finding, we recommended that the chief financial officer require the Accounting and Cost Analysis Division and the Las Vegas and Cincinnati finance centers to research and resolve cash differences. The Agency agreed with our finding and recommendation. According to the Agency, corrective action was completed on September 13, 2019. During our FY 2020 audit, the EPA provided supporting documentation related to its corrective actions. The support provided was not sufficient to show that the EPA cleared the FY 2018 long-standing differences. We also continue to find recurring differences in FY 2020. Therefore, we do not consider the corrective actions complete.
EPA Improperly Recorded e-Manifest Receivables and Earned Revenue During our FY 2019 audit, we found that the EPA did not properly record $15,682,808 of e-Manifest receivables in FY 2019. The EPA did not establish proper accounting models to record account receivables for e-Manifest fees, interest, and penalties or to recognize earned revenue from federal versus nonfederal sources at the transaction level. As a result, the EPA is noncompliant with accounting standards because account receivables and earned revenue are understated during the year. Consequently, interest, penalties, and federal revenue are misstated in the financial statements. Furthermore, the EPA is not in compliance with either Statement of Federal Financial Accounting Standards 1, which requires the recognition of a receivable when a legal claim exists, or Statement of Federal Financial Accounting System 7, which requires revenue recognition when the goods or services were provided. We recommended that the chief financial officer update the accounting models to properly record collections and not reduce an account receivable account; establish accounting models to properly record e-Manifest accounts receivable and recognize earned revenue at the transaction level; establish accounting models to properly classify and record interest, fines, penalties, and fees; and establish accounting models to properly record receivables, collections, and earned revenue from federal versus nonfederal vendors. The EPA agreed with our findings and recommendations. The Agency's estimated completion date for corrective actions is September 30, 2021.
EPA Needs to Improve Its Financial Statement Preparation Process During our FY 2019 audit, we found multiple instances whereby the Agency had major misstatements of its financial transactions and financial statements. We recommended that the chief financial officer evaluate and improve the EPA's process for preparing financial statements and provide accurate and reliable supporting documentation for adjustments and corrections to the financial statements. The EPA agreed with our findings and recommendations. The Agency's estimated completion date for corrective actions was July 31, 2020, for Recommendation 1 and February 29, 2020, for Recommendation 2. During FY 2020, we identified multiple instances in other FY 2019 financial statement audits whereby the Agency had major misstatements of its financial transactions and financial statements. Therefore, we do not consider these corrective actions complete.

Source: OIG analysis.

Attachment 3

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status *	Action Official	Planned Completion Date	Potential Monetary Benefits (in $000s)
1	11	Develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.	R	Chief Financial Officer	7/31/21	** $1,072
2	13	Develop a plan to evaluate and improve the EPA's process for preparing adjustments, including an analysis of the impact of adjustments on general ledger accounts, and improve the management review process to ensure general ledger impact is proper in the financial statements.	C	Chief Financial Officer	11/9/20	$141,421

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

** The negative unexpended appropriations consists of approximately $1.072 million from Federal Insecticide, Fungicide, and Rodenticide Act funds and $199,450 from Hazardous Waste Electronic Manifest System funds. We are reporting monetary benefits for the Federal Insecticide, Fungicide, and Rodenticide Act funds in this report, and the Hazardous Waste Electronic Manifest System amount will be reported separately in the fiscal year 2019 e-Manifest component financial statement audit.

EPA's FYs 2020 and 2019 (Restated) Consolidated Financial Statements

EPA's Fiscal Year 2020 and 2019 Consolidated Financial Statements (With Restatement)

Financial Section

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Principal Financial Statements

United States Environmental Protection Agency
Consolidated Balance Sheet
As of September 30, 2020 and 2019 (Restated)
(Dollars in Thousands)

	2020	Restated 2019
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 10,823,112	$ 10,056,926
Investments (Note 4)	5,969,666	5,997,657
Accounts Receivable, Net (Note 5)	51,872	34,802
Other (Note 6)	198,268	210,591
Total Intragovernmental	17,042,918	16,299,976
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	503,725	500,886
Direct Loans Receivable, Net (Note 7)	196,470	263
Property, Plant and Equipment, Net (Note 9)	659,668	671,207
Other (Note 6)	8,209	7,714
Total Assets	**$ 18,411,000**	**$ 17,480,056**
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	$ 152,014	$ 136,825
Debt Due to Treasury (Note 10)	221,652	266
Custodial Liability (Note 12)	72,018	36,494
Other (Note 13)	158,195	177,294
Total Intragovernmental	603,879	350,879
Accounts Payable and Accrued Liabilities (Note 8)	525,173	540,235
Pensions and Other Actuarial Liabilities (Note 15)	50,451	42,044
Environmental Cleanup Costs (Note 19)	38,383	32,810
Cashout Advances, Superfund (Note 16 and 37)	3,472,784	3,573,240
Commitments and Contingencies (Note 17)	38	-
Payroll and Benefits Payable (Note 30)	253,254	203,985
Other (Note 13)	149,681	140,549
Total Liabilities	5,093,643	4,883,742
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	(189)	(1,264)
Unexpended Appropriations - Other Funds	9,600,037	8,929,585
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18 and 37)	3,307,079	3,170,594
Cumulative Results of Operations - Other Funds	410,430	497,399
Total Net Position	13,317,357	12,596,314
Total Liabilities and Net Position	**$ 18,411,000**	**$ 17,480,056**

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

1.

United States Environmental Protection Agency
Consolidated Statement of Net Cost
For the Fiscal Years Ending September 30, 2020 and 2019
(Dollars in Thousands)

	2020	Restated 2019
COSTS		
Gross Costs	$ 9,335,328	$ 8,883,930
Earned Revenue (Note 37)	514,164	338,757
NET COST OF OPERATIONS (Note 33 and 37)	$ **8,821,164**	$ **8,545,173**

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

2.

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

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs	$ 2,721,796	$ 97,770	$ 721,616	$ 1,505,864	$ 3,999,283	$ 563,190	$ 9,609,519
WCF Elimination	-	-	-	-	-	(274,191)	(274,191)
Total Costs	2,721,796	97,770	721,616	1,505,864	3,999,283	288,999	9,335,328
Less:							
Earned Revenue	26,615	-	6,978	362,342	-	392,420	788,355
WCF Elimination	-	-	-	-	-	(274,191)	(274,191)
Total Earned Revenue	26,615	-	6,978	362,342	-	118,229	514,164
NET COST OF OPERATIONS	**$ 2,695,181**	**$ 97,770**	**$ 714,638**	**$ 1,143,522**	**$ 3,999,283**	**$ 170,770**	**$ 8,821,164**

United States Environmental Protection Agency
Statement of Net Cost by Major Program
For the Fiscal Year Ending September 30, 2019 (Restated)
(Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State & Tribal Assistance Agreements	Other	Totals
Costs:							
Gross Costs	$ 2,650,992	$ 89,019	$ 709,019	$ 1,392,940	$ 3,876,041	$ 398,223	$ 9,116,234
WCF Elimination	-	-	-	-	-	(232,304)	(232,304)
Total Costs	2,650,992	89,019	709,019	1,392,940	3,876,041	165,919	8,883,930
Less:							
Earned Revenue (Note 37)	79,874	-	5,963	179,115	-	305,887	570,839
WCF Elimination	-	-	-	-	-	(232,082)	(232,082)
Total Earned Revenue	79,874	-	5,963	179,115	-	73,805	338,757
NET COST OF OPERATIONS (Note 37)	**$ 2,571,118**	**$ 89,019**	**$ 703,056**	**$ 1,213,825**	**$ 3,876,041**	**$ 92,114**	**$ 8,545,173**

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

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

	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 3,170,594	$ 497,399	$ 3,667,993
Budgetary Financing Sources:			
Other Adjustments (Note 31)	(1,072)	-	(1,072)
Appropriations Used	(3)	8,458,703	8,458,700
Nonexchange Revenue - Securities Investment (Note 32)	90,116	-	90,116
Nonexchange Revenue - Other (Note 32)	239,795	-	239,795
Transfers In/Out	(26,636)	42,081	15,445
Transfers In/Out - Nonmonetary	544	(325)	219
Trust Fund Appropriations	1,076,535	(1,071,007)	5,528
Total Budgetary Financing Sources	1,379,279	7,429,452	8,808,731
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 29)	9,131	52,818	61,949
Other Financing Sources	415	(415)	-
Total Other Financing Sources	9,546	52,403	61,949
Net Cost of Operations	$ (1,252,340)	$ (7,568,824)	$ (8,821,164)
Net Change	136,485	(86,969)	49,516
Cumulative Results of Operations	**$ 3,307,079**	**$ 410,430**	**$ 3,717,509**

	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ (1,264)	$ 8,929,585	$ 8,928,321
Budgetary Financing Sources:			
Appropriations Received	-	9,148,119	9,148,119
Appropriation Transfers-In/Out	-	-	-
Other Adjustments (Note 31)	1,072	(18,964)	(17,892)
Appropriations Used	3	(8,458,703)	(8,458,700)
Total Budgetary Financing Sources	1,075	670,452	671,527
Total Unexpended Appropriations	**(189)**	**9,600,037**	**9,599,848**
TOTAL NET POSITION	**$ 3,306,890**	**$ 10,010,467**	**$ 13,317,357**

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

4.

United States Environmental Protection Agency
Consolidated Statement of Changes in Net Position
For the Fiscal Year Ending September 30, 2019 (Restated)
(Dollars in Thousands)

	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Cumulative Results of Operations:			
Net Position - Beginning of Period	$ 2,966,236	$ 508,636	$ 3,474,872
Budgetary Financing Sources:			
Appropriations Used	4,054	8,190,426	8,194,480
Nonexchange Revenue - Securities Investment (Note 32)	134,699	-	134,699
Nonexchange Revenue - Other (Note 32)	270,253	(58)	270,195
Transfers In/Out	15,608	21,330	36,938
Transfers In/Out - Nonmonetary	-	142	142
Trust Fund Appropriations	1,083,758	(1,083,758)	-
Total Budgetary Financing Sources	1,508,372	7,128,082	8,636,454
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 29)	16,635	85,205	101,840
Total Other Financing Sources	16,635	85,205	101,840
Net Cost of Operations (Note 37)	$ (1,320,649)	$ (7,224,524)	$ (8,545,173)
Net Change	204,358	(11,237)	193,121
Cumulative Results of Operations (Note 37)	$ 3,170,594	$ 497,399	$ 3,667,993

	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:			
Net Position - Beginning of Period	$ 2,790	$ 8,058,744	$ 8,061,534
Budgetary Financing Sources:			
Appropriations Received	-	9,288,440	9,288,440
Appropriation Transfers-In/Out	-	2,717	2,717
Other Adjustments (Note 31)	-	(229,890)	(229,890)
Appropriations Used	(4,054)	(8,190,426)	(8,194,480)
Total Budgetary Financing Sources	(4,054)	870,841	866,787
Total Unexpended Appropriations	(1,264)	8,929,585	8,928,321
TOTAL NET POSITION	$ 3,169,330	$ 9,426,984	$ 12,596,314

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

United States Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2020 and 2019
(Dollars in Thousands)

	2020		2019	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
BUDGETARY RESOURCES				
Unobligated Balance From Prior Year Budget Authority, Net (discretionary and mandatory)	$ 5,808,190	$ 20,914	$ 4,714,826	$ 1,461,572
Appropriations (discretionary and mandatory)	10,737,950	-	10,801,690	-
Borrowing Authority (discretionary and mandatory)	-	3,576,684	-	1,083,500
Spending Authority (discretionary and mandatory)	398,507	5,805	557,467	5
Total Budgetary Resources	**$ 16,944,647**	**$ 3,603,403**	**$ 16,073,983**	**$ 2,545,077**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward adjustments (total)	$ 11,304,380	$ 2,988,163	$ 10,613,226	$ 2,524,163
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	5,446,701	615,240	5,273,498	20,914
Unapportioned, Unexpired accounts	4,562	-	917	-
Expired Unobligated Balance, End of Year	189,004	-	186,342	-
Unobligated Balance, End of Year (total):	5,640,267	615,240	5,460,757	20,914
Total Status of Budgetary Resources	**$ 16,944,647**	**$ 3,603,403**	**$ 16,073,983**	**$ 2,545,077**
OUTLAYS, NET AND DISBURSEMENTS, NET				
Outlays, Net (total) (discretionary and mandatory)	$ 10,092,803		$ 9,648,346	
Distributed Offsetting Receipts (-) (Note 27)	(1,369,396)		(1,584,783)	
Agency Outlays, Net (discretionary and mandatory)	$ 8,723,407		$ 8,063,563	
Disbursements, Net (total) (mandatory)		$ 221,381		$ 264

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

United States Environmental Protection Agency
Statement of Custodial Activity
For the Fiscal Years Ending September 30, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	$ 171,950	$ 352,092
Other	(16,486)	(4,359)
Total Cash Collections	155,464	347,733
Accrual Adjustment	13,714	8,912
Total Custodial Revenue (Note 22)	$ 169,178	$ 356,645
Disposition of Collections:		
Transferred to Others (General Fund)	$ 155,055	$ 347,711
Increases/Decreases in Amounts to be Transferred	14,123	8,934
Total Disposition of Collections	$ 169,178	$ 356,645
Net Custodial Revenue Activity	$ -	$ -

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

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

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

The FY 2020 financial statements are presented on a consolidated basis for the Balance Sheet, Statement of Net Cost, Statement of Net Costs by Major Program, and Statement of Changes in Net Position. The Statement of Custodial Activity and the Statement of Budgetary Resources are presented on a combined basis. The financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

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

C. Budgets and Budgetary Accounting

I. General Funds

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

The EPA has three-year appropriation accounts and a no-year revolving fund account to provide funds to carry out section 3024 of the Solid Waste Disposal Act, including the development, operation, maintenance, and upgrading of the hazardous waste electronic manifest system. The Agency is authorized to establish and collect user fees for the Hazardous Waste Electronic Manifest System Fund to recover the full cost of providing the hazardous waste electronic manifest fund system related services.

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

The Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) established a Federal credit program administered by the EPA for eligible water and wastewater infrastructure projects. The program is financed from appropriations to cover the estimated long-term cost of the loan. The long-term cost of the loans is defined as the net present value of the estimated cash flows associated with the loans. A permanent indefinite appropriation is available to finance the costs of re-estimated loans that occur in subsequent years after the loans are disbursed. The Agency received two-year appropriations in fiscal years 2020 and 2019 to finance the administration portion of the program.

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

Funds transferred from other federal agencies are processed as non-expenditure transfers. Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

II. Revolving Funds

Funding of the Reregistration and Expedited Processing Fund (FIFRA) is provided by fees collected from industry to offset costs incurred by the Agency in carrying out this 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 Funds (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.

IV. Deposit Funds

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

V. Trust Funds

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

In 2015, the EPA established a receipt account for Superfund special account collections. Special accounts are comprised of reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 122(b)(3). This allows the Agency to invest the funds until drawdowns are needed for special accounts disbursements. The Agency updated posting models and began to fully utilize this receipt account on January 31, 2019.

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

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government and the American Institute of Certified Public Accountants (AICPA). The financial statements are prepared in accordance with GAAP for federal entities.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds posted in accordance with OMB directives and the U.S. Treasury regulations.

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

E. Revenues and Other Financing Sources

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with SFFAS No. 7, *Accounting for Revenues and Other Financing Sources*.

I. Superfund

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from 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 operating and capital expenditures. The WIFIA program receives additional funding to support awarding, servicing and collecting loans and loan guarantees through application fees collected in the program fund. WIFIA authorizes the EPA to charge fees to recover all or a portion of the Agency's cost of providing credit assistance and the costs of retaining expert firms, including financial, engineering, and legal services, to assist in the underwriting and servicing of federal credit instruments. The fees are to cover costs to the extent not covered by congressional appropriations.

The FIFRA and PRIA funds receive funding through fees collected for services provided and interest on invested funds and can obligate collections up to the amount of anticipated collections within the fiscal year on the approved letter of apportionment. The Hazardous Waste Electronic Manifest System Fund receives funding through fees collected for use of the Hazardous Waste Electronic Manifest System and can obligate collections up to the amount of anticipated collections on the approved letter of apportionment. The WCF receives revenue through fees collected for services provided from the Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements.

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

F. Funds with the Treasury

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

G. Investments in U.S. Government Securities

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

H. Marketable Securities

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

I. Accounts Receivable and Interest Receivable

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA). Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5). The Agency also records allocations receivable from the Superfund Trust Fund, which are eliminated in the consolidated totals.

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

The Agency also records an 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.

J. Advances and Prepayments

Advances and prepayments represent funds paid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

K. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans. Loan proceeds are disbursed pursuant to the terms of the loan agreement. Interest is calculated semi-annually on a per loan basis. Repayments are made pursuant to the terms of the loan agreement with the option to repay loan amounts early.

L. Appropriated Amounts Held by Treasury

Cash available to the Agency that is not needed immediately for current disbursements of the Superfund and LUST Trust Funds and amounts appropriated from the Superfund Trust Fund to the OIG and Science and Technology appropriations, remains in the respective Trust Funds managed by Treasury.

M. Property, Plant, and Equipment

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

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

Personal property includes capital leases. To be defined as a capital lease, a lease, at its inception, must have a lease term of two or more years and the lower of the fair value or present value of the projected minimum lease payments must be $75 thousand or more. Capital leases containing real property (therefore considered in the real property category as well), have a $150 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership at the end of the lease to the EPA; contains a bargain purchase option; the lease term is equal to 75 percent or more of the estimated economic service life; or the present value of the projected cash flows of the lease and other minimum lease payments is equal to or exceeds 90 percent of the fair value.

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

Real property consists of land, buildings, capital and leasehold improvements and capital leases. In FY 2017, the EPA increased the capitalization threshold for real property, other than land, to $150 thousand from $85 thousand for buildings and improvements and $25 thousand for plumbing, heating, and sanitation projects. The new threshold was applied prospectively. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value, if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 50 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

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

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

N. Liabilities

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

O. Borrowing Payable to the Treasury

Borrowing 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 "Payroll and Benefits Payable." Sick leave earned but not taken is not accrued as a liability; it is expensed as it is used.

Q. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1986, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1987, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

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

R. Prior Period Adjustments and Restatements

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

S. Deepwater Horizon Oil Spill

The April 20, 2010 Deepwater Horizon (DWH) oil spill was the largest oil spill in U.S. history. In the wake of the spill, the National Contingency Plan regulation was revised to reflect the EPA's designation as a DWH Natural Resource Trustee. The DWH Natural Resources Damage Assessment is a legal process pursuant to the Oil Pollution Act and the April 4, 2016 Consent Decree between the U.S., the five Gulf states, and 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 NRDA trustees are then jointly responsible to use those funds in the manner set forth in Appendix 2 of the Consent Decree to restore natural resources injured by the DWH oil spill. In FY 2016, the EPA received an advance of $184 thousand from BP and $2 million from the U.S. Coast Guard, to participate in addressing injured natural resources and service resulting from the Deepwater Horizon Oil Spill. In FY 2017 and 2018, the EPA returned the unused balance of fund amounts of $900 and $440 thousand, respectively, to the U.S. Coast Guard for deposit in the Oil Spill Liability Trust Fund. 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. Puerto Rico Insolvency

In February 2016, the Puerto Rico Aqueduct and Sewer Authority (PRASA) requested a restructuring of the Clean Water (CW) and Drinking Water (DW) SRF debt due to a lack of cash flows and inability to access the municipal bond market. PRASA is the primary water utility for Puerto Rico and, at the time of their request, the debt outstanding to the SRFs was $547 million. Annual debt service to the SRFs is approximately $37 million per year.

In June 2016, the EPA and the Puerto Rico SRFs agreed to a 1-year forbearance on principal and interest payments. Since that time, the forbearance agreement was extended multiple times with a final expiration date of July 31, 2019.

In May 2017, following PRASA's fiscal plan approval by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) oversight board created by Congress, the EPA, and the Puerto Rico SRFs began negotiations with PRASA on restructuring current debt and setting terms for future debt.

(Dollars in Thousands)

Negotiations concluded on July 26, 2019, when the Puerto Rico CW and DW SRF programs closed on loan agreements that restructure 200 delinquent loans held by PRASA and total approximately $571 million in principal. The restructuring agreements supersede the forbearance and ensure the repayment of PRASA's SRF loans. The restructuring also means that PRASA will once again be eligible to apply for financial assistance from the PR SRFs.

On August 18, 2020, the Puerto Rico CW SRF program signed a $163 million loan with PRASA to provide funding for 28 wastewater projects. The loan offers a 30-year amortization, with a 1.0% annual interest rate payable on January 1 and July 1 of each year.

The Puerto Rico DW SRF program expects to soon sign a $46 million loan with PRASA to provide funding to 5 drinking water projects. The loan offers a 30-year amortization, with a 1.0% annual interest rate payable on January 1 and July 1 of each year.

U. 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.

V. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* revised August 27, 2020. As a result Net Disbursements for Non-Budgetary Credit Reform Financing Account has been added to the Statement of Budgetary Resources.

Note 2. Fund Balance With Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2020 and 2019 consists of the following:

	2020			2019		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	$ 152,246	$ -	$ 152,246	$ 77,906	$ -	$ 77,906
LUST	28,191	-	28,191	21,902	-	21,902
Oil Spill & Misc.	12,643	-	12,643	12,109	-	12,109
Revolving Funds:						
FIFRA/Tolerance	52,574	-	52,574	58,133	-	58,133
Working Capital	87,215	-	87,215	129,185	-	129,185
Credit Reform Financing	-	-	-	-	-	-
E-Manifest	10,790	-	10,790	8,029	-	8,029
WIFIA	6	-	6	2	-	2
NRDA	1,916	-	1,916	1,551	-	1,551
Appropriated	9,936,774	-	9,936,774	9,236,309	-	9,236,309
Other Fund Types	535,447	5,310	540,757	507,871	3,929	511,800
Total	$10,817,802	$ 5,310	$10,823,112	$10,052,997	$ 3,929	$10,056,926

(Dollars in Thousands)

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

Status of Fund Balances:	**2020**	**2019**
Unobligated Amounts in Fund Balance:		
Available for Obligation	$ 6,094,950	$ 5,294,411
Unavailable for Obligation	191,669	187,260
Net Receivables from Invested Balances	(5,033,099)	(5,096,874)
Balances in Treasury Trust Fund (Note 34)	19,840	14,912
Obligated Balance not yet Disbursed	9,025,670	9,160,730
Non-Budgetary FBWT	524,082	496,487
Total	$ 10,823,112	$ 10,056,926

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For September 30, 2020 and 2019, no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2020 and 2019, the balance in the imprest fund was $10 thousand.

Note 4. Investments

As of September 30, 2020 and 2019, investments related to Superfund and LUST consist of the following:

		Cost	**Amortized (Premium) Discount**	**Interest Receivable**	**Investments, Net**	**Market Value**
Intragovernmental Securities:						
Non-Marketable	FY 2020	$ 5,828,179	(135,189)	6,298	5,969,666	$ 5,969,666
Non-Marketable	FY 2019	$ 6,024,413	32,170	5,414	5,997,657	$ 5,997,657

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 18).

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for dedicated collection funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to 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.

(Dollars in Thousands)

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.

Note 5. Accounts Receivable, Net

Accounts Receivable as of September 30, 2020 and 2019, consist of the following:

	2020	2019
Intragovernmental:		
Accounts & Interest Receivable	$ 54,470	$ 34,802
Less: Allowance for Uncollectible	(2,598)	-
Total	$ 51,872	$ 34,802
Non-Federal:		
Unbilled Accounts Receivable	$ 130,449	$ 109,545
Accounts & Interest Receivable	2,556,734	2,573,004
Less: Allowance for Uncollectible	(2,183,458)	(2,181,663)
Total	$ 503,725	$ 500,886

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

Note 6. Other Assets

Other Assets as of September 30, 2020 and 2019, consist of the following:

	2020	2019
Intragovernmental:		
Advances to Federal Agencies	$ 198,229	$ 210,498
Advances for Postage	39	93
Total	$ 198,268	$ 210,591
Non-Federal:		
Travel Advances	$ 77	$ 90
Other Advances	7,844	7,607
Inventory Purchased for Resale	288	17
Total	$ 8,209	$ 7,714

(Dollars in Thousands)

Note 7. Direct Loans Receivable, Net

Direct Loans Receivable disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as a cost in the year the loan is disbursed. The net loan present value is the gross loan receivable less the subsidy present value. EPA does not have any loans obligated prior to 1992.

EPA administers the WIFIA Direct Loans program. In fiscal year 2020 and 2019, the Agency received borrowing authority of $3.6 billion and $2.5 billion respectively for the non-subsidy portion of loan proceeds disbursed. The cumulative loan limit for the WIFIA Loan Program through fiscal year 2020 is $28.6 billion. For the fiscal year ended September 30, 2020 and 2019, the Agency closed $3.2 billion and $2.5 billion in WIFIA loans, respectively.

Interest on the loans is accrued based on the terms of the loan agreement. For the fiscal years ended September 30, 2020 and 2019, the WIFIA program has incurred $9.7 and $7.3 million in administrative expenses, respectively.

Obligated after FY 1991

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

Direct Loan Program	2019 Loans Receivable, Gross	Interest Receivable	Foreclosed Property/ Allowance for Loan Losses	Allowance for Subsidy Cost	Value of Assets Related to Direct Loans, Net
WIFIA	$ 261	-	-	2	$ 263

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Program	2020	2019
WIFIA	$ 220,970	261

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

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

(Dollars in Thousands)

Direct Loan Program	2019 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	$ -	-	-	2	$ 2

Modifications and Reestimates

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

Direct Loan Program	2019 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
WIFIA	$ -	-	4	$ 4

Total Direct Loans Subsidy Expense

Direct Loan Program	2020	2019
WIFIA	$ 1,043	-

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

Direct Loan Program	2020 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	0%	.75%	0%	0%	.75%

Direct Loan Program	2019 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
WIFIA	0%	.80%	0%	0%	.80%

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

United States Environmental Protection Agency
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(Dollars in Thousands)

Schedule for Reconciling Subsidy Cost Allowance Balances **Beginning Balance, Changes and Ending Balance**	**2020**	**2019**
Beginning Balance of the Subsidy Allowance	$ 2	$ -
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	-	-
Fees and Other Collections	-	-
Other Subsidy Costs	(1,043)	2
Total of the Above Subsidy Expense Components	(1,043)	2
Adjustments		
Loan Modifications	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	-	-
Other	-	-
Ending Balance of the Subsidy Cost Allowance Before Reestimates	-	-
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	(23,459)	-
Total of the Above Reestimate Components	(23,459)	-
Ending Balance of the Subsidy Cost Allowance	$ (24,500)	$ 2

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 2020 loan disbursements were lower than the interest rate assumptions used during the budget formulation process at loan origination.

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(Dollars in Thousands)

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2020 and 2019:

	2020	2019
Intragovernmental:		
Accounts Payable	$ 7,001	$ 5,719
Liability for Allocation	-	226
Accrued Liabilities	145,013	130,880
Total	**$ 152,014**	**$ 136,825**

	2020	2019
Non-Federal:		
Accounts Payable	$ 52,693	$ 68,012
Advances Payable	(3,787)	(2,454)
Interest Payable	5	5
Grant Liabilities	317,258	325,335
Other Accrued Liabilities	159,004	149,337
Total	**$ 525,173**	**$ 540,235**

Other Accrued Liabilities are mostly comprised of contractor accruals.

Note 9. General Property, Plant and Equipment, Net

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

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

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

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United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Thousands)

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

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

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

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

Note 10. Debt Due to Treasury

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

EPA borrows funds from The Bureau of Public Debt right before funds are disbursed to the borrower for the non-subsidy portion of WIFIA loans. As of September 30, 2020 and 2019, the EPA had debt due to Treasury consisting entirely of funds borrowed to finance the non-subsidy portion of the WIFIA Direct Loan Program of:

	2019			2020	
	Beginning Balance	Net Borrowing	Ending Balance	Net Borrowing	Ending Balance
Debt to the Treasury	$ -	$ 266	$ **266**	$ 221,386	$ **221,652**

(Dollars in Thousands)

Note 11. Stewardship Property, Plant and Equipment

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

As of September 30, 2020 and 2019, the Agency possessed the following land and land rights:

	2020	2019
Superfund Sites with Easements:		
Beginning Balance	$ 40	$ 39
Additions	3	1
Withdrawals	-	-
Ending Balance	$ 43	$ 40
Superfund Sites with Land Acquired:		
Beginning Balance	$ 31	$ 32
Additions	1	-
Withdrawals	-	(1)
Ending Balance	$ 32	$ 31

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2020 and 2019, custodial liability is approximately $72,018 and $36,494 thousand, respectively.

(Dollars in Thousands)

Note 13. Other Liabilities

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

	Covered by Budgetary Resources	Not Covered by Resources	Total
Current			
Employer Contributions & Payroll Taxes	$ 23,764	$ -	$ 23,764
WCF Advances	1,154	-	1,154
Other Advances	14,843	-	14,843
Advances HRSTF Cashout	81	-	81
Deferred HRSTF Cashout	86,619	-	86,619
Non-Current			
Unfunded FECA Liability	-	9,225	9,225
Unfunded Unemployment Liability	-	97	97
Direct Loans Subsidy Liability	-	412	412
Payable to Treasury Judgement Fund	-	22,000	22,000
Total Intragovernmental	$ 126,461	$ 31,734	$ 158,195
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 141,368	$ -	$ 141,368
Liability for Deposit Funds, Non-Federal	5,944	-	5,944
Capital Lease Liability	-	399	399
Non-Current			
Capital Lease Liability	-	1,970	1,970
Total Non-Federal	$ 147,312	$ 2,369	$ 149,681

(Dollars in Thousands)

Other Liabilities consist of the following as of September 30, 2019:

	Covered by Budgetary Resources	Not Covered by Resources	Total
Current			
Employer Contributions & Payroll Taxes	$ 19,161	$ -	$ 19,161
WCF Advances	3,504	-	3,504
Other Advances	6,062	-	6,062
Advances HRSTF Cashout	82	-	82
Deferred HRSTF Cashout	117,256	-	117,256
Non-Current			
Unfunded FECA Liability	-	9,229	9,229
Payable to Treasury Judgement Fund	-	22,000	22,000
Total Intragovernmental	$ 146,065	$ 31,229	$ 177,294
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 134,076	$ -	$ 134,076
Liability for Deposit Funds, Non-Federal	3,769	-	3,769
Capital Lease Liability	-	343	343
Non-Current			
Capital Lease Liability	-	2,361	2,361
Total Non-Federal	$ 137,845	$ 2,704	$ 140,549

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).

Note 14. Leases

The value of assets held under Capital Leases as of September 30, 2020 and 2019, are as follows:

Capital Leases:

	2020	2019
Summary of Assets Under Capital Lease:		
Real Property	$ 24,485	$ 24,485
Personal Property	-	-
Total	24,485	24,485
Accumulated Amortization	$ 20,948	$ 20,132

(Dollars in Thousands)

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

Future Payments Due Fiscal Year	Capital Leases
2021	$ 786
2022	786
2023	786
2024	785
2025	262
Total Future Minimum Lease Payments	3,405
Less: Imputed Interest	(1,036)
Net Capital Lease Liability	2,369
Liabilities not Covered by Budgetary Resources	$ 2,369

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

Note 15. FECA Actuarial Liabilities

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

The FECA Actuarial Liability as of September 30, 2020 and 2019, was $50,451 thousand and $42,044 thousand, respectively. The estimated future costs are recorded as an unfunded liability. The FY 2020 present value of these estimated outflows is calculated using a discount rate of 2.414 percent in the first year, and 2.414 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund (Restated)

Cashout advances are funds received by the EPA, a state, or another responsible party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cash-out funds received by the EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of the EPA without further appropriation by Congress. As of September 30, 2020 and 2019, cash-out advances total $3,472,784 thousand and $3,573,240 (Restated) thousand, respectively. See Note 37 for the restatement of the 2019 balance.

Note 17. Commitments and Contingencies

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

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

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

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

d) Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2020, there were $38 thousand of accrued liabilities for commitments and potential loss contingencies. As of September 30, 2019, there was no accrued liabilities for commitments and potential loss contingencies.

A. Gold King Mine

On August 5, 2015, EPA and its contractors were conducting an investigation under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of the Gold King Mine, an inactive mine in Colorado, when a release of acid mine drainage occurred. While the EPA team was excavating above the mine adit, water began leaking from the mine adit. The small leak quickly turned into a significant breach, releasing approximately three million gallons of mine water into the North Fork of Cement Creek, a tributary of the Animas River. The plume of acid mine water traveled from Colorado's Animas River into New Mexico's San Juan River, passed through the Navajo Nation, and deposited into Utah's Lake Powell. As of June 30, 2020, EPA has received claims under the Federal Tort Claims Act from individuals and businesses situated on or near the affected waterways for alleged lost wages, loss of business income, agricultural and livestock losses, property damage, diminished property value, and personal injury. The amounts estimated related to the Gold King Mine are $2 billion but they are only reasonably possible, and the final outcomes are not probable.

B. Flint, Michigan

The EPA has received claims from over 7,000 individuals under the Federal Tort Claims Act for alleged injuries and property damages caused by the EPA's alleged negligence related to the water health crisis in Flint, Michigan. There is no estimated loss amounts related to the water health crisis and they are only reasonably possible and the final outcomes are not probable.

C. Superfund

Under CERCLA Section 106(a), the EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition the EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law. The amounts related to Superfund are $20 million, but they are only reasonably possible, and the final outcomes are not probable.

D. Environmental Liabilities

As of September 30, 2020, there is one case pending against the EPA that is reported under Environmental Liabilities: Bob's Home Service Landfill amount is $900 thousand but it is only reasonable possible, and the final outcome is not probable. Secondly, in January 2020, the CDPHE found several violations of Colorado hazardous waste laws after inspecting an EPA lab where Region 8 and OECA's NEIC are co-located. $38 thousand of the penalty amount has been accrued, which is categorized under probable.

E. Judgement Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*. The EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim. As of September 30, 2020, there is no other case pending in the court.

F. Other Commitments

EPA has a commitment to fund the United States Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. EPA paid $2.5 million to the CEC in the period ending September 30, 2020 and $2.5 million in the period ending September 2019.

EPA has a legal commitment under a noncancelable agreement, subject to the availability of funds, with the United Nations Environmental Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling $8.3 million in the period ending September 2020 and $8.3 million in the period ending September 2019.

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Thousands)

Note 18. Funds from Dedicated Collections (Unaudited) (Restated)

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2020					
Assets					
Fund Balance with Treasury	$ 518,165	$ 28,191	$ 152,246	$ 95,212	$ 793,814
Investments	-	895,016	5,074,650	-	5,969,666
Accounts Receivable, Net	-	82,281	346,291	27,135	455,707
Other Assets	-	424	44,685	201,757	246,866
Total Assets	518,165	1,005,912	5,617,872	324,104	7,466,053
Other Liabilities	-	89,348	3,768,226	301,589	4,159,163
Total Liabilities	-	89,348	3,768,226	301,589	4,159,163
Unexpended Appropriations	-	-	(2)	(187)	(189)
Cumulative Results of Operations	518,165	916,564	1,849,646	22,702	3,307,077
Total Liabilities and Net Position	518,165	1,005,912	5,617,870	324,104	7,466,051
Statement of Net Cost for the Fiscal Year Ended September 30, 2020					
Gross Program Costs	-	97,770	1,505,864	116,583	1,720,217
Less: Earned Revenues	-	-	362,428	105,449	467,877
Net Costs of Operations	$ -	$ 97,770	$ 1,143,436	$ 11,134	$ 1,252,340
Statement of Changes in Net Position for the Fiscal Year Ended September 30, 2020					
Net Position, Beginning of Period	$ 491,972	$ 788,492	$ 1,863,347	$ 25,519	$ 3,169,330
Nonexchange Revenue - Securities Investments	-	6,282	83,301	533	90,116
Nonexchange Revenue	26,193	219,210	3,225	(8,833)	239,795
Other Budgetary Finance Sources	-	-	1,033,974	15,697	1,049,671
Other Financing Sources	-	350	9,237	729	10,316
Net Cost of Operations	-	(97,770)	(1,143,436)	(11,134)	(1,252,340)
Change in Net Position	26,193	128,072	(13,699)	(3,008)	137,558
Net Position	$ 518,165	$ 916,564	$ 1,849,648	$ 22,511	$ 3,306,888

(Dollars in Thousands)

	Environmental Services	LUST	Superfund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Balance sheet as of September 30, 2019 (Restated)					
Assets					
Fund Balance with Treasury	$ 491,972	$ 21,902	$ 77,906	$ 95,702	$ 687,482
Investments	-	773,397	5,224,260	-	5,997,657
Accounts Receivable, Net	-	92,029	357,602	1,198	450,829
Other Assets	-	176	56,709	7,256	64,141
Total Assets	491,972	887,504	5,716,477	104,156	7,200,109
Other Liabilities (Note 37)	-	99,012	3,853,130	78,639	4,030,781
Total Liabilities	-	99,012	3,853,130	78,639	4,030,781
Unexpended Appropriations	-	-	(2)	(1,262)	(1,264)
Cumulative Results of Operations	491,972	788,492	1,863,349	26,779	3,170,592
Total Liabilities and Net Position (Note 37)	491,972	887,504	5,716,477	104,156	7,200,109
Statement of Net Cost for the Fiscal Year Ended September 30, 2019 (Restated)					
Gross Program Costs	-	89,019	1,392,940	82,165	1,564,124
Less: Earned Revenues (Note 37)	-	-	179,115	64,362	243,477
Net Costs of Operations	$ -	$ 89,019	$ 1,213,825	$ 17,803	$ 1,320,647
Statement of Changes in Net Position for the Fiscal Year Ended September 30, 2019 (Restated)					
Net Position, Beginning of Period	$ 469,191	$ 623,356	$ 1,856,334	$ 20,145	$ 2,969,026
Nonexchange Revenue - Securities Investments	-	16,183	117,318	1,198	134,699
Nonexchange Revenue	22,781	237,962	6,197	3,314	270,254
Other Budgetary Finance Sources	-	-	1,080,982	18,384	1,099,366
Other Financing Sources	-	10	16,341	281	16,632
Net Cost of Operations (Note 37)	-	(89,019)	(1,213,825)	(17,803)	(1,320,647)
Change in Net Position	22,781	165,136	7,013	5,374	200,304
Net Position (Note 37)	$ 491,972	$ 788,492	$ 1,863,347	$ 25,519	$ 3,169,330

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 authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," and reauthorized until September 30, 2023, for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

iii. Reregistration and Expedited Processing Fund:

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

iv. Tolerance Revolving Fund:

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

v. Hazardous Waste Electronic Manifest System

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

Note 19. Environmental Cleanup Costs

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

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

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

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

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

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

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

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

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

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

As of September 30, 2020, the EPA has one site that requires clean up stemming from its activities. The claimants' chances of success are characterized as reasonably possible with costs amounting to $900 thousand that may be paid out of the Treasury Judgment Fund. Secondly, in January 2020, the CDPHE found several violations of Colorado hazardous waste laws after inspecting an EPA lab where Region 8 and OECA's NEIC are co-located. $38 thousand of the penalty amount has been accrued, which is categorized under probable.

A. Accrued Clean-up Cost

The EPA has 30 sites for which it is required to fund the environmental cleanup. As of September 30, 2020, the estimated costs for site clean-up were $38.4 million unfunded, and $1,836 thousand funded, respectively. In 2019 the estimated costs for site clean-up were $32.8 million unfunded, and $551 thousand funded, respectively. Since the clean-up costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total clean-up cost as a liability and record changes to the estimate in subsequent years.

In FY 2020, the estimate for unfunded clean-up cost increased by $5.6 million from the FY 2019 estimate. This is primarily due to additional anticipated lab cleanup actions in facilities that resulted in estimates of future clean-up costs in various regions to increase.

Note 20. State Credits

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Contracts (SSC) when the EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide the EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. The credit is limited to state site-specific expenses the EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal 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, 2020 and 2019, the total remaining state credits have been estimated at $20.2 million, and $21.3 million, respectively.

Note 21. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a) (2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2020, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling $11.5 million. As of September 30, 2019, the EPA had three outstanding preauthorized mixed funding agreements with obligations totaling $6.3 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by the EPA for payment. Further, the EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by the EPA.

Note 22. Custodial Revenues and Accounts Receivable

The EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectability by the EPA of the fines and penalties is based on the respondents' willingness and ability to pay. As of September 30, 2020 and 2019 Custodial Revenues and Accounts Receivable are:

	2020	2019
Fines, Penalties and Other Miscellaneous Receipts	$ 169,178	$ 356,645
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	$ 191,307	$ 166,089
Less: Allowance for Uncollectible Accounts	(141,118)	(129,680)
Total	$ **50,189**	$ **36,409**

Note 23. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2020 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2020 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2020 has not yet been published. We expect it will be published by early 2021, and it will be available on the Office of Management and Budget website at https://www.whitehouse.gov/

The actual amounts published for the year ended September 30, 2019 are listed immediately below (dollars in millions):

FY 2019	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 18,619	$ 13,137	$ 1,585	$ 9,648
Reported in the Budget of the U.S. Government	$ 18,424	$ 13,086	$ 1,585	$ 9,647

(Dollars in Thousands)

Note 24. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts as of September 30, 2020 and 2019:

	2020	2019
Unobligated Balance Brought Forward, Oct 1.	$ 5,460,757	$ 4,479,928
Adjustments to Budgetary Resources Made Durring the Current Year		
Downward Adjustments of Prior Year Undelivered Orders	339,024	225,842
Downward Adjustments of Prior Year Delivered Orders	26,546	16,035
Other Adjustments	(18,137)	(6,979)
Total	**347,433**	**234,898**
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	**$ 5,808,190**	**$ 4,714,826**
Temporarily Not Available - Rescinded Authority	**$ (2,000)**	**$ (4,592)**
Permanently Not Available:		
Rescinded Authority	$ -	$ 210,529
Cancelled Authority	19,140	19,588
Total Permanently Not Available	**$ 19,140**	**$ 230,117**

Note 25. Unobligated Balances Available

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

The unobligated balances available consist of the following as of September 30, 2020 and 2019:

	2020	2019
Unexpired Unobligated Balance	$ 6,066,503	$ 5,295,329
Expired Unobligated Balance	189,004	186,342
Total	$ 6,255,507	$ 5,481,671

Note 26. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2020 and 2019, were $15.8 billion and $12.7 billion, respectively.

(Dollars in Thousands)

Note 27. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. As of September 30, 2020 and 2019, the following receipts were generated from these activities:

	2020	2019
Trust Fund Recoveries	$ 237,778	$ 73,266
Special Fund Services	51,502	22,778
Trust Fund Appropriation	1,076,535	1,455,299
Miscellaneous Receipt and Clearing Accounts	3,581	33,440
Total	**$ 1,369,396**	**$ 1,584,783**

Note 28. Transfers-In and Out, Statement of Changes in Net Position

A. Appropriations Transfers, In/Out:

As of September 30, 2020 and 2019, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, and Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follow for September 30, 2020 and 2019:

	2020	2019
Net Transfers from Invested Funds	$ 1,396,692	$ 1,572,990
Transfer to the Department of Transportation	101,700	89,000
Transfers to Another Agency	809	2,884
Total of Net Transfers on the Statement of Budgetary Resources	**$ 1,499,201**	**$ 1,664,874**

(Dollars in Thousands)

B. Transfers In/Out Without Reimbursement, Budgetary:

For September 30, 2020 and 2019, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and non-expenditure, follow for September 30, 2020 and 2019:

	2020		2019	
Type of Transfer/Funds:	**Funds From Dedicated Collections**	**Other Funds**	**Funds From Dedicated Collections**	**Other Funds**
Transfers-in (out) nonexpenditure, Earmark to Science and Technology and Office of The Inspector General funds	$ (42,748)	$ 42,081	$ (2,776)	$ 24,048
Transfers-in (out) nonexpenditure, Oil Spill	19,581	-	18,209	-
Transfers-in (out) nonexpenditure, e-Manifest	23	-	8	-
Transfers-in (out), TSCA	(5,528)	-	-	(2,718)
PRIA	389	-	-	-
National Resource Damage Assessment	1,647	-	167	-
Total Transfer in (out) without Reimbursement, Budgetary	**$ (26,636)**	**$ 42,081**	**$ 15,608**	**$ 21,330**

Note 29. Imputed Financing

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each Agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each Agency. The estimates for FY 2020 were $28.1 million. For FY 2019, the estimates were $81.1 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 2020 total imputed costs were $29.7 million.

In addition to the pension and retirement benefits described above, the EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*. For FY 2020, entries for Judgment Fund payments totaled $4.1 million. For FY 2019, entries for Judgment Fund payments totaled $3.9 million.

(Dollars in Thousands)

Note 30. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the fiscal years ending September 30, 2020 and 2019, consist of the following:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2020 Payroll and Benefits Payable			
Accrued Funded Payroll and Benefits	$ 36,385	$ -	$ 36,385
Withholdings Payable	30,297	-	30,297
Employer Contributions Payable - Thrift Savings Plan	1,792	-	1,792
Accrued Unfunded Annual Leave	-	184,780	184,780
Total - Current	**$ 68,474**	**$ 184,780**	**$ 253,254**

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2019 Payroll and Benefits Payable			
Accrued Funded Payroll and Benefits	$ 50,890	$ -	$ 50,890
Withholdings Payable	10,582	-	10,582
Employer Contributions Payable - Thrift Savings Plan	810	-	810
Accrued Unfunded Annual Leave	-	141,703	141,703
Total - Current	**$ 62,282**	**$ 141,703**	**$ 203,985**

Note 31. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 7 years earlier. These amounts affect Unexpended Appropriations. Other Adjustments, Statement of Changes in Net Position for the years ended September 30, 2020 and 2019, consist of the following:

	Other Funds 2020	Other Funds 2019
Cancelled General Authority	$ 18,964	$ 229,890
Total Other Adjustments	**$ 18,964**	**$ 229,890**

(Dollars in Thousands)

Note 32. Non-Exchange Revenue, Statement of Changes in Net Position

Non-Exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for the fiscal years ended September 30, 2020 and 2019:

	2020		2019	
	Funds from Dedicated Collections	All Other Funds	Funds from Dedicated Collections	All Other Funds
Interest on Trust Fund	$ 90,116	$ -	$ 134,699	$ -
Tax Revenue, Net of Refunds	219,210	-	237,963	-
Fines and Penalties Revenue	3,239	-	6,195	-
Special Receipt Fund Revenue	17,346	-	26,095	(58)
Total Nonexchange Revenue	**$ 329,911**	**$ -**	**$ 404,952**	**$ (58)**

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Note 33. Reconciliation of Net Cost of Operations to Budget (Restated)

For the Fiscal Year 2020:

	Intra-governmental	With the Public	Total 2020
NET COST	$ 1,331,109	$ 7,490,055	$ 8,821,164
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	68,599	68,599
Property, Plant and Equipment Disposal & Revaluation	-	(1,373)	(1,373)
Year-end Credit Reform Subsidy Re-estimates	(23,459)	-	(23,459)
Other	-	57,917	57,917
Increase/(Decrease) in Assets:			
Accounts Receivable	17,070	2,840	19,910
Loans Receivable	-	196,206	196,206
Investments	(27,990)	-	(27,990)
Other Assets	(12,323)	495	(11,828)
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	(15,188)	15,062	(126)
Debt Due to Treasury	(221,385)	-	(221,385)
Pensions and Other Actuarial Liabilities	-	(8,408)	(8,408)
Environmental Cleanup Costs	-	(5,573)	(5,573)
Cashout Advances, Superfund	-	100,456	100,456
Commitments and Contingencies	-	(38)	(38)
Payroll and Benefits Payable	-	(49,269)	(49,269)
Other Liabilities	19,100	(9,132)	9,968
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	28,090	-	28,090
Transfer Out (In) Without Reimbursement	15,509	-	15,509
Other Imputed Financing	33,859	-	33,859
Total Components of Net Cost That Are Not Part of Net Outlays	**1,144,392**	**7,857,837**	**9,002,229**
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	567	567
Acquisition of Other Assets	-	15,915	15,915
Other	-	474,408	474,408
Total Components of Net Outlays That Are Not Part of Net Cost	-	**490,890**	**490,890**
Other Temporary Timing Differences	-	**(769,712)**	**(769,712)**
NET OUTLAYS	$ 1,144,392	$ 7,579,015	$ 8,723,407

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For the Fiscal Year 2019: (Restated)

	Intra-governmental	With the Public	Total 2019
NET COST (Note 37)	$ **1,209,171**	$ **7,336,002**	$ **8,545,173**
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant and Equipment Depreciation	-	(77,679)	(77,679)
Property, Plant and Equipment Disposal & Revaluation	-	(1,160)	(1,160)
Year-end Credit Reform Subsidy Re-estimates	4	-	4
Other	-	62,120	62,120
Increase/(Decrease) in Assets:			
Accounts Receivable	16,953	42,430	59,383
Loans Receivable	-	263	263
Investments	499,610	-	499,610
Other Assets	(1,918)	4,426	2,508
(Increase)/Decrease in Liabilities:			
Accounts Payable and Accrued Liabilities	(6,364)	(17,245)	(23,609)
Debt Due to Treasury	(266)	-	(266)
Pensions and Other Actuarial Liabilities	-	1,635	1,635
Environmental Cleanup Costs	-	148	148
Cashout Advances, Superfund (Note 37)	-	(268,217)	(268,217)
Commitments and Contingencies	-	-	-
Payroll and Benefits Payable	-	(1,966)	(1,966)
Other Liabilities	(51,799)	(4,481)	(56,280)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	81,061	-	81,061
Transfer Out (In) Without Reimbursement	2,256,131	-	2,256,131
Other Imputed Financing	20,779	-	20,779
Total Components of Net Cost That Are Not Part of Net Outlays	**4,023,362**	**7,076,276**	**11,099,638**
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	-	-	-
Acquisitions of Capital Leases	-	-	-
Acquisition of Inventory	-	194	194
Acquisition of Other Assets	-	21,059	21,059
Other	-	(2,908,309)	(2,908,309)
Total Components of Net Outlays That Are Not Part of Net Cost	-	(2,887,056)	(2,887,056)
Other Temporary Timing Differences	-	**(149,019)**	**(149,019)**
NET OUTLAYS	$ **4,023,362**	$ **4,040,201**	$ **8,063,563**

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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.

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Note 34. Amounts Held by Treasury (Unaudited)

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

A. Superfund

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

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2020 and 2019. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

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

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(Dollars in Thousands)

In FY 2020, the EPA received an appropriation of $1.1 billion for Superfund. Treasury's Bureau of the Fiscal Service (BFS), the manager of the Superfund Trust Fund assets, records a liability to the EPA for the amount of the appropriation. BFS does this to indicate those trust fund assets that have been assigned for use and therefore are not available for appropriation. As of September 30, 2020 and 2019, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds and special accounts of $5.1 billion and $5.2 billion, respectively.

SUPERFUND FY 2019	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 3,003	$ 3,003
Total Undistributed Balance	-	3,003	3,003
Interest Receivable	-	5,413	5,413
Investments, Net	4,962,820	277,526	5,240,346
Total - Assets	**$ 4,962,820**	**$ 285,942**	**$ 5,248,762**
Liabilities and Equity			
Equity	4,962,820	285,942	5,248,762
Total Liabilities and Equity	4,962,820	285,942	5,248,762
Receipts			
Cost Recoveries	-	444,806	444,806
Fines and Penalties	-	2,504	2,504
Total Revenue	-	447,310	447,310
Appropriations Received	-	1,083,758	1,083,758
Interest Income	-	117,318	117,318
Total Receipts	-	1,648,386	1,648,386
Outlays			
Transfers to/from EPA, Net	1,592,858	(1,592,858)	-
Total Outlays	1,592,858	(1,592,858)	-
Net Income	**$ 1,592,858**	**$ 55,528**	**$ 1,648,386**

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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 2020 and 2019, there were no fund receipts from cost recoveries. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

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

(Dollars in Thousands)

LUST FY 2019	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 11,909	$ 11,909
Total Undistributed Balance	-	11,909	11,909
Investments, Net	92,029	681,367	773,396
Total - Assets	$ 92,029	$ 693,276	$ 785,305
Liabilities and Equity			
Equity	92,029	693,276	785,305
Total Liabilities and Equity	92,029	693,276	785,305
Receipts			
Highway TF Tax	-	213,944	213,944
Airport TF Tax	-	11,971	11,971
Inland TF Tax	-	15	15
Total Revenue	-	225,930	225,930
Interest Income	-	16,183	16,183
Total Receipts	-	242,113	242,113
Outlays			
Transfers to/from EPA, Net	93,441	(93,441)	-
Total Outlays	93,441	(93,441)	-
Net Income	$ 93,441	$ 148,672	$ 242,113

Note 35. COVID-19 Activity

On March 27, 2020, President Donald Trump signed into law The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the economic fallout of the COVID-19 pandemic in the United States. The EPA received a supplemental appropriation of $7,230 thousand to support Environmental Program Management, Science and Technology, Building and Facilities, and Superfund program efforts related to the virus. Additional COVID-19 activities are discussed in Section I, Management's Discussion and Analysis, *Financial Analysis and Stewardship Information*; and Section III, Other Accompanying Information, *Agency Response to Office of Inspector General-Identified Management Challenges*.

Note 36. Reclassification of Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position for the FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows EPA's financial statements and the EPA's reclassified statements prior to the elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2020 FR will be posted to this site as soon as it is released.

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

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

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Reclassification of Balance Sheet to Line Items used for the Government-wide Balance Sheet as of September 30, 2020							
FY 2020 EPA Balance Sheet		**Line Items Used to Prepare the FY 2020 Government-wide Balance Sheet**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS							**ASSETS**
Intra-Governmental Assets							**Intra-Governmental Assets**
FBWT	10,823,112	11,065,168	242,056	-	-	10,823,112	FBWT
		5,963,368	-	-	-	5,963,368	Federal Investments
Investments, Net	5,969,666	6,298	-	-	-	6,298	Interest Receivable - Investments
Total Investments, Net	5,969,666	5,969,666	-	-	-	5,969,666	*Total Reclassified Investments, Net*
Accounts Receivable	51,872	4,979,904	4,945,914	27,929	-	6,061	Accounts Receivable
Total Accounts Receivable	51,872	4,979,904	4,945,914	27,929	-	6,061	*Total Reclassified - A/R*
Other	198,268	243,241	-	44,974	-	198,267	Advances to Others and Prepayments
Total Other	198,268	243,241	-	44,974	-	198,267	*Total Reclassified Other*
Total Intra-Governmental Assets	**17,042,918**	**22,257,979**	**5,187,970**	**72,903**	-	**16,997,106**	**Total Intra-Governmental Assets**
Cash and Other Monetary Assets	10	10	-	-	-	10	Cash and Other Monetary Assets
Accounts Receivable, Net	503,725	503,725	-	-	-	503,725	Accounts and Taxes Receivable, Net
Direct Loans, Net	196,470	196,470	-	-	-	196,470	Loans Receivable, Net
Inventory and Related Property, Net	288	288	-	-	-	288	Inventory and Related Property, Net
General PP&E	659,668	681,334	-	-	-	681,334	General PP&E, Net
Other	7,921	7,921	-	-	-	7,921	Other
Total Assets	**18,411,000**	**23,647,727**	**5,187,970**	**72,903**	-	**18,386,854**	**Total Assets**
LIABILITIES							**LIABILITIES**
Intra-Governmental Liabilities							**Intra-Governmental Liabilities**
Accounts Payable	152,014	5,159,503	4,967,412	45,745	-	146,346	Accounts Payable
Debt	221,652	221,652	-	-	-	221,652	Debt
Other - Custodial Liability	72,018	71,610	-	-	-	71,610	Other - Custodial Liability
Other - Miscellaneous Liabilities	158,195	56,654	-	27,158	-	29,496	Benefit Program Contributions Payable
	-	104,490	-	-	-	104,490	Advances from Others & Deferred Credits
	-	5,381	-	-	-	5,381	Other Liabilities
Total Other - Miscellaneous Liabilities	158,195	166,525	-	27,158	-	139,367	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intra-Governmental Liabilities	**603,879**	**5,619,290**	**4,967,412**	**72,903**	-	**578,975**	***Total Intra-Governmental Liabilities***
Accounts Payable	525,173	49,723	-	-	-	49,723	Accounts Payable
Federal Employee and Veteran Benefits	50,451	235,230	-	-	-	235,230	Federal Employee and Veteran Benefits
Environmental and Disposal Liabilities	38,383	38,383	-	-	-	38,383	Environmental and Disposal Liabilities
Contingent Liabilities	38	-	-	-	-	-	Contingent Liabilities
Advances and Deferred Revenue	3,472,784	4,157,749	-	-	-	4,157,749	
Miscellaneous Liabilities	402,935	-	-	-	-	-	Other Liabilities
Total Miscellaneous Liabilities	402,935	4,481,085	-	-	-	4,481,085	*Total Reclassified Miscellaneous Liabilities48*
Total Liabilities	**5,093,643**	**10,100,375**	**4,967,412**	**72,903**	-	**5,060,060**	**Total Liabilities**

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NET POSITION							NET POSITION
Unexpended Appropriations - Funds from Dedicated Collections	(189)	(870)	-	-	-	(870)	Net Position - Funds from Dedicated Collections
Unexpended Appropriations - Other Funds	9,600,037	9,596,928	-	-	-	9,596,928	Net Position - Funds Other Than Those From Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections	3,307,079	2,521,500	220,558	-	-	2,300,942	
Cumulative Results of Operations - All Other	410,430	1,429,794	-	-	-	1,429,794	
Total Net Position	13,317,357	13,547,352	220,558	-	-	13,326,794	
Total Liabilities & Net Position	**18,411,000**	**23,647,727**	**5,187,970**	**72,903**	-	**18,386,854**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2020							
FY 2020 EPA SNC		**Line Items Used to Prepare the FY 2020 Government-wide SNC**					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and Other**	**Total**	**Reclassified Statement Line**
Gross Costs	9,335,328						***Non-Federal Costs***
	-	7,886,866	-	-	-	7,886,866	Non-Federal Gross Costs
	-	7,886,866	-	-	-	7,886,866	***Total Non-Federal Costs***
							Intragovernmental Costs
	-	403,800	-	-	-	403,800	Benefits Program Costs
	-	5,666	-	-	-	5,666	Imputed Costs
	-	919,646	-	-	-	919,646	Buy/Sell Costs
	-	15,469	-	-	-	15,469	Purchase of Assets
	-	6,471	-	-	-	6,471	Borrowing and Other Interest Expense
	-	317,266	-	274,191	-	43,075	Other Expenses (w/o Reciprocals)
	-	1,668,318	-	274,191	-	1,394,127	***Total Intragovernmental Costs***
Total Gross Costs	9,335,328	9,555,184	-	274,191	-	9,280,993	***Total Reclassified Gross Costs***
Earned Revenue	514,164	936,860	237,778	274,191	-	424,891	Non-Federal Earned Revenue
							Intragovernmental Revenue
	-	73,450	-	-	-	73,450	Buy/Sell Revenue
	-	15,469	-	-	-	15,469	Purchase of Assets Offset
	-	(26)	-	-	-	(26)	Borrowing and Other Interest Revenue
	-	88,893	-	-	-	88,893	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	514,164	1,025,753	237,778	274,191	-	513,784	***Total Reclassified Earned Revenue***
NET COST	**8,821,164**	**8,529,431**	**(237,778)**	-	-	**8,767,209**	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, 2020							
FY 2020 EPA SCNP		**Line Items Used to Prepare the FY 2020 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	8,928,321	8,925,580	-	-	-	8,925,580	Net Position Beginning of Period
Appropriations Received	9,148,119	9,129,155	-	-	-	9,129,155	Appropriations Received as Adjusted
Other Adjustments	(17,892)	1	-	-	-	1	Other Adjustments
Appropriations Used	(8,458,700)	(8,458,677)	-	-	-	(8,458,677)	Appropriations Used
Total Unexpended Appropriations	**9,599,848**						
CUMUL. RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	3,667,993	3,639,072	(21,498)	-	-	3,660,570	Net Position, Beginning of Period
Other Adjustments	(1,072)	-	-	-	-	-	Other Budgetary Financing Sources
Appropriations Used	8,458,700	8,458,677	-	-	-	8,458,677	Appropriations Used
							Non-Federal Non-Exchange Revenues
Nonexchange Revenue - Securities Investment	90,116	90,116	-	-	-	90,116	Nonexchange Revenue - Securities Investment
Nonexchange	-	202,243	4,278	-	-	197,965	
Borrowings and other interest revenue	-	2,511	-	-	-	2,511	Borrowings and other interest revenue
Nonexchange Revenue - Other	239,795	219,210	-	-	-	219,210	Other Taxes and Receipts
	329,911	514,080	4,278	-	-	509,802	**Total Non-Federal Non-Exchange Revenues**
	-	-	-	-	-	-	Borrowings and Other Interest Revenue
	-	-	-	-	-	-	Other Taxes and Receipts
Transfers In/Out w/o Reimbursement-Budgetary	15,445	20,371	-	-	-	20,371	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
	-	857	-	-	-	857	Expenditure transfers-in of financing sources
	219	219	-	-	-	219	Transfers-in without reimbursement
	-	-	-	-	-	-	Transfers-out without reimbursement
Total Transfers In/Out w/o Reimbursement-Budgetary	219	219	-	-	-	219	*Total Reclassified Transfers In/Out w/o Reimbursement-Budgetary*
Imputed Financing Sources	61,949	(152,907)	-	-	-	(152,907)	Imputed Financing Sources (Federal)
Trust Fund Appropriations	5,528	5,666	-	-	-	5,666	Non-entity collections transferred to the General Fund of the U.S. Government
	-	(14,648)	-	-	-	(14,648)	Accrual of collections yet to be trans. to the Gen. Fund
	-	9,337	-	-	-	9,337	Other non-budgetary financing sources
Total Financing Sources	**67,696**	**(152,333)**	-	-	-	**(152,333)**	
Net Cost of Operations	**(8,821,164)**	**(8,529,431)**	**237,778**	-	-	**(8,767,209)**	Net Cost of Operations

United States Environmental Protection Agency
Notes to the Financial Statements
For the Fiscal Years Ended September 30, 2020 and 2019
(Dollars in Thousands)

Ending Balance - Cumulative Results of Operations	3,717,509	3,951,293	220,558	-	-	3,730,735	
Total Net Position	13,317,357	13,547,352	220,558	-	-	13,326,794	**Total Net Position**

Note 37. Restatements

During FY 2020, EPA determined that $120 million of Superfund Cashout Advances had been incorrectly classified as earned revenue when it should have been unearned. To address this finding, EPA has restated its FY 2019 financial statements.

This change impacts the FY 2019 Cashout Advances, Superfund on the Balance Sheet, Earned Revenue and Net Cost of Operations on the Statement of Net Cost and Statement of Net Cost by Major Program, and Net Cost of Operations and Cumulative Results of Operations for Funds From Dedicated Collections on the Statement of Changes in Net Position.

Required Supplementary Information (Unaudited)

United States Environmental Protection Agency
September 30, 2020 and 2019
(Dollars in Thousands)

Deferred Maintenance

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

Deferred Maintenance is described as the act of keeping fixed assets in acceptable condition.

Such activities include: Preventive maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset.

The deferred maintenance as of Fiscal Year 2020:

	2020	2019
Asset Category		
Buildings	$ 128,924	$ 131,059
Total Deferred Maintenance	$ 128,924	$ 131,059

51.

In Fiscal Year 2020, in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards* 6, 14, 29 and 32, the EPA presents Deferred Maintenance and Repairs (DM&R) information by asset category as follows:

Buildings:

Policy	Explanation
Maintenance and repairs policies and how they are applied.	The maintenance and repair policy is to maintain facilities and real property installed equipment to fully meet mission needs at each site. Systems are maintained to function efficiently at full capacity and to meet or exceed life expectancy of buildings and building systems.
How we rank and prioritize maintenance and repair activities among other activities.	Building and facility program projects are scored and ranked individually based on seven weighted factors to determine priority needs. High scoring projects are prioritized above lower scoring projects. The seven factors considered are: health and safety, energy conservation, environmental compliance, program requirements, repair and upkeep, space alteration, and operational urgency. Repair and Improvement (R&I) projects are identified and prioritized on a local basis.
Factors considered in determining acceptable condition standards.	The nine building systems must function at a level that fully meet mission needs. The nine building systems are: structure, roof, exterior components and finish, interior finish, HVAC, electrical, plumbing, conveyance, and specialized program support equipment. Each system is rated from 0 to 5 during facility assessments. Ratings are used to determine facility condition index and estimated deferred maintenance.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	Facilities assessments and the resulting DM&R estimates are applied to capitalize PP&E only. Full facility assessments using the NASA parametric model are used to determine facilities and systems indices and deferred maintenance estimates.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	Buildings are not excluded from DM&R estimates.
Explain significant changes from the prior year.	No significant changes.

EPA Held Equipment:

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

Vehicles:

Policy	Explanation
Maintenance and repairs policies and how they are applied.	Vehicle managers maintain vehicles owned by the EPA in accordance with the recommendations of the manufacturer.
How we rank and prioritize maintenance and repair activities among other activities.	The goal is to maintain the vehicle as built and as recommended by the manufacturer. Repairs and maintenance are also described as *system critical* or *minor*. System critical repairs and maintenance are high priority and are immediately taken care of. Minor repairs are lower priority and may be taken care of at a later date (time/scheduling permitting). These are not critical to in-field functionality, but the repairs are needed to maintain the vehicle as built.
Factors considered in determining acceptable condition standards.	The vehicle is inspected to ensure that it (the vehicle) and related specialized equipment are in good working order. The criteria being that the vehicle is being maintained as built and as recommended by the manufacturer.
State whether DM&R relate solely to capitalized general PP&E and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E.	All vehicles are capitalized.
PP&E for which management does not measure and/or report DM&R and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E.	None.
Explain significant changes from the prior year.	No significant changes.

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

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

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

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

Supplemental Combined Statement of Budgetary Resources (Unaudited)

United States Environmental Protection Agency
For the Fiscal Year Ending September 30, 2020
(Dollars in Thousands)

	Environmental Programs & Management	Leaking Underground Storage Tanks	Science & Technology	Superfund	State Tribal Assistance Agreements	Other	Totals
BUDGETARY RESOURCES							
Unobligated Balance From Prior Year Budget Authority, Net	$ 579,104	$ 9,283	$ 168,700	$ 3,717,494	$ 944,436	$ 410,087	$ 5,829,104
Appropriations (discretionary and mandatory)	2,676,794	91,941	718,699	1,452,372	4,546,232	1,251,912	10,737,950
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	3,576,684	3,576,684
Spending Authority From Offsetting Collection	3,570	-	37,849	16,968	-	345,925	404,312
Total Budgetary Resources	$ 3,259,468	$ 101,224	$ 925,248	$ 5,186,834	$5,490,668	$5,584,608	$ 20,548,050
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward adjustments (total)	$ 2,768,443	$ 95,806	$ 781,408	$ 1,582,736	$4,446,151	$4,617,999	$ 14,292,543
Unobligated Balance, End of Year:							
Apportioned, Unexpired Accounts	322,580	5,418	126,459	3,603,662	1,044,517	959,305	6,061,941
Unapportioned, Unexpired accounts	-	-	-	436	-	4,126	4,562
Expired Unobligated Balance, End of Year	168,445	-	17,381	-	-	3,178	189,004
Unobligated Balance, End of Year (total):	491,025	5,418	143,840	3,604,098	1,044,517	966,609	6,255,507
Total Status of Budgetary Resources	$ 3,259,468	$ 101,224	$ 925,248	$ 5,186,834	$5,490,668	$5,584,608	$ 20,548,050
OUTLAYS, NET							
Outlays, Net (total) (discretionary and mandatory)	$ 2,530,374	$ 97,583	$ 715,669	$ 1,477,163	$4,019,331	$1,252,683	$ 10,092,803
Distributed Offsetting Receipts (-)	-	-	-	(1,314,314)	-	(55,082)	(1,369,396)
Agency Outlays, Net (discretionary and mandatory)	$ 2,530,374	$ 97,583	$ 715,669	$ 162,849	$4,019,331	$1,197,601	$ 8,723,407
Disbursements, Net (total) (mandatory)						$ 221,381	

Appendix II

Agency Response to Draft Report

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

November 13, 2020

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Audit Report, Project No. OA&E-FY20-0206, *"EPA's Fiscal Years 2020 and 2019 (Restated) Consolidated Financial Statements,"* dated November 10, 2020

FROM: David A. Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

DAVID BLOOM
Digitally signed by DAVID BLOOM
Date: 2020.11.13 15:03:47 -05'00'

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

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. The following is a summary of the U.S. Environmental Protection Agency's overall position, along with its position on each of the report recommendations. We have provided high-level intended corrective actions and estimated completion dates to the extent possible.

AGENCY'S OVERALL POSITION

The EPA concurs with the Office of Inspector General's recommendations but disagrees with some of the OIG statements made.

AGENCY RESPONSE TO OIG STATEMENTS

OIG STATEMENT

During its financial statement preparation process, however, the EPA did not detect and correct multiple misstatements and adjustment errors before they were entered into the EPA's accounting system or statements. Not properly recording financial adjustments and not exercising due diligence in the preparation of the financial statements compromise the accuracy of the financial statements and the reliance on them to be free of material misstatement.

AGENCY RESPONSE

The agency disagrees that it was unable to detect errors and did not exercise due diligence in the preparation of the financial statements. Considering the hundreds of adjustments that are required for the financial statements every fiscal year, occasional errors are an expected risk, and that is why the agency has internal controls in place to mitigate that risk. Due diligence and application of existing internal controls led to the discovery and correction of errors and prevented any misrepresentation of the agency's financial position.

OIG STATEMENT

The EPA incorrectly recorded an adjustment totaling approximately $4 billion in its accounting system. The error occurred because the EPA's preparation, analysis, and review of the material adjustment before it was entered into the EPA's accounting system did not detect or prevent the material adjustment from being entered incorrectly. After being informed of the error, the Agency subsequently recorded a financial statement adjustment to mitigate the impact of the error.

AGENCY RESPONSE

As the agency stated in its response to a previous finding on this adjustment, agency staff independently detected and quickly corrected this error, which was due to a transposition of debits and credits. While we did make the error, staff followed procedures in checking work and that allowed the error to be properly detected and corrected prior to the issuance of the first draft of the financial statements. Therefore, there was no impact to the financial statements.

OIG STATEMENT

During audits of the EPA's component financial statements, we found the following misstatements and errors:

• **Toxic Substances Control Act Service Fee Fund financial statements for the period from inception (June 22, 2016) through September 30, 2018.** We found that the EPA overstated its expenses from other appropriations by $8.4 million. The EPA made errors in multiple iterations of its calculation for expenses from other appropriations. Management did not have an adequate review process in place to ensure proper reporting of costs incurred against other appropriations to support Toxic Substances Control Act Service Fee Fund activities.

• **FY 2019 Pesticide Registration Improvement Act Fund financial statements.** We found multiple instances where the EPA misstated its adjustments and financial statements. We found that the Agency misreported contract expenses by approximately $156,000, and statement of budgetary resources by approximately $48,000. We also found that the EPA incorrectly calculated its payroll accrual.

• **FY 2019 Hazardous Waste Electronic Manifest System Fund financial statements.** We found that the EPA misreported accounts receivable and earned revenue by approximately $151,000, and accrued liabilities by approximately $183,000. We also found various errors totaling at least $110,000.

AGENCY RESPONSE

The agency concurs with the misstatements identified in the component financial statements and is working on implementing stronger internal control over the component financial statement preparation process. Having said that, the overall impact of the identified misstatements total $9.048 million which is not material to the consolidated financial statements of the EPA.

Component	Dollar Amount of Misstatement	Material to EPA Financial Statements
Toxic Substances Control Act Service Fee Fund	$8.4 M	No
FY 2019 Pesticide Registration Improvement Act Fund	$0.156 M $0.048 M	No
FY 2019 Hazardous Waste Electronic Manifest System Fund	$0.151 M $0.183 M $0.110 M	No
Total	**$9.048 M**	

OIG STATEMENT

The EPA did not detect and correct, during its financial statement preparation processes, the errors and misstatements stated above. After we conducted account analyses of the activity and questioned the Agency, staff stated that the EPA will prepare additional adjustments and revise the current adjustments to correct the errors and misstatements we found. Had it not been for the intensive inquiry by our auditors, material errors would have impacted the financial statements.

AGENCY RESPONSE

There was one material error cited by the OIG, a $120 million misstated Superfund special account unearned revenue balance. To prevent this type of error, in addition to the improvements and updates to "Standard Procedures for the Processing of Vouchers in Compass" described below, the review process for adjustments will now include analysis of the complete general ledger impact of adjustments to ensure the proper general ledger impact in the financial statements is achieved.

AGENCY'S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
1	Develop a plan to strengthen and improve the preparation and management review of the financial statements and adjustments entered into the accounting system so that errors and misstatements are detected and corrected in a timely manner.	Concur. The agency agrees that it will strengthen and improve the preparation and management review of the financial statements and adjustments and has already developed and implemented a plan to do so. The following corrective actions have been completed or are in progress: • Updated the "Standard Procedures for the Processing of Vouchers in Compass" to improve the process for	July 31, 2021

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
		preparing adjustments. Adjustments over $10 million will now require an additional level of management review. On top adjustments to the financial statements will require review and approval by management before being processed. *(Completed November 2020)* • Reviewed with staff the need to include more of the supporting analysis and rationale behind the adjustments made and the accounting basis for them. *(Completed February 2020)* • Regular reviews of journal vouchers to ensure they are clearly and sufficiently supported. *(On-going)* • Regular financial statements team meetings to cross train and resolve potential issues. *(On-going)* • Full implementation of CaseWare financial statement preparation software which increases efficiency and provides additional format controls and footnote cross checks that were not available previously. *(Completed March 2020)* • Annual staff training on CaseWare. (*Completed July 2020*) • Annual project plan for financial statement preparation process. (*Completed July 2020*) • Developed Standard Operating Procedures for financial statement preparation and reviewer checklist. (*Completed July 2020*) • Established a senior level call bi-weekly between the DCFO, Controller and OIG senior management to address concerns early in the audit process. (*On-going*) • Lessons learned to be discussed at conclusion of audit and process improvement plans developed. *(January/February 2021)*	

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
		• Off cycle A-123 review of SOPs. *(January/February 2021)*	
2	Develop a plan to evaluate and improve the EPA's process for preparing adjustments, including an analysis of the impact of adjustments on general ledger accounts, and improve the management review process to ensure general ledger impact is proper in the financial statements.	Concur. The agency has already developed and implemented a plan to improve the process as stated above. In addition, the agency updated the "Standard Procedures for the Processing of Vouchers in Compass" as a process improvement for preparing adjustments. Adjustments over $10 million will now require an additional level of management review. Additionally, on top adjustments to the financial statements will require review and approval by management before being processed. Any adjustment materially affecting accounts and/or balances of the finance centers will be coordinated for review. The review process for adjustments will now include analysis of the complete general ledger impact of adjustments.	November 9, 2020

CONTACT INFORMATION

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

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Appendix III

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Audit Follow-Up Coordinator, Office of the Controller, Office of the Chief Financial Officer
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