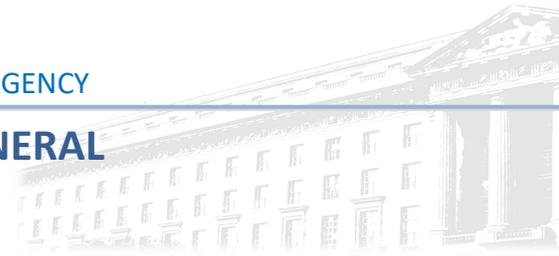




U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Operating efficiently and effectively

Fiscal Years 2018 and 2017 Financial Statements for the Pesticide Registration Fund

Report No. 20-F-0135

April 14, 2020



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Abbreviations

EPA U.S. Environmental Protection Agency
FY Fiscal Year
OIG Office of Inspector General
PRIA Pesticide Registration Improvement Act

Cover Photo: Pesticides being applied. (EPA photo)

Are you aware of fraud, waste, or abuse in an EPA program?

EPA Inspector General Hotline

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At a Glance

Why We Did This Project

The Pesticide Registration Improvement Act requires that the U.S. Environmental Protection Agency's Office of Inspector General perform an annual audit of the Pesticide Registration Fund (also known as the PRIA Fund) financial statements.

To expedite the registration of certain pesticides, Congress authorized the EPA to assess and collect pesticide registration fees. The fees collected are deposited into the PRIA Fund. The Agency is required to prepare financial statements that present financial information about the Fund.

PRIA also requires that decision time review periods be established for pesticide registration actions and that the OIG perform an analysis of the Agency's compliance with those review periods.

This report addresses the following:

- *Operating efficiently and effectively.*

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

List of [OIG reports](#).

Fiscal Years 2018 and 2017 Financial Statements for the Pesticide Registration Fund

EPA Receives an Unmodified Opinion for FY 2018

We rendered an unmodified opinion on the PRIA Fund financial statements for fiscal year 2018, meaning they were fairly presented and free of material misstatement.

We rendered an unmodified opinion on the EPA's FY 2018 PRIA Fund financial statements and a qualified opinion on the FY 2017 PRIA Fund financial statements.

We rendered a qualified opinion on the PRIA Fund financial statements for FY 2017, meaning that except for the possible effects of the Agency's inability to support PRIA's payroll accruals and related expenses, the FY 2017 financial statements were fairly presented.

Compliance with Applicable Laws and Regulations

We did not identify any noncompliances that would result in a material misstatement to the audited financial statements. In addition, the Agency was in substantial compliance with the statutory decision time review periods.

There are no recommendations in this report.



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

OFFICE OF
INSPECTOR GENERAL

April 14, 2020

MEMORANDUM

SUBJECT: Fiscal Years 2018 and 2017 Financial Statements for the Pesticide
Registration Fund
Report No. 20-F-0135

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

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

David Bloom, Deputy Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was OA&E-FY19-0121.

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 2018 and 2017 Financial Statements for the Pesticide Registration Fund

The Administrator
U.S. Environmental Protection Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Pesticide Registration Fund, also known as the Pesticide Registration Improvement Act Fund. These statements comprise the balance sheets as of September 30, 2018, and September 30, 2017; 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 auditing standards generally accepted in the United States; 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 Bulletin 19-03, *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 Qualified Opinion in 2017

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

Unmodified Opinion in 2018

In our opinion, the PRIA Fund financial statements, including the accompanying notes, present fairly, in all material respects, the PRIA assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the EPA as of and for the year ended September 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

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 the Office of Management and Budget 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 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 the Office of Management and Budget Bulletin 19-03. We did not test all internal controls relevant to operating

objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

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.

Comparison of EPA's Federal Managers' Financial Integrity Act Report with Our Evaluation of Internal Control

Office of Management and Budget Bulletin No. 19-03 requires the Office of Inspector General to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's report. The Agency's report is prepared and submitted at the consolidated level, of which the PRIA Fund is a component.

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 PRIA 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.

In addition, the Agency was in substantial compliance with the statutory decision review periods.

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, 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 PRIA Fund’s financial statements—*Fiscal Years 2017 and 2016 (Restated) Financial Statements for the Pesticide Registration Fund* (Report No. [19-F-0215](#)), issued June 28, 2019—we reported a material weakness regarding software transactions. As a result of the material weakness finding for software on the EPA’s consolidated financial statements, the EPA conducted an analysis and recognized that it had improperly accounted for some prior year Pesticide Registration Information System software transactions. In FY 2017, the EPA corrected these accounting errors, resulting in the restatements of its FY 2016 PRIA Fund’s financial statements. When we examined the software transactions that were used to justify the restatement amounts, we found that supporting documentation for some Pesticide Registration Information System software transactions were missing.

We recommended that the Agency analyze records management schedules for financial management and determine how long records should be maintained after the disposal of software and financial records related to software assets. The Agency agreed with our recommendation and completed the corrective action on August 30, 2018.

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
March 23, 2020

**Fiscal Years 2018 and 2017
Pesticide Registration 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

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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.

The Pesticide Registration Improvement Act (PRIA) of 2003 established the Pesticide Registration Fund. PRIA authorizes the collection of Registration service fees, which are deposited into the Registration Fund and made available for obligation to the extent provided in appropriation acts, and are available without fiscal year limitation.

Pesticide Registration

Under FIFRA and FFDCA pesticides must be registered by the EPA. The passage of PRIA introduced deadlines for the Agency to complete certain registration actions. EPA expedites the registration of reduced-risk pesticide uses, which generally pose lower risks to people and the environment. Accelerated pesticide reviews provide an incentive for industry to develop and register lower risk pesticides, and the availability of these reduced-risk pesticides provides alternatives to older, potentially more harmful products currently on the market.

PRIA prescribed the amount of the registration service fee and the corresponding decision review time for various categories of registration action. The goal is to create a more predictable evaluation process for affected pesticide registrants and couple the collection of individual fees with specific decision-making periods. The legislation also promotes shorter decision review periods for reduced-risk pesticide applications. PRIA 1, effective on March 23, 2004, authorized collection of registration fees through FY 2008. The Pesticide Registration Improvement Renewal Act (PRIA 2), effective on October 1, 2007, authorized collection of registration fees through FY 2012. The Pesticide Registration Improvement Extension Act (PRIA 3) was effective on October 1, 2012, authorized collection of registration fees through FY 2017. The PRIA 3 statutory expiration date of September 30, 2017, was extended through fiscal year 2018 by legislative language contained in continuing resolutions and the 2018 omnibus spending bill.

For a pending or a new application covered by PRIA to be deemed complete and subject to the decision review periods, a registrant is required to pay the applicable fee or receive a waiver from the fee. For most applications, the decision review period starts 21 days after submission of the application, provided that the fee has been paid, fee waiver granted or in the case of a 75% or 50% fee waiver under PRIA 3, the waiver has been granted and the remaining fee has been paid. PRIA 3 legislation provides fee waivers for certain categories of small businesses and minor

uses¹. Exemption from the requirement to pay a registration service fee is continued under PRIA 3 for applications solely associated with IR-4 petitions². Applications from federal and state agencies are also exempt from registration service fees. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the Agency grants such request or in the case of small business fee waivers, no more than 60 days after receipt of the waiver application. If the Agency determines that a fee is required and the waiver is not granted, the decision review period starts after the fee is collected.

Applications received prior to October 1, 2007, were covered by PRIA 1. Applications received between October 1, 2007 and September 30, 2012, were covered by PRIA 2³ and applications received on or after October 1, 2012, including through fiscal year 2018, are covered by PRIA 3. PRIA 3 contains the same audit provision as PRIA 2. PRIA 3 includes new authority to reject an application if it fails a preliminary technical screen. PRIA 3 also increases the fee categories or types of applications covered by PRIA from 140 to 189 and maintains set-asides to support worker protection and applicator training activities as well as IPM grants at levels comparable to PRIA 2.

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 2017 & FY 2018 include the enforcement of worker protection standards and pesticide applicator certification; compliance monitoring and enforcement

¹ Minor use pesticides are those that produce relatively little revenue for their manufacturers, for a variety of reasons. They may be registered for a seldom seen pest, or for a crop that is not grown by a large number of producers. However, minor crops include some high revenue fruit, vegetable, and ornamental crops.

² The IR-4 (Interregional Research Project No.4) program is involved in making sure that pesticides are registered for use on minor crops. IR-4 helps by conducting research on minor use pesticides, pesticides that would not otherwise be profitable to manufacture.

³ Out of approximately 7,889 actions completed under PRIA 2, more than 99.0% were completed on or before the PRIA 2 due date.

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 the Cooperative Agreements we support inspector training and training for state/tribal senior managers, scientists, and supervisors.

Highlights and Accomplishments

Registration Financial Perspective

During FY 2018, the Agency's obligations charged against the PRIA Fund for the cost of registration were \$21.8 million and 56.9 work-years. Of this amount, OPP obligated \$8.5 million in Personnel Compensation and Benefits (PC&B).

Appropriated funds are used in addition to Registration funds. In FY 2018, the Enacted Operating Plan included approximately \$11.6 million in appropriated funds for registration activities.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$16.8 million in FY 2018 net receipts, more than 99.9% were fee collections.

Registration Program Performance Measures

The following measure supports the program's strategic goals Ensuring the Safety of Chemicals and Pollution Prevention.

Measure 1: Average number of days to complete PRIA decisions for new active ingredients

Results: The average decision review time frame for new active ingredient decisions completed in FY 2018 was 603 days, bettering the FY 2018 target of 643 days.

Measure 2: Average number of days exceeding PRIA decision timeframes for new active ingredient decisions

Results: In FY 2018, the average number of days by which the decision timeframe for completed new active ingredient actions exceeded the statutory timeframes was 117 days, bettering the FY 2018 target of 303 days.

Measure 3: Percentage of decisions (registration actions) completed on time (on or before PRIA or negotiated due date)

Results: In FY 2018, EPA completed 99.7% of PRIA actions “on-time”, exceeding the FY 2018 target of 99% on-time completion. Of the 2,199 PRIA decisions completed in the fiscal year, only six were completed after the original or negotiated due date.

**PRINCIPAL
FINANCIAL STATEMENTS**

EPA's FY 2018 Annual PRIA Financial Statements

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Principal Financial Statements

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United States Environmental Protection Agency
PRIA
Balance Sheet
As of September 30, 2018 and 2017
(Dollars in Thousands)

	<u>FY 2018</u>	<u>FY 2017</u>
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 19,899	\$ 22,405
Other (Note 3)	<u>132</u>	<u>15</u>
Total Intragovernmental	20,031	22,420
Property, Plant & Equipment, Net (Notes 4)	<u>209</u>	<u>292</u>
Total Assets	<u>\$ 20,240</u>	<u>\$ 22,712</u>
Liabilities:		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	49	40
Other (Note 5)	<u>22</u>	<u>278</u>
Total Intragovernmental	71	318
Accounts Payable & Accrued Liabilities	821	929
Payroll & Benefits Payable (Note 6)	2,517	4,080
Other (Note 5)	<u>18,929</u>	<u>19,803</u>
Total Liabilities	<u>\$ 22,338</u>	<u>\$ 25,130</u>
Net Position:		
Cumulative Results of Operations		
Funds from Dedicated Collections	<u>(2,098)</u>	<u>(2,418)</u>
Total Net Position	(2,098)	(2,418)
Total Liabilities and Net Position	<u>\$ 20,240</u>	<u>\$ 22,712</u>

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

United States Environmental Protection Agency
PRIA
Statement of Net Cost
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

	<u>FY 2018</u>	<u>FY 2017</u>
Costs:		
Gross Costs (Note 9)	\$ 19,378	\$ 21,957
Expenses from Other Appropriations (Note 7)	<u>36,638</u>	<u>35,399</u>
Total Costs	56,016	57,356
Less:		
Eamed Revenue (Note 8 and 9)	<u>18,337</u>	<u>20,773</u>
Net Cost of Operations (Notes 10)	\$ <u>37,679</u>	\$ <u>36,583</u>

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

EPA's FY 2018 Annual PRIA Financial Statements

United States Environmental Protection Agency
PRIA
Statement of Changes in Net Position
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

	<u>FY 2018</u>	<u>FY 2017</u>
Cumulative Results of Operations:		
Net Position - Beginning of Period	\$ (2,418)	\$ (188)
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	169	82
Nonexchange Revenue - Other	893	(1,435)
Income from Other Appropriations (Note 7)	<u>36,638</u>	<u>35,399</u>
Total Budgetary Financing Sources	37,700	34,046
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	<u>299</u>	<u>307</u>
Total Other Financing Sources	299	307
Net Cost of Operations (Notes 9)	(37,679)	(36,583)
Net Change	320	(2,230)
Cumulative Results of Operations	<u>\$ (2,098)</u>	<u>\$ (2,418)</u>

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

United States Environmental Protection Agency
PRIA
Statement of Budgetary Resources
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

	<u>FY 2018</u>	<u>FY 2017</u>
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net	\$ 11,310	\$ 12,921
Appropriations (Discretionary and Mandatory)	<u>17,046</u>	<u>18,992</u>
Total Budgetary Resources	\$ <u>28,356</u>	\$ <u>31,913</u>
Memorandum (non add) Entries		
Net Adjustments To Unobligated Balance Brought Forward, Oct. 1	\$ (33)	\$ 32
Status of Budgetary Resources		
New Obligations and Upward Adjustments (Total)	21,517	20,636
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	6,839	9,285
Unapportioned, Unexpired Accounts	<u>-</u>	<u>1,992</u>
Unobligated Balance, End of Year (Total)	<u>6,839</u>	<u>11,277</u>
Total Status of Budgetary Resources	\$ <u>28,356</u>	\$ <u>31,913</u>
Outlays, net		
Outlays, Net (Discretionary and Mandatory)	19,421	19,141
Distributed Offsetting Receipts	<u>(17,046)</u>	<u>(18,992)</u>
Agency Outlays, Net (Discretionary and Mandatory)	\$ <u>2,375</u>	\$ <u>149</u>

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

Environmental Protection Agency
PRIA
Notes to Financial Statements
For the Fiscal Years Ending September 30, 2018 and 2017
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The Pesticide Registration Fund (PRIA) is authorized under the Pesticide Registration Improvement Act of 2003 (which amended the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), and became effective on March 23, 2004. This Act authorizes the EPA to assess and collect pesticide registration service fees on applications submitted to register pesticides covered by this Act, as well as assess and collect fees to register new active ingredients not listed in the Registration Division 2003 Work Plan of the Office of Pesticide Programs. The Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA 2) extended the authority to collect pesticide registration service fees through FY 2012. PRIA 2 became effective October 1, 2007. PRIA 2 was reauthorized with the passage of the Pesticide Registration Improvement Extension Act (referred to as PRIA 3) on September 28, 2012. PRIA 3 became effective October 1, 2012, and authorized collection of registration fees through FY 2018. The PRIA Fund is accounted for under Treasury symbol number 68X5374.

The PRIA fund may charge some administrative costs directly to the fund and charge the remainder of the administrative costs to Agency-wide appropriations. See Note 7 Income and Expenses from Other Appropriations for amounts included in 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 Pesticide Registration Fund (PRIA) as required by the Chief Financial Officers Act of 1990 and the Pesticide Registration Improvement Act (PRIA) of 2003. In the prior years, pesticide registration was included in the FIFRA financial statements. The reports have been prepared from the books and records of the EPA in accordance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the EPA's accounting policies which are summarized in this note. These statements are therefore

different from the financial reports also prepared by the EPA pursuant to OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of FY 2018 cost factors for calculating imputed costs for Federal civilian benefits programs. These updates impact the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.

C. Budgets and Budgetary Accounting

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

D. Basis of Accounting

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. The financial statements are prepared in accordance with GAAP for federal entities.

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

For FYs 2018 and 2017, PRIA received funding from fees collected from registrants requesting pesticide registrations. For FYs 2018 and 2017, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

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

G. Investments in U. S. Government Securities

Investments in U. S. government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. PRIA holds the investments to maturity, unless needed to finance operations of the fund. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

H. General Property, Plant and Equipment

General property, plant and equipment for PRIA consists of software in production. 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 and increased the 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. Liabilities

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

J. Accrued Unfunded Annual Leave

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

K. Retirement Plan

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee

contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits, and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

L. Offsetting Receipts

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

M. Use of Estimates

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

N. Reclassifications and Comparative Figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements in accordance with Office of Management and Budget (OMB) Circular No. A-126, *Financial Reporting Requirements* revised July 30, 2018. As a result, certain line items have been amended in the Statement of Budgetary Resources.

Note 2. Fund Balance with Treasury

	<u>FY 2018</u>	<u>FY 2017</u>
Revolving Funds: Entity Assets	\$ 19,899	\$ 22,405

Note 3. Other Assets-Advances to Working Capital Fund

PRIA advances funds to the EPA’s Working Capital Fund to pay for computer, postage, and other administrative support services. As of September 30, 2018 and 2017, funds advanced that will be applied to future costs as incurred were \$132 thousand and \$15 thousand, respectively.

Note 4. General Property, Plant and Equipment, Net

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 resolved this material weakness in FY 2018.

As of September 30, 2018, and 2017, General Property, Plant and Equipment consist of the following:

	FY 2018			FY 2017		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 35	(35)	-	\$ 35	(35)	-
Software	5,050	(4,841)	209	5,050	(4,758)	292
Total	<u>\$ 5,085</u>	<u>(4,876)</u>	<u>209</u>	<u>\$ 5,085</u>	<u>(4,793)</u>	<u>292</u>

Note 5. Other Liabilities

For FYs 2018 and 2017, 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 2018</u>	<u>FY 2017</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 22	\$ 278
Total	<u>\$ 22</u>	<u>\$ 278</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Unearned Advances from Fee Collections*	\$ 18,929	\$ 19,803
Total	<u>\$ 18,929</u>	<u>\$ 19,803</u>

*Fees collected by the PRIA 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 2018</u>	<u>FY 2017</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 116	\$ 1,372
Withholdings Payable	1	67
Thrift Savings Plan Benefits Payable	12	60
Total	<u>\$ 129</u>	<u>\$ 1,499</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave	2,388	2,581
Total	<u>\$ 2,388</u>	<u>\$ 2,581</u>

At various periods throughout FY 2018 and FY 2017 employees with their associated payroll costs were transferred from PRIA to the Environmental Programs and Management (EPM) appropriation. These employees were transferred to keep PRIA's obligations and disbursements within budgetary limits.

This process has led to variations between the year-end liabilities of FYs 2018 and 2017. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. As of September 30, 2018, the liabilities were \$22

thousand and \$129 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2017's balances of \$278 thousand and \$1,499 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 PRIA at the end of FY 2018 and 2017 was \$2,388 and \$2,581 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 2018 and 2017, 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 PRIA. Improvements to the costing methodology include a project schema that designates expenses paid by other appropriations as PRIA related activities. As illustrated below, there is no impact on PRIA's Statement of Changes in Net Position.

	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
FY 2018	\$ 36,638	36,638	-
FY 2017	\$ 35,399	35,399	-

Note 8. Exchange Revenues, Statement of Net Cost

For FYs 2018 and 2017, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

Note 9. Intragovernmental Costs and Exchange Revenue

Costs:	<u>FY 2018</u>	<u>FY 2017</u>
Intragovernmental	\$ 3,183	\$ 3,071
With the Public	16,195	18,886
Expenses from Other Appropriations	<u>36,638</u>	<u>35,399</u>
Total Costs	56,016	57,356
Revenue:		
With the Public	<u>18,337</u>	<u>20,773</u>
Total Revenue	18,337	20,773
Net Cost of Operations:	<u>\$ 37,679</u>	<u>\$ 36,583</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 2018</u>	<u>FY 2017</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 21,517	\$ 20,636
Less: Spending Authority from Offsetting Collections and Recoveries	(33)	(32)
Obligations, Net of Offsetting Collections	<u>21,484</u>	<u>20,604</u>
Less: Offsetting Receipts	<u>(17,046)</u>	<u>(18,992)</u>
Net Obligations	4,438	1,612
Other Resources		
Imputed Financing Sources	299	307
Income from Other Appropriations	<u>36,638</u>	<u>35,399</u>
Net Other Resources Used to Finance Activities	36,937	35,706
Total Resources Used To Finance Activities	<u>\$ 41,375</u>	<u>\$ 37,318</u>
Resources Used to Finance Items		
Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated	378	1,303
Resources that Finance Asset Acquisition	(3,716)	-
Offsetting Receipts Not Affecting Net Cost	<u>17,046</u>	<u>18,992</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>13,708</u>	<u>20,295</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 55,083</u>	<u>\$ 57,613</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	(193)	(341)
Increase in Public Exchange Revenue Receivables	<u>(18,337)</u>	<u>(20,773)</u>
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	(18,530)	(21,114)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	84	84
Expenses Not Requiring Budgetary Resources	<u>1,042</u>	<u>-</u>
Total Components of Net Cost that Will Not Require or Generate Resources	1,126	84
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	<u>(17,404)</u>	<u>(21,030)</u>
Net Cost of Operations	<u>\$ 37,679</u>	<u>\$ 36,583</u>

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Audit Follow-Up Coordinators, Regions 1–10