



# OFFICE OF INSPECTOR GENERAL

## U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

*Operating efficiently and effectively*

# The EPA's Fiscal Years 2021 and 2020 (Restated) Hazardous Waste Electronic Manifest System Fund Financial Statements

Report No. 22-F-0062

September 30, 2022



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**Abbreviations:**

C.F.R.	Code of Federal Regulations
e-Manifest	Hazardous Waste Electronic Manifest
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OIG	Office of Inspector General
U.S.C.	United States Code

**Cover Image:** Basic steps for complying with hazardous waste regulations: (1) identify hazardous waste; (2) count the total weight of all hazardous waste; (3) notify the EPA or state agency of the hazardous waste activities; (4) manage the hazardous waste according to associated regulations; (5) transport hazardous waste off-site and have the required manifest tracked through the Hazardous Waste Electronic Manifest system; (6) recycle, treat, or dispose of hazardous waste according to applicable regulations. (EPA image)

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# Office of Inspector General U.S. Environmental Protection Agency **At a Glance**

22-F-0062  
September 30, 2022

## Why We Did This Audit

We performed this audit pursuant to the Hazardous Waste Electronic Manifest Establishment Act. The Act requires the U.S. Environmental Protection Agency to prepare and the Office of Inspector General to audit the accompanying financial statements of the EPA's Hazardous Waste Electronic Manifest System Fund. Our primary objectives were to determine whether:

- The fund's 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 Act also requires the OIG to analyze the fees collected and disbursed, fee structure, level of use of the system, and success of the system in operating on a self-sustaining basis.

### This audit supports an EPA mission-related effort:

- *Operating efficiently and effectively.*

### This audit addresses a top EPA [management challenge](#):

- *Managing infrastructure funding and business operations.*

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## ***The EPA's Fiscal Years 2021 and 2020 (Restated) Hazardous Waste Electronic Manifest System Fund Financial Statements***

### **The EPA Receives a Qualified Opinion**

We rendered a qualified opinion on the EPA's fiscal years 2021 and 2020 (restated) Hazardous Waste Electronic Manifest System Fund, known as the e-Manifest Fund, financial statements, meaning that, except for material errors in accounts receivable and earned revenue, the fiscal year 2021 financial statements were fairly presented.

**We found the fund's financial statements, except for accounts receivable and earned revenue, to be fairly presented.**

### **Material Weakness Noted**

We noted the following recurrent material weakness: the EPA needs to continue improving its internal controls over accounts receivable and earned revenue.

### **Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements**

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

### **Other Governmental Reporting Requirements**

During our user fee analysis, we identified various errors and discrepancies in EPA-provided billing data that limited our ability to perform certain audit requirements of the Hazardous Waste Electronic Manifest Establishment Act. Specifically, we were unable to determine the level of use of the e-Manifest system or whether the EPA was collecting fees sufficient to cover the full cost of the program.

### **Recommendations and Agency Corrective Actions Taken**

We recommend that the chief financial officer correct the accounts receivable and earned revenue balances. We also recommend that the chief financial officer, in coordination with the assistant administrator for Land and Emergency Management, assess the EPA's procedures for recording e-Manifest delinquent amounts and implement controls to prevent accounts receivable and earned revenue duplication. The EPA completed all corrective actions in response to both recommendations. In response to Recommendation 1, the EPA made corrections to the accounts receivable and earned revenue balances. However, as part of the corrections, the EPA made material errors that overstated the accounts receivable and earned revenue balances. As a result, Recommendation 1 is unresolved with resolution efforts in progress.



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

OFFICE OF  
INSPECTOR GENERAL

September 30, 2022

**MEMORANDUM**

**SUBJECT:** The EPA's Fiscal Years 2021 and 2020 (Restated) Hazardous Waste Electronic Manifest System Fund Financial Statements  
Report No. 22-F-0062

**FROM:** Damon Jackson, Director *Damon M. Jackson*  
Financial Directorate  
Office of Audit

**TO:** Faisal Amin, Chief Financial Officer  
  
Barry Breen, Acting Assistant Administrator  
Office of Land and Emergency Management

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was [OA-FY22-0064](#). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer is responsible for the issues discussed in the report.

In accordance with EPA Manual 2750, your office completed all corrective actions for Recommendation 2. This recommendation is resolved. A final response pertaining to this recommendation is not required.

**Action Required**

Recommendation 1 is unresolved. EPA Manual 2750 requires that recommendations be resolved promptly. Therefore, we request that the EPA provide us within 60 days its responses concerning specific actions in process or alternative corrective action proposed on the recommendation. Your response will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with 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 Inspector General Act of 1978, as amended, requires that we report in our semiannual reports to Congress on each audit or evaluation report for which we receive no Agency response within 60 calendar days.

We will post this report to our website at [www.epa.gov/oig](http://www.epa.gov/oig).

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# Inspector General's Report on the EPA's Fiscal Years 2021 and 2020 (Restated) Hazardous Waste Electronic Manifest System Fund Financial Statements

The Administrator  
U.S. Environmental Protection Agency

## Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Environmental Protection Agency's Hazardous Waste Electronic Manifest System Fund, known as the e-Manifest Fund. These statements comprise the balance sheets as of September 30, 2021, and September 30, 2020 (restated); the related statements of net cost and changes in net position; the statement of budgetary resources for the years then ended; and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America.<sup>1</sup> 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the comptroller general of the United States of America; and Office of Management and Budget Bulletin 21-04, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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<sup>1</sup> *Management*, as used throughout this report, refers to the EPA's management.

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

### ***Basis for Qualified Opinion***

As discussed in Note 16, the EPA restated its FY 2020 Accounts Receivable and Earned Revenue financial statement line items. The EPA adjusted these line items to correct errors attributed to timing and duplicate billings. The net adjustments included a correction for approximately \$1.912 million, but we found that the correction was mistakenly accounted for twice, which resulted in an overstatement of the balances. After further analysis of the restatement, the EPA also identified an error that had understated the balances by approximately \$1.338 million. Consequently, accounts receivable and earned revenue are overstated by approximately \$574,000 as of and for the year ended September 30, 2021.

### ***Qualified Opinion***

In our opinion, except for the effects on the FY 2021 financial statements of the matter described in the Basis for Qualified Opinion paragraph, the financial statements and accompanying notes referred to above present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the EPA's e-Manifest Fund as of and for the years ended September 30, 2021 and 2020 (restated), in accordance with accounting principles generally accepted in the United States of America.

## **Report on Internal Control over Financial Reporting**

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

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



Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted one matter, which we discuss below, involving the internal control and its operation that we consider to be a recurrent material weakness. This issue is summarized below and detailed in Attachment 1.

## ***Material Weakness***

### **The EPA Needs to Continue Improving Its Internal Controls Over Accounts Receivable and Earned Revenue**

We found that the EPA made material errors of approximately \$3.5 million in its accounts receivable and earned revenue financial statement line items by:

- Recording September 2020 billings totaling approximately \$1.912 million in FY 2021 that should have been recorded in FY 2020.
- Including prior months' outstanding amounts and unpaid late fees of approximately \$1.47 million in the billings from October 2020 to February 2021, overstating FY 2021 accounts receivable and revenue.
- Duplicating delinquent accounts receivable and related earned revenue totaling \$118,055.

These misstatements occurred due to inadequate internal control, such as a lack of integrated billing and financial systems, reliance on manual workarounds, and ineffective management review and analysis. The e-Manifest billing system was not integrated with the EPA's financial system used for financial reporting. Federal standards require a system of internal control to ensure accurate recording of transactions and events. Without adequate controls over recording billings in Compass Financials, the EPA's financial system, the EPA misstated its accounts receivable and earned revenue.

Attachment 2 contains the status of issues reported in prior years' reports on the fund's financial statements. The issues included in Attachment 2 should be considered among the material weaknesses for FY 2021. We reported less significant internal control matters to the Agency during the audit. We will not issue a separate management letter.

### ***Comparison of the EPA's Federal Managers' Financial Integrity Act Report with Our Evaluation of Internal Control***

Office of Management and Budget Bulletin 21-04 requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act report that relate to the financial statements. We are also required to identify material weaknesses disclosed by the audit that were not reported in the Agency's report. The Agency's report is prepared and submitted at the consolidated level, of which the e-Manifest Fund is a component. Accordingly, there are no findings to report at the e-Manifest Fund level.



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

EPA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Agency and the fund. As part of obtaining reasonable assurance about whether the fund'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 fund's financial statements.

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

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

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

## **Other Governmental Reporting Requirements**

### ***Specific Audit Requirements of the Hazardous Waste Electronic Manifest Establishment Act***

The Hazardous Waste Electronic Manifest Establishment Act, known as the e-Manifest Act, 42 U.S.C. § 6939g, requires the Office of Inspector General to perform an analysis of (1) the fees collected and disbursed, (2) the reasonableness of the fee structure in place as of the date of the audit to meet current and projected costs of the system, (3) the level of use of the system by users, and (4) the success to date of the system in operating on a self-sustaining basis and improving the efficiency of tracking waste shipments and transmitting waste shipment data. The results of our analyses follow.

#### ***Fees Collected and Disbursed***

The EPA began collecting e-Manifest user fees in August 2018. As the e-Manifest Act requires, the EPA deposited fee collections into the e-Manifest Fund. The EPA received approximately \$25.5 million in fee collections in FY 2021. The Consolidated Appropriations Act, 2021, requires the EPA to reduce by the amount of offsetting collections the sum Congress appropriated for necessary expenses to carry out the e-Manifest system. The Agency reimbursed the U.S. Department of the Treasury \$8 million in FY 2021 from e-Manifest fee collections to cover the amount Congress had previously appropriated.

#### ***Reasonableness of the Fee Structure to Meet Current and Projected Costs***

The EPA established fees for each manifest type (fully electronic, hybrid, data plus image upload, scanned image upload, and mailed paper) based on a fee model that focuses on the marginal labor cost of processing each manifest type. Additionally, the EPA made a management decision to adjust the raw output of this formula to distribute the costs across manifest types. Pursuant to 40 C.F.R. § 264.1313(a), the EPA is required to revise the e-Manifest user fees at two-year intervals by utilizing the applicable fee calculation formula, the most recent program cost, and manifest usage numbers. The EPA is also

required to publish the revised fee schedules through the e-Manifest program website by July 1 of each odd-numbered calendar year. Table 1 describes the fees per manifest that were effective during FY 2021 and FY 2020.

**Table 1: FY 2021 and FY 2020 fees by manifest type**

Manifest type	FY 2021 and FY 2020 fee per manifest
Fully electronic and hybrid	\$8.00
Data plus image upload	14.00
Scanned image upload	20.00
Mailed paper	\$25.00

Source: FY 2021 and FY 2020 fee rates published on the EPA’s website. (EPA OIG table)

Beginning June 30, 2021, the EPA no longer accepted mailed paper manifests.

During our previous audits, we identified a material weakness in the EPA’s internal control over accounts receivable and earned revenue. Attachment 2 provides further details. The misstatements we identified misrepresented the billing data that included the total number of manifests billed during the fiscal year and the related earned revenue. The EPA was working on implementing its corrective actions to address this material weakness, and we identified similar findings in our audit of the FY 2021 financial statements, as detailed in Attachment 1. As a result, we could not rely on the EPA-provided billing data to analyze the reasonableness of the fee structure.

### Level of Use of the System

When the e-Manifest system was launched on June 30, 2018, the EPA estimated that it would receive approximately 3 million manifests annually. According to the EPA, actual data on manifest usage were unavailable because, prior to the launch of the e-Manifest system, there was no national collection of manifests. The Agency relied on manifest usage estimates from industry and other data sources. For FY 2021, the EPA estimated receiving approximately 2 million manifests.

As mentioned in the previous subsection and detailed in Attachment 2, we identified a material weakness in the EPA’s internal control over accounts receivable and earned revenue during our previous audits, the corrective actions for which the Agency had not completed before this audit. We identified similar findings in our audit of the FY 2021 financial statements, as detailed in Attachment 1. As a result, we could not rely on the EPA-provided billing data, including the total number of manifests billed during the fiscal year, to analyze the level of use of the e-Manifest system.

### Success to Date of the System in Operating on a Self-Sustaining Basis and Improving the Efficiency of Tracking Waste Shipments and Transmitting Waste Shipment Data

The e-Manifest Act requires the EPA to recover the full cost of providing system-related services. Based on FY 2021 financial data, the EPA incurred \$17.5 million in program costs. Because of a material weakness identified in our previous audits and a similar finding in our audit of the FY 2021 financial statements, as discussed in the previous two subsections, we could not rely on the EPA’s billing data to determine the success of the e-Manifest system in operating on a self-sustaining basis and improving the efficiency of tracking waste shipments and transmitting waste shipment data. In particular, the misstatements we identified misrepresented billing data that included the total revenue earned during the fiscal year, which is necessary for such analysis.

## Management's Discussion and Analysis

Our audit was conducted for the purpose of forming an opinion on the e-Manifest financial statements as a whole. The Management's Discussion and Analysis section is presented for the purpose of providing additional analysis and is not a required part of the basic financial statements. Such information is management's responsibility. We obtained information from the fund's management about its methods for preparing the Management's Discussion and Analysis section, and we reviewed this information for consistency with the financial statements.

Our audit was not designed to express an opinion and, accordingly, we do not express an opinion on the Management's Discussion and Analysis section.

We did not identify any material inconsistencies between the information presented in the fund's financial statements and the information presented in the Management's Discussion and Analysis section.

## Prior Audit Coverage

During our prior year e-Manifest Fund financial statement audit—Report No. [22-F-0015](#), *EPA's Fiscal Years 2020 and 2019 Hazardous Waste Electronic Manifest System Fund Financial Statements*, issued December 29, 2021—we reported two material weaknesses:

- The EPA continued to make errors in its financial statement preparation process.
- The EPA did not have adequate internal control over accounts receivable and earned revenue.

We also reported a significant deficiency related to the EPA misstating its appropriated balances.

The Agency agreed with our material weakness findings and related recommendations. On June 22, 2022, the EPA certified completion of all corrective actions related to the errors made in the financial statement preparation process and to the improper recording of receivables and earned revenue.

During our audit of the FY 2021 financial statements, we noted that the EPA had made progress in the preparation and review of its financial statements and adjustments and in the recording of receivables and earned revenue. Although the EPA has made improvements in these areas, we identified material misstatements that impacted the FY 2021 financial statements as detailed in Attachment 1.

The Agency also agreed with our significant deficiency finding and two related recommendations issued in Report No. 22-F-0015. The Agency completed corrective actions in response to one recommendation prior to that report's issuance. On August 15, 2022, the EPA certified completion of all corrective actions in response to the remaining recommendation.

Attachment 2 provides further details on our prior audit report recommendations. We will evaluate the effectiveness of the EPA's corrective actions during our audit of the FY 2022 e-Manifest financial statements.

*Damon M. Jackson*

Damon Jackson  
Certified Public Accountant  
Director, Financial Directorate  
Office of Audit  
Office of Inspector General  
U.S. Environmental Protection Agency  
August 25, 2022

# ***Material Weakness***

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# 1 – The EPA Needs to Continue Improving Its Internal Control Over Accounts Receivable and Earned Revenue

We found that the EPA made material errors of approximately \$3.5 million in its accounts receivable and earned revenue financial statement line items by:

- Recording September 2020 billings totaling approximately \$1.912 million in FY 2021 that should have been recorded in FY 2020.
- Including prior months' outstanding amounts and unpaid late fees of approximately \$1.47 million in the billings from October 2020 to February 2021, overstating FY 2021 accounts receivable and revenue.
- Duplicating delinquent accounts receivable and related earned revenue totaling \$118,055.

These misstatements occurred due to inadequate internal control, such as a lack of integrated billing and financial systems, reliance on manual workarounds, and ineffective management review and analysis. The e-Manifest billing system was not integrated with the EPA's financial system used for financial reporting. Federal standards require a system of internal control to ensure accurate recording of transactions and events. Without adequate controls over recording billings in Compass Financials, EPA's financial system, the EPA misstated its accounts receivable and earned revenue.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* defines the five components of internal control in government. Per the standard for control activities, "management designs control activities so that all transactions are completely and accurately recorded." It also states:

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Statement of Federal Financial Accounting Standards 1, *Accounting for Selected Assets and Liabilities*, states:

A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

EPA's Resource Management Directive System 2540-09-P2, *Non-Federal Delinquent Debt*, requires the Office of the Chief Financial Officer, or OCFO, to record debt and accounts receivable transactions into the EPA's financial management system of record no later than three business days after receipt of the document establishing the debt or accounts receivable.

The e-Manifest system was not integrated with Compass Financials. To facilitate recording e-Manifest billings in its Compass Financials, the EPA has implemented a manual journal-entry process. The Office of Land and Emergency Management, or OLEM, compiles monthly aggregate billings on a manually prepared spreadsheet to summarize monthly billings. OLEM then provides the billing summary to the OCFO to post to Compass Financials through monthly standard vouchers. OLEM bills those facilities with an active account status based on total manifests processed through the e-Manifest system during the month prior to the billings. Such bills include current fees owed; outstanding fees; and late fees, if any. OLEM refers any delinquent invoices to the OCFO for debt collection efforts when the EPA has not received payment within 120 days from the invoice date. The OCFO establishes individual accounts receivable for each facility to track the debts throughout the collection procedures. The OCFO records these individual accounts receivable for the delinquent amounts in addition to the monthly standard vouchers described above.

During our audit work, we found the following material errors:

- **Improper recording.** The EPA improperly recorded approximately \$1.912 million in FY 2021 that should have been recorded in FY 2020. The EPA did not detect the misstatement during its review process.
- **Compounded billing.** The EPA compounded its monthly billings from October 2020 to February 2021 by approximately \$1.47 million. The EPA recorded entire invoice amounts, which included prior months' outstanding fees, instead of recording only current fees owed. OLEM provided billing summary spreadsheets that included current and prior months' outstanding fees to the OCFO for recording the accounts receivable journal entries. It did not reconcile the billings to determine the appropriate amount to record in its accounts receivable and earned revenue. Recording the entire invoice amount on the bills each month overstated FY 2021 accounts receivable and earned revenue. Based on our recommendations during previous audits, starting March 2021, OLEM began providing the billing summary spreadsheet in a different format and informed the OCFO to record only current fees.
- **Duplicated accounts.** The EPA duplicated accounts receivable and earned revenue totaling \$118,055. From FY 2019 through FY 2021, the EPA recorded individual accounts receivable for each facility with delinquent invoices. However, the EPA had already recorded the related accounts receivable and earned revenue through its monthly standard vouchers before the invoices were categorized as delinquent. As a result, the EPA double-counted the delinquent amounts. The EPA did not analyze the impact that the recording of e-Manifest delinquent receivables could have on the accounts receivable and earned revenue account balances. Furthermore, the EPA did not detect the overstatement or adjust its accounts receivable and earned revenue to ensure that the balances were accurate.

Without adequate controls over recording (1) billings in the appropriate fiscal year, (2) correct billing amounts from October 2020 to February 2021, and (3) e-Manifest delinquent amounts, the EPA misstated its accounts receivable and earned revenue. Inadequate internal control over financial reporting could decrease reliability in the financial statements.

We reported the findings about accounts receivable recorded in the inappropriate fiscal year and inaccurate billings in [OIG Report No. 22-F-0015](#), *EPA's Fiscal Years 2020 and 2019 Hazardous Waste Electronic Manifest System Fund Financial Statements*, dated December 29, 2021, and [OIG Report No. 21-F-0045](#), *EPA's Fiscal Years 2019 and 2018 Hazardous Waste Electronic Manifest System Fund*

*Financial Statements*, dated January 5, 2021. In OIG Report No. [21-F-0045](#), we recommended that the chief financial officer record accounts receivable and earned revenue in the appropriate fiscal year. We also recommended that the chief financial officer, in coordination with the assistant administrator for Land and Emergency Management, analyze the billings so that the accounts receivable and earned revenue were recorded accurately. The EPA concurred with our recommendations and on June 22, 2022, certified completion of all corrective actions. Part of the EPA's corrective action plan included an integration of the e-Manifest billing system and Compass Financials. The EPA indicated that the integration of these systems was completed in April 2022. We will evaluate the effectiveness of the Agency's corrective actions during our audit of the FY 2022 financial statements.

## **Recommendations**

We recommend that the chief financial officer:

1. Correct the accounts receivable and earned revenue balances.

We recommend that the chief financial officer, in coordination with the assistant administrator for Land and Emergency Management:

2. Assess the EPA's procedures for recording Hazardous Waste Electronic Manifest System Fund delinquent amounts and implement controls to prevent accounts receivable and earned revenue duplication.

## **Agency Response and OIG Assessment**

The Agency concurred with our recommendations and completed all corrective actions. In response to Recommendation 1, the EPA made corrections to the accounts receivable and earned revenue balances. However, we found that as part of the corrections, the EPA restated the FY 2020 accounts receivable and earned revenue balances and made a material error that overstated the balances by approximately \$1.912 million. Also, after further analysis of the restatement, the EPA identified an error that had understated the balances by approximately \$1.338 million. Consequently, accounts receivable and earned revenue are overstated by approximately \$574,000. As a result, Recommendation 1 is unresolved with resolution efforts in progress. We will evaluate the effectiveness of the EPA's corrective actions in response to Recommendation 2 during our audit of the FY 2022 financial statements.

The Agency's response to our draft report is in Appendix B.



## ***Status of Prior Audit Report Recommendations***

We identified material weaknesses and a significant deficiency in our financial statement audits that remain outstanding as described in Tables 2-1 and 2-2.

**Table 2-1: Prior recommendations related to material weaknesses resolved with corrective actions reported as completed**

<p><b>The EPA Made Errors in Its Financial Statement Preparation Process</b></p> <p>During our FY 2019 audit, we found multiple instances in which the EPA had major misstatements of its financial transactions and financial statements.</p> <p>We recommended that the chief financial officer (1) strengthen and improve the preparation and management review of the financial statements so that errors and misstatements are detected and corrected and (2) analyze adjustments and corrections to the financial statements so that such adjustments are appropriate, accurate, and properly supported by documentation. The EPA agreed with our findings and recommendations and on June 22, 2022, certified completion of all corrective actions.</p> <p>We continued to find material errors in the EPA's financial statement preparation process during our FY 2020 audit. Because the EPA was working on completing its corrective actions, we did not issue additional recommendations during the FY 2020 audit. During our FY 2021 audit, we noted that the EPA has made progress in the preparation and review of its financial statements. However, we identified material misstatements that impacted the financial statements as detailed in Attachment 1.</p>
<p><b>The EPA Improperly Recorded Accounts Receivable and Earned Revenue</b></p> <p>During our FY 2019 audit, we found that the Agency made two material errors in recording accounts receivable and earned revenue. The Agency improperly recorded \$1.187 million in billings during FY 2019. We also found that the Agency did not record \$1.338 million of September 2019 billings until October 2019. The Agency recorded accounts receivable and earned revenue without analyzing the e-Manifest bills, erroneously compounding its monthly billings. Also, the Agency believed that the September 2019 billings represented FY 2020 accounts receivable and earned revenue. While the two errors offset to only approximately \$151,000, the compounding effect of the errors, if left undetected, could materially distort e-Manifest accounts receivable and earned revenue, as well as decrease confidence in the quality of the fund's financial statements.</p> <p>We recommended that the chief financial officer record accounts receivable and earned revenue in the appropriate fiscal year. We also recommended that the chief financial officer, in coordination with the assistant administrator for Land and Emergency Management, analyze e-Manifest billings so that accounts receivable and earned revenue are recorded accurately. The EPA agreed with our findings and recommendations and on June 22, 2022, certified completion of all corrective actions.</p> <p>We continued to find material errors in the EPA's recording of accounts receivable and earned revenue during our FY 2020 audit. Because the EPA was working on completing its corrective actions, we did not issue additional recommendations during the FY 2020 audit. Although we noted that the EPA has made progress, we continued to find material errors in the EPA's recording of accounts receivable and earned revenue during our FY 2021 audit. Attachment 1 contains further details on our findings. We will evaluate the effectiveness of the EPA's corrective actions in our audit of the FY 2022 financial statements.</p>

Source: OIG analysis of prior year recommendations, findings, and Agency corrective actions. (EPA OIG table)

**Table 2-2: Prior recommendation related to significant deficiency resolved with corrective action reported as completed**

**The EPA Misstated Its Appropriated Balances**

During our FY 2020 audit, we found that the Agency recorded expenses totaling \$390,842 that misstated its appropriations balance. The EPA attempted to correct these expenses by recording an adjustment that created an abnormal balance—a negative balance that we would not expect to be negative—in the Appropriations Used financial statement line item.

We recommended that the chief financial officer, in coordination with the assistant administrator for Land and Emergency Management, enhance internal controls over accounting for expenses recorded under fund codes so that appropriation balances are accurate. Specifically, the EPA needs to implement preventative controls, so fund expenses are properly coded when processed, and implement detective controls at the fund level to ensure fee-based expenses and appropriations-based expenses are properly segregated, reconciled, and recorded in the general ledger.

The EPA agreed with our findings and recommendations. On August 15, 2022, the EPA certified completion of all corrective actions. We will evaluate the effectiveness of the EPA's corrective actions during our audit of the FY 2022 financial statements.

Source: OIG analysis of prior year recommendations, findings, and Agency corrective actions. (EPA OIG table)

## *Status of Recommendations and Potential Monetary Benefits*

RECOMMENDATIONS						
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	10	Correct the accounts receivable and earned revenue balances.	U	Chief Financial Officer		\$3,500
2	10	In coordination with the assistant administrator for Land and Emergency Management, assess the EPA's procedures for recording Hazardous Waste Electronic Manifest System Fund delinquent amounts and implement controls to prevent accounts receivable and earned revenue duplication.	C	Chief Financial Officer	5/31/22	

<sup>1</sup> C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

***For the Fiscal Years Ending September 30, 2021  
and 2020 Hazardous Waste Electronic  
Manifest System Fund (e-Manifest) Financial  
Statements (With Restatements)***

**For the Fiscal Years Ending September 30, 2021 and 2020  
Hazardous Waste Electronic Manifest System Fund (e-Manifest)  
Financial Statements (With Restatements)**



*Produced by the U.S. Environmental Protection Agency  
Office of the Chief Financial Officer  
Office of the Controller*

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## Management's Discussion and Analysis

### Introduction

The Hazardous Waste Electronic Manifest System Fund (e-Manifest) was established as a result of the Hazardous Waste Manifest Establishment Act (Public Law 112-195, October 5, 2012). The e-Manifest Act requires the United States Environmental Protection Agency ('EPA' or 'the Agency') to establish and own a hazardous waste electronic manifest program information technology ('IT') system that will enable electronic manifesting as a means to augment or replace the use of paper manifests for tracking hazardous waste shipments. The e-Manifest Act requires that the e-Manifest system:

1. Meets the needs of the user community.
2. Attracts sufficient user participation and service revenues to ensure the viability of the system (the e-Manifest Act authorizes EPA to collect reasonable user fees).
3. Decreases the administrative burden on the user community.

### Current EPA RCRA Manifest Program

The EPA Office of Land and Emergency Management (OLEM) provides policy, guidance and direction for the Agency's emergency response and waste programs. The Office of Resource Conservation and Recovery (ORCR) within OLEM works to protect human health and the environment by ensuring responsible national management of hazardous and nonhazardous waste. Working with delegated state waste programs, ORCR implements the 1976 Resource Conservation and Recovery Act (RCRA), and ensures that the resource conservation, recovery and waste management goals of RCRA are met. All states with the exception of Iowa and Alaska have been delegated RCRA authority, meaning that states implement many if not all aspects of RCRA policy.

The manifest program as implemented by EPA and the states ensures that hazardous waste shipments are consistently tracked, and that hazardous wastes in fact arrive at permitted waste management facilities. The manifest program is based on both RCRA and Department of Transportation (DOT) hazardous materials law (The Hazardous Materials Transportation Act (HMTA)). These laws together require uniformity in the content and use of the hazardous waste manifest form.

Launched at the end of June of 2018, e-Manifest now receives about 5,000 hazardous waste manifests a day and generates more than \$1 million in fees each month to support the system. EPA estimates that e-Manifest will save state and industry users, on average, \$50 million annually, once electronic manifests are widely adopted. In FY 2021, EPA received ~1.8 million manifests.

### e-Manifest System Planning Activities

Discussion of the e-Manifest system itself has taken place over many years; beginning back in the 1990's when the concept of an electronic manifest system was first taking shape. Further activities continued over the years to envision the e-Manifest system through various stakeholder discussions and pilots. For more information on EPA's efforts prior to the passage of the e-Manifest Act in 2012, please visit <http://www.epa.gov/osw/hazard/transportation/manifest/e-man-pastmeetings.htm>.

In early calendar year (CY) 2013, EPA conducted various stakeholder requirements meetings to reengage with the user community. The purpose of these meetings was to build on past e-Manifest work to determine high level system functional requirements. Following this, a system alternatives analysis was conducted to look at various system implementation approaches, all assuming a full electronic mobile workflow. The alternatives analysis recommended that EPA leverage cloud hosting for initial system development and system launch, and for long term operations and maintenance (O&M), consider re-negotiating the cloud contract model or potentially migrate to an on-premise hosting model to keep costs down.



Also as a part of the planning work, a system Concept of Operations (CONOPS) was completed that, at a high level, outlines both what the current manifest process entails for highway and rail transporters as well as what the future system may look like. The CONOPS document provides a process and conceptual model for how data will flow from stakeholder to stakeholder and through the system during the manifest workflow.

The technical architecture for e-Manifest was completed in FY 2015. This architecture includes the specific components and data flows as currently defined to illustrate a technical solution for the e-Manifest system. In doing so, it defines the specific boundaries of the e-Manifest system and how the different parts of the system work together to provide the required services based on current requirements. For example, areas such as system Cross-Media Electronic Reporting Regulation (CROMERR) integration, paper manifest processing and manifest data quality assurance (QA) were analyzed as a part of this effort.

As a part of this technical architecture planning work, EPA conducted targeted meetings with states and industry separately in order to further flesh out current processes as well as expectations for the above areas. The meetings were more detailed than previous discussions and provided critical information to inform system requirements.

The technical architecture work completed in FY 2015 serves as baseline for the current manifest program and provides very strong foundation for future system buildout. It meets user needs and provides flexibility for future iterations of the system.

Building on FY 2015, in FY 2016 the e-Manifest program realized significant progress while leveraging existing ORCR software applications. EPA initially conceived e-Manifest as a standalone system and allowed the system architects to consider a broad range of approaches without inherent constraints from an existing system design. However, as designs matured, it was recognized that the e-Manifest technical solution aligned closely with RCRAInfo in terms of end user functionality, data integration, and required technical infrastructure. These factors led to the decision to implement e-Manifest as a unique module of RCRAInfo.

Many of the new capabilities of e-Manifest can be implemented in RCRAInfo using the existing modular architecture present in RCRAInfo. In addition, some of the more innovative design aspects of e-Manifest could also be incorporated into RCRAInfo, improving both systems.

Furthermore, by leveraging e-Manifest and RCRAInfo modules, opportunities for reuse of existing technology investments were present, reducing the burden of e-Manifest implementation.

These factors led to the decision to develop e-Manifest and RCRAInfo modules as distinct, but interrelated entities which will meet the current and future needs of Industry, Government and the Public.

#### **Acquisition Strategy Change**

The EPA's system development work is focused on ensuring user needs are met from day one of national system deployment. To accomplish this, the agency is conducting user-centered design and development, and is utilizing agile software development methodologies. This approach embodies continuous improvement through pilots and testing, using iterative processes, and continued regular engagement with users and stakeholders throughout the process to provide on-going opportunities for input.

Instead of locking in on one source, the new e-Manifest Program services contract (multi-vendor indefinite delivery/indefinite quantity (IDIQ)) will utilize a variety of vehicles for the following segments of the system:

- Project management including integration services.
- Paper manifest processing.
- User help desk and user training.
- Quality assurance for manifest data amongst industry, states, and the EPA.
- Services to calculate, collect, and support reporting of user fees for paper and electronic manifest processing.
- Support for stakeholder communication, including outreach and meeting support.

Research has shown that using this type of lean start-up methodology, with agile techniques, lowers the cost of system development by addressing uncertainties promptly, and by ensuring that the work being completed brings real value to users.

The agency will continue to work closely with users, add more functionality in an incremental manner and provide continuous improvement for the lifetime of the system. By taking this iterative approach the EPA will refine remaining uncertainties from its architecture planning work in the most cost-effective manner.

#### **e-Manifest System Development**

As a follow-on to the completed technical and conceptual architecture, e-Manifest embarked on a pilot to create initial system functionality with the General Service Administration's (GSA) 18F consulting shop. 18F provided the IT expertise to create the foundation of e-Manifest and also provided agile project management support. Specifically, 18F:

- Introduced user-centered design/development, which engages industry/state users in the early phases of development.
- Created the development platform and hosting environment for e-Manifest.
- Leveraged open source technologies (Trello, GitHub, biweekly online meetings showcasing recent system updates) to allow users and other stakeholders to follow and participate in system development.

In September 2015, as part of the agile development focus, EPA, in partnership with 18F, completed an initial system demonstration. This focused on a key aspect of the system: the transaction at the end of the chain-of-custody when the hazardous waste arrives at the designated waste management facility, and that facility signs the electronic manifest to verify that all the hazardous waste types and quantities were received. Getting the system to properly electronically execute this all-important manifest transaction was a critical first step. EPA worked with several industry users to complete this initial system functionality.

Although not as straightforward as standard government IT development projects, this course correction from traditional lifecycle system development ("waterfall") methodology to agile will ultimately deliver a better system in a quicker, more value-added method going forward.

Starting with this initial system, EPA has been adding more functionality in an incremental manner. Research has shown that using this type of lean start-up methodology with agile techniques lowers the cost of current and future system development by addressing uncertainties sooner rather than later. Therefore, EPA has been conducting user-centered design and development, starting with the small-scale demonstration phase. Open source code and project engages industry and state users in the early phases of development, creation of development platform, and hosting environment. EPA will expand engagement efforts to all users over time (e.g., states with no systems, large and small generators, etc.).

The agile software development methodology embodies continuous improvement through iterative development and delivers software in sprints. Agile embraces change, continuous and regular feedback and improvement, value-driven delivery, full-team collaboration, and learning through discovery. Agile techniques cannot eliminate the challenges intrinsic to high-discovery software development, but by focusing on continuous delivery of incremental value and shorter feedback cycles, they expose challenges as early as possible to allow for immediate correction.

EPA has adopted the lean start-up product development strategies with agile, user-centered software design/development methodologies and has implemented the following:

- Conducting two-week sprint intervals.
- Using modular development practices, relying heavily on available off-the-shelf software modules, by building individual working pieces of the system and integrating them into the whole.
- Addressing uncertainties that arose during the initial architecture planning work, and engaging early with users and stakeholders.
- Bringing down the cost of current and future development by addressing risk upfront and ensuring that the work being completed brings actual value to stakeholders and users.
- Continuously improving, using iterative processes, and engaging regularly with users and stakeholders throughout the life of the program.

EPA has made every effort to involve industry users in the development process to build the strongest possible system. During the system development phase, the e-Manifest team is working alongside industry, states, and other stakeholders, focusing on issues raised and addressing the issues, including the following:

- How the national e-Manifest system will connect with state and industry systems.
- User testing of the web application.
- Addressing state data access needs.

The e-Manifest team communicates regularly with states, industry, and related stakeholders about ongoing developments (i.e., continued release and testing of system iterations), updates on e-Manifest related rules (i.e., user fees for the e-Manifest system and amendments to manifest regulations), and the national launch of the e-Manifest system.

Our primary methods of communication include the following:

- The e-Manifest website
- User testing
- Conferences
- Site visits
- Regional implementation working groups
- Listserv (general interest and development-focused)
- Public webinars
- Blog posts
- GitHub – code repository and project management
- FACA Meetings
- Meetings with stakeholders

e-Manifest will follow this path of milestones to system launch and beyond in 2021:

- September 2015– initial system functionality completed
- Spring 2016 – minimal viable product development
- Spring through fall 2016 – early full-scale development
- Fall 2016 through winter 2018 – rolling iterative releases/testing of system
- Winter 2018 – finalize user fee rule
- June 30, 2018 System Launch
- Continued development, enhancements and user outreach
- Summer 2019 – update user fees
- Winter 2020 – deployed updated electronic signature approach
- Summer 2021 – update user fees
- Fall 2021 – engage stakeholders on enhancing electronic adoption

Principal Financial Statements

U.S. Environmental Protection Agency  
 Hazardous Waste Electronic Manifest System Fund  
 Balance Sheet  
 As of September 30, 2021 and 2020 (Restated)  
 (Dollars in Thousands)

	<b>2021</b>	<b>Restated 2020</b>
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 19,312	\$ 10,790
Advances and Prepayments	1	11
Total Intragovernmental	19,313	10,801
Accounts Receivable, Net (Restated) (Notes 3, 16)	4,785	6,683
General Property, Plant and Equipment, Net (Note 5)	2,243	3,624
<b>Total Assets</b>	<b>\$ 26,341</b>	<b>\$ 21,108</b>
 <b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable (Note 4)	\$ 97	\$ 57
Other (Note 7)	-	9
Total Intragovernmental	97	66
With the Public:		
Accounts Payable (Note 4)	760	1,229
Federal Employee Benefits Payable (Note 6)	143	118
Other (Note 7)	1,392	1,919
<b>Total Liabilities</b>	<b>\$ 2,392</b>	<b>\$ 3,332</b>
 <b>NET POSITION</b>		
Unexpended Appropriations - Funds from Dedicated Collections	\$ 24	\$ 94
Cumulative Results of Operations - Funds from Dedicated Collections	23,925	17,682
Total Net Position	23,949	17,776
<b>Total Liabilities and Net Position</b>	<b>\$ 26,341</b>	<b>\$ 21,108</b>

The accompanying notes are an integral part of these financial statements  
 EPA's FY 2021 e-Manifest Financial Statements

**U.S. Environmental Protection Agency**  
**Hazardous Waste Electronic Manifest System Fund**  
**Statement of Net Cost**  
**For the Fiscal Years Ended September 30, 2021 and 2020 (Restated)**  
**(Dollars in Thousands)**

	<b>2021</b>	<b>Restated 2020</b>
<b>COSTS</b>		
Gross Costs	\$ 17,603	\$ 25,818
Expenses from Other Appropriations (Note 12)	3,162	4,379
Less: Earned Revenue (Restated, Note 16)	23,589	29,896
<b>NET COST OF OPERATIONS (Notes 14 and 15)</b>	<b>\$ (2,824)</b>	<b>\$ 301</b>

The accompanying notes are an integral part of these financial statements  
 EPA's FY 2021 e-Manifest Financial Statements

7.

U.S. Environmental Protection Agency  
Hazardous Waste Electronic Manifest System Fund  
Statement of Changes in Net Position  
For the Fiscal Years Ended September 30, 2021 and 2020 (Restated)  
(Dollars in Thousands)

	<u>2021</u>	<u>Restated 2020</u>
<b>Cumulative Results of Operations:</b>		
Net Position - Beginning of Period	17,682	13,292
Correction of errors (Note 16)	-	(6)
<b>Net Position - Beginning of Period, as Adjusted</b>	<b>\$ 17,682</b>	<b>\$ 13,286</b>
<b>Budgetary Financing Sources:</b>		
Appropriations Used	-	92
Transfers In/Out	-	23
Income from Other Appropriations (Note 12)	<u>3,162</u>	<u>4,379</u>
<b>Total Budgetary Financing Sources</b>	<b>3,162</b>	<b>4,494</b>
<b>Other Financing Sources (Non-Exchange)</b>		
Imputed Financing Sources	<u>257</u>	<u>203</u>
<b>Total Other Financing Sources</b>	<b>257</b>	<b>203</b>
Net Cost of Operations (Restated) (Note 16)	\$ 2,824	\$ (301)
Net Change	<u>6,243</u>	<u>4,396</u>
<b>Cumulative Results of Operations</b>	<b>\$ <u>23,925</u></b>	<b>\$ <u>17,682</u></b>
<b>Unexpended Appropriations:</b>		
<b>Beginning Balance</b>	<b>\$ 94</b>	<b>\$ 186</b>
<b>Budgetary Financing Sources:</b>		
Other Adjustments (Note 11)	(70)	-
Appropriations Used	<u>-</u>	<u>(92)</u>
<b>Total Budgetary Financing Sources</b>	<b>(70)</b>	<b>(92)</b>
<b>Total Unexpended Appropriations</b>	<b><u>24</u></b>	<b><u>94</u></b>
<b>TOTAL NET POSITION</b>	<b>\$ <u>23,949</u></b>	<b>\$ <u>17,776</u></b>

The accompanying notes are an integral part of these financial statements  
EPA's FY 2021 e-Manifest Financial Statements



U.S. Environmental Protection Agency  
Hazardous Waste Electronic Manifest System Fund  
Statement of Budgetary Resources  
For the Fiscal Years Ended September 30, 2021 and 2020  
(Dollars in Thousands)

	2021	2020
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance From Prior Year Budget Authority, Net (discretionary and mandatory) (Note 8)	\$ 6,166	\$ 2,104
Spending Authority from Offsetting Collections (discretionary and mandatory)	<u>25,462</u>	<u>24,551</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 31,628</u></b>	<b><u>\$ 26,655</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
New Obligations and Upward adjustments (total)	\$ 21,652	\$ 20,465
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	9,765	5,909
Expired Unobligated Balance, End of Year	<u>211</u>	<u>281</u>
Unobligated Balance, End of Year (total): (Note 9)	<u>9,976</u>	<u>6,190</u>
<b>Total Status of Budgetary Resources</b>	<b><u>\$ 31,628</u></b>	<b><u>\$ 26,655</u></b>
<b>OUTLAYS, NET</b>		
Outlays, Net (total) (discretionary and mandatory)	<u>\$ (8,593)</u>	<u>\$ (2,761)</u>
Agency Outlays, Net (discretionary and mandatory)	<u>\$ (8,593)</u>	<u>\$ (2,761)</u>

The accompanying notes are an integral part of these financial statements  
EPA's FY 2021 e-Manifest Financial Statements

U.S. Environmental Protection Agency  
Hazardous Waste Electronic Manifest System Fund  
Notes to the Financial Statements  
Fiscal Years Ended September 30, 2021 and September 30, 2020  
(Dollars in Thousands)

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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 Hazardous Waste Electronic Manifest System Fund (e-Manifest) was authorized by the establishment of the Hazardous Waste Electronic Manifest System Act. The act mandates that the Agency, within three years, establish a hazardous waste electronic manifest system that can be accessed by any user. The act authorized the administrator to impose user fees to pay the costs incurred in developing, operating, maintaining, and upgrading the system, including any costs incurred in collecting and processing data from paper manifests submitted to the system after the date on which the system enters operations.

The e-Manifest fund charges some administrative costs directly to the fund, and charges the remainder of the indirect administrative costs to Agency-wide appropriations. These amounts are included as "Income from Other Appropriations" on the Statement of Changes in Net Position and as "Expenses from Other Appropriations" on the Statement of Net Cost.

**B. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the EPA for the e-Manifest Fund in accordance with the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the EPA in accordance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the EPA pursuant to the OMB directives that are used to monitor and control the EPA's use of budgetary resources.

**C. Budgets and Budgetary Accounting**

For fiscal year 2021, the e-Manifest fund was funded through offsetting collections. For fiscal year 2020 the e-Manifest fund was funded through both appropriations and offsetting collections.

**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.

U.S. Environmental Protection Agency  
Hazardous Waste Electronic Manifest System Fund  
Notes to the Financial Statements  
Fiscal Years Ended September 30, 2021 and September 30, 2020  
(Dollars in Thousands)

**E. Revenues and Other Financing Sources**

For fiscal years 2021 and 2020, EPA received funding from fees collected and recognized revenues from collections to the extent that expenses were incurred during the fiscal year.

**F. Funds with the Treasury**

The e-Manifest fund deposits receipts and processes disbursements through its operating account maintained at the U.S. Department of Treasury.

**G. General Property, Plant, and Equipment**

General property, plant and equipment for e-Manifest consists of software in development. Internal use software includes purchased commercial off-the-shelf software, contractor developed software and software that was internally developed by Agency employees. In fiscal year 2017, EPA reviewed its capitalization threshold levels for PP&E. The Agency performed an analysis of the values of software assets and increased capitalization threshold from \$250 thousand to \$5 million to better align with major software acquisition investments. The \$5 million threshold will be 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. The Hazardous Waste Electronic Manifest System was placed into production August 23, 2018.

**H. 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.

**I. 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.

U.S. Environmental Protection Agency  
Hazardous Waste Electronic Manifest System Fund  
Notes to the Financial Statements  
Fiscal Years Ended September 30, 2021 and September 30, 2020  
(Dollars in Thousands)

**J. 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.

**K. 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.

**L. 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 20, 2021. As a result, the form and content of the Balance Sheet has changed to conform with OMB Circular No. A-136.

U.S. Environmental Protection Agency  
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**Note 2. Fund Balance With Treasury (FBWT)**

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

	2021			2020		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
<b>Revolving Funds:</b>						
E-Manifest	\$ 19,312	\$ -	\$ 19,312	\$ 10,790	\$ -	\$ 10,790
<b>Total</b>	<b>\$ 19,312</b>	<b>\$ -</b>	<b>\$ 19,312</b>	<b>\$ 10,790</b>	<b>\$ -</b>	<b>\$ 10,790</b>

**Status of Fund Balances:**

**Unobligated Amounts in Fund Balance:**

	2021	2020
Available for Obligation	\$ 9,765	\$ 6,452
Unavailable for Obligation	211	-
Obligated Balance not yet Disbursed	9,336	4,338
<b>Total</b>	<b>\$ 19,312</b>	<b>\$ 10,790</b>

**Note 3. Accounts Receivable, Net (Restated)**

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

	2021	(Restated) 2020
<b>Non-Federal:</b>		
Accounts & Interest Receivable	\$ 4,794	\$ 6,687
Less: Allowance for Uncollectible	(9)	(4)
<b>Total</b>	<b>\$ 4,785</b>	<b>\$ 6,683</b>

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.

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**Note 4. Accounts Payable**

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

	<b>2021</b>	<b>2020</b>
<b>Intragovernmental:</b>		
Accrued Liabilities	\$ <u>97</u>	\$ <u>57</u>
Total	\$ <u>97</u>	\$ <u>57</u>
	<b>2021</b>	<b>2020</b>
<b>Non-Federal:</b>		
Accounts Payable	\$ <u>760</u>	\$ <u>1,229</u>
Total	\$ <u>760</u>	\$ <u>1,229</u>

**Note 5. General Property, Plant and Equipment, Net**

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

	<b>2021</b>						
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	\$ -	\$ 6,907	\$ -	\$ -	\$ -	\$ -	\$ 6,907
Balance, End of Year	\$ -	\$ 6,907	\$ -	\$ -	\$ -	\$ -	\$ 6,907

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

	<b>2021</b>						
	EPA- Held Equipment	Software (production)	Software (development)	Contractor Held Equipment	Land and Buildings	Capital Leases	Total
Balance, Beginning of Year	\$ -	\$ 3,283	\$ -	\$ -	\$ -	\$ -	\$ 3,283
Depreciation Expense	-	1,381	-	-	-	-	1,381
Balance, End of Year	\$ -	\$ 4,664	\$ -	\$ -	\$ -	\$ -	\$ 4,664

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

	<b>2021</b>						
	<u>EPA- Held Equipment</u>	<u>Software (production)</u>	<u>Software (development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, End of Year, Net	\$ -	\$ 2,243	\$ -	\$ -	\$ -	\$ -	\$ 2,243

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

	<b>2020</b>						
	<u>EPA- Held Equipment</u>	<u>Software (production)</u>	<u>Software (development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, Beginning of Year	\$ -	\$ 6,907	\$ -	\$ -	\$ -	\$ -	\$ 6,907
Balance, End of Year	\$ -	\$ 6,907	\$ -	\$ -	\$ -	\$ -	\$ 6,907

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

	<b>2020</b>						
	<u>EPA- Held Equipment</u>	<u>Software (production)</u>	<u>Software (development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, Beginning of Year	\$ -	\$ 1,899	\$ -	\$ -	\$ -	\$ -	\$ 1,899
Depreciation Expense	-	1,384	-	-	-	-	1,384
Balance, End of Year	\$ -	\$ 3,283	\$ -	\$ -	\$ -	\$ -	\$ 3,283



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

	<b>2020</b>						
	<u>EPA- Held Equipment</u>	<u>Software (production)</u>	<u>Software (development)</u>	<u>Contractor Held Equipment</u>	<u>Land and Buildings</u>	<u>Capital Leases</u>	<u>Total</u>
Balance, End of Year, Net	\$ -	\$ 3,624	\$ -	\$ -	\$ -	\$ -	\$ 3,624

**Note 6. Federal Employee Benefits Payable**

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

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
<b>FY 2021 Payroll and Benefits Payable</b>			
Accrued Unfunded Annual Leave	\$ -	\$ 143	\$ 143
<b>Total - Current</b>	<u>\$ -</u>	<u>\$ 143</u>	<u>\$ 143</u>
	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
<b>FY 2020 Payroll and Benefits Payable</b>			
Employer Contributions Payable - Thrift Savings Plan	\$ 2	\$ -	\$ 2
Accrued Unfunded Annual Leave	-	116	116
<b>Total - Current</b>	<u>\$ 2</u>	<u>\$ 116</u>	<u>\$ 118</u>

**Note 7. Other Liabilities**

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

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Accrued Funded Payroll and Benefits	\$ 102	\$ -	\$ 102
Other	1,290	-	1,290
<b>Total Non-Federal</b>	<u>\$ 1,392</u>	<u>\$ -</u>	<u>\$ 1,392</u>

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

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
<b>Current</b>			
Employer Contributions & Payroll Taxes	\$ 9	\$ -	\$ 9
<b>Non-Current</b>			
Total Intragovernmental	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 9</u>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Accrued Funded Payroll and Benefits	\$ 200	\$ -	\$ 200
Other	<u>1,719</u>	<u>-</u>	<u>1,719</u>
Total Non-Federal	<u>\$ 1,919</u>	<u>\$ -</u>	<u>\$ 1,919</u>

**Note 8. Recoveries and Resources Not Available, Statement of Budgetary Resources**

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2021, and 2020:

	<u>2021</u>	<u>2020</u>
Unobligated Balance Brought Forward, Oct 1.	\$ 6,190	\$ 2,026
<b>Adjustments to Budgetary Resources Made During the Current Year</b>		
Downward Adjustments of Prior Year Undelivered Orders	13	78
Cancelled Authority	(70)	-
Other Adjustments	<u>33</u>	<u>-</u>
Total	\$ (24)	\$ 78
<b>Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)</b>	<u>6,166</u>	<u>2,104</u>

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**Note 9. Unobligated Balances Available**

Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, and Expired Unobligated Balances. Unapportioned, unexpired 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Apportioned, Unexpired Accounts	\$ 9,765	\$ 5,909
Expired Unobligated Balance, End of Year	211	281
Total	<u>\$ 9,976</u>	<u>\$ 6,190</u>

**Note 10. Undelivered Orders at the End of the Period**

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

	<u>2021</u>	<u>2020</u>
Intragovernmental:		
Unpaid Undelivered Orders	\$ 1,572	\$ 1,517
Paid Undelivered Orders	1	10
With the Public:		
Unpaid Undelivered Orders	<u>5,516</u>	<u>(42)</u>
Total	<u>\$ 7,089</u>	<u>\$ 1,485</u>

**Note 11. Other Adjustments, Statement of Changes in Net Position**

The Other Adjustments in Budgetary Financing Sources on the Statement of Changes in Net Position consist of cancellation of funds that expired 5 years earlier. These amounts affect Unexpended Appropriations. As of September 30, 2021, the amount of cancelled general authority was \$70 thousand.

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**Note 12. Income and Expenses from Other Appropriations**

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

During FYs 2021 and 2020, the indirect rate was 17.96% and 17.00%, respectively.

As illustrated below there is no impact on e-Manifest's Statement of Changes in Net Position.

	<b>2021</b>	<b>2020</b>
Income from Other Appropriations	\$ 3,162	\$ 4,379
Expenses from Other Appropriations	3,162	4,379
Net Effect	\$ -	\$ -

**Note 13. Exchange Revenues, Statement of Net Cost**

For FYs 2021 and 2020, the exchange revenues reported on the Statement of Net Cost include both Federal and Non-Federal amounts.

**Note 14. Intragovernmental Costs and Exchange Revenue (Restated)**

	<b>2021</b>	<b>(Restated) 2020</b>
<b>Costs:</b>		
Intragovernmental	\$ 2,558	\$ 1,970
With the Public	15,045	23,848
Expenses from Other Appropriations	3,162	4,379
Total Costs	\$ 20,765	\$ 30,197
<b>Revenue:</b>		
With the Public	23,589	29,896
Total Revenue	23,589	29,896
<b>Net Cost of Operations:</b>	\$ (2,824)	\$ 301

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

U.S. Environmental Protection Agency  
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**Note 15. Reconciliation of Net Costs to Net Outlays (Restated)**

**For the Fiscal Year Ended September 30, 2021:**

	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total 2021</u>
NET COST	\$ 5,720	\$ (8,544)	\$ (2,824)
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Property, Plant and Equipment Depreciation	-	(1,381)	(1,381)
Expenses from Other Appropriations	-	(3,162)	(3,162)
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable	-	(1,898)	(1,898)
Other Assets	(10)	-	(10)
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable and Accrued Liabilities	(32)	469	437
Payroll and Benefits Payable	-	(27)	(27)
Other Liabilities	9	525	534
<b>Other Financing Sources:</b>			
Other Imputed Financing	(257)	-	(257)
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>(290)</b>	<b>(5,474)</b>	<b>(5,764)</b>
<b>Other Temporary Timing Differences</b>	<b>-</b>	<b>(5)</b>	<b>(5)</b>
<b>NET OUTLAYS</b>	<b>\$ 5,430</b>	<b>\$ (14,023)</b>	<b>\$ (8,593)</b>

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**For the Fiscal Year Ended September 30, 2020 (Restated):**

	Intra- governmental	With the Public	Total 2020
NET COST (Restated)	\$ 1,971	\$ (1,670)	\$ 301
<b>Components of Net Cost That Are Not Part of Net Outlays:</b>			
Property, Plant and Equipment Depreciation	-	(1,384)	(1,384)
Expenses from Other Appropriations	-	(4,379)	(4,379)
<b>Increase/(Decrease) in Assets:</b>			
Accounts Receivable (Restated)	-	5,496	5,496
Other Assets	(45)	-	(45)
<b>(Increase)/Decrease in Liabilities:</b>			
Accounts Payable and Accrued Liabilities	-	(2,380)	(2,380)
Payroll and Benefits Payable	-	(261)	(261)
Other Liabilities	(7)	-	(7)
<b>Other Financing Sources:</b>			
Transfer Out (In) Without Reimbursement	23	-	23
Other Imputed Financing	203	-	203
<b>Total Components of Net Cost That Are Not Part of Net Outlays</b>	<b>2,145</b>	<b>(4,578)</b>	<b>(2,433)</b>
<b>Other Temporary Timing Differences</b>	<b>-</b>	<b>(328)</b>	<b>(328)</b>
<b>NET OUTLAYS</b>	<b>\$ 2,145</b>	<b>\$ (4,906)</b>	<b>\$ (2,761)</b>

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.

**U.S. Environmental Protection Agency**  
**Hazardous Waste Electronic Manifest System Fund**  
**Notes to the Financial Statements**  
**Fiscal Years Ended September 30, 2021 and September 30, 2020**  
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**Note 16. Restatements**

The FY 2020 financial statements were restated because of errors in accounts receivable and revenue due to timing and duplicate billings. Six thousand dollars of the restated amount relates to duplicate billings in fiscal year 2019. The agency implemented an integrated billing system in fiscal year 2022 which will eliminate the timing and duplicate billing issues.

<b>For the Year Ended September 30, 2020</b>	<b>Previously Reported</b>	<b>Restatement</b>	<b>Restated Amount</b>
Accounts Receivable, Net	\$ 6,167	516	\$ 6,683
Earned Revenue	\$ 29,374	522	\$ 29,896
Net Cost of Operations	\$ (823)	522	\$ (301)
Cumulative Results of Operations	\$ 17,166	516	\$ 17,682

## *Agency Response to Draft Report*



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

September 14, 2022

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### MEMORANDUM

**SUBJECT:** Response to the Office of Inspector General Draft Report, Project No. OA-FY22-0064, *“EPA’s Fiscal Years 2021 and 2020 Hazardous Waste Electronic Manifest System Fund Financial Statements,”* dated August 15, 2022

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

Digitally signed by  
Amin, Faisal  
Date: 2022.09.14  
13:43:41 -04'00'

**TO:** Damon Jackson, Director  
Financial Directorate  
Office of Audit

Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency’s overall position along with its position on the report’s recommendations. This response has been coordinated with and agreed upon by the Office of Land and Emergency Management.

### AGENCY’S OVERALL POSITION

The draft report contains two recommendations for the Office of the Chief Financial Officer. The agency agrees with both recommendations and has completed corrective actions to address them.

### AGENCY RESPONSE TO DRAFT REPORT RECOMMENDATIONS

No.	Recommendation	High-Level Corrective Action(s)	Estimated Completion Date
1	Correct the accounts receivable and earned revenue balances.	Concur. The balances have been corrected and controls in the new e-Manifest system have been designed to prevent these types of issues in the future.	Completed 8/26/2022



2	In coordination with the assistant administrator for Land and Emergency Management, assess EPA's procedures for recording e-Manifest delinquent amounts and implement controls to prevent accounts receivable and earned revenue duplication.	Concur. An interface between the e-Manifest system and Compass was implemented in April 2022 which properly records the accounts receivable and earned revenue in the accounting month in which they are earned. Controls were implemented in the new system to properly record delinquent amounts and prevent duplicate reporting.	Completed 5/31/2022
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**CONTACT INFORMATION**

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

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