



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

Fiscal Years 2014 and 2013 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Report No. 16-F-0322

September 22, 2016

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Abbreviations

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

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At a Glance

Why We Did This Review

The Food Quality Protection Act requires that we perform an annual audit of the financial statements for the Pesticides Reregistration and Expedited Processing Fund, known as the FIFRA (Federal Insecticide, Fungicide, and Rodenticide Act) 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 EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

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Fiscal Years 2014 and 2013 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Disclaimer of Opinion

We rendered a disclaimer of opinion on the FIFRA Fund financial statements for fiscal year (FY) 2014, meaning that we were unable to obtain sufficient evidence to determine if they were fairly presented and free of material misstatement. We had previously rendered an unmodified, or clean, opinion on the EPA's FIFRA Fund financial statements for FY 2013, meaning they were fairly presented and free of material misstatement.

Due to the material weakness in internal controls noted, the agency cannot provide reasonable assurance that financial data provided for the FIFRA Fund accurately reflect the agency's financial activities and balances.

Internal Control Material Weakness Noted

We noted a material weakness in that the EPA cannot adequately support \$34 million of its FY 2014 FIFRA Fund costs. The EPA's Office of Pesticide Programs receives its funding both from fees paid by pesticide manufacturers and from amounts appropriated by the Congress. In FY 2014, 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 resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA Fund and other pesticide programs.

Compliance With Applicable Laws and Regulations

In FY 2014, the EPA chose to significantly exceed the statutory target set out in FIFRA. FIFRA requires the EPA to collect pesticide maintenance fees, to the extent practicable, of \$27.8 million for each of FYs 2013 through 2017. In FY 2014, the EPA chose to collect \$28.6 million, \$800,000 over the established target.

Agency Comments and Office of Inspector General Evaluation

The agency agreed with each of our findings and our recommendation. In October 2015, the Office of Chemical Safety and Pollution Prevention eliminated the practice of averaging to offset over- or under-collection of maintenance fees from previous years, and plans to set the per-product maintenance fee at an amount that is designed to collect the target amount of fees authorized by Congress. The recommendation will remain open until we can confirm FY 2016 maintenance fee collections.



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

OFFICE OF
INSPECTOR GENERAL

September 22, 2016

MEMORANDUM

SUBJECT: Fiscal Years 2014 and 2013 Financial Statements for the
Pesticides Reregistration and Expedited Processing Fund
Report No. 16-F-0322

FROM: Paul C. Curtis, Director
Financial Statement Audits

A handwritten signature in black ink, appearing to read "Paul C. Curtis".

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

David Bloom, Deputy Chief Financial Officer
Office of the 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-FY15-0053. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This 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 offices with primary jurisdiction over the issues discussed in this report are the Office of Pesticide Programs within the Office of Chemical Safety and Pollution Prevention, and the Office of the Controller within the Office of the Chief Financial Officer.

Action Required

You completed corrective actions for the one recommendation in this report. As a result, you are not required to provide a written response to this report. However, if you submit a response, it will be posted on the OIG's public 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 2014 and 2013 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, known as the FIFRA (Federal Insecticide, Fungicide and Rodenticide Act) Fund, which comprise the balance sheet as of September 30, 2014, and September 30, 2013, and the related statements of net cost, changes in net position, and statement of budgetary resources for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. 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 upon our audit. We conducted our 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 14-02, *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to

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

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

The U.S. Environmental Protection Agency (EPA) cannot adequately support payroll liabilities on the (FIFRA Fund's) Balance Sheet as of September 30, 2014; and Income/Expense from other appropriations on the statements of the FIFRA Fund's Net Costs and Changes in Net Position of \$33,652,000, which represents approximately 60 percent of FIFRA Fund costs for the year ended September 30, 2014.

In fiscal year (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.

Disclaimer of Opinion – FY 2014

Because of the matter described in the Basis for Disclaimer of Opinion 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, 2014.

Unmodified Opinion – FY 2013

Our previous opinion on the FIFRA Fund's 2013 financial statements, dated July 10, 2015, expressed an unmodified opinion. In our opinion, the FIFRA Fund's financial statements, including the accompanying notes, presented fairly, in all material respects, the assets, liabilities, net position, changes in net position, and statement of budgetary resources as of and for the year ending September 30,

2013, in conformity with accounting principles generally accepted in the United States of America.

Evaluation of Internal Controls

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

- **Reliability of financial reporting**—Transactions are properly recorded, processed and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition.
- **Compliance with applicable laws, regulations and governmentwide policies**—Transactions are executed in accordance with laws governing the use of budget authority, governmentwide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

Opinion on Internal Controls. 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, nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Material Weakness and Significant Deficiencies. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will

not be prevented, or detected and corrected in a timely manner. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted a certain matter discussed below involving the internal control and its operation that we consider to be material. This issue is summarized below and detailed in Attachment 1.

Material Weakness

The EPA cannot adequately support \$34 million of its FY 2014 FIFRA Fund costs. OMB policy states that basic financial statements include a Balance Sheet and Statement of Net Costs, and that the statement of net costs should include the net costs of operations. The EPA's Office of Pesticide Programs receives its funding both from fees paid by pesticide manufacturers and from amounts appropriated by Congress. In FY 2014, 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 resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA Fund and other pesticide programs. The EPA developed an allocation methodology to distribute costs funded by EPA appropriations back to the FIFRA Fund, but the methodology is based upon inconsistent charging of payroll costs between the FIFRA Fund and EPA appropriations. Because the EPA cannot adequately support total FY 2014 FIFRA Fund costs and liabilities, and because we were unable to determine by other audit procedures the adequacy of amounts allocated, consistency of application, or reasonableness of net costs and liabilities, we disclaimed an opinion on the FIFRA Fund's FY 2014 financial statements. We consider the EPA's inability to support the FIFRA Fund payroll costs a material weakness.

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

OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the agency's FMFIA report.

For financial statement, audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. The agency did not report any material weakness for FY 2014 impacting the FIFRA Fund; however, we identified a material weakness with the agency's financial statement preparation process. Details concerning this material weakness are in Attachment 1. We previously reported

related issues in prior years. Those issues are listed in our prior audit coverage section.

Tests of Compliance With Laws and Regulations

As part of obtaining a reasonable assurance as to whether the agency's financial statements are free of material misstatement, we tested compliance with those laws and regulations that could either materially affect the FIFRA 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 noncompliance that would result in a material misstatement to the audited financial statements. We did notice one noncompliance with collection of fees.

In FY 2014, the EPA chose to significantly exceed the statutory target set out in FIFRA. FIFRA requires the EPA to collect pesticide maintenance fees, to the extent practicable, of \$27.8 million for each of FYs 2013 through 2017. In FY 2014, the EPA collected \$28.6 million, \$800,000 over the established target.

Management's Discussion and Analysis Section of the Financial Statements

Our audit work related to the information presented in the Management's Discussion and Analysis of the pesticide program included comparing the overview information with information in 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 previous financial statement audits, we reported the following significant deficiencies:

- EPA materially overstated the expenses from other appropriations that support the FIFRA Fund. This occurred because the agency did not have an effective system to accurately accumulate and report costs incurred by other appropriations in support of FIFRA Fund activities.
- EPA materially understated the FIFRA Fund payroll liabilities covered by budgetary resources, as well as related payroll expense included in gross costs. The agency's practice of transferring employees and expenses and liabilities from the FIFRA Fund to the Environmental Programs and Management Fund for cash flow reasons led to the understatement.

- The EPA could not initially produce accurate, timely and complete financial statements for the FIFRA Fund. The agency was not preparing a complete set of financial statements for FY 2013 because of its view that such statements were not required. This delayed the preparation of the first complete set of FY 2013 FIFRA Fund financial statements until July 2014. Because material errors in those statements and subsequent versions delayed the audit, we considered this to be a material weakness.

We previously reported the agency has taken action to correct these significant deficiencies. However, we found continuing issues with payroll during our FY 2014 audit that we believe are related to the findings previously reported. Our findings on payroll issues are presented as a material weakness in this report and is the reason for the disclaimer of opinion for the FY 2014 statements.

Agency Comments and Office of Inspector General Evaluation

The agency agreed with our findings and our recommendation. The agency agreed that it cannot adequately support total FY 2014 FIFRA Fund costs and liabilities, but believes that the PeoplePlus payroll cost allocation enhancement will allow for the creation of an audit trail to capture costs incurred by the FIFRA Fund and by other appropriations that support FIFRA-related activities. The agency plans to go live with the new enhancement by October 2017.

In October 2015, the Office of Chemical Safety and Pollution Prevention eliminated the practice of “averaging” to offset over- or under-collections of maintenance fees. The office plans to set the per-product maintenance fee at an amount that is designed to collect the target amount of fees authorized by Congress. The recommendation will remain open until we can confirm FY 2016 maintenance fee collections.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
September 19, 2016

Material Weakness

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1 – EPA Cannot Adequately Support FIFRA Fund Costs

The EPA cannot adequately support \$34 million of its FY 2014 FIFRA Fund costs. OMB policy states that basic financial statements include a Balance Sheet and Statement of Net Costs, and that the statement of net costs should include the net costs of operations. The EPA's Office of Pesticide Programs receives its funding both from fees paid by pesticide manufacturers and from amounts appropriated by Congress. In FY 2014, 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 resulted in the loss of the audit trail for reporting separate costs and liabilities for the FIFRA Fund and other pesticide programs. The EPA developed an allocation methodology to distribute costs funded by EPA appropriations back to the FIFRA Fund, but the methodology is based upon inconsistent charging of payroll costs between the FIFRA Fund and EPA appropriations. Because the EPA cannot adequately support total FY 2014 FIFRA Fund costs and liabilities, and because we were unable to determine by other audit procedures the adequacy of amounts allocated, consistency of application, or reasonableness of net costs and liabilities, we disclaimed an opinion on the FIFRA Fund's FY 2014 financial statements. We consider the EPA's inability to support FIFRA Fund payroll costs a material weakness.

FIFRA requires that, for the FIFRA program, a set of financial statements be prepared to provide an annual accounting of expenditures and collections. OMB Circular A-136 requires that these statements include a Statement of Net Costs, under which net costs of operations are reported. The FIFRA's Funds costs of operations are supported by several sources: maintenance fees, registration and reregistration fees, and EPA appropriations. For FY 2014, the EPA reported total FIFRA Fund costs of \$56.5 million, with about \$34 million being supported by EPA appropriations.

In FY 2014, the EPA allocated its pesticide funding to use appropriated amounts that would expire, and to retain funding received from fees. Therefore, significant payroll amounts were paid from appropriations and not charged directly to the FIFRA Fund. This resulted in the loss of the audit trail for reporting separate FIFRA Fund costs. The EPA adopted an allocation methodology to determine the amount of appropriated dollars used to support the FIFRA Fund and the EPA's other pesticide programs. However, this methodology is based upon inconsistent and arbitrary charging of the Office of Pesticide Programs' payroll costs between the FIFRA Fund and the EPA's other pesticide programs. The inconsistent and arbitrary charging makes the allocation base unreliable, and the methodology cannot be used to support \$34 million in FIFRA Fund operations costs. We consider the inability of the EPA to support FY 2014 FIFRA Fund costs to be a material weakness.

We did not determine payroll costs overall for the EPA's pesticide programs to be inaccurate. Our findings are limited to the specific allocation of appropriated amounts to cover payroll costs of the EPA's pesticide programs and accounting for those costs at the program level. At the program level (specifically, for FIFRA funds), the agency could not provide adequate support, and we could not audit the payroll costs for those funds paid for by appropriated amounts to opine on the adequacy of such amounts.

The EPA is aware that it needs to improve its accounting system to better account for FIFRA Fund costs. In FY 2015, the EPA indicated it made modifications to its accounting system, which purportedly will address this material weakness. Therefore, we make no recommendations at this time.

Agency Comments and Office of Inspector General Evaluation

The agency agreed with this finding and believes that the PeoplePlus payroll cost allocation enhancement will allow for the creation of an audit trail to capture costs incurred by the FIFRA Fund and other appropriations that support FIFRA-related activities. The agency plans to go live with this new enhancement by October 2017. The Office of the Chief Financial Officer plans to develop webinars and provide face-to-face training for all Office of Pesticide Programs employees. The first phase is expected to consist of a methodology to track direct costs related to FIFRA activities. The second phase is expected to consist of a methodology to accumulate indirect costs. The third phase is expected to consist of reporting actual hours worked on FIFRA-related activities, including direct and indirect costs. The fourth phase is expected to consist of producing the financial statements.

Compliance With Laws and Regulations

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2 – EPA Chose to Significantly Exceed Pesticide Maintenance Fee Collection Target

In FY 2014, the EPA chose to significantly exceed the statutory target set out by FIFRA. FIFRA requires the EPA to collect pesticide maintenance fees, to the extent practicable, of \$27.8 million for each of FYs 2013 through 2017. In FY 2014, the EPA chose to collect \$28.6 million, \$800,000 over the established target.

FIFRA, Section 4, Subsection(i)(1)(c), states, “The amount of each fee . . . shall be adjusted by the Administrator to a level that will result in the collection under this paragraph of, to the extent practicable, an aggregate amount of \$27,800,000 for each of fiscal years 2013 through 2017.”

In FY 2013, the EPA collected approximately \$27 million in pesticide maintenance fees—\$800,000 less than FIFRA’s maintenance fee target. For FY 2014, the Office of Pesticide Programs increased its pesticide registration maintenance fees to collect \$28.6 million to cover the shortfall of \$800,000 from FY 2013. The Office of Pesticide Programs stated: “We believe the intent of Congress when promulgating FIFRA, Section 4, Subsection (i)(1)(c) was to allow for the averaging of maintenance fee collections over the 5 year period. . . .” However, the Office of Pesticide Programs did not provide legal or legislative support for the position that Congress intended to allow for the averaging of maintenance fees. While FIFRA allows for an aggregate amount of \$27.8 million for each of FYs 2013 through 2017, we did not find anything in FIFRA that allows the EPA to choose to collect an amount of fees that significantly exceeds the \$27.8 million target, or to collect an average amount of \$27.8 million across fiscal years.

Recommendation

We recommend the Assistant Administrator for Chemical Safety and Pollution Prevention:

1. Adjust the annual pesticides maintenance fees to ensure the fees collected do not exceed the statutory target for each fiscal year.

Agency Comments and Office of Inspector General Evaluation

The Office of Chemical Safety and Pollution Prevention agrees with this recommendation and has already completed appropriate corrective actions. In October 2015, the office eliminated the practice of “averaging” to offset over- or under-collection of maintenance fees from previous years. The office has set the per-product maintenance fee at an amount that is designed to collect the target amount of fees authorized by Congress. The recommendation will remain open until we can confirm FY 2016 maintenance fee collections.

Status of Recommendations 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	11	Adjust the annual pesticides maintenance fees to ensure the fees collected do not exceed the statutory target for each fiscal year.	O *	Assistant Administrator for Chemical Safety and Pollution Prevention	10/1/15		

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

* The recommendation will remain "open" until we can confirm FY 2016 maintenance fee collections.

**Fiscal Years 2014 and 2013 Pesticides Reregistration and
Expedited Processing Fund
Financial Statements**



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

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Management's Discussion and Analysis

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 Re-registration 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. Non-food-use active ingredient REDs were to be complete by October 3, 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** to replace 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.

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 Revolving Fund. By statute, excess monies in the FIFRA 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. Approximately \$800,000 of collected maintenance fees each year are used 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, contract manufacturing 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 2014.

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 2014.

Reregistration (FIFRA) Financial Perspective

During FY 2014, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration programs and other authorized pesticide programs were \$23.7 million and 125.0 work-years. Of this amount, OPP obligated \$17.9 million for PC&B.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2014, the Enacted Operating Plan included approximately \$33.6 million in appropriated funds for reregistration program activities. The unobligated balance in the Fund at the end of FY 2014 was \$10.5 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$28.6 million in FY 2014 receipts, more than 99.9% were fee collections.

Reregistration Program (FIFRA) Performance Measures

The following measures support the program's strategic goals of Healthy Communities and Ecosystems as contained in the FY 2013 President's budget.

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 2014, 65 products were reregistered; 166 products were amended; 61 products were cancelled; and 4 products were suspended. Currently, a universe of 24,584 products is undergoing or has completed product reregistration. The status of those products at the end of FY 2014 was as follows: EPA had completed decisions for 19,216 products (specifically, 5,081 products had been reregistered; 3,229 product registrations had been amended; 10,866 products were cancelled; and 40 products were suspended); and 5,368 products had actions/decisions pending. The Agency's goal in FY 2015 is to complete 600 product reregistration actions.

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

Results: 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 2014, the program issued 2 post-RED DCIs for antimicrobial pesticide active ingredients. The Agency's goal in FY 2015 is to issue 64 additional post-RED DCIs for antimicrobial pesticides.

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, 2014 and 2013
(Dollars in Thousands)

	<u>FY 2014</u>	<u>FY 2013</u>
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 16,480	11,791
Total Intragovernmental	<u>16,480</u>	<u>11,791</u>
Property, Plant & Equipment, Net (Note 3)	<u>408</u>	<u>459</u>
Total Assets	<u>16,888</u>	<u>12,250</u>
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	70	10
Other (Note 4)	<u>271</u>	<u>363</u>
Total Intragovernmental	341	373
Accounts Payable & Accrued Liabilities	323	407
Payroll & Benefits Payable (Note 5)	2,762	4,066
Other (Note 4)	<u>20,109</u>	<u>14,787</u>
Total Liabilities	<u>23,535</u>	<u>19,633</u>
NET POSITION		
Cumulative Results of Operations	<u>(6,647)</u>	<u>(7,383)</u>
Total Net Position	(6,647)	(7,383)
Total Liabilities and Net Position	\$ <u>16,888</u>	<u>12,250</u>

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, 2014 and 2013
(Dollars in Thousands)

COSTS	<u>FY 2014</u>	<u>FY 2013</u>
Gross Costs (Note 8)	\$ 22,836	22,585
Expenses from Other Appropriations (Note 6)	<u>33,652</u>	<u>17,999</u>
Total Costs	56,488	40,584
Less:		
Earned Revenue (Note 8)	<u>23,306</u>	<u>21,767</u>
NET COST OF OPERATIONS (Note 8)	<u>\$ 33,182</u>	<u>18,817</u>

United States Environmental Protection Agency
FIFRA
Statement of Changes in Net Position
For the Fiscal Years Ending September 30, 2014 and 2013
(Dollars in Thousands)

	<u>FY 2014</u>	<u>FY 2013</u>
CUMULATIVE RESULTS OF OPERATIONS:		
NET POSITION - BEGINNING OF PERIOD	<u>(7,383)</u>	<u>(7,036)</u>
Beginning Balances, as Adjusted	\$ (7,383)	(7,036)
BUDGETARY FINANCING SOURCES:		
Nonexchange Revenue - Securities Investment	2	1
Income from Appropriations (Note 6)	<u>33,652</u>	<u>17,999</u>
Total Budgetary Financing Sources	33,654	18,000
OTHER FINANCING SOURCES (NON-EXCHANGE)		
Imputed Financing Sources	<u>264</u>	<u>470</u>
Total Other Financing Sources	264	470
Net Cost of Operations	(33,182)	(18,817)
Net Change	736	(347)
CUMULATIVE RESULTS OF OPERATIONS	<u>\$ (6,647)</u>	<u>(7,383)</u>

United States Environmental Protection Agency
FIFRA
Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2014 and 2013
(Dollars in Thousands)

	<u>FY 2014</u>	<u>FY 2013</u>
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1:	\$ 7,639	1,703
Unobligated Balance Brought Forward, October 1, as adjusted	7,639	1,703
Recoveries of prior year unpaid obligations	-	7
Unobligated balance from prior year budget authority, net	7,639	1,710
Appropriations (discretionary and mandatory)	(2,002)	
Spending Authority from offsetting collection (discretionary and mandatory)	28,630	27,142
Total Budgetary Resources	<u>34,267</u>	<u>28,852</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	23,749	21,213
Unobligated Balance, end of year:		
Apportioned	3,022	6,992
Unapportioned	7,496	647
Total Unobligated balance, end of period	<u>10,518</u>	<u>7,639</u>
Total Status of Budgetary Resources	<u>34,267</u>	<u>28,852</u>
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1 (gross)	4,151	3,077
Obligations incurred, net	23,749	21,213
Outlays (gross)	(23,941)	(20,132)
Recoveries of prior year unpaid obligations	-	(7)
Unpaid obligations, end of year (gross)	<u>3,959</u>	<u>4,151</u>
Memorandum entries:		
Obligated balance, start of year	4,151	3,077
Obligated balance, end of year (net)	3,959	4,151
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	26,628	27,142
Actual offsetting collections (discretionary and mandatory)	<u>(28,630)</u>	<u>(27,142)</u>
Budget Authority, net (discretionary and mandatory)	(2,002)	-
Outlays, gross (discretionary and mandatory)	23,941	20,132
Actual offsetting collections (discretionary and mandatory)	<u>(28,630)</u>	<u>(27,142)</u>
Outlays, net (discretionary and mandatory)	<u>(4,689)</u>	<u>(7,010)</u>
Agency outlays, net (discretionary and mandatory)	\$ <u>(4,689)</u>	<u>(7,010)</u>

United States Environmental Protection Agency
FIFRA
Notes to Financial Statements
For the Fiscal Years Ending September 30, 2014 and 2013
(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 2014 and FY 2013 were \$33,652 thousand and \$17,999 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. Costs for FY 2014 reflect a change in accounting principles to full cost, as explained in Paragraph N below.

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 2014 and FY 2013 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 2014 and 2013, 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 2014 and 2013 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 (Bureau of Public Debt) 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 consists of software in development. All funds (except for the Working Capital Fund) capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to 10 years.

I. 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. 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.

In fiscal year 2014, EPA elected to change an accounting principle and use the full cost of expenses from other appropriations in accordance with SFFAS No. 4, "Managerial Costs Accounting Standards and Concepts". See Note 6 for additional information.

Note 2. Fund Balance with Treasury

	<u>FY 2014</u>	<u>FY 2013</u>
Revolving Funds: Entity Assets	\$ 16,480	11,791

Note 3. General Property, Plant and Equipment

General property, plant and equipment consists of software and software in development.

As of September 30, 2014 and 2013, General Property, Plant and Equipment consist of the following:

	<u>FY 2014</u>			<u>FY 2013</u>		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
Software	\$ 1,107	(699)	408	1,001	(542)	459
Total	<u>\$ 1,107</u>	<u>(699)</u>	<u>408</u>	<u>1,001</u>	<u>(542)</u>	<u>459</u>

Note 4. Other Liabilities

For FYs 2014 and 2013, the Payroll and Benefits Payable, non-Federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 5).

	<u>FY 2014</u>	<u>FY 2013</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 271	363
Total	<u>\$ 271</u>	<u>363</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Advances from Non-Federal Entities	\$ 20,109	14,787
Total	<u>\$ 20,109</u>	<u>14,787</u>

Note 5. Payroll and Benefits Payable, non-Federal

	<u>FY 2014</u>	<u>FY 2013</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 946	1,704
Withholdings Payable	360	212
Thrift Savings Plan Benefits Payable	55	79
Total	<u>1,361</u>	<u>1,995</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave Liability	<u>\$ 1,401</u>	<u>2,071</u>

At various periods throughout FYs 2014 and 2013, employees with their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 6 below showing trend of hours charged per month to the FIFRA fund for FYs 2014 and 2013.) These employees were transferred in order to keep FIFRA's obligations and disbursements within budgetary and cash limits. When resources became available, the employees charging to FIFRA increased in order to utilize resources as much as possible. The Agency expects that the practice of transferring employees when FIFRA's resources are low, and restoring employees when funds become available, will continue throughout FY 2015 and probably beyond that period.

This process has led to variations between the year-end liabilities for FYs 2014 and 2013. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2014 and FY 2013, 169 employees were and 53 employees were charging their salary and benefits to FIFRA, respectively. As of September 30, 2014 these liabilities were \$271 thousand and \$1,361 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2013's balances of \$363 thousand and \$1,995 thousand, respectively.

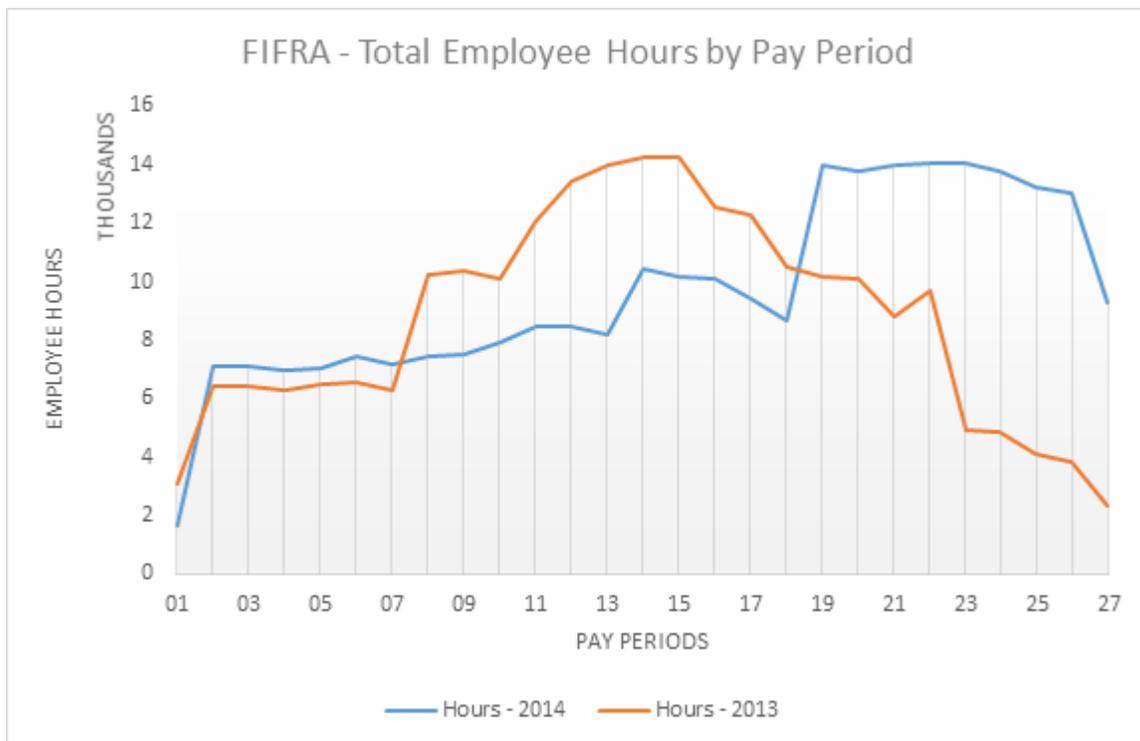
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2014 and 2013, approximately 265 and 222 employees, respectively, in total have been under FIFRA’s accountability. During the 25th pay period of FY 2014, the liability was computed based on 53 employees charging to FIFRA in the last pay period. Both the September 30, 2014 and 2013 liability balances for unfunded annual leave were accrued to cover the employees charged to FIFRA close to the end of the fiscal year for a total of 1,401 thousand and \$2,701 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 2014 and 2013, the EPA had two appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Transfers of employees from FIFRA to EPM at various times during these years (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 FIFRA each month, the transfers of employees and their associated costs, during FYs 2014 and 2013 are shown below. Note that a decrease in hours charged to FIFRA normally signifies an increase in EPM’s payroll costs, and vice versa. In addition, Pesticide registration was separated from FIFRA starting with FY 2004 and Pesticide has its own set of financial statements.



EPM costs related to FIFRA are allocated based on specific EPM program codes which have been designated for Pesticide 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 2014	\$ <u>33,652</u>	<u>33,652</u>	<u><u>-</u></u>
FY 2013	\$ <u>17,999</u>	<u>17,999</u>	<u><u>-</u></u>

Note 7. Exchange Revenues, Statement of Net Cost

For FYs 2014 and 2013, the exchange revenues reported on the Statement of Net Cost include both Federal and non-Federal amounts.

Note 8. Intragovernmental Costs and Exchange Revenue

	<u>FY 2014</u>	<u>FY 2013</u>
COSTS:		
Intragovernmental	\$ 6,242	5,104
With the Public	16,594	17,481
Expenses from Other Appropriations	<u>33,652</u>	<u>17,999</u>
Total Costs	56,488	40,584
 REVENUE		
With the Public	<u>23,306</u>	<u>21,767</u>
Total Revenue	23,306	21,767
 NET COST OF OPERATIONS	<u><u>\$ 33,182</u></u>	<u><u>18,817</u></u>

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

Note 9. Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing)

	<u>FY 2014</u>	<u>FY 2013</u>
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 23,749	21,213
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(28,630)</u>	<u>(27,149)</u>
Obligations, Net of Offsetting Collections	(4,881)	(5,936)
Less: Offsetting Receipts	<u>-</u>	<u>(3)</u>
Net Obligations	(4,881)	(5,939)
Other Resources		
Imputed Financing Sources	264	471
Income from Other Appropriations	<u>33,652</u>	<u>17,999</u>
Net Other Resources Used to Finance Activities	33,916	18,470
 Total Resources Used To Finance Activities	 <u>29,035</u>	 <u>12,531</u>
 RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated	5,551	6,073
Resources that Fund Prior Periods Expenses	(785)	-
Offsetting Receipts Not Affecting Net Cost	-	3
Resources that Finance Asset Acquisition	<u>(106)</u>	<u>(52)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	4,660	6,024
 Total Resources Used to Finance the Net Cost of Operations	 <u><u>33,695</u></u>	 <u><u>18,555</u></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	(670)	169
Increase in Environmental and Disposal Liability	<u>-</u>	<u>(58)</u>
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	(670)	111
 Components Not Requiring/Generating Resources:		
Depreciation and Amortization	<u>157</u>	<u>151</u>
Total Components of Net Cost that Will Not Require or Generate Resources	<u>157</u>	<u>151</u>
 Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	 <u>(513)</u>	 <u>262</u>
 Net Cost of Operations	 \$ <u><u>33,182</u></u>	 <u><u>18,817</u></u>



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

JUL 25 2016

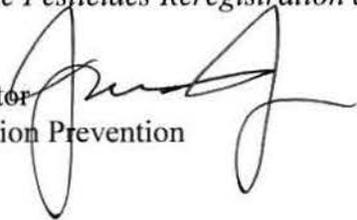
OFFICE OF CHEMICAL SAFETY
AND POLLUTION PREVENTION

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report entitled "*Fiscal Years 2014 and 2013 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund.*"

FROM: James J. Jones, Assistant Administrator
Office of Chemical Safety and Pollution Prevention

TO: Arthur A. Elkins, Jr.
Inspector General



The following is the Office of Chemical Safety and Pollution Prevention's (OCSPP) response to Draft Report No. OA-FY15-0053, entitled "Fiscal Years 2014 and 2013 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund," dated June 27, 2016.

I. Background and Discussion of Findings:

Before we discuss the Draft Report's recommendation, and our proposed corrective action, OCSPP wishes to express support for the OIG's findings, specifically:

- The agency cannot adequately support payroll liabilities on FIFRA's Balance Sheet as of September 30, 2014; and Income/Expense from other appropriations on the statements of FIFRA's Net Costs and Changes in the net Position of \$33,652,000, which represents approximately 60 percent of FIFRA costs for the year ended September 30, 2014;
- 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 FIFRA, the EPA lost the audit trail to properly support how much FIFRA payroll expenses were paid for by appropriations; and
- The agency cannot adequately support total FY 2014 FIFRA costs and liabilities.

OCSPP is pleased to report that the Agency's efforts, led by the Office of the Chief Financial Officer (OCFO) with the support of OCSPP, have already made substantial progress in addressing the above findings.

OCSPP understands the importance of proper FIFRA cost accounting and fee rate setting. In order to implement an effective system to track and report costs incurred by appropriations that

support FIFRA-related work, OCSPP's Office of Pesticide Programs (OPP) is actively participating in OCFO's Technical User Group, to provide feedback and recommendations for the PeoplePlus Enhancement project. The PeoplePlus payroll cost allocation enhancement will allow for the creation of an audit trail to capture costs incurred by the FIFRA Fund and by other appropriations that support FIFRA-related activities. This will address the material weakness cited in the Draft Report. The new enhancement will go live by October 2017.

Additionally, OCSPP/OPP has partnered with OCFO senior leaders to develop a phased-pilot approach for all OPP employees to capture direct and indirect costs for the FIFRA program. OCFO will develop webinars and provide face-to-face training for all OPP employees to ensure the same methodology is being used enterprise-wide. The 1st phase will consist of a methodology to track direct costs related to FIFRA activities. The 2nd phase will consist of a methodology to accumulate indirect costs. The 3rd phase will consist of reporting actual hours worked on FIFRA-related activities including direct and indirect costs. The 4th phase will consist of producing the financial statements. The results of these concerted efforts will be realized in October 2017.

II. OCSPP Response to the OIG's Recommendation:

Recommendation: The Assistant Administrator for Chemical Safety and Pollution Prevention should adjust the annual pesticides maintenance fees to ensure the fees collected do not exceed the statutory maximum for each fiscal year.

OCSPP Response: OCSPP agrees with this recommendation and has already completed appropriate corrective actions. In October 2015, OCSPP eliminated the practice of "averaging" to offset over-or-under collections of maintenance fees from previous years. OCSPP has set the per-product maintenance fee at an amount that is designed to collect the target amount of fees authorized by Congress.

If you have questions or require additional information, please contact Janet Weiner, OCSPP's Audit Liaison, at (202) 564-2309.

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