



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

# Fiscal Years 2011 and 2010 Financial Statements for the Pesticide Registration Fund

Report No. 12-1-0522

June 6, 2012



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## Abbreviations

ARS	Accounting and Reporting Section
EPA	U.S. Environmental Protection Agency
EPM	Environmental Programs and Management
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRIA	Pesticide Registration Improvement Act
PRIA 2	Pesticide Registration Improvement Renewal Act

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# At a Glance

## Why We Did This Review

The Pesticide Registration Improvement Act (PRIA) requires that we perform an annual audit of the Pesticide Registration Fund (known as the PRIA Fund) financial statements.

## Background

To expedite the registration of certain pesticides, Congress authorized the U.S. Environmental Protection Agency (EPA) to assess and collect pesticide registration fees. The fees collected are deposited into the PRIA Fund. The Agency is required to prepare financial statements that present financial information about the PRIA Fund. PRIA also requires the establishment of decision time review periods for pesticide registration actions, and requires the Office of Inspector General to perform an analysis of the Agency's compliance with those review periods.

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:  
[www.epa.gov/oig/reports/2012/20120606-12-1-0522.pdf](http://www.epa.gov/oig/reports/2012/20120606-12-1-0522.pdf)

## ***Fiscal Years 2011 and 2010 Financial Statements for the Pesticide Registration Fund***

### **Opinion**

We rendered an unqualified, or clean, opinion on EPA's Pesticide Registration Fund financial statements for fiscal years 2011 and 2010, meaning that they were fairly presented and free of material misstatement.

### **Internal Control Material Weakness Noted**

We noted one material weakness in internal controls. EPA materially understated the PRIA payroll and benefits payable and related payroll expenses included in fiscal year 2011 gross costs. The Agency's practice of transferring employees and expenses and liabilities from PRIA to the Environmental Programs and Management Fund for cash flow reasons led to the understatement. The transfer removed the base upon which the leave accrual and benefits payable amounts are calculated. The fiscal year 2010 accruals for PRIA were \$239,000 while the fiscal year 2011 accruals were \$8,000. Understatements could impact the opinion on the financial statements and reliance on reported PRIA financial information.

### **Internal Control Significant Deficiency Noted**

We noted one significant deficiency in internal controls. EPA did not record accounts receivable for a PRIA fee until the payments were 18 months overdue. During our fiscal year 2011 allowance for doubtful accounts review, we found a PRIA receivable for which the finance center was unable to record an allowance because there was no accounting model for a PRIA allowance for doubtful accounts.

### **Compliance with Decision Time Review Periods**

The Agency was in compliance with the statutory decision time frames.

### **Planned Agency Corrective Actions**

The Agency agreed with our findings and recommendations. The Agency corrected the payroll and benefit payable amounts and indicated it will monitor the PRIA benefit accrual at year-end. The Agency will develop policies and procedures for PRIA accounts receivables and has established general ledger posting models for PRIA allowances. The Agency's complete response is in appendix B to this report. We agree with the Agency's corrective actions.



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

THE INSPECTOR GENERAL

June 6, 2012

**MEMORANDUM**

**SUBJECT:** Fiscal Years 2011 and 2010 Financial Statements for the  
Pesticide Registration Fund  
Report No. 12-1-0522

**FROM:** Arthur A. Elkins, Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", is written over the printed name.

**TO:** Jim Jones  
Acting Assistant Administrator for Chemical Safety and Pollution Prevention

Barbara Bennett  
Chief Financial Officer

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2011 and 2010 financial statements for the Pesticides Registration Fund, conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This audit report represents the opinion of the OIG, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. You should track progress of your corrective actions in the Management Audit Tracking System.

If you or your staff have any questions regarding this report, please contact Melissa Heist at (202) 566-0899 or [Heist.Melissa@epa.gov](mailto:Heist.Melissa@epa.gov), or Paul Curtis at (202) 566-2523 or [Curtis.Paul@epa.gov](mailto:Curtis.Paul@epa.gov).

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# Inspector General's Report on the Fiscal Years 2011 and 2010 Financial Statements for the Pesticide Registration Fund

The Administrator  
U.S. Environmental Protection Agency

We have audited the Pesticide Registration Fund (known as the PRIA Fund) balance sheet as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended. These financial statements are the responsibility of the U.S. Environmental Protection Agency (EPA) management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with the generally accepted auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended*. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net costs, changes in net position, and budgetary resources of the PRIA Fund, as of and for the years ended September 30, 2011, and 2010, in conformity with accounting principles generally accepted in the United States of America.

## Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, that is designed to provide reasonable assurance that the following objectives are met:

**Reliability of financial reporting** – Transactions are properly recorded, processed and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

**Compliance with applicable laws, regulations, and government-wide policies** – Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered EPA's internal control over Pesticide Registration Improvement Act (PRIA) financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting or on management's assertions on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely basis. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted a matter involving the internal controls and their operations that we considered to be a material weakness and another matter involving the internal control and their operations that we consider to be a significant deficiency.

### **Material Weakness: PRIA Payroll and Benefits Payable Are Understated**

EPA materially understated the PRIA Fund's payroll and benefits payable, and related payroll expense included in fiscal year gross costs. The Agency's practice of transferring employees and related expenses and liabilities from PRIA to the Environmental Programs and Management (EPM) Fund for cash flow reasons led to the understatement. Just prior to year-end, the Office of Pesticide Programs, in

the Office of Chemical Safety and Pollution Prevention, transferred all employees from PRIA to EPM. On average, 59 employees were assigned to PRIA throughout fiscal year 2011. The transfer removed the base upon which the leave accrual and the benefits payable amounts are calculated. As a result, payroll and benefits payable were materially understated. The fiscal year 2010 accruals for PRIA were \$239,000 while the fiscal year 2011 accruals were \$8,000.

### **Significant Deficiency: EPA Should Identify When Pesticide Registration Improvement Renewal Act Fees Should Be Recorded as Accounts Receivables**

EPA did not record accounts receivable for a PRIA fee until the payments were 18 months overdue. The program office sent the request to the Cincinnati Finance Center after the collection was overdue. By not tracking or recording the request for payment of a government debt in the financial system, EPA may be understating its accounts receivable in its annual financial statements. During our fiscal year 2011 allowance review, we found a PRIA receivable totaling \$1,090 for which the finance center was unable to record an allowance because there was no accounting model for a PRIA allowance for doubtful accounts.

### **Comparison of EPA's FMFIA Report with Our Evaluation of Internal Controls**

OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. The Agency did not report any material weakness for fiscal year 2011 impacting the PRIA Fund; however, we identified a material weakness with the Agency's reporting of payroll and benefits payable. Details concerning this material weakness are in attachment 1.

## **Tests of Compliance With Laws and Regulations**

In accordance with PRIA, the Administrator is required to publish a schedule of decision time review periods for pesticide registration actions and corresponding registration fees in the Federal Register. Decision time review periods are specified time limits for the Agency to grant or deny pesticide registrations. PRIA also requires the Office of Inspector General (OIG) to perform an analysis of the

Agency's compliance with decision time review periods. The Agency was in compliance with the statutory decision time frames.

As part of obtaining a reasonable assurance about whether the Agency's financial statements are free of material misstatement, we tested compliance with those laws and regulations that could either materially affect the PRIA financial statements or that we considered significant to the audit. The objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

### **Management's Discussion and Analysis Section of the Financial Statements**

Our audit work related to the information presented in the Management's Discussion and Analysis of the Pesticide Program included comparing the overview information with information in EPA's principal financial statements for consistency. We did not identify any material inconsistencies between the information presented in the two documents.

### **Prior Audit Coverage**

During previous financial statement audits, we reported the following significant deficiencies:

- We reported in the March 2011 PRIA report that EPA misapplied federal retirement benefit cost factors in calculating fiscal year 2010 imputed costs related to the Civil Service Retirement System and the Federal Employees Retirement System. Imputed costs are costs that are not fully reimbursed.
- We could not assess the adequacy of the Integrated Financial Management System automated controls.

The Agency has taken action to correct both of these deficiencies by correcting the fiscal year 2010 imputed costs in the PRIA Fund Financial Statements and by implementing a new accounting system to replace the Integrated Financial Management System in October 2011

### **Agency Comments and OIG Evaluation**

In a memorandum dated May 11, 2012, the Agency responded to our draft report. The Office of the Chief Financial Officer and Office of Chemical Safety and Pollution Prevention concurred with our recommendations and provided corrective actions for each specific recommendation. We agree with the Agency's

proposed corrective actions and believe that they adequately address the issues raised. The Agency's complete response is included as appendix B to this report.

A handwritten signature in black ink, appearing to read "Paul C. Curtis". The signature is fluid and cursive, with the first name "Paul" being the most prominent.

Paul C. Curtis  
Director, Financial Statement Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
June 6, 2012

# ***Material Weakness***

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## 1 – PRIA Payroll and Benefits Payable Are Understated

EPA materially understated the PRIA Fund’s payroll and benefits payable, and related payroll expense included in gross costs, in the draft fiscal year 2011 financial. OMB Circular A-136, *Financial Reporting Requirements*, states, “Liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources.” The Agency’s practice of transferring employees and related expenses and liabilities from PRIA to the EPM Fund for cash flow reasons led to the understatement. The fiscal year 2010 accruals for PRIA were \$239,000 while the fiscal year 2011 accruals were \$8,000. Such understatements could impact the opinion on the financial statements and reliance on reported PRIA financial information.

The annual leave accrual amount is calculated at year-end using the total number of PRIA employees multiplied by their hourly rates and accrued leave balances. Just prior to year-end, the Office of Pesticide Programs transferred all employees from PRIA to EPM. On average, 59 employees were assigned to PRIA throughout fiscal year 2011. The transfer removed the base upon which the leave accrual and the benefits payable amounts are calculated. As a result, payroll and benefits payable were materially understated.

EPA uses the EPM appropriation for a broad range of abatement, prevention, and compliance activities, and personnel compensation, benefits, travel, and expenses for all programs of the Agency. Statement of Federal Financial Accounting Standards No. 5 states that liabilities should be recognized when they are incurred and directs that liabilities arising from transactions should be recognized for the unpaid amounts due as of the reporting date. OMB Circular No. 136, *Financial Reporting Requirements*, further classifies liabilities of federal agencies as liabilities covered or not covered by budgetary resources (e.g., unfunded).

EPA began the practice of moving payroll expenses from PRIA to EPM in fiscal year 2000. When PRIA resources are low, the Agency transfers employees from PRIA to EPM to keep PRIA obligations and disbursements within budgetary and cash limits. As PRIA fees are collected, employees are moved back to the PRIA appropriation. EPA has regularly disclosed this ongoing practice in prior PRIA financial statement reports, and this practice is expected to continue throughout fiscal year 2012. Temporarily moving employees for cash flow reasons should not impact accruals as long as those employees are continuing the same work. If the transfers become permanent, PRIA should recognize a benefit as another appropriation would be covering the accrued payroll debt.

The process of moving employees and the related payroll expenses and liabilities between PRIA and EPM near year-end contributed to the understatement of the PRIA payroll and benefits payable and related payroll expense included in gross costs, in the draft fiscal year 2011 financial statements. However, the Office of the Chief Financial Officer should have realized that the transfer of employees from PRIA to EMP was only temporary and computed the annual leave accrual and payroll benefits payable amounts accordingly.

## **Recommendations**

We recommend that Office of the Chief Financial Officer:

1. Correct the PRIA financial statements to reflect the proper payroll and benefits payable amounts.
2. Closely monitor the payroll and benefit accruals for PRIA at year-end.

## **Agency Response and OIG Evaluation**

The Agency agreed with our findings and recommendations, and has completed corrective actions on recommendation 1. The Office of the Chief Financial Officer corrected the PRIA financial statements to reflect the proper payroll and benefits payable amounts.

Agency actions on recommendation 2 are pending. The Office of the Chief Financial Officer indicated it will closely monitor the payroll and benefit accruals for PRIA at year-end. The estimated completion date for this corrective action is September 30, 2012.

The Agency's response is included in appendix B to this report. We agree with the Agency's proposed corrective actions and believe they adequately address the issues raised.

# ***Significant Deficiency***

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## **2 – EPA Should Identify When Pesticide Registration Improvement Renewal Act Fees Should Be Recorded as Accounts Receivables**

EPA did not record accounts receivable for a Pesticide Registration Improvement Renewal Act (PRIA 2) fee until the payments were 18 months overdue. The program office sent the request to the Cincinnati Finance Center after the collection was overdue. The Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), as amended by PRIA, requires that when EPA does not receive payment of a registration service fee by 30 days after the fee is due, the fee shall be treated as a claim of the government. By not tracking or recording the request for payment of a government debt in the financial system, EPA may be understating its accounts receivable in its annual financial statements.

During our fiscal year 2011 allowance review, we found a PRIA receivable totaling \$1,090 for which the finance center did not record an allowance for doubtful account because there was no accounting model for a PRIA allowance for doubtful account. We reviewed the receivable and found supporting documentation showing that EPA's program office sent a billing letter to a vendor for nonpayment of fees in July 2008, requesting payment by August 2008. The program office requested the Accounting and Reporting Section (ARS) to record the receivable. ARS requested that the finance center record the receivable in January 2010, over 1 year after the nonpayment of fees letter was sent. We reviewed the allowance files at year-end and found that this receivable remained uncollected, and no recorded allowance appears in the financial system.

FIFRA, as amended by PRIA, Section 33(b)(2)(D), states that the registration service fee required under this subsection shall be due upon submission of the application. Section 33(b)(2)(F–H) states that the Administrator shall reject any application submitted without the required registration service fee and retain 25 percent of the applicable registration service fee. In any case in which the Administrator does not receive payment of a registration service fee (or applicable portion of the registration service fee) by the date that is 30 days after the fee is due, the fee shall be treated as a claim of the U.S. government subject to 31 U.S. Code, Chapter 37, Subchapter II.

ARS did not explain why the request for recording the receivable did not reach the finance center until January 2010. We believe the request to record a receivable should be sent directly to the finance center at the same time a billing letter is sent to the vendor requesting payment. EPA does not have any policies or procedures relating to the recording of account receivables for nonpayment of PRIA fees.

Clear policies and procedures that outline when or how billings for PRIA fees from rejected applications should be handled in the financial system would improve EPA's internal controls. If EPA considers nonpayment of rejected applications to be receivables after the 30-day period, EPA should ensure that the nonpayment is recorded in the financial system at the time the billing letter is sent to the vendor and not 1 year later. Because the finance center reviews delinquent debt quarterly to estimate the uncollectible amount, these receivables should have been recorded in the allowance for doubtful accounts much sooner. EPA should ensure that the financial system has an allowance accounting model to timely record PRIA receivables.

## Recommendations

We recommend that the Office of the Chief Financial Officer:

3. Work with the Office of Chemical Safety and Pollution Prevention to develop policies and procedures that identify when accounts receivable should be recorded for nonpayment of PRIA fees.
4. Create an accounting model in the financial system for PRIA allowances and possible write-offs.

We recommend that the Office of Chemical Safety and Pollution Prevention:

5. Develop a routine process to ensure that its staff is trained on accounting policies and procedures relating to sending documents to the finance centers for recording accounts receivable.

## Agency Response and OIG Evaluation

The Agency agreed with our findings and recommendations, and it has completed corrective actions on recommendation 4. The Office of the Chief Financial Officer established general ledger posting models in Compass for PRIA allowances and possible write-offs.

Agency actions on recommendations 3 and 5 are pending. . The Office of the Chief Financial Officer will work with the Office of Chemical Safety and Pollution Prevention to develop policies and procedures that identify when accounts receivables should be recorded for nonpayment of PRIA fees. The estimated completion date for this corrective action is December 31, 2012. The Office of Chemical Safety and Pollution Prevention is changing its procedures with respect to establishing accounts receivables for PRIA actions that are rejected for non-payment of the required PRIA fee. The estimated completion date for this corrective action is July 31, 2012.

The Agency's response is included in appendix B to this report. We agree with the Agency's proposed corrective actions and believe they adequately address the issues raised.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	8	Correct the PRIA financial statements to reflect the proper payroll and benefits payable amounts.	C	Office of the Chief Financial Officer	03/05/2012		
2	8	Closely monitor the payroll and benefit accruals for PRIA at year-end.	O	Office of the Chief Financial Officer	09/30/2012		
3	11	Work with the Office of Chemical Safety and Pollution Prevention to develop policies and procedures that identify when accounts receivable should be recorded for nonpayment of PRIA fees.	O	Office of the Chief Financial Officer	12/31/2012		
4	11	Create an accounting model in the financial system for PRIA allowances and possible write-offs.	C	Office of the Chief Financial Officer	01/11/2012		
5	11	Develop a routine process to ensure that its staff is trained on accounting policies and procedures relating to sending documents to the finance centers for recording accounts receivable.	O	Office of Chemical Safety and Pollution Prevention	07/31/2012		

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
C = recommendation is closed with all agreed-to actions completed  
U = recommendation is unresolved with resolution efforts in progress

***FYs 2011 and 2010 PESTICIDE REGISTRATION FUND  
(PRIA)  
FINANCIAL STATEMENTS***



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

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## **Management's Discussion and Analysis**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The EPA's Office of Pesticide Programs (OPP) was established to administer the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) to protect public health and the environment. The law requires the Agency to balance public health and environmental concerns with the expected economic benefits derived from pesticides. The guiding principles of the pesticide program are to reduce risks from pesticides in food, the workplace, and other exposure pathways and to prevent pollution by encouraging the use of new and safer pesticides.

With passage of the Pesticide Registration Improvement Act (PRIA) of 2003, the pesticide program now administers the Pesticide Registration Fund. PRIA authorizes the collection of new fees for pesticide registrations. Registration service fees are deposited into the Registration Fund and made available for obligation to the extent provided in appropriation Acts, and are available without fiscal year limitation.

## *Pesticide Registration*

Under the authority of FIFRA and the Federal Food, Drug, and Cosmetic Act (FFDCA) as amended by the Food Quality Protection Act (FQPA), no person or State can distribute or sell any pesticide that is not registered with the Agency. The pesticide registration program works to decrease the risk to the public from pesticide use through the regulatory review of new pesticides. In 2004, Congress passed PRIA, with deadlines for completion of certain registration actions. As part of the registration program, EPA expedites the registration of reduced-risk pesticide uses, which are generally presumed to pose lower risks to people and the environment. These accelerated pesticide reviews provide an incentive for industry to develop, register, and use lower risk pesticides. Additionally, the availability of these reduced-risk pesticides provides alternatives to older, potentially more harmful products currently on the market.

Biological agents are potential weapons that could be exploited by terrorists against the United States. EPA's pesticides antimicrobial program is working to help address this threat. Antimicrobials play an important role in public health and safety. EPA is conducting comprehensive scientific assessments and developing test protocols to determine the safety and efficacy of products used against chemical and biological weapons of mass destruction, and registering products as necessary. EPA is also developing a timeline for prioritizing and implementing the tests. In addition, the FIFRA Section 18 program provides emergency exemption to any part of FIFRA. This authority is typically used by States on an emergency basis. EPA has recently used this authority to help with homeland security. Section 18 exemptions have been authorized to help with anthrax and soybean rust.

PRIA established registration service fees for certain antimicrobials, biopesticides and conventional pesticides registration actions. The category of action, the amount of the

registration service fee, and the corresponding decision review periods by year are prescribed in the statute. The goal is to create a more predictable evaluation process for affected pesticide decisions, and couple the collection of individual fees with specific decision review periods. The legislation also promotes shorter decision review periods for reduced-risk applications. PRIA became effective on March 23, 2004, and the collection of registration fees were authorized through FY 2008. PRIA was reauthorized with passage of the Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA 2) on October 9, 2007. PRIA 2 became effective retroactive to October 1, 2007, and the collection of registration fees are now authorized through FY 2012. In order to help ensure a smooth transition (if PRIA 2 is not reauthorized), PRIA 2 reduces the registration service fees by 40 percent in FY 2013 and then by 70 percent in FY 2014. For any application received after September 30, 2012, but before September 30, 2014, the reduced registration service fee applies, while the decision review periods do not.

In order for a pending or a new application covered by PRIA to be deemed complete and subject to the decision review periods, a registrant is required to pay the applicable fee or receive a waiver from the fees<sup>1</sup>. For most applications, the decision review period starts 21 days after submission of the application - provided that the fee has been paid, fee waiver granted or in the case of a 75% or 50% fee waiver under PRIA 2, the fee has been paid and waiver granted. The legislation provides fee waivers for certain categories of small businesses, and minor uses<sup>2</sup>. Exemptions from the requirement to pay a registration service fee is provided under PRIA 2 for applications solely associated with IR-4 petitions<sup>3</sup>. Applications from federal and state agencies are also exempt from registration service fees. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the Agency grants such request or in the case of small business fee waivers, no more than 60 days after receipt of the waiver application. If it is determined that a fee is required and thus the waiver is not granted, the decision review period starts after the fee is collected.

Applications received prior to October 1, 2007 are covered by PRIA 1. Applications received in FY08 are covered by PRIA 2 and PRIA 2 contains the same audit provision as PRIA 1. PRIA 2 imposed minimum payment requirements, requires the EPA to reject an application for an unpaid fee, allows the Agency to reject an application and retain a portion of the fee if the application fails an initial content screen; increased the fee categories or types of applications

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<sup>1</sup> Out of approximately 11,650 completed PRIA actions since the start of PRIA, more than 99% were completed on or before the PRIA/PRIA 2 due date.

<sup>2</sup> Minor use pesticides are those that produce relatively little revenue for their manufacturers, for a variety of reasons. They may be registered for a seldom seen pest, or for a crop that is not grown by a large number of producers. However, minor crops include some high revenue fruit, vegetable, and ornamental crops.

<sup>3</sup> The IR-4 (Interregional Research Project No.4) program is involved in making sure that pesticides are registered for use on minor crops. IR-4 helps by conducting research on minor use pesticides, pesticides that would not otherwise be profitable to manufacture.

covered by PRIA from 90 to 140; allows the use of investment income; eliminated the 100% fee waiver for small businesses; and increased the amount to support worker protection activities.

### ***Research Program Description***

Chemical safety is a major priority of research and decision making at EPA. EPA's new integrated Chemical Safety for Sustainability research program is charged with examining the risks resulting from exposure to pesticides and toxic chemicals. In previous years, this research was performed under EPA's pesticides and toxics research program which will be consolidated in FY 2012 into the Chemical Safety for Sustainability research program. Chemical safety research is improving the protection of human health and the environment by providing scientific approaches and information on chemical exposure, hazard and risk. The research program's major goals are: (1) to evaluate pesticide and toxic chemicals for potential risks to human health and the environment; (2) to research ways to produce, use and dispose of new and existing chemicals using more sustainable methods, (3) emphasizes research efforts targeting nanomaterials and endocrine disrupting chemicals and (4) uses innovative chemical screening technologies such as computational toxicology to generate chemical data on the biological effects of large numbers of chemicals.

The Chemical Safety research program:

- Examines chemical properties (inherency): Chemical inherency is the physico-chemical characteristics of a pesticide or toxic that influences exposure and toxicity potential. Inherency research works to understand the relationships between chemical inherency, toxicity potential and specific disease outcomes.
- Develops systems models to assess the potential toxicity of chemicals: Systems models are developed to research the entire process of how a pesticide or toxic interacts with the biological processes of humans and wildlife. The investigation starts with research on chemical exposures. It then follows the subsequent interactions between chemical exposures and resulting adverse effects to improve the understanding of environmentally caused diseases.
- Evaluates biomarkers: Biomarkers are biological responses that indicate exposure to a pesticide or toxic, an effect from exposure or susceptibility to adverse effects from a chemical. Biomarkers research uses linkages to develop biomarker-based predictive tools to understand chemical exposure events and predict potential outcomes.
- Assesses cumulative risk: Real world chemical exposures are rarely due to a single pesticide or toxic. The research assesses the potential human health and environmental outcomes that may occur due to multiple and continuous exposures to toxics and mixtures, especially those found in consumer products.
- Evaluates Chemical Life Cycle: Life cycle considerations research includes studying the design, manufacture, and use of a pesticide or toxic. By examining the environmental exposures and human and ecological health impacts of a chemical, Life Cycle research provides data to inform the design of more sustainable chemicals.

- Provides methods for extrapolating chemical data: This research uses available pesticide and toxics data to develop approaches that extrapolate possible effects between test organisms and human or ecological responses, test and real-world exposure durations, and from laboratory to field conditions.
- Provides decision makers access to developed databases, tools and models: Using EPA's web-based interactive tools, decision-makers and others interested in pesticide and toxics research data can access information from chemical exposure, hazard data, decision-rules and predictive models. CSS is working to provide more integrative, holistic information for use in pesticide and toxic risk assessment and risk management decisions.

### ***Enforcement and Compliance Assurance Program Description***

The Pesticide Enforcement and Compliance Assurance Program focuses on pesticide product and user compliance. These include problems relating to pesticide worker safety, certification and training of applicators, ineffective antimicrobial products, food safety, adverse effects, risks of pesticides to endangered species, pesticide containers and containment facilities, and e-commerce and misuse. The enforcement and compliance assurance program provides compliance assistance to the regulated community through its National Agriculture Compliance Assistance Center, seminars, guidance documents, brochures, and other forms of communication to ensure knowledge of and compliance with environmental laws.

EPA's grant support to states' and tribes' pesticide programs emphasizes its commitment to maintaining a strong compliance and enforcement presence. Agency Cooperative Agreement priorities for FY 2011 – FY 2013 include reducing chemical risks and protecting the underserved and vulnerable populations. Core program activities include inspections of producing establishments; dealers/distributors/retailers; e-commerce; imports and exports, and pesticide misuse. Additionally, through the Cooperative Agreement resources we support inspector training and training for state/tribal senior managers, scientists, and supervisors.

### ***Highlights and Accomplishments***

#### **Registration Financial Perspective**

During FY 2011, the Agency's obligations charged against the Pesticide Registration Fund for the cost of registration were \$14.9 million and 54.3 workyears (all obligated by OPP).

Appropriated funds are used in addition to Registration funds. In FY 2011, the enacted operating plan included approximately \$38.2 million in appropriated funds for registration activities. The unobligated balance in the Fund at the end of FY 2011 was \$4.2 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$11.7 million in FY 2011 receipts, more than 99.9% were fee collections.

### **Registration Program Performance Measures**

The following measures support the program's strategic goals of Healthy Communities and Ecosystems as contained in the FY 2011 President's budget.

#### **Measure 1: Number of new active ingredients registered.**

*Results: In FY 2011 EPA registered 18 new active ingredients, of which 11 are biopesticides, and 4 are conventional pesticides (1 with domestic uses and 3 import tolerance only new active ingredients). This measure includes both reduced-risk and non-reduced-risk pesticides.*

#### **Measure 2: Progress in Registering Reduced-risk Pesticides.**

*Results: In FY 2011, EPA registered 11 reduced-risk new active ingredients, all of which were biological pesticides. Biological pesticides are certain types of pesticides derived from such natural materials as animals, plants, bacteria, and certain minerals. They are usually less toxic and are typically considered safer pesticides than the traditional conventional chemicals; therefore, the 11 biopesticides new active ingredients are counted as reduced-risk pesticides. Conventional "reduced risk" pesticides have one or more of the following advantages over currently registered pesticides: low impact on human health, low toxicity to non-target organisms, low potential for groundwater contamination, lower use rates, low pest resistance potential, and compatibility with integrated pest management strategies.*

#### **Measure 3: Number of New Food Uses Registered.**

*Results: EPA registered 194 new food uses for previously registered active ingredients. Of these new uses, 184 were for conventional pesticides, 2 were for antimicrobial pesticides, and 8 were for biopesticides.*

#### **Measure 4: Progress in Registering Reduced-risk New Uses.**

*Results: Included in the new uses registered are 23 reduced-risk.*

**PRINCIPAL  
FINANCIAL STATEMENTS**

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**Environmental Protection Agency  
PRIA  
Balance Sheet  
For the Years Ended September 30, 2011 and 2010  
(Dollars in Thousands)**

	<u>FY 2011</u>	<u>FY 2010</u>
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 11,241	\$ 15,094
Other (Note 3)	40	100
Total Intragovernmental	<u>\$ 11,281</u>	<u>\$ 15,194</u>
Accounts Receivable, Net	2	2
Property, Plant & Equipment, Net (Note 4)	3,188	4,445
<b>Total Assets</b>	<u><u>\$ 14,471</u></u>	<u><u>\$ 19,641</u></u>
 <b>LIABILITIES</b>		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	133	141
Other (Note 5)	95	21
Total Intragovernmental	<u>\$ 228</u>	<u>\$ 162</u>
Accounts Payable & Accrued Liabilities	816	1,088
Payroll & Benefits Payable (Note 6)	962	239
Other (Note 5)	10,064	14,088
<b>Total Liabilities</b>	<u><u>\$ 12,070</u></u>	<u><u>\$ 15,577</u></u>
 <b>NET POSITION</b>		
Cumulative Results of Operations	2,401	4,064
Total Net Position	2,401	4,064
<b>Total Liabilities and Net Position</b>	<u><u>\$ 14,471</u></u>	<u><u>\$ 19,641</u></u>

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

**Environmental Protection Agency  
 PRIA  
 Statement of Net Cost  
 For the Years Ended September 30, 2011 and 2010  
 (Dollars in Thousands)**

	<b>FY 2011</b>	<b>FY 2010</b>
<b>COSTS</b>		
Gross Costs (Note 9)	\$ 17,672	\$ 16,990
Expenses from Other Appropriations (Note 7)	36,710	37,256
Total Costs	\$ 54,382	\$ 54,246
Less:		
Earned Revenue (Notes 8 and 9)	15,809	17,885
<b>NET COST OF OPERATIONS (Note 9)</b>	<b>\$ 38,573</b>	<b>\$ 36,361</b>

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

**Environmental Protection Agency  
PRIA  
Statement of Changes in Net Position  
For the Years Ended September 30, 2011 and 2010  
(Dollars in Thousands)**

	<u>FY 2011</u>	<u>FY 2010</u>
<b>Cumulative Results of Operations:</b>		
<b>Net Position - Beginning of Period</b>	4,064	2,806
Beginning Balances, as Adjusted	\$ 4,064	\$ 2,806
<b>Budgetary Financing Sources:</b>		
Nonexchange Revenue - Securities Investment	5	6
Nonexchange Revenue - Other	0	2
Income from Other Appropriations (Note 7)	36,710	37,256
Total Budgetary Financing Sources	\$ 36,715	\$ 37,264
<b>Other Financing Sources (Non-Exchange)</b>		
Imputed Financing Sources	195	355
Total Other Financing Sources	\$ 195	\$ 355
Net Cost of Operations	(38,573)	(36,361)
Net Change	(1,663)	1,258
<b>Cumulative Results of Operations</b>	<u>\$ 2,401</u>	<u>\$ 4,064</u>

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

**Environmental Protection Agency  
PRIA  
Statement of Budgetary Resources  
For the Years Ended September 30, 2011 and 2010  
(Dollars in Thousands)**

	<u>FY 2011</u>	<u>FY 2010</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 7,393	\$ 6,980
Adjusted Subtotal	7,393	6,980
Budgetary Authority:		
Appropriation	11,790	18,557
Spending Authority from Offsetting Collections		
Earned:		
Collected	-	3
Total Spending Authority from Offsetting Collections	-	3
Temporarily Not Available Pursuant to Public Law	(40)	-
<b>Total Budgetary Resources</b>	<u>\$ 19,143</u>	<u>\$ 25,540</u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	\$ 14,896	\$ 18,147
Total Obligations Incurred	14,896	18,147
Unobligated Balances:		
Apportioned	4,247	7,368
Total Unobligated Balances	4,247	7,368
Unobligated Balances Not Available	-	25
<b>Total Status of Budgetary Resources</b>	<u>\$ 19,143</u>	<u>\$ 25,540</u>
 <b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 7,701	\$ 8,161
Total Unpaid Obligated Balance, Net	7,701	8,161
Obligations Incurred, Net	14,896	18,147
Less: Gross Outlays	(15,642)	(18,607)
Total, Change in Obligated Balance	6,955	7,701
Obligated Balance, Net, End of Period:		
Unpaid Obligations	6,955	7,701
Total, Unpaid Obligated Balance, Net, End of Period	\$ 6,955	\$ 7,701
 <b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays	\$ 15,642	\$ 18,607
Less: Offsetting Collections	-	(3)
Less: Distributed Offsetting Receipts (Note 1 Section L)	(11,790)	(18,557)
<b>Total, Net Outlays</b>	<u>\$ 3,852</u>	<u>\$ 47</u>

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

**Environmental Protection Agency**  
**PRIA**  
**Notes to Financial Statements**  
**(Dollars in Thousands)**

*Note 1. Summary of Significant Accounting Policies*

**A. Reporting Entity**

The U.S. Environmental Protection Agency (EPA or Agency) was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates -- air, water, land, hazardous waste, pesticides and toxic substances.

The Pesticide Registration Fund (PRIA) is authorized under the Pesticide Registration Improvement Act of 2003 (which amended the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA)), and became effective on March 23, 2004. This Act authorizes the EPA to assess and collect pesticide registration service fees on applications submitted to register pesticides covered by this Act, as well as assess and collect fees to register new active ingredients not listed in the Registration Division 2003 Work Plan of the Office of Pesticide Programs. The Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) extended the authority to collect pesticide registration service fees through FY 2012. PRIA II became effective October 1, 2007. The PRIA Fund is accounted for under Treasury symbol number 68X5374.

The PRIA fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agency-wide appropriations. Costs funded by Agency-wide appropriations for FYs 2011 and 2010 were \$36,710 thousand and \$37,256 thousand, respectively. This amount was 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 for FYs 2011 and 2010.

**B. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the EPA for the Pesticide Registration Fund (PRIA) as required by the Chief Financial Officers Act of 1990 and the Pesticide Registration Improvement Act (PRIA) of 2003. In the prior years, pesticide registration was included in the FIFRA financial statements. 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 OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of FY 2011 cost factors for calculating imputed costs for Federal civilian benefits programs. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

### **C. Budgets and Budgetary Accounting**

Funding for PRIA is provided by fees collected from industry to offset costs incurred by EPA in carrying out these programs. Each year the EPA submits an apportionment request to OMB based on the anticipated collections of industry fees.

### **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. 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 a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

### **E. Revenues and Other Financing Sources**

For FYs 2011 and 2010, PRIA received funding from fees collected from registrants requesting pesticide registrations. For FYs 2011 and 2010, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

### **F. Funds with the Treasury**

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

### **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. PRIA holds the investments to maturity, unless needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

## **H. General Property, Plant and Equipment**

Purchases of the EPA-held personal equipment are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Depreciation is taken on a basic straight-line method over the specific asset's useful life, ranging from two to 15 years. The EPA shows property, plant and equipment at net of depreciation on its audited financial statements.

All funds (except for the Working Capital Fund) capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to 10 years.

## **I. Liabilities**

Liabilities represent the amount of monies or other resources that are likely 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. 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. For PRIA, liabilities are liquidated from fee receipts, since PRIA receives no appropriation. Liabilities of the Agency arising from anything other than contracts can be abrogated by the Government acting in its sovereign capacity.

## **J. Accrued Unfunded Annual Leave**

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

## **K. 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, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, 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.

**L. Offsetting Receipts**

Beginning in FY 2007 OMB Circular A-136, *Financial Reporting Requirements*, requires that the amount of distributed offsetting receipts reported in the Statement of Budgetary Resources (SBR) should equal the amount recorded as offsetting receipts by the Department of the Treasury (Treasury). Pesticide Registration Fees collected under PRIA are considered to be offsetting receipts by Treasury.

**M. Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Fund Balance with Treasury**

		<u>FY 2011</u>	<u>FY 2010</u>
<b>Revolving Funds:</b>	Entity Assets	\$ <u>11,241</u>	\$ <u>15,094</u>

**Note 3. Other Assets**

Other Assets consist of advances for Interagency Agreements. As of September 30, 2011 and 2010, funds advanced that will be applied to future costs as incurred were \$40 thousand and \$100 thousand respectively.

**Note 4. General Property, Plant and Equipment**

General property, plant and equipment consists of the EPA-Held personal property, software, and software in development.

As of September 30, 2011 and 2010, General Property, Plant and Equipment consist of the following:

	<u>FY 2011</u>			<u>FY 2010</u>		
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
EPA-Held Equipment	\$ 410	\$ (271)	\$ 139	\$ 446	\$ (239)	\$ 207
Software	4,198	(1,149)	3,049	4,238	-	4,238
<b>Total</b>	<b>\$ 4,608</b>	<b>\$ (1,420)</b>	<b>\$ 3,188</b>	<b>\$ 4,684</b>	<b>\$ (239)</b>	<b>\$ 4,445</b>

**Note 5. Other Liabilities**

For FYs 2011 and 2010, Payroll and Benefits Payable, non-federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 6).

	<u>FY 2011</u>	<u>FY 2010</u>
<b>Other Intragovernmental Liabilities - Covered by Budgetary Resources</b>		
Employer Contributions - Payroll	\$ 95	\$ 21
<b>Total</b>	<b>\$ 95</b>	<b>\$ 21</b>
<b>Other Non-Federal Liabilities - Covered by Budgetary Resources</b>		
Advances from Non-Federal Entities	\$ 10,064	\$ 14,088
<b>Total</b>	<b>\$ 10,064</b>	<b>\$ 14,088</b>

**Note 6. Payroll and Benefits Payable, Non-Federal:**

	<u>FY 2011</u>	<u>FY 2010</u>
<b>Covered by Budgetary Resources</b>		
Accrued Payroll Payable to Employees	\$ 327	\$ 61
Withholdings Payable	61	29
Thrift Savings Plan Benefits Payable	17	3
<b>Total</b>	<b>\$ <u>405</u></b>	<b>\$ <u>93</u></b>
 <b>Not Covered by Budgetary Resources</b>		
Unfunded Annual Leave	\$ <u>557</u>	\$ <u>146</u>
<b>Total</b>	<b>\$ <u>557</u></b>	<b>\$ <u>146</u></b>

At various periods throughout FYs 2011 and 2010 employees with their associated payroll costs were transferred from PRIA to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 7 below showing trend of hours charged per month to the PRIA fund for FYs 2011 and 2010.) These employees were transferred in order to keep PRIA's obligations and disbursements within budgetary limits.

This process has led to variations between the year-end liabilities of FYs 2011 and 2010. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. For FY 2011 Pay Period 26; no employees charged any part of their salary and benefits to PRIA. As of September 30, 2011, the liabilities were \$95 thousand and \$405 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2010's balances of \$21 thousand and \$93 thousand, respectively.

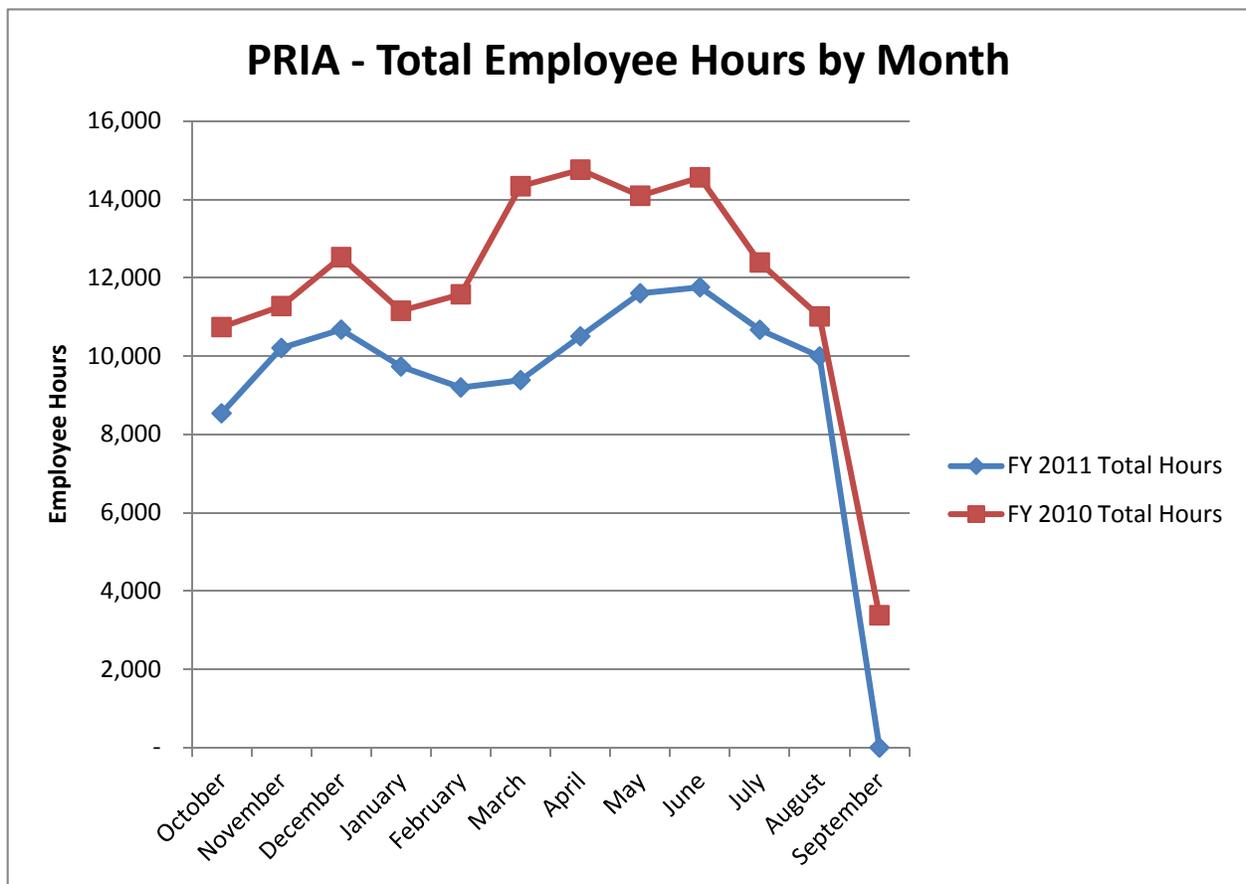
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2011 and FY 2010, approximately 130 and 144 employees, respectively, in total have been under PRIA's accountability. As of September 30, 2011 and 2010 liability balances for unfunded annual leave were accrued to cover these employees for a total of \$557 thousand and \$146 thousand, respectively.

**Note 7. Income and Expenses from Other Appropriations:**

The Statement of Net Cost reports program costs that include the full costs 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 2011 and 2010, the EPA had two appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Transfers of employees from PRIA to EPM at various times during FYs 2011 and 2010 (see Note 6 above) resulted in an increase in payroll expenses in EPM, and these costs financed by EPM are reflected as an increase in the Expenses from Other Appropriations on the Statement of Net Cost. The increased financing from EPM is reported on the Statement of Changes in Net Position as Income from Other Appropriations.

In terms of hours charged to PRIA each month, the transfers of employees and their associated costs during FYs 2011 and 2010 are shown below. Note that a decrease in hours charged to PRIA normally signifies an increase in EPM's payroll costs, and vice versa.



The EPM costs related to PRIA are allocated based on specific EPM program codes which have been designated for Pesticide registration activities. As illustrated below, there is no impact on PRIA's Statement of Changes in Net Position.

	<u>Income From Other Appropriations</u>		<u>Expenses From Other Appropriations</u>		<u>Net Effect</u>
<b>FY 2011</b>	\$ 36,710	\$	36,710	\$	0
<b>FY 2010</b>	\$ 37,256	\$	37,256	\$	0

**Note 8. Exchange Revenues, Statement of Net Cost**

For FYs 2011 and 2010, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

**Note 9. Intragovernmental Costs and Exchange Revenue**

	<u>FY 2011</u>	<u>FY 2010</u>
<b>COSTS:</b>		
Intragovernmental	\$ 2,661	\$ 2,730
With the Public	15,011	14,260
Expenses from Other Appropriations	<u>36,710</u>	<u>37,256</u>
Total Costs	\$ 54,382	\$ 54,246
<b>REVENUE:</b>		
With the Public	<u>15,809</u>	<u>17,885</u>
Total Revenue	\$ 15,809	\$ 17,885
<b>NET COST OF OPERATIONS</b>	<u>\$ 38,573</u>	<u>\$ 36,361</u>

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

**Note 10. Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing)**

	<u>FY 2011</u>	<u>FY 2010</u>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 14,896	\$ 18,147
Less: Spending Authority from Offsetting Collections and Recoveries	-	(3)
Obligations, Net of Offsetting Collections	<u>\$ 14,896</u>	<u>\$ 18,144</u>
Less: Offsetting Receipts (Note 1 Section L)	<u>(11,790)</u>	<u>(18,557)</u>
Net Obligations	3,106	(413)
Other Resources		
Imputed Financing Sources	\$ 195	\$ 355
Income from Other Appropriations (Note 7)	<u>36,710</u>	<u>37,256</u>
Net Other Resources Used to Finance Activities	<u>\$ 36,905</u>	<u>\$ 37,611</u>
 Total Resources Used To Finance Activities	 \$ 40,011	 \$ 37,198
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated	\$ 913	\$ (261)
Resources that Fund Prior Periods Expenses	-	(446)
Offsetting Receipts Not Affecting Net Cost (Note 1 Section L)	11,790	18,557
Resources that Finance Asset Acquisition	<u>(3,966)</u>	<u>(803)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	 \$ 8,737	 \$ 17,047
 Total Resources Used to Finance the Net Cost of Operations	 \$ 48,748	 \$ 54,245
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	\$ 411	\$ -
Increase in Public Exchange Revenue Receivable	<u>\$ (15,810)</u>	<u>(17,885)</u>
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	 \$ (15,399)	 \$ (17,885)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	1,182	1
Expenses Not Requiring Budgetary Resources	<u>4,042</u>	<u>-</u>
Total components of Net cost of Operations that Will Not Require or Generate Resources	<u>5,224</u>	<u>1</u>
 Total components of Net cost of Operations that Will Not Require or Generate Resources in the Current Period	 (10,175)	 (17,884)
 <b>Net Cost of Operations</b>	 <b><u>\$ 38,573</u></b>	 <b><u>\$ 36,361</u></b>

## ***Agency's Response to Draft Report***

May 11, 2012

### **MEMORANDUM**

**SUBJECT:** **Response to Office of Inspector General Draft Report:** *“Fiscal Year 2011 and 2010 Financial Statements for the Pesticides Registration Fund,”* Report No. 2012-P-XXXX, dated April 30, 2012

**FROM:** Barbara J. Bennett /s/ Original Signed By:  
Chief Financial Officer

Jim Jones, Acting Assistant Administrator  
Office of Chemical Safety and Pollution Prevention

**TO:** Arthur A. Elkins, Jr.  
Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Attention to the issues identified in the report should help further strengthen the agency's fiscal integrity. Attached is our corrective action plan in response to the specific recommendations made in the report.

If you have any questions regarding this response, please contact Sandy Dickens of the Office of Financial Management on (202) 564-0606.

Attachment

cc: Maryann Froehlich  
Joshua Baylson  
Steven Bradbury  
Marty Monell  
Stefan Silzer  
Jeanne Conklin  
Chris Osborne  
Sherri Anthony  
Sandy Dickens

Sheldonna Proctor  
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Janet Weiner  
Peter Caulkins  
Vickie Robinson  
Maria Sorrell  
John Street  
Michael Hardy  
Janet Weiner  
Melissa Heist  
Meg Hiatt  
Robert L. Smith  
Art Budelier  
Sheila May  
Bill Samuel

**Attachment**

***Response to Office of Inspector General Draft Report No. 12-P-XXXX***  
***“Fiscal Year 2011 and 2010 Financial Statements for the Pesticide Registration Fund,”***  
**dated April 30, 2012**

<b>Rec. No.</b>	<b>OIG Recommendation</b>	<b>Proposed Corrective Action</b>	<b>Action Official</b>	<b>Estimated Completion Date</b>
1.	Correct the PRIA financial statements to reflect the proper payroll and benefits payable amounts.	1.1 OCFO/OFM will correct the PRIA financial statements to reflect the proper payroll and benefits payable amounts.	OCFO/OFM	<b>03/05/2012 (COMPLETED)</b>
2.	Closely monitor the payroll and benefit accruals for PRIA at year-end.	2.1 OCFO/OFS will closely monitor the payroll and benefit accruals for PRIA at year-end.	OCFO/OFS	<b>09/30/2012</b>
3.	Work with the Office of Chemical Safety and Pollution Prevention to develop policies and procedures that identify when accounts receivable should be recorded for nonpayment of PRIA fees.	3.1 OCFO/OFM will work with OCSPP’s Office of Pesticide Programs to develop policies and procedures that identify when accounts receivable should be recorded for nonpayment of PRIA fees.	OCFO/ OFM/FPPS	<b>12/31/2012</b>
4.	Create an accounting model in the financial system for PRIA allowances and possible write-offs.	4.1 OCFO/OFM will establish General Ledger posting models in Compass for PRIA allowances (SV41) and possible write-offs (CWR13).	OCFO/OFM/ RAS	<b>01/11/2012 (COMPLETED)</b>

<b>Rec. No.</b>	<b>OIG Recommendation</b>	<b>Proposed Corrective Action</b>	<b>Action Official</b>	<b>Estimated Completion Date</b>
5.	Develop a routine process to ensure that its staff is trained on accounting policies and procedures relating to sending documents to the finance centers for recording accounts receivable.	5.1 OCSPP/OPP has changed its procedures with respect to establishing accounts receivable for PRIA actions that are rejected for non-payment of the required PRIA fee.	OCSPP/OPP	<b>07/31/2012</b>

## ***Distribution***

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Director, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention  
Deputy Director, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention  
Senior Advisor, PRIA Implementation, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention  
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