



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Report No. 19-F-0214

June 28, 2019



Report Contributors:

Paul Curtis
Robert Smith
Demetrios Papakonstantinou
Safiya Chambers
Amir Eskarous
Tanisha Heilig
Jennifer Hutkoff
Sabrina Jones
Carol Kwok
Ethel Lowery
Sheila May
Guillermo Mejia
Lynda Taylor
Tyler Van Surksum
Phillip Weihrouch

Abbreviations

EPA	U.S. Environmental Protection Agency
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FY	Fiscal Year
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover Photo: Pesticides being applied. (EPA photo)

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(202) 566-2599 (fax)

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EPA Office of Inspector General

1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
(202) 566-2391
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At a Glance

Why We Did This Project

The Food Quality Protection Act requires that we perform an annual audit of the financial statements for the Pesticides Reregistration and Expedited Processing Fund, also known as the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) Fund.

The U.S. Environmental Protection Agency (EPA) is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. To expedite this reregistration process, Congress authorized the EPA to collect fees from pesticide manufacturers. The fees are deposited into the FIFRA Fund. Each year the agency prepares financial statements that present financial information about the fund, along with information about the EPA's progress in reregistering pesticides.

This report addresses the following:

- *Operating efficiently and effectively.*

Address inquiries to our public affairs office at (202) 566-2391 or [OIG WEBCOMMENTS@epa.oig](mailto:OIG_WEBCOMMENTS@epa.oig).

List of [OIG reports](#).

Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

EPA Receives a Modified Opinion

We rendered a modified opinion on the FIFRA Fund financial statements for fiscal year (FY) 2017, meaning that except for the possible effects of the agency's inability to support FIFRA's payroll accruals and related expenses in FY 2016, the FY 2017 financial statements were fairly presented.

We rendered a modified opinion on the EPA's FY 2017 FIFRA Fund financial statements and a disclaimer of opinion on the FY 2016 (restated) FIFRA Fund financial statements.

We rendered a disclaimer of opinion on the FIFRA Fund financial statements for FY 2016, meaning that we could not obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. This disclaimer of opinion was rendered because the agency could not support FIFRA's payroll accruals and related expenses in FY 2016.

Compliance with Applicable Laws and Regulations

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

There are no recommendations in this report.



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

OFFICE OF
INSPECTOR GENERAL

June 28, 2019

MEMORANDUM

SUBJECT: Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund
Report No. 19-F-0214

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

A handwritten signature in black ink that reads "Paul C. Curtis".

TO: Alexandra Dapolito Dunn, Assistant Administrator
Office of Chemical Safety and Pollution Prevention

Holly Greaves, Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY18-0086.

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

We will post this report to our website at www.epa.gov/oig.

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Inspector General's Report on the Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Pesticides Reregistration and Expedited Processing Fund, also known as the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) Fund. These statements comprise the balance sheets as of September 30, 2017, and September 30, 2016 (restated); related statements of net cost and changes in net position; statement of budgetary resources for the years then ended; and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with generally accepted government 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 19-01, *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design

audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Disclaimer of Opinion in 2016

The U.S. Environmental Protection Agency (EPA) could not adequately support payroll liabilities on the FIFRA Fund's balance sheet as of September 30, 2016, as well as income/expense from other appropriations on the statements of the FIFRA Fund's net cost and changes in net position for the year ended September 30, 2016.

In fiscal year (FY) 2016, the EPA allocated its pesticides appropriated funding to pay for payroll costs. By paying significant payroll amounts from appropriations versus fees collected by the FIFRA Fund, the EPA lost the audit trail to properly support how much of the FIFRA 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, 2016. 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.

Disclaimer of Opinion in 2016

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion in 2016" section above, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the FIFRA Fund's financial statements and the related accompanying notes, as of and for the year ended September 30, 2016.

Basis for Qualified Opinion in 2017

The EPA could not support payroll accruals for the FIFRA Fund, as of and for the year ended September 30, 2016. The EPA's inability to support FIFRA's payroll accruals and related expenses in FY 2016 had a direct impact on the agency's ability to determine the proper balance of FIFRA payroll expenses for FY 2017. As a result, we were unable to obtain sufficient, appropriate audit evidence about the proper amount of FIFRA payroll expenses incurred for the year ended September 30, 2017, and we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion in 2017

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion in 2017” paragraph, the FIFRA Fund’s financial statements referred to above present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position and budgetary resources, as of and for the year ended September 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Restated Financial Statements. As discussed in Note 12 in the FIFRA Fund’s financial statements (Appendix A), the EPA revised its capitalized software procedures, leading the agency to correct the value of the software assets and account for all software projects. The EPA performed corrections to fix the value of the software assets, which the agency determined were understated. As a result of the agency’s corrections, the EPA restated the FY 2016 FIFRA Fund’s financial statements.

Our report on the EPA’s FY 2016 FIFRA Fund’s financial statements—Report No. [17-F-0364](#), dated August 14, 2017—contained a disclaimer of opinion as mentioned above. The EPA’s restatement of the FIFRA Fund financial statements did not resolve the issues that resulted in the disclaimer; accordingly, our disclaimer of opinion on the FY 2016 financial statements has not changed.

Report on Internal Control over Financial Reporting

Opinion on Internal Control. In planning and performing our audit, we considered the EPA’s internal controls over 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 assertion on internal control included in the “Management’s Discussion and Analysis” section of the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 19-01. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA).

Material Weakness and Significant Deficiencies. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in this area that might be significant deficiencies. A deficiency in internal control exists when the design or operation of a control does not allow

management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet it is important enough to merit attention by those charged with governance.

Because of inherent limitations in internal control, misstatements, losses or noncompliance may occur and not be detected. In the "Prior Audit Coverage" section of this report below, we discuss a matter involving internal control and its operation, which we consider to be a material weakness.

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

OMB Bulletin No. 19-01 requires the OIG to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report. The agency's FMFIA report is prepared and submitted at the consolidated level, of which the FIFRA Fund is a component.

In the EPA's FY 2017 agency financial statement audit report, dated November 15, 2017, the agency continued to address a material weakness related to undercapitalized software. The agency had also addressed this weakness in its FYs 2014, 2015 and 2016 assurance letters.

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

EPA management is responsible for complying with laws, regulations, contracts and grant agreements applicable to the agency. As part of obtaining a reasonable assurance as to whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, including those governing the use of budgetary authority, regulations, contracts and grant agreements that have a direct effect on the determination of material amounts and disclosures in the FIFRA Fund's financial statements. The objective of our audit, including our tests of compliance with applicable laws, regulations, contracts and grant agreements, was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any instances of noncompliance that would result in a material misstatement to the audited financial statements.

Management’s Discussion and Analysis Section of the Financial Statements

For our audit work related to the pesticide program information presented in the “Management’s Discussion and Analysis” section of the financial statements in Appendix A, we compared the overview with information in the 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 a previous audit of the FIFRA Fund’s financial statements—*Fiscal Years 2015 and 2014 Financial Statements for the Pesticide Reregistration and Expedited Processing Fund* (Report No. [17-F-0314](#)), issued July 10, 2017—we reported a material weakness regarding inadequate support of costs. We reported the same issue in the next audit report about the FIFRA Fund’s financial statements—*Fiscal Years 2016 and 2015 Financial Statements for the Pesticide Reregistration and Expedited Processing Fund* (Report No. [17-F-0364](#)), issued August 14, 2017. Specifically, the EPA’s Office of Pesticide Programs receives its funding from fees paid by pesticide manufacturers and amounts appropriated by Congress. In both FYs 2015 and 2016, the EPA allocated its pesticide funding to use appropriated amounts, which would expire, and retained funding received from fees. Therefore, significant payroll amounts paid from appropriations were not charged directly to the FIFRA Fund or other pesticide programs. This approach resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA Fund and other pesticide programs.

The agency agreed with our findings in the prior reports and has corrected this weakness. In October 2016, the agency improved its methodology for capturing new FIFRA costs by establishing codes to distinguish the costs charged to the FIFRA Fund versus the costs charged against other appropriations that support FIFRA-related activities.

Agency Comments

There are no recommendations in this report, and the agency had no comments.



Paul C. Curtis
Certified Public Accountant
Director, Financial Directorate
Office of Audit and Evaluation
Office of Inspector General
U.S. Environmental Protection Agency
June 25, 2019

**Fiscal Years 2017 and 2016 (with Restatements)
Pesticides Reregistration and Expedited Processing Fund
Financial Statements**



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

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Management's Discussion and Analysis

Under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and the Federal Food, Drug, and Cosmetic Act (FFDCA), as amended by the Food Quality Protection Act (FQPA) of 1996, the EPA's Pesticide Program registers new pesticides and re-evaluates existing pesticides to ensure that they can be used safely and that levels of residue in food and animal feed are safe (there is a reasonable certainty of no harm). The agency must also conclude that, when used in accordance with labeling and common practices, the product will not generally cause unreasonable adverse effects on the environment.

In accordance with FIFRA and FFDCA, the pesticide program administers the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund). As of 1996, fees for reregistration are deposited to the FIFRA account, which is available to the EPA without further appropriation.

Under the FFDCA, EPA sets "tolerances", or maximum residue levels. If a pesticide is intended to be used in a manner that may result in residues in food or animal feed, the applicant must petition EPA for establishment of a tolerance (or exemption from a tolerance). Tolerances are set at levels that ensure a reasonable certainty of no harm from the potential pesticide residues in food combined with other non-occupational exposure.

The passage of the Food Quality Protection Act (FQPA) in 1996 provided for additional fees to support reregistration activities and required tolerances to be reassessed as part of the reregistration program. Effective January 1997, all fees related to tolerance activities were deposited in the FIFRA Fund. With passage of the Pesticide Registration Improvement Act (PRIA 1) of 2003 and amendments in 2007 and 2012, no additional tolerance petition fees are to be deposited to the FIFRA Fund through FY 2017.

The Pesticide Reregistration and Registration Review Programs

EPA is responsible for re-evaluating the safety of existing pesticides. Since the original pesticide legislation of 1947, scientific analysis techniques have grown much more precise and sophisticated and health and environmental standards have become more stringent. With the 1988 amendments to FIFRA (FIFRA '88), Congress mandated the accelerated reregistration of all products registered prior to November 1, 1984. The statute required completion of Reregistration Eligibility Decisions (REDs) and tolerance reassessment for all food-use active ingredients by 2006. The last REDs were completed in FY 2008.

All REDs for the active ingredients have been completed. A RED is a decision by the Agency defining whether products containing the pesticide active ingredient are eligible or ineligible for reregistration. Following the issuance of the RED, the registrant must comply with the RED by submitting product-specific data and revised labels for each product containing that active ingredient, or cancel the product registration. Based on its review of the data, if the product has met all the requirements, the EPA then reregisters the product.

The FQPA introduced a new program called Registration Review which replaced EPA's Pesticide Reregistration and Tolerance Reassessment programs as those programs were completed. Unlike earlier review programs, Registration Review applies to all registered pesticides. EPA reviews each registered pesticide every 15 years to determine whether it still meets the FIFRA standard for registration. In this way, the Agency ensures that all registered pesticides do not pose unreasonable risks to human health or the environment when used as directed on product labeling.

For pesticides registered before October 1, 2007, EPA has a statutory mandate to make Registration Review decisions by October 1, 2022. There are a total of 725 such cases. For each case, the steps in this process include, in this order, opening dockets, developing work plans, completing risk assessments, and making decisions regarding any risk management measures. It is important to open dockets and develop work plans for as many cases as possible early in the process so that there is time to complete the risk assessments and make decisions by the 2022 deadline. EPA completed its obligation for opening all 725 dockets in 2017 and shifted its focus to completing risk assessments and making decisions to meet its statutory deadline by 2022.

Congress authorized the collection of maintenance fees from manufacturers to supplement appropriated funds to support reregistration and registration review programs. Maintenance fees were structured under PRIA 3 to generate approximately \$27.8 million per year for five years (FY'13 – FY'17). Maintenance fees are assessed on a product-by-product basis with caps on the maximum number of products for which any single company would have to pay fees, as well as fee reductions for qualified small businesses. Registrations for minor use registrations and public health pesticides are also eligible for waivers and/or refunds of maintenance fees. Fees are deposited into the FIFRA Registration and Expedited Processing Fund. By statute, excess monies in the FIFRA Registration and Expedited Processing Fund may be invested. Between 11.1% and 12.5% of collected maintenance fees each year are used to support inert ingredient clearances as well as expedited processing of fast track amendments. PRIA 3 also set aside approximately \$800,000 of the collected maintenance fees each fiscal year to enhance specified IT systems.

FQPA also reauthorized collection of maintenance fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increasing annual fees from \$14 million to \$16 million per year through 2000) and required all tolerances (over 9,700) to be reassessed by 2006. The 2002 appropriations bill extended maintenance fees to \$17 million for another year, and the 2003 appropriations extended them to \$21.5 million for that year. Passage of PRIA 1 in FY 2004 extended maintenance fees through FY 2008 (with annual fees totaling \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (PRIA 2) in October 2007 extended maintenance fees through FY 2012 (\$22 million each FY). PRIA 2 provided for maintenance fees to offset the costs of registration review beginning in FY 2008.

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 state and tribal pesticide programs emphasizes its commitment to maintaining a strong compliance and enforcement presence. Agency FIFRA Cooperative Agreement priorities for FY 2015 – FY 2017 include the enforcement of worker protection standards and pesticide applicator certification requirements; compliance monitoring and enforcement activities related to the pesticide container and containment rules; the revised soil fumigant labels; compliance of supplemental distributor products; and program performance reporting. Core program activities include inspections of producing establishments; dealers/distributors/retailers; e-commerce; imports and exports, and pesticide misuse. Additionally, through Cooperative Agreements we support inspector training and training for state and tribal senior managers, scientists, and supervisors.

Highlights and Accomplishments

Tolerance Performance Measures

As mandated by PRIA 3, no Tolerance fees were collected and deposited to the FIFRA Fund in FY 2017.

Measure: Tolerance re-evaluations.

Results: The tolerance reassessment program was completed in FY 2007. EPA completed 9,721 tolerance reassessment decisions, addressing 100% of the 9,721 tolerances that required reassessment. Therefore, no further tolerance reassessment decisions were needed or completed in FY 2017.

Reregistration (FIFRA) Financial Perspective

During FY 2017, the Agency's obligations charged against the Registration and Expedited Processing Fund for the cost of the reregistration, registration review and other FIFRA activities authorized by 7 U.S.C. 136(k)(2)(A) were approximately \$18.8 million and 83.7 work-years. Of this amount, OPP obligated \$12 million for personnel compensation and benefits (PC&B).

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2017, the total appropriations that funded registration review, reregistration and other FIFRA activities authorized by 7 U.S.C. 136(k)(2)(A) were approximately \$18.0 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$27.98 million in FY 2017 receipts, more than 99.9% were fee collections. Total unobligated balance in the fund at the end of FY 2017 was \$37.4 million.

Reregistration Program (FIFRA) Performance Measures

The following measures support the program's strategic goals Ensuring the safety of chemicals and pollution prevention.

Measure 1: Number of Reregistration Eligibility Documents (REDs) completed.

Results: All Reregistration Eligibility Decisions (REDs) were completed by the end of FY 2008. Of the 613 chemical cases (representing approximately 1,150 pesticide active ingredients) that initially were subject to reregistration, 384 cases have completed REDs. An additional 229 reregistration cases were voluntarily canceled before EPA invested significant resources in developing REDs. All 613 reregistration cases (100%) completed the reregistration eligibility decision making process by the end of FY 2008.

Measure 2: Number of products reregistered, canceled, or amended. Over 20,000 products are or eventually will be subject to product reregistration. Many products, however, contain more than one active ingredient. Since products are reassessed separately for each active ingredient, EPA will conduct approximately 38,000 product reviews.

Results: In FY 2017, EPA completed the following actions: 14 reregistration decisions; 113 amendment decisions; 85 product cancellations (many of these cancelled products have multiple active ingredients, accounting for 128 decisions); and no suspension decisions. The Agency's goal in FY 2018 is to complete 400 product reregistration actions.

Measure 3: Progress in Reducing the Number of Unreviewed, Required Reregistration Studies.

Results: In FY 2017, EPA completed the last REDs for conventional pesticides in 2008, so all studies necessary to make reregistration eligibility decisions have been reviewed. REDs are complete for antimicrobial pesticides as well, but the program continues to issue post-RED DCIs and thus will have studies to review.

Measure 4: Number and Type of DCIs Issued to Support Product Reregistration by Active Ingredient.

Results: Regarding Data Call-In notices (DCIs) under FIFRA section 3(c)(2)(B) to support product reregistration for pesticide active ingredients included in REDs, EPA completed the last remaining REDs and reported DCI information for the conventional pesticide REDs in FY 2008. In FY 2017, the program issued no post-RED DCIs for antimicrobial pesticide active ingredients. The Agency's goal in FY 2018 is to issue 4 additional post-RED product-specific DCIs for 6 antimicrobial pesticide active ingredients.

Measure 5: Future Schedule for Reregistrations.

The last REDs were completed in FY 2008; therefore, there are no remaining candidates for future decisions.

**PRINCIPAL
FINANCIAL STATEMENTS**

Principal Financial Statements

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United States Environmental Protection Agency
FIFRA
Balance Sheet
As of September 30, 2017 and 2016 (Restated)
(Dollars in Thousands)

	FY 2017	Restated FY 2016
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 43,614	\$ 31,654
Other (Note 3)	27	11
Total Intragovernmental	43,641	31,665
Property, Plant & Equipment, Net (Notes 4 and 12)	499	462
Total Assets (Note 12)	\$ 44,140	\$ 32,127
Liabilities:		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	126	26
Other (Note 5)	360	323
Total Intragovernmental	486	349
Accounts Payable & Accrued Liabilities	601	505
Payroll & Benefits Payable (Note 6)	4,918	2,106
Other (Note 5)	47,342	36,867
Total Liabilities	\$ 53,347	\$ 39,827
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections	(1,072)	(1,063)
Cumulative Results of Operations - Funds from Dedicated Collections (Note 12)	(8,135)	(6,637)
Total Net Position (Note 12)	(9,207)	(7,700)
Total Liabilities and Net Position (Note 12)	\$ 44,140	\$ 32,127

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

United States Environmental Protection Agency
FIFRA
Statement of Net Cost
For the Fiscal Years Ending September 30, 2017 and 2016 (Restated)
(Dollars in Thousands)

	FY 2017	Restated FY 2016
Costs:		
Gross Costs (Notes 9 and 12)	\$ 18,892	\$ 19,583
Expenses from Other Appropriations (Note 7)	47,443	39,730
Total Costs	66,335	59,313
Less:		
Earned Revenue (Note 8 and 9)	16,835	18,047
Net Cost of Operations (Note 12)	\$ 49,500	\$ 41,266

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

United States Environmental Protection Agency
FIFRA
Statement of Changes in Net Position
For the Fiscal Years Ending September 30, 2017 and 2016 (Restated)
(Dollars in Thousands)

	FY 2017	Restated FY 2016
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ (6,637)	\$ (5,343)
Adjustment:		
Correction of Errors (Notes 4 and 12)	-	(346)
Beginning Balances	(6,637)	(5,689)
Budgetary Financing Sources:		
Appropriations Used	9	-
Nonexchange Revenue - Securities Investment	148	16
Transfers In/Out	-	(1)
Income from Appropriations (Note 7)	47,443	39,730
Total Budgetary Financing Sources	47,600	39,745
Other Financing Sources (Non-Exchange)		
Imputed Financing Sources	402	573
Total Other Financing Sources	402	573
Net Cost of Operations (Notes 9 and 12)	(49,500)	(41,266)
Net Change	(1,498)	(948)
Cumulative Results of Operations (Note 12)	\$ (8,135)	\$ (6,637)
	FY 2017	FY 2016
Unexpended Appropriations:		
Net Position - Beginning of Period	(1,063)	9
Budgetary Financing Sources:		
Appropriations Received	(9)	-
Other Adjustments (Note 11)	-	(1,072)
Total Budgetary Financing Sources	(9)	(1,072)
Total Unexpended Appropriations	(1,072)	(1,063)
Total Net Position (Note 12)	\$ (9,207)	\$ (7,700)

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

United States Environmental Protection Agency
FIFRA
Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2017 and 2016
(Dollars in Thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 27,109	\$ 15,973
Unobligated Balance Brought Forward, October 1, as adjusted	27,109	15,973
Recoveries of prior year unpaid obligations	53	-
Other changes in unobligated balance	-	(1,072)
Unobligated balance from prior year budget authority, net	27,162	14,901
Appropriations (discretionary and mandatory)	44	91
Spending Authority from offsetting collection (discretionary and mandatory)	27,454	28,500
Total Budgetary Resources	<u>\$ 54,660</u>	<u>\$ 43,492</u>
Status of Budgetary Resources:		
Obligations Incurred	19,062	16,383
Unobligated Balance, end of year:		
Apportioned	35,598	26,390
Unapportioned	-	719
Total Unobligated balance, end of period	<u>35,598</u>	<u>27,109</u>
Total Status of Budgetary Resources	<u>\$ 54,660</u>	<u>\$ 43,492</u>
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	2,605	4,395
Obligations incurred, net	19,062	16,384
Outlays (gross)	(17,871)	(18,174)
Recoveries of prior year unpaid obligations	(52)	-
Unpaid obligations, end of year (gross)	<u>\$ 3,744</u>	<u>\$ 2,605</u>
Memorandum entries:		
Obligated balance, start of year	2,605	4,395
Obligated balance, end of year (net)	3,744	2,605
Budget authority and outlays, net:		
Budget authority, gross (discretionary and mandatory)	27,498	28,591
Actual offsetting collections (discretionary and mandatory)	(27,454)	(28,500)
Budget Authority, net (discretionary and mandatory)	<u>\$ 44</u>	<u>\$ 91</u>
Outlays, gross (discretionary and mandatory)	17,871	18,174
Actual offsetting collections (discretionary and mandatory)	(27,454)	(28,500)
Outlays, net (discretionary and mandatory)	(9,583)	(10,326)
Agency outlays, net (discretionary and mandatory)	<u>\$ (9,583)</u>	<u>\$ (10,326)</u>

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

United States Environmental Protection Agency
FIFRA
Notes to Financial Statements
For the Fiscal Years Ending September 30, 2017 and 2016 (Restated)
(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 FIFRA Revolving Fund was authorized in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The 1988 amendments mandated the accelerated re-registration of all products registered prior to November 1, 1984. Congress authorized the collection of maintenance fees to supplement appropriations to fund re-registration and to fund expedited processing of pesticides. Maintenance fees are assessed on registrants of pesticide products. FIFRA also includes provisions for the registration of new pesticides (funded in part from the PRIA or Pesticide Registration Fund), monitoring the distribution and use of pesticides, issuing civil or criminal penalties for violations, establishing cooperative agreements with the states, and certifying training programs for users of restricted chemicals. Appropriated funds, with the exception of partial funding of registration from Pesticide Registration Service Fees in the Pesticide Registration Fund, pay for these activities. The FIFRA Revolving Fund is accounted for under Treasury symbol number 68X4310.

The FIFRA 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 FY 2017 and FY 2016 were \$47,443 thousand and \$39,730 thousand, respectively. These amounts are included as Income from Other Appropriations on the Statement of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the EPA for the Reregistration and Expedited Processing (FIFRA) Revolving Fund as required by the Chief Financial Officers Act of 1990. 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 2017 and FY 2016 cost factors for calculating imputed costs for Federal civilian benefits programs, respectively. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

C. Budgets and Budgetary Accounting

Funding of the FIFRA Revolving Fund is provided by fees collected from industry to offset costs incurred by the 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

The EPA's 2002 appropriations bill extended authority to collect maintenance fees by one year in the amount of \$17 million and the FY 2003 appropriations extended the authority to collect fees again by one year in the amount of \$21.5 million. Passage of the Pesticide Registration Improvement Act (PRIA) in 2004 extended the authority to collect maintenance fees through FY 2008 (with annual fee amounts at \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) in 2007 extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts set at \$22 million each year from 2008-2012). For FYs 2017 and 2016, the FIFRA Revolving Fund received funding from maintenance fees collected on existing registered pesticide products and from interest collected on investments in U.S. Government securities. For FYs 2017 and 2016, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

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

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. FIFRA 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

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

I. Accounts Receivable and Interest Receivable

FIFRA receivables are mainly for interest receivable on investments.

J. Liabilities

Liabilities represent the amount of monies or other resources that are likely than not to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections. 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 FIFRA, liabilities are liquidated from fee receipts and interest earnings, since FIFRA receives no appropriation. Fees collected by the Agency are classified as unearned revenue until expended (see Note 5). Liabilities of the Agency, arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

K. 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."

L. 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.

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.

N. Prior Period Adjustments and Restatements

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

Note 2. Fund Balance with Treasury

	<u>FY 2017</u>	<u>FY 2016</u>
Revolving Funds: Entity Assets	\$ <u>43,614</u>	<u>31,654</u>

Note 3. Other Assets-Advances to Working Capital Fund

FIFRA advances funds to the EPA's Working Capital Fund to pay for computer, postage, and other administrative support services. As of September 30, 2017, and 2016, funds advanced that will be applied to future costs as incurred were \$27 thousand and \$11 thousand, respectively.

Note 4. General Property, Plant and Equipment

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

In FY 2015, the Agency initiated an intensive remediation effort to address the material weakness of accounting for software. The Agency disclosed a material weakness through its internal control review of software capitalization processes in FY 2014. The material weakness was cited in the "Audit of the EPA's Fiscal Year's 2014 and 2013 (Restated) Consolidated Financial Statements" report, dated November 17, 2014. The agency expects to resolve this material weakness in FY 2018. Please see Note 12, Restatements, for further information on the impact of the material weakness remediation on software.

As of September 30, 2017, and 2016 (Restated), General Property, Plant and Equipment consist of the following:

	FY 2017			FY 2016 (Restated)		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 489	(60)	429	490	(28)	462
Software	330	(260)	70	225	(225)	-
Total	<u>\$ 819</u>	<u>(320)</u>	<u>499</u>	<u>715</u>	<u>(253)</u>	<u>462</u>

Note 5. Other Liabilities

For FYs 2017 and 2016, the 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 2017</u>	<u>FY 2016</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 360	323
Total	<u>360</u>	<u>323</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Unearned Advances from Fee Collections*	47,342	36,867
Total	<u>\$ 47,342</u>	<u>36,867</u>

*Fees collected by the FIFRA program that have not yet been expended are considered unearned revenue. Unearned revenue will fluctuate in conjunction with expenses paid from other appropriations and program expenses (see Note 7).

Note 6. Payroll and Benefits Payable, non-Federal

	<u>FY 2017</u>	<u>FY 2016</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 1,734	1,542
Withholdings Payable	78	69
Thrift Savings Plan Benefits Payable	76	68
Total	<u>1,888</u>	<u>1,679</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave Liability	<u>\$ 3,030</u>	<u>427</u>

At various periods throughout FYs 2017 and 2016, employees with their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management (EPM) appropriation. These employees were transferred to keep FIFRA's obligations and disbursements within budgetary and cash limits. When resources became available, the employees charging to FIFRA increased to utilize resources as much as possible.

This process has led to variations between the year-end liabilities for FYs 2017 and 2016. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. As of September 30, 2017, these liabilities were \$360 thousand and \$1,889 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2016's balances of \$323 thousand and \$1,679 thousand, respectively.

In contrast, the unfunded annual leave liability is a longer-term liability than the funded liabilities. The liability balance for unfunded annual leave accrued to cover the employees charged to FIFRA at the end of FY 2017 and FY 2016 was \$3,030 thousand and \$427 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 2017 and 2016, 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.

In FY 2017, EPA implemented a new methodology to capture direct and indirect costs for FIFRA. Improvements to the costing methodology include a project schema that designates expenses paid by other appropriations as FIFRA related activities. As illustrated below, there is no impact on FIFRA’s Statement of Changes in Net Position.

	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
FY 2017	\$ <u>47,443</u>	<u>47,443</u>	<u>-</u>
FY 2016	\$ <u>39,730</u>	<u>39,730</u>	<u>-</u>

Note 8. Exchange Revenues, Statement of Net Cost

For FYs 2017 and 2016, the exchange revenues reported on the Statement of Net Cost include both Federal and non-Federal amounts.

Note 9. Intragovernmental Costs and Exchange Revenue

	<u>FY 2017</u>	<u>Restated FY 2016</u>
Costs:		
Intragovernmental	\$ 6,202	\$ 4,533
With the Public	12,690	15,050
Expenses from Other Appropriations	47,443	39,730
Total Costs	<u>66,335</u>	<u>59,313</u>
Revenue:		
With the Public	<u>16,835</u>	<u>18,047</u>
Total Revenue	16,835	18,047
Net Cost of Operations	<u>\$ 49,500</u>	<u>\$ 41,266</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

	<u>FY 2017</u>	<u>Restated FY 2016</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 19,062	\$ 16,384
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(27,506)</u>	<u>(28,500)</u>
Obligations, Net of Offsetting Collections	<u>(8,444)</u>	<u>(12,116)</u>
Net Obligations	(8,444)	(12,116)
Other Resources		
Imputed Financing Sources	402	573
Income from Other Appropriations	<u>47,443</u>	<u>39,730</u>
Net Other Resources Used to Finance Activities	47,845	40,303
 Total Resources Used To Finance Activities	 <u>\$ 39,401</u>	 <u>\$ 28,187</u>
Resources Used to Finance Items		
Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated	6,963	12,795
Resources that Finance Asset Acquisition	<u>466</u>	<u>(143)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	7,429	12,652
 Total Resources Used to Finance the Net Cost of Operations	 <u>\$ 46,830</u>	 <u>\$ 40,839</u>
Components of the 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	<u>2,603</u>	<u>367</u>
Total Components of Net Cost of Operations that Require or		
Generate Resources in Future Periods	2,603	367
 Components Not Requiring/Generating Resources:		
Depreciation and Amortization	<u>67</u>	<u>60</u>
Total Components of Net Cost that Will Not Require or Generate Resources	<u>67</u>	<u>60</u>
 Total Components of Net Cost of Operations That Will Not Require or		
Generate Resources in the Current Period	<u>2,670</u>	<u>427</u>
 Net Cost of Operations	 <u>\$ 49,500</u>	 <u>\$ 41,266</u>

Note 11. Miscellaneous Receipts Act Violations and Potential Anti-Deficiency Act Violations

In 2007 and 2014 The Office of Pesticide Programs established the per-product maintenance fee to purposefully collect fees above the FIFRA § 4 statutory target with the understanding that EPA could "make up" for shortfalls in prior years' collections. The FIFRA § 4 does not authorize EPA to purposefully over-collect fees where the statutory target was not met in prior years so as to reach the target "on average" over a given number of years. As of 2016, the Agency had collected \$1.072 million in fees in excess of its statutory authority. In compliance with the Miscellaneous Receipts Act, in May 2016, the EPA deposited the excess fees collected into the General Fund of the Treasury.

Note 12. Restatements

In accordance with OMB Circular A-123, the EPA performed a review of its capital software commencing in FY 2015. The review identified the following issues:

1. Entries under \$250,000 were not capitalized.
2. Some entries had incorrect accounting strings.
3. Credit/debit lines were combined to correct transaction amounts.

To address these findings, the EPA revised its capitalized software procedures, resulting in the agency correcting values and accounting for all software projects. The EPA performed corrections to fix the value of the software assets that were determined to be understated.

As a result of the agency corrections, the EPA restated the FY 2016 FIFRA financial statements, which are presented in the FY 2017 and FY 2016 comparative financial statements. The changes impacted the FY 2016 Balance Sheet, Statement of Net Cost, and Statement of Changes to Net Position.

	<u>FY 2016, as Previously Reported</u>	<u>Adjustment</u>	<u>FY 2016, as Restated</u>
Balance Sheet			
Property, Plant & Equipment, Net	\$ 783	\$ (321)	\$ 462
Total Assets	32,448	(321)	32,127
Cumulative Results of Operations - Funds from Dedicated Collections	(6,316)	(321)	(6,637)
Total Net Position	(7,379)	(321)	(7,700)
Total Liabilities and Net Position	\$ 32,448	\$ (321)	\$ 32,127
Statement of Net Cost			
Gross Costs	\$ 19,608	\$ (25)	\$ 19,583
Net Cost of Operations	\$ 41,291	\$ (25)	\$ 41,266
Statement of Changes in Net Position			
Net Position Beginning of Period	\$ (5,343)	\$ (346)	\$ (5,689)
Net Cost of Operations	(41,291)	25	(41,266)
Net Change	(973)	25	(948)
Cumulative Results of Operations	(6,316)	(321)	(6,637)
Total Net Position	\$ (7,379)	\$ (321)	\$ (7,700)

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