



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Fiscal 2005 and 2004 (restated) Financial Statements for the Pesticide Registration Fund

Report No. 2007-1-00002

January 9, 2007

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Abbreviations

EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
IFMS	Integrated Financial Management System
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRIA	Pesticide Registration Improvement Act
WFC	Washington Finance Center



At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

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, and report findings and recommendations resulting from the audit.

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 Pesticide Registration Fund. The Agency is required to prepare financial statements that present financial information about the PRIA Fund.

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

To view the full report, click on the following link:

www.epa.gov/oig/reports/2007/20070109-2007-1-00002.pdf

Fiscal 2005 and 2004 (restated) Financial Statements for the Pesticide Registration Fund

Opinion

We rendered an unqualified, or clean, opinion on EPA's PRIA financial statements for fiscal 2005 and 2004 (restated), meaning that they were fairly presented and free of material misstatement. As described in Note 8, the 2004 financial statements were restated to reflect deferred revenue.

Internal Control Reportable Condition Noted

During fiscal 2005, EPA's Washington Finance Center recorded adjusting and correcting entries for PRIA collections in the Integrated Financial Management System (IFMS) without adequately documenting the errors, corrections, or modifications.

Compliance With Laws and Regulations

We tested compliance with those laws and regulations that could either materially affect the PRIA Fund 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.

What We Recommend

We recommend that the Director, Washington Finance Center, Office of the Chief Financial Officer, adequately document adjusting and correcting entries entered in IFMS in accordance with the EPA Comptroller Policy Announcement No. 93-02, *Policies for Documenting Agency Financial Transactions*.

Washington Finance Center officials agreed with our recommendation, and began corrective action to better document adjusting and correcting entries in IFMS.



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

OFFICE OF
INSPECTOR GENERAL

January 9, 2007

MEMORANDUM

SUBJECT: Fiscal 2005 and 2004 (restated) Financial Statements for the Pesticide
Registration Fund
Report No. 2007-1-00002

TO: James B. Gulliford
Assistant Administrator for Prevention,
Pesticides and Toxic Substances

Lyons Gray
Chief Financial Officer

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) Fiscal 2005 and 2004 (restated) Financial Statements for the Pesticide Registration Fund, conducted by the EPA Office of Inspector General (OIG). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. The report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$191,932.

Action Required

Your response to the draft report adequately addressed the findings and recommendations in this report. Therefore, we will close this report upon issuance and no further response to this report is necessary. We have no objections to the further release of this report to the public. The report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact me at (202) 566-0847 or roderick.bill@epa.gov, or Paul Curtis at (202) 566-2523 or curtis.paul@epa.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill A. Roderick", is written above a solid horizontal line.

Bill A. Roderick
Acting Inspector General

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Inspector General's Report on the Fiscal 2005 and 2004 (restated) 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, 2005 and 2004 (restated), and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. These financial statements are the responsibility of the U.S. Environmental Protection Agency's (EPA's) management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with 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 01-02, *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 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.

The Agency restated the 2004 financial statements to reflect or recognize deferred revenue for registration service fees received for which services were not rendered. EPA reduced 2004 revenues to match expenses incurred. As disclosed in Note 8, earned revenues were restated as \$3,376,449 in 2004 to properly reflect revenue earned, and deferred revenue of \$11,257,654 was recorded to properly account for revenues that will be earned in the future as services are rendered.

In our opinion, the financial statements present fairly the assets, liabilities, net position, budgetary resources, financing activities, and reconciliation of net costs to budgetary obligations of the PRIA Fund, as of and for the years ended September 30, 2005 and 2004 (restated), in accordance 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, effected by the Agency's management and other personnel, 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 and Required Supplementary Stewardship Information in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

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

We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls that might be reportable conditions or material weaknesses. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements could occur and not be detected. Also, projecting our evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with such controls may deteriorate.

With respect to internal controls related to performance measures presented in the Overview and Analysis (which addresses requirements for a Management Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures and, accordingly, we do not express an opinion on internal controls.

Material Weaknesses

Material weaknesses, as defined by OMB Bulletin No. 01-02, are situations where internal controls do not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance in amounts material to the financial statements, including the performance measures reported for the Fund, may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. We noted one matter discussed below involving

operations that we consider to be a reportable condition, although it is not believed to be a material weakness.

Reportable Conditions

OMB Bulletin No. 01-02 defines reportable conditions as matters that come to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet the objectives defined above.

For fiscal 2005, we identified a weakness in the Agency's documentation of adjustments to the Integrated Financial Management System (IFMS) entries. EPA's Washington Finance Center (WFC) recorded adjusting and correcting entries in IFMS, the Agency's accounting system, without adequately documenting the errors, corrections, or modifications. During our analysis of PRIA collections recorded in WFC, we found nine adjustments to entries in IFMS totaling \$1,151,255 that were not supported by sufficient documentation, such as schedules of collections or IFMS screen prints. These entries also did not contain evidence of supervisory review or approval on the adjustments.

We recognize that the Agency already has a policy in place that requires adequate documentation of adjusting and correcting entries entered in IFMS. However, the frequency and dollar amount of noncompliance with this policy indicates the need for management attention.

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

OMB Bulletin No. 01-02 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 audit that were not reported in the Agency's FMFIA report.

For reporting under FMFIA, material weaknesses are defined differently than they are for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

Our audit did not disclose any material weaknesses, nor were any reported by the Agency as part of the Integrity Act process.

Tests of Compliance with Laws and Regulations

In accordance with the Pesticide Registration Improvement Act, the Administrator is required to publish a schedule of decision 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. The Act also requires the OIG to perform an analysis of the Agency's compliance with decision time review periods. We did not identify any significant noncompliances.

As part of obtaining reasonable assurance about whether the 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. However, we did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

Overview Section of the Financial Statements

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

Our audit work also included obtaining an understanding of the design of significant internal controls relating to the existence and completeness assertions of the performance measures in the Overview. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

Prior Audit Coverage

In the audit performed in fiscal 2004, we reported the following two reportable conditions:

- We could not assess the adequacy of IFMS automated controls.
- We identified a weakness in the Agency's preparation and quality control of the Financial Statements and footnotes.

EPA has made progress towards replacing IFMS. However, until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a reportable condition concerning documentation of the current accounting system and its automated application processing controls (*Audit of EPA's Fiscal 2005 and 2004 Consolidated Financial Statements Audit Report*, Audit Report 2006-1-00015). In addition, EPA recognizes the importance of properly reviewing the Financial Statements including the footnotes, supplemental information, and overview prior to release or submittal for audit. EPA strengthened their quality control and review procedures for the financial statement documents.

Recommendation

We recommend that the Director, Washington Finance Center, Office of the Chief Financial Officer, adequately document adjusting and correcting entries entered in IFMS in accordance with the EPA Comptroller Policy Announcement 93-02, *Policies for Documenting Agency Financial Transactions*.

Agency Response and OIG Evaluation

The Agency agreed with our recommendation, and began corrective action to improve documentation of adjusting and correcting entries in IFMS. WFC updated its desk procedures to include the maintenance of adequate source documentation when adjusting and correcting entries are made to transactions already entered in IFMS. In addition, WFC staff will include an adjustment control sheet to document the reason for the adjustments and corrections, and a separate staff person will be assigned to review and approve the transactions.

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

A handwritten signature in black ink, appearing to read "Paul C. Curtis", is centered on a light blue rectangular background.

Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
January 9, 2007

Status of Recommendation and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	4	Adequately document adjusting and correcting entries entered in IFMS in accordance with the EPA Comptroller Policy Announcement 93-02, <i>Policies for Documenting Agency Financial Transactions.</i>	C	Director, Washington Finance Center, Office of the Chief Financial Officer	May 2006	\$0	\$0

- ¹ O = recommendation is open with agreed-to corrective actions pending
 C = recommendation is closed with all agreed-to actions completed
 U = recommendation is undecided with resolution efforts in progress

**FY 2005 AND 2004 (RESTATED) 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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**OVERVIEW AND ANALYSIS
OF THE PESTICIDE PROGRAM**

OVERVIEW AND ANALYSIS OF THE PESTICIDE PROGRAM

The Agency's Office of Pesticide Programs was established pursuant to 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 newly established 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 FFDCAs 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 the Pesticide Registration Improvement Act (PRIA) of 2003, with deadlines for completion of certain registration actions. As part of the registration program, EPA expedites the registration of reduced risk pesticides, which are generally presumed to pose lower risks to consumers, workers, groundwater, and wildlife. 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 Section 18 program provides emergency exemption to any part of FIFRA. This authority is typically used by States on an emergency basis. We have 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 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. The legislation became effective on March 23, 2004, and the collection of registration fees are authorized through FY 2008. In order to help ensure a smooth transition (if PRIA is not re-authorized), PRIA reduces the registration service fees by 40 percent in FY 2009 and then by 70 percent in FY 2010. For any application received after September 30, 2008, but before September 30, 2010, the reduced registration service fee applies, while the decision review periods do not.

In order for a pending or a new application 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. For most applications, the decision review period starts 21 days after submission of the application - provided it includes the applicable fee and all the necessary forms, labeling, and documents certifying payment of the fee. The legislation provides fee waivers for certain categories of small businesses, minor uses, IR-4 petitions, and for applications from federal and state agencies, and, in very limited cases, the reduction of fees when the application is withdrawn with little work completed. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the Agency grants such request or 60 days after receipt of the 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.

Research Program Description

Pesticide research continues to focus on providing scientifically-valid, cost-effective, and low-burden methods for evaluating risks associated with pesticide use, manufacture, and release into the environment. Research efforts in FY 2005 focused on developing new and revised human health exposure and effects tools (methods, models, and data) to improve EPA's understanding of the key factors influencing real-world exposures to pesticides and the potential effects that may result from these pesticide exposures on infants and children (age-related differences and activity patterns) and other highly-exposed groups. EPA also continued efforts to develop a systematic approach for determining the cumulative risk for a given set of exposure conditions and for classes of pesticides with common mode of action. Using this approach, EPA started with less complex scenarios (e.g., risk from aggregate exposure to a single chemical or a class of pesticides with a common mode of action) and continues to build towards the more complex scenarios, including consideration of different temporal dimensions of exposure and susceptibility.

The FY 2005 research addressed risks that would result from both agricultural and residential exposures. Special emphasis was placed on addressing exposure and effects science issues regarding children's health, including the special susceptibilities of infants and children exposed to pesticides and other toxins. Results from this work will support human and environmental risk assessments.

Enforcement and Compliance Assurance Program Description

The Pesticide Enforcement and Compliance Assurance Program focuses on pesticide product and user compliance, including problems relating to pesticide worker safety protection, ineffective antimicrobial products, food safety, adverse effects, and e-commerce. 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 pesticide worker protection standards, high risk pesticide activities including antimicrobials, pesticide misuse in urban areas, and the misapplication of structural pesticides. In FY 2005, states continued to conduct compliance monitoring inspections on core pesticide requirements.

EPA will continue its commitment to maintaining a strong compliance and enforcement presence. Agency priorities for FY 2006 and FY 2007 include enforcement for products making illegal public health claims, including unregistered and ineffective products, such as inefficacious hospital disinfectants; enforcement of worker protection standards; compliance monitoring and enforcement activities related to special action chemicals identified by the Office of Pesticide Programs; and illegal distribution, sale, and advertisement of pesticides and pesticidal services via the Internet.

Highlights and Accomplishments

Registration Financial Perspective

During FY 2005, the Agency's obligations charged against the Pesticide Registration Fund for the cost of registration were \$11.2 million and 72.6 workyears (all obligated by the Office of Pesticide Programs).

Appropriated funds are used in addition to Registration funds. In FY 2005, approximately \$39.1 million in appropriated funds were obligated for registration activities. The unobligated balance in the Fund at the end of FY 2005 was \$9.2 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$10.8 million in FY 2005 receipts, 100% 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 2005 President's budget.

Measure 1: Number of new active ingredients registered.

Results: In FY 2005, EPA registered 22 new active ingredients, of which 12 are biopesticides, 2 are antimicrobials, and 8 are conventional pesticides with domestic uses (6 conventionals, 2 conventionals with reduced-risk uses).

*OPP also established import tolerances for two active ingredients that are not registered in the U.S. but found on imported food products. This is **in addition** to the 22 total.*

Measure 2: Progress in Registering Reduced-risk Pesticides.

Results: In FY 2005, EPA registered 14 reduced risk 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 12 biopesticides new active ingredients are counted as reduced risk pesticides. For conventional chemicals, there were 2 reduced risk new active ingredients registered this year. Conventional pesticides reduced risk determination is granted when compared to the registered alternatives the new product poses less risk.

Measure 3: Number of New Food Uses Registered.

Results: EPA registered 172 new food uses for previously registered active ingredients.

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

Results: Included in the new uses registered are 27 reduced-risk, 45 organophosphate alternatives, and 11 methyl bromide alternative uses.

Reducing Exposure through Human Health Protection Research

In FY 2005, EPA's research program developed models to estimate exposure and dose. In addition, the Agency refined methods for measuring children's exposures to pesticides and other environmental contaminants to improve exposure and risk assessments. These research results will be used by the Office of Prevention, Pesticides, and Toxic Substances (OPPTS) in the 2006 reassessment of current use pesticides. The research program also provided tools to OPPTS for identifying and assessing key factors influencing farm applicator exposure to agricultural pesticides as well as approaches for evaluating the population-level effects of pesticides on wildlife and aquatic species.

The data and improved understanding(s) gained through this research program will reduce uncertainties associated with risk assessments. In addition, these results will be used by the Office of Research and Development and OPPTS to prioritize future research activities.

**PRINCIPAL
FINANCIAL STATEMENTS**

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**Environmental Protection Agency
PRIA
Balance Sheet
For the Years Ended September 30, 2005 and 2004
(Dollars in Thousands)**

	FY 2005	Restated FY 2004
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 11,877	\$ 11,367
Total Intragovernmental	\$ 11,877	\$ 11,367
Property, Plant & Equipment, Net (Note 4)	179	238
Total Assets	\$ 12,056	\$ 11,605
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities	119	-
Other (Note 3)	39	32
Total Intragovernmental	\$ 158	\$ 32
Accounts Payable & Accrued Liabilities	275	171
Payroll & Benefits Payable (Note 5)	560	596
Other (Note 3,8)	11,517	11,259
Total Liabilities	\$ 12,510	\$ 12,058
NET POSITION		
Cumulative Results of Operations	(454)	(453)
Total Net Position	(454)	(453)
Total Liabilities and Net Position	\$ 12,056	\$ 11,605

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
 PRIA
 Statement of Net Cost
 For the Years Ended September 30, 2005 and 2004
 (Dollars in Thousands)**

	FY 2005	Restated FY 2004
COSTS		
Intragovernmental	\$ 2,495	\$ 435
With the Public	8,244	3,211
Expenses from Other Appropriations (Note 6)	36,019	4,163
Total Costs	\$ 46,758	\$ 7,809
Less:		
Earned Revenues, Non-Federal (Note 7,8)	10,522	3,376
Total Earned Revenues	\$ 10,522	\$ 3,376
NET COST OF OPERATIONS	\$ 36,236	\$ 4,433

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, 2005 and 2004
(Dollars in Thousands)**

	FY 2005	Restated FY 2004
Net Position - Beginning of Period	\$ (453)	\$ -
Budgetary Financing Sources:		
Nonexchange Revenue	-	(19)
Income from Other Appropriations (Note 6)	36,019	4,163
Total Budgetary Financing Sources	\$ 36,019	\$ 4,144
Other Financing Sources:		
Imputed Financing Sources	216	39
Other— Unfunded Annual Leave Transfer (Note 5)	-	(203)
Total Other Financing Sources	\$ 216	\$ (164)
Net Cost of Operations	(36,236)	(4,433)
Net Change	(1)	(453)
Net Position - End of Period	\$ (454)	\$ (453)

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
PRIA
Statement of Budgetary Resources
For the Years Ended September 30, 2005 and 2004
(Dollars in Thousands)**

	<u>FY 2005</u>	<u>FY 2004</u>
BUDGETARY RESOURCES		
Unobligated Balances		
Beginning of Period	9,621	-
Budgetary Authority:		
Appropriations Received	\$ 10,780	\$ 14,615
Total Budgetary Resources	\$ <u>20,401</u>	\$ <u>14,615</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 11,172	\$ 4,994
Unobligated Balances:		
Apportioned	9,229	9,621
Total Status of Budgetary Resources	\$ <u>20,401</u>	\$ <u>14,615</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred, Net	\$ 11,172	\$ 4,994
Obligated Balances, Net - Beginning of Period	1,746	-
Undelivered Orders, Unpaid	(2,030)	(1,380)
Accounts Payable	(617)	(366)
Total Outlays	\$ <u>10,271</u>	\$ <u>3,248</u>
Disbursements	\$ 10,271	\$ 3,248
Net Outlays	\$ <u>10,271</u>	\$ <u>3,248</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Statement of Financing
PRIA
For the Years Ended September 30, 2005 and 2004
(Dollars in Thousands)**

	<u>FY 2005</u>	<u>Restated FY 2004</u>
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 11,172	\$ 4,994
Other Resources:		
Imputed Financing Sources	216	39
Income from Other Appropriations (Note 6)	<u>36,019</u>	<u>4,163</u>
Net Other Resources Used to Finance Activities	\$ 36,235	\$ 4,202
Total Resources Used To Finance Activities	\$ 47,407	\$ 9,196
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	\$ (649)	\$ (1,379)
Resources that Fund Prior Period Expenses	(59)	
Resources that Finance Asset Acquisition		<u>(238)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (708)	\$ (1,617)
Total Resources Used to Finance the Net Cost of Operations	\$ 46,699	\$ 7,579
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability (Note 5)	\$ -	\$ 230
Increase in Public Exchange Revenue Receivable (Note 8)	<u>(10,522)</u>	<u>(3,376)</u>
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ (10,522)	\$ (3,146)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	59	-
Total Components of Net Cost of Operations that Will Not Require or General Resources	<u>59</u>	<u>-</u>
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	<u>(10,463)</u>	<u>(3,146)</u>
Net Cost of Operations	<u>\$ 36,236</u>	<u>\$ (4,433)</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. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (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 EPA in accordance with *Financial Reporting Requirements*, Office of Management and Budget (OMB) Circular A-136 and EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by EPA pursuant to OMB directives that are used to monitor and control EPA's use of budgetary resources.

B. Reporting Entity

EPA 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 PRIA fund is authorized under the Pesticide Registration Improvement Act of 2003, and became effective on March 23, 2004. This Act authorizes 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 PRIA Fund is accounted for under Treasury symbol number 68X5374.

Pesticide 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 2005 and 2004 were \$36,019 thousand and \$4,163 thousand, respectively. This amount was included as Income from Other Appropriations on the Statements of Changes in Net Position and Financing and as Expenses from Other Appropriations on the Statement of Net Cost for FYs 2005 and 2004.

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 EPA submits an apportionment request to OMB based on the anticipated collections of industry fees.

D. Basis of Accounting

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 2005 and 2004, PRIA received funding from fees collected for monitoring of pesticides. For FYs 2005 and 2004, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

PRIA deposits receipts and processes disbursements through its operating account maintained at the U.S. Department of the Treasury. Cash funds in excess of immediate needs, are invested in U.S. Government securities.

G. Property, Plant and Equipment

Purchases of 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. EPA shows property, plant and equipment at net of depreciation on its audited financial statements.

H. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by EPA as the result of a transaction or event that has already occurred. However, no liability can be paid by EPA without an appropriation or other collection of revenue for services provided. 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 and interest earnings, since PRIA receives no appropriation. Liabilities of EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

I. Annual, Sick and Other 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.”

J. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, 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, 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 “Accounting for Liabilities of the Federal Government” (SFFAS No.5), 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 employing agencies to 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, as administrator of the CSRS, the FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the ‘cost factors’ to compute EPA’s liability for each program.

Note 2. Fund Balances with Treasury:

		<u>FY 2005</u>	<u>FY 2004</u>
Revolving Funds:	Entity Assets	<u>\$11,877</u>	<u>\$ 11,367</u>

Note 3. Other Liabilities:

For FYs 2005 and 2004, the Payroll and Benefits Payable, non-Federal, are now presented on a separate line of the Balance Sheet and in a separate footnote (see Note 3 below).

	<u>FY 2005</u>	<u>FY 2004</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 39	\$ 32
Total	<u>\$ 39</u>	<u>\$ 32</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Advances from Non-Federal Entities	\$ 11,517	\$ 11,259
Total	<u>\$ 11,517</u>	<u>\$ 11,259</u>

Note 4. General Plant, Property and Equipment:

Plant, property and equipment consists of EPA-Held personal property.

As of September 30, 2005 and 2004, Plant, Property and Equipment consist of the following:

	<u>FY 2005</u>			<u>FY 2004</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	\$ 238	\$ (59)	\$ 179	\$ 238	\$ -	\$ 238

Note 5. Payroll and Benefits Payable, non-Federal:

	<u>FY 2005</u>	<u>FY 2004</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 95	\$ 90
Withholdings Payable	84	68
Thrift Savings Plan Benefits Payable	<u>6</u>	<u>5</u>
Total	<u>\$ 185</u>	<u>\$ 163</u>

	<u>FY 2005</u>	<u>FY 2004</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave Liability – Beginning of the Year	\$ 433	\$ -
Amounts Transferred-In (a)	-	203
Unfunded Annual Leave Expense	<u>(58)</u>	<u>\$ 230</u>
Unfunded Annual Leave Liability – End of the Year	<u>\$ 375</u>	<u>\$ 433</u>

- (a) In FY 2004, certain employees were transferred from FIFRA to PRIA, the unfunded leave liability associated with those employees was approximately \$203 thousand which is reported on the Statement of Net Position under “Other Financing Sources”.

At various periods throughout FYs 2005 and 2004, employees with their associated payroll costs were transferred from the fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 6 below showing trend of hours charged per month to the PRIA Fund for FYs 2005 and 2004.) These employees were transferred in order to keep PRIA’s obligations and disbursements within budgetary and cash limits. When resources became available, the employees charging to PRIA increased in order to utilize resources as much as possible. The Agency expects that the practice of transferring employees when PRIA’s resources are low, and restoring employees when funds become available, will continue throughout FY 2005, and probably beyond that period.

This process has led to variations between the year-end liabilities of FYs 2005 and 2004. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2005, about 125 employees were charging all or part of their salary and benefits to PRIA. As of September 30, 2005, these liabilities were \$39 thousand and \$185 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2004's balances of \$32 thousand and \$163 thousand, respectively.

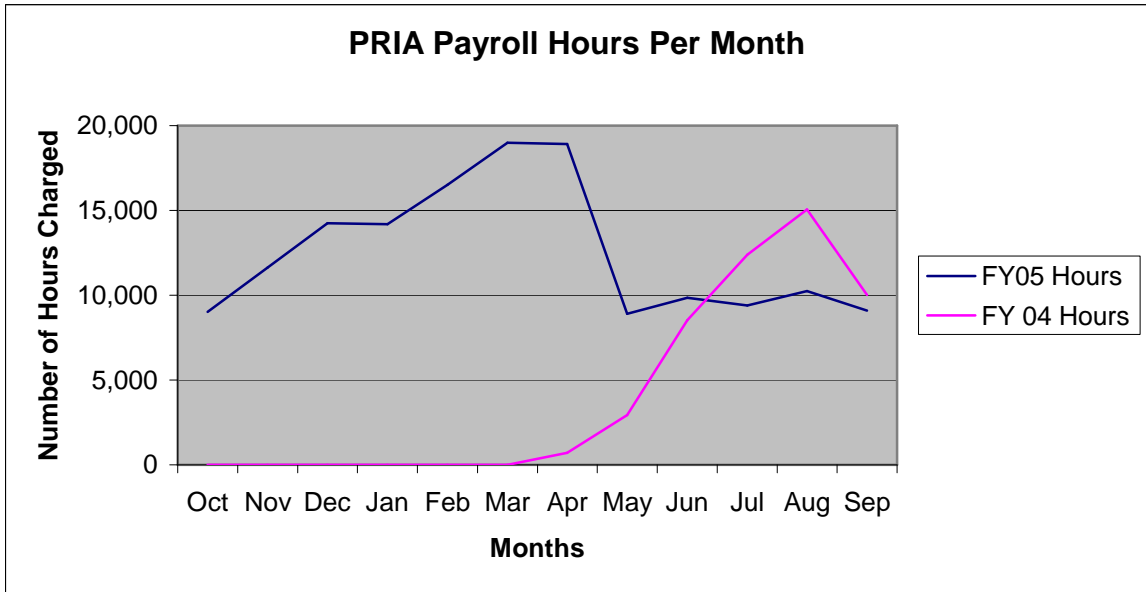
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2005 and 2004, approximately 73 employees in total have been under PRIA's accountability. Therefore the September 30, 2005 and 2004 liability balances for unfunded annual leave were accrued to cover these 73 employees for a total of \$375 thousand and \$433 thousand, respectively.

Note 6. 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 2005 and 2004, 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 2005 and 2004 (see Note 5 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 2005 and 2004 are shown below. Note that a decrease in hours charged to PRIA normally signifies an increase in EPM's payroll costs, and vice versa.



All of the expenses from EPM were distributed among EPA’s two Reporting Entities: Superfund and All Other (includes PRIA). This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the PRIA’s Net Position.

	<u>Income from Other Appropriations</u>	<u>Expenses from Other Appropriations</u>	<u>Net Effect</u>
FY 2005	\$ 36,019	\$ 36,019	\$ 0
From Inception (3/23/2004) to 9/30/2004	\$ 4,163	\$ 4,163	\$ 0

Note 7. Exchange Revenues, Statement of Net Cost

For FYs 2005 and 2004, the exchange revenues reported on the Statement of Net Cost are separated into Federal and non-Federal portions.

Note 8. Deferred Revenue

Section 33(c)(3) and (4) authorize expenditures of funds collected under PRIA to cover the costs associated with the review of applications that are subject to the fees. Specifically, paragraph (3) authorizes the expenditure for the review and decision-making pertaining to all applications for which registration service fees have been paid; and paragraph (4) specifies that the funds shall be available without fiscal year limitation.

However, in fiscal 2004 PRIA recognized revenue as earned when collected, and not when an expense had been incurred for services rendered. Under PRIA, applications and their fees could be received at the end of a fiscal year with the primary work necessitating the expenditure occurring in the next fiscal year. In addition, there are some applications with decision review times longer than a single year; thus, the fees for that application may not be wholly expended in the same fiscal year in which the application is received.

Earned revenues were restated as \$3,376,449 in 2004 to properly reflect revenue earned, and deferred revenue of \$11,257,654 was recorded to properly account for revenues that will be earned in the future as services are rendered.

	<u>FY 2005</u>	<u>FY 2004 (restated)</u>
Deferred Revenue	<u>\$11,517</u>	<u>\$11,258</u>

Full Text of Agency Response

August 24, 2006

MEMORANDUM

SUBJECT: Draft Audit Report
Fiscal 2005 and 2004 Financial Statements for the Pesticide Registration Fund
Assignment No. 2005-001049

FROM: Milton Brown, Director /s/
Office Financial Services (2734R)

Aracely Nunez-Mattocks
Washington Finance Center (2734R)

TO: Paul Curtis
Director, Financial Statement Audits (2422T)

This is in response to your memorandum of July 19, 2006, which contained a draft report on the audit of the U.S. Environmental Protection Agency's Fiscal 2005 and 2004 Financial Statements for the Pesticide Registration Fund, conducted by the EPA Office of Inspector General (OIG).

We concur with the factual accuracy of the draft report and concur with the finding and proposed recommendation. The Washington Finance Center (WFC), Accounting and Reporting Section staff have been provided, via email, a copy of Comptroller Policy Announcement 93-02, reiterating what the Agency's policy is for recording financial transactions in the accounting system (IFMS). The Accounting and Reporting Section has updated the WFC desk procedures to include the maintenance of adequate source documentation when adjustments/corrected entries are made to transactions that are already entered into IFMS. Furthermore, WFC staff will include an adjustment control sheet to document the reason for the adjustment/correction transaction (s), and a separate staff person will be assigned to review, and approve the transaction(s).

If you have any questions or need additional information, please call Sheila Bullock at (202)564-5202 or Aracely Nunez-Mattocks at (202) 564-4864.

cc: Lyons Gray
Maryann Froehlich
Lorna McAllister

Distribution

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General Counsel
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Director, Antimicrobials Division
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