



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

OFFICE OF
INSPECTOR GENERAL

December 13, 2016

MEMORANDUM

SUBJECT: Project Notification:
Audits of EPA's Fiscal Year 2016 FIFRA and PRIA Financial Statements
Project Numbers OA-FY17-0087 and OA-FY17-0086

FROM: Paul C. Curtis, Director
Financial Statement Audits 

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

David Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

We plan to begin our audits of the U.S. Environmental Protection Agency's (EPA's) fiscal year (FY) 2016 financial statements for the Pesticides Reregistration and Expedited Processing Fund (FIFRA) and Pesticide Registration Fund (PRIA). These audits are statutorily required and are included in the Office of Inspector General's (OIG's) Annual Plan. We are providing this memorandum to: (1) continue our mutual efforts to establish a high level of expectations and commitments that will be needed by all offices for providing timely and accurate information in support of the financial statements, and (2) help ensure a mutual understanding of our respective roles and responsibilities during the audit. We include more details about our respective responsibilities in Attachment 1, *Audit Expectations*, and have attached a list of documents to be provided by the agency in Attachment 2, *List of Deliverables*, within 2 weeks of the date of this notification memorandum, as applicable.

High Level of Expectations and Commitments

We appreciate the level of commitment and cooperation exhibited by staff and managers from your office in assisting us to complete our audit of the EPA's FY 2016 FIFRA and PRIA financial statements. We encourage you to continue your efforts to strengthen the agency's coordination and quality control processes to ensure accurate data is timely available to prepare the financial statements and that such statements and supporting documentation are made available in a timely manner for audit. We plan to issue an audit report with our opinion in accordance with the statutorily-mandated deadline regardless of the readiness of the agency's financial statements.

To help ensure that we continue on the path of meeting the agreed-upon date for submitting audited financial statements to Congress, we are asking that each office responsible for providing information supporting the financial statements provide the highest possible level of commitment from senior

officials and staff. We will be glad to assist you in keeping office directors informed of the progress and status of the audited financial statements, including briefing senior officials if necessary.

It is extremely important that any new processes or procedures developed be provided to us in a timely manner—especially any new processes involving Compass or changes in controls as a result of changes to the system. If such processes or procedures are provided late in the audit, it may complicate or prevent the development of audit procedures to audit such information in time to meet the statutorily-mandated deadline. Because the EPA has been working to make changes or to improve Compass, we will continue to need support from your staff as we update our documentation of your controls.

Planning and Coordination of Audit Work

We will conduct an entrance conference with your office before transaction testing begins. The estimated timetable for the audit and the types of assistance needed will be discussed at that time.

Audit work will be performed at all EPA finance centers and, as needed, at other financial and program offices in both headquarters and the regions. We will contact the offices where audit work will be performed to let them know when we will be performing audit work in their offices. For those offices where we do not plan to perform onsite work, we may contact these offices to obtain information.

We have attached a list of documents (prepared/provided by agency (PBAs), see Attachment 2) that we require in order to complete the audit by the agreed-upon deadline. Timely and accurate completion of information, including forwarding reports and other documents prepared by the agency in the attached list, will facilitate the completion of our audit

Please provide all requested documents to Bill Samuel at Samuel.Bill@epa.gov and Robert Smith at smith.robertL@epa.gov. We will work closely with your staff to ensure the audit is completed timely. If you know of issues you would like us to address during the audit, we would like to discuss these issues at the entrance conference.

We respectfully note that the OIG is authorized by the Inspector General Act of 1978 to have timely access to personnel and all materials necessary to complete its objectives. We will request your resolution if an agency employee or contractor refuses to provide requested records to the OIG, or otherwise fails to cooperate with the OIG. We may report unresolved access matters to the Administrator and include the incident in the Semiannual Report to Congress.

Should you or your staff have any questions, please contact Robert Smith at (202) 566-2531 or smith.robertL@epa.gov, or me at (202) 566-2523 or curtis.paul@epa.gov.

cc: Donna Vizian, Acting Assistant Administrator for Administration and Resources Management
Howard Osborne, Associate Chief Financial Officer
Jack Housenger, Director, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Arnold Layne, Deputy Director for Management, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Pete Caulkins, Senior Advisor, PRIA Implementation, Office of Pesticide Programs Office of Chemical Safety and Pollution Prevention
Robert McNally, Director, Biopesticides and Pollution Prevention Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Yu-Ting Guilaran, Director, Pesticide Re-Evaluation Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Mike Goodis, Acting Director, Registration Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Steve Knizner, Director, Antimicrobials Division, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Delores Barber, Director, Information Technology and Resources Management Division, Office of Pesticide Program, Office of Chemical Safety and Pollution Prevention
Stefan Silzer, Controller, Office of the Chief Financial Officer
Jeanne Conklin, Deputy Controller, Office of the Chief Financial Officer
Quentin Jones, Director, Office of Technology Solutions, Office of the Chief Financial Officer
Meshell Jones-Peeler, Director, Policy, Training and Accountability Division, Office of the Controller
Richard Gray, Director, Financial Services Division, Office of the Controller, Office of the Chief Financial Officer
Leo Gueriguian, Director, Business Planning and Operations Division, Office of the Controller, Office of the Chief Financial Officer
John O'Connor, Director, Accounting and Cost Analysis Division, Office of the Controller, Office of the Chief Financial Officer
Carmelita Chadwick-Gallo, Director, Research Triangle Park Finance Center, Office of the Controller, Office of the Chief Financial Officer
Greg Luebbering, Director, Cincinnati Finance Center, Office of the Controller, Office of the Chief Financial Officer
Dany Lavergne, Director, Las Vegas Finance Center, Office of the Controller, Office of the Chief Financial Officer
Stacey Church, Acting Director, Washington Finance Center, Office of the Controller, Office of the Chief Financial Officer.
Sherri Anthony, Chief, Management Integrity and Accountability Branch, Office of the Controller, Office of the Chief Financial Officer
Lorna Washington, Acting Chief, General Ledger and Reporting Branch, Office of the Controller, Office of the Chief Financial Officer
Linda Gray, Director, Office of Human Resources, Office of Administration and Resources Management
Venus Marshall, Special Assistant, Office of Pesticide Programs, Office of Chemical Safety and Pollution Prevention
Nic Grzegozewski, Agency Audit Followup Coordinator
Brandon McDowell, Audit Follow-Up Coordinator, Office of Administration and Resources Management
Janet Weiner, Audit Follow-Up Coordinator, Office of Chemical Safety and Pollution Prevention

Nic Grzegozewski, Audit Follow-Up Coordinator, Office of the Chief Financial Officer
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Janice Kern, Audit Coordinator, Office of Financial Services, Office of the Chief Financial
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Arthur A. Elkins Jr., Inspector General
Charles Sheehan, Deputy Inspector General
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Kevin Christensen, Assistant Inspector General for Audit
Patrick Sullivan, Assistant Inspector General for Investigations
Carolyn Copper, Assistant Inspector General for Program Evaluation
Richard Eyer mann, Deputy Assistant Inspector General for Audit
Jennifer Kaplan, Deputy Assistant Inspector General for Congressional and Public Affairs
Jeffrey Lagda, Congressional and Media Liaison, OIG
Robert Smith, Project Manager, OIG

Audit Expectations

We will audit the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA) for the Pesticide Reregistration and Expedited Processing Fund (FIFRA) and Pesticide Registration Fund (PRIA) as of September 30, 2016, and September 30, 2015, and the related statements of net cost, net cost by goal, changes in net position, and custodial activity; the statement of budgetary resources for the years then ended; and related notes to the financial statements. We confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements and to determine whether:

1. The financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles.
2. The EPA's internal control structure over financial reporting related to the financial statements is in place and provides reasonable assurance that:
 - a. Financial transactions are executed in compliance with applicable laws and regulations.
 - b. Assets are safeguarded against loss from unauthorized acquisition, use or disposition.
 - c. Transactions are properly recorded, processed and summarized to permit the preparation of reliable financial statements.
3. The agency complied with laws and regulations that would have a direct and material effect on the financial statements.
4. Reported accomplishments under applicable performance measures and goals for FIFRA are accurate.
5. The agency complied with the decision time review period requirements for PRIA.
6. The agency complied with specific provisions of FIFRA and PRIA.
7. The information and manner of presentation contained in the Management's Discussion and Analysis and any other accompanying information is materially consistent with the information contained in the principal statements.

Auditor's Responsibilities

We will conduct our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to the financial audits contained in the *Government Auditing Standards* (2011 Revision) issued by the Comptroller General of the United States; and Office of Management and Budget's (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. The standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by EPA's management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with the standards.

In making our risk assessments, we consider internal control relevant to the EPA's preparation and fair presentation of the financial statements, including its Federal Managers' Financial Integrity Act process, in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of EPA's internal control.

We will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

Issues Impacting the Audit

In FY 2014, the EPA allocated its pesticides appropriated funding to pay for payroll costs. By paying significant payroll amounts from appropriations versus from fees collected by the FIFRA Fund, the EPA lost the audit trail to properly support how much of the FIFRA Fund payroll expenses were paid for by appropriations. We were unable to satisfy ourselves by other audit procedures concerning the adequacy of the amounts allocated, consistency of application, or reasonableness of the payroll expenses between the FIFRA Fund and the EPA's other pesticide programs, including payroll accruals, as of and for the year ended September 30, 2014. As a result, we were unable to determine whether any adjustments were necessary relating to payroll and related accounts, income/expense from other appropriations, and payroll liabilities. This same condition that existed for the FY 2014 audit remains for the FY 2016 audit.

Management's Responsibilities

The financial statements are the responsibility of the EPA's management. Management is also responsible for:

1. The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. The selection and application of the accounting policies.
3. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.
4. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the purpose of the audit; and

- c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
5. Making sure all financial records and related information are available to us in a timely manner.
6. Identifying and ensuring that the EPA complies with the laws and regulations applicable to its activities.

As in past financial statement audits, we will request that key senior managers provide us a Management Representation Letter at the conclusion of our fieldwork. Among other things, the letter will confirm management's responsibility for: (1) preparing the financial statements in conformity with the federal financial accounting standards and applicable reporting requirements; (2) providing financial records and related data; (3) communicating to us all matters that pertain to the EPA's possible liability on legal matters that might impact on the finances and operations of the EPA; (4) providing assurances, to the best of their knowledge and belief, of the absence of fraud involving management or those employees who have a significant role in the entity's internal controls; (5) complying with federal financial management system requirements and other applicable laws and regulations; and (6) establishing and maintaining systems of internal controls for both financial and performance data.

Reporting

We will issue written reports upon completion of our audits of EPA's Fiscal 2016 FIFRA and PRIA financial statements in accordance with U.S. generally accepted auditing standards (GAAS); the standards applicable to the financial audits contained in the *Government Auditing Standards* (2011 Revision) issued by the Comptroller General of the United States; and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. Our reports will be addressed to the EPA's management. For reason stated above, we expect to issue a disclaimer of opinion on the FY 2016 FIFRA and PRIA financial statements. Circumstances may arise in which it is necessary for us to add an emphasis-of-matter or other-matter paragraph(s).

List of Deliverables

Information Needed from the Office of Pesticide Programs

1. Detailed listings of actions for FIFRA performance measures for FY 2016.
2. Excel spreadsheets of PRIA actions due and completed in FY 2016.
3. FY 2016 Reassessment Count listing, and supporting documentation.
4. Documentation including Toxicity Batching Appendices, Requirements Status and Registrant's Responses for Data Call-Ins.
5. Copies of RED, IRED and TRED documents not available on the OPP Internet site, and signature pages for those on the Internet site.
6. Information on the systems used to track FIFRA performance measures audits, and the controls used to ensure that the data is accurate.
7. Information on the systems used to track PRIA review period compliance, and the controls used to ensure that the data is accurate.
8. Draft Federal Register Notice on FY 2016 Pesticide Reregistration Performance Measures and Goals.
9. FY 2016 FIFRA Fee Table & Instructions to Registrants for Filing 2016 Pesticide Registration Maintenance Fees.
10. FY 2016 PRIA Fee Schedule Tables or the website to view the FY 2016 PRIA Fee Schedule Tables.
11. FY 2016 Pesticide Registration Maintenance Fee Filing Form (from OPP) (FIFRA).
12. FY 2016 Registration form with the action code (PRIA).
13. Documentation for OIG samples (OIG to provide sample listings):
 - Documentation of product cancellations in the OIG sample.
 - All files requested for PRIA actions in the OIG sample.
 - All files requested for FIFRA performance actions in the OIG sample.
 - Support for Collection samples, which could include registration/re-registration applications or forms, letter with the fee or decision review code, etc.

Information Needed from the Office of the Chief Financial Officer

14. FY 2016 FIFRA Financial Statements and footnotes with supporting documentation, including Management's Discussion and Analysis (draft and final).
15. FY 2016 PRIA Financial Statements, Management's Discussion and Analysis, and footnotes with supporting documentation (draft and final).
16. FIFRA and PRIA Collection documentation for the last 5 days of FY 2016.
17. FIFRA and PRIA Collection documentation for the first 5 days of FY 2017.
18. Overview of the FIFRA and PRIA Collection Process.
19. Overview of the FIFRA and PRIA Fund Balance With Treasury Process.
20. FY 2016 FIFRA and PRIA SF-224s, Monthly Suspense Reports, and Cash Reconciliation Reports (OIG will request months needed).
21. Listing of FY 2016 Pay Period 26 annual leave and compensatory time balances for FIFRA and PRIA employees, showing employee ID, name, base rate, and hours under annual leave and compensatory time.
22. Methodology developed on computation of accruals for (a) FIFRA and PRIA employees, and (b) unfunded annual leave for FIFRA and PRIA employees.
23. Documentation for OIG samples (OIG to provide sample listings):

- Source documentation for obligations, disbursements, and JV/SV samples.
- FIFRA and PRIA collection files with payment data (copy of checks, electronic payment, or other payment data) for collection samples.
- Support for Collection samples, which could include correction sheets, refund requests, schedule of collections, collection logs, etc.

24. Management Representation Letters, dated the same dates as the final audit reports

Note: This list is not all-inclusive. Additional documentation may be requested during the audit, as needed.