



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Fiscal Years 2012 and 2011 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

Report No. 14-1-0041

December 17, 2013



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Abbreviations

EPA	U.S. Environmental Protection Agency
EPM	Environmental Programs and Management
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPP	Office of Pesticide Programs
PRIA	Pesticide Registration Improvement Act

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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 Pesticide Reregistration and Expedited Processing Fund (known as the FIFRA Fund) financial statements.

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 theme:

- *Embracing EPA as a high performance organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20131217-14-1-0041.pdf

Fiscal Years 2012 and 2011 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

EPA Receives an Unqualified Opinion

We rendered an unqualified, or clean, opinion on the EPA's Pesticides Reregistration and Expedited Processing Fund financial statements for fiscal years (FYs) 2012 and 2011 (restated), meaning they are fairly presented and free of material misstatement.

Internal Control Material Weaknesses Noted

We noted two material weaknesses in internal controls.

- EPA materially overstated the expenses from other appropriations that support the FIFRA fund. This occurred because the agency does not have an effective system to accurately accumulate and report costs incurred by other appropriations in support of FIFRA Fund activities. This overstatement resulted in a material overstatement of the total costs of the FIFRA Fund by \$19.6 million in FY 2012 and \$4.8 million in FY 2011.
- 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 related expenses and liabilities from FIFRA to the Environmental Programs and Management Fund for cash flow reasons led to the understatement. The FY 2011 payroll liabilities covered by budgetary resources for FIFRA was \$1,713,000, while the FY 2012 payroll liabilities covered by budgetary resources was zero.

The agency corrected material misstatements due to weaknesses in internal controls we identified.

Compliance With Applicable Laws and Regulations

The agency was in compliance with applicable laws and regulations.

Recommendations and Planned Agency Corrective Actions

The agency agreed with our findings and our recommendations. The agency corrected the financial statements to reflect the proper expenses paid by other appropriations and to reflect the proper payroll liability amounts. The agency will also develop a process to ensure accurate allocations of expenses from other appropriations and carefully review and comment on the draft and final versions of the FIFRA financial statements prior to their submission to the Office of Inspector General. The agency will also closely monitor the payroll liability amounts.




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

OFFICE OF
INSPECTOR GENERAL

December 17, 2013

MEMORANDUM

SUBJECT: Fiscal Years 2012 and 2011 (Restated) Financial Statements for the
Pesticides Reregistration and Expedited Processing Fund
Report No. 14-1-0041

FROM: Paul C. Curtis 
Director, Financial Statement Audits

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

Maryann Froehlich, Acting Chief Financial Officer

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal years 2012 and 2011 (restated) financial statements for the Pesticides Reregistration and Expedited Processing Fund, conducted by the EPA Office of Inspector General (OIG). This audit report represents the opinion of the OIG, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. This report will be available at <http://www.epa.gov/oig>.

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. You should track progress of your corrective actions in the Management Audit Tracking System.

If you or your staff have any questions regarding this report, please contact Richard Eyermann, Acting Assistant Inspector General for Audit, at (202) 566-0565 or eyermann.richard@epa.gov; or Paul Curtis, Director, Financial Statement Audits, at (202) 566-2523 or Curtis.Paul@epa.gov.

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- B Agency’s Response to Draft Report**
- C Distribution**

Inspector General's Report on the Fiscal Years 2012 and 2011 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

The Administrator
U.S. Environmental Protection Agency

We have audited the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA Fund) balance sheet as of September 30, 2012 and 2011 (restated), and the related statements of net cost, changes in net position, and budgetary resources for the years then ended. These financial statements are the responsibility of U.S. Environmental Protection Agency (EPA) management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with the generally accepted auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended*. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The agency has restated the FIFRA Fund financial statements for fiscal year (FY) 2011 due to material errors in the computation of expenses from other appropriations that support FIFRA Fund activities. These errors resulted in an overstatement of these expenses by \$19.6 million in FY 2012 and \$4.8 million in FY 2011. The agency has restated the FY 2011 financial statements to reflect the decrease of the expenses from other appropriations that support the FIFRA Fund and made corresponding adjustments to the other related accounts. Due to material errors found in the computation of the expenses from other appropriations that support FIFRA Fund activities and other related accounts, our report on the FIFRA Fund FY 2011 financial statements, issued on June 6, 2012, is not to be relied upon. That report is replaced by this report on the restated FY 2011 FIFRA Fund financial statements. We report the internal control deficiency that resulted in the material errors as a material weakness in the Internal Control section of this report.

In our opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, changes in net position and budgetary resources of the FIFRA Fund, as of and for the years ending September 30, 2012 and 2011, as restated, 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, affected by the agency's management and other personnel, that 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 acquisitions, 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.

In planning and performing our audit, we considered the EPA's internal control over the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) 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 No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations.

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, in internal controls 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, in internal controls, 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 basis. Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. We noted two matters involving the internal controls and their operations that we considered to be a material weakness.

Material Weaknesses

Material weaknesses noted are summarized below and detailed in attachment 1.

EPA Materially Overstated the Expenses From Other Appropriations That Support FIFRA. EPA materially overstated the expenses from other appropriations that support the FIFRA fund. This occurred because the agency does not have an effective system to accurately accumulate and report costs incurred by other appropriations in support of FIFRA Fund activities. This overstatement of the expenses from other appropriations resulted in a material overstatement of the total costs of the FIFRA Fund by \$19.6 million in FY 2012 and \$4.8 million in FY 2011. This overstatement could impact the opinion on the financial statements and reliance on reported FIFRA financial information.

EPA Understated FIFRA Payroll Liabilities Covered by Budgetary Resources. 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 related expenses and liabilities from FIFRA to the Environmental Programs and Management (EPM) Fund for cash flow reasons led to the understatement. The FY 2011 payroll liabilities covered by budgetary resources for FIFRA was \$1,713,000, while the FY 2012 payroll liabilities covered by budgetary resources was zero. Such understatements could impact the opinion on the financial statements and reliance on reported FIFRA financial information.

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

OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended*, 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 2012 impacting the FIFRA Fund; however, we identified material weaknesses with the agency's reporting of the expenses from other appropriations that support FIFRA and FIFRA payroll and benefit payable. Details concerning these material weaknesses are in attachment 1.

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 financial statements or that we considered significant to the audit. The objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

Management's Discussion and Analysis Section of the Financial Statements

We reviewed samples of reregistration, amendment and cancellation actions completed in FY 2012 claimed in FIFRA Performance Measure 2 in the Management's Discussion and Analysis and found all actions sampled were supported. We also reviewed documentation for the cumulative status of reregistration actions in Performance Measure 2 and found that the reported cumulative status appears reasonable. There were no claimed FY 2012 accomplishments for the other performance measures shown in the Management's Discussion and Analysis.

Prior Audit Coverage

During previous financial statement audits, we reported a significant deficiency. EPA materially understated the FIFRA payroll and benefits payable, and related payroll expenses included in gross costs, in FY 2011. The agency's practice of transferring employees and expenses and liabilities from FIFRA to the EPM Fund for cash flow reasons led to the understatement. The agency has taken action to correct the deficiency by correcting the FY 2011 payroll and benefits payable amounts in the FIFRA Fund financial statements.

Agency Comments and OIG Evaluation

In a memorandum dated November 19, 2013, the agency responded to our draft report. The agency agreed with our findings and recommendations. The agency's complete response is included as appendix B to this report.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
December 17, 2013

Material Weaknesses

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1 – EPA Materially Overstated Expenses From Other Appropriations That Support FIFRA

In its draft financial statements for FY 2012 and financial statements for FY 2011, the EPA materially overstated the expenses from other appropriations that support the FIFRA Fund. This occurred because the agency does not have an effective or efficient system to accurately accumulate and report the costs incurred by other appropriations in support of FIFRA Fund activities. This overstatement of the expenses from other appropriations resulted in a material overstatement of the total costs of the FIFRA Fund by \$19.6 million in FY 2012 and \$4.8 million in FY 2011.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* require accurate and timely recording of transactions and events. The FMFIA emphasizes the need for agencies to provide reasonable assurance that accounts are properly recorded and accounted for to ensure reliability of financial reporting.

FIFRA activities are funded by the collection of service fees from pesticides manufacturers which supplement the Office of Pesticide Programs' (OPP's) appropriated funds. Our audit work on the FY 2012 FIFRA Fund financial statements showed that all of OPP's FYs 2012 and 2011 EPM expenses were being charged to either FIFRA or the Pesticide Registration Fund (known as the PRIA Fund). It is incorrect to charge all of OPP's EPM expenses to FIFRA and PRIA because OPP uses its EPM funds for all of its activities and not just for activities related to FIFRA or PRIA. After we identified this error, the Office of the Chief Financial Officer (OCFO) worked with OPP to compute the correct amount of FYs 2012 and 2011 expenses from other appropriations that supported the FIFRA Fund. The improper charging of OPP's EPM expenses to FIFRA resulted in the total costs of the FIFRA program being overstated by \$19.6 million in FY 2012 and \$4.8 million in FY 2011. This material error caused the agency to restate the FY 2011 financial statements to reflect the decrease of the expenses from other appropriations that support the FIFRA Fund and to make corresponding adjustments to the other related accounts.

Historically, the OCFO has been producing the FIFRA financial statements based solely upon information contained in the EPA's accounting system. However, the EPA's accounting system does not contain sufficiently detailed information to accurately identify OPP's other appropriated expenses that relate solely to the FIFRA Fund activities. While OPP does know what expenses from other appropriations support FIFRA activities, it has not developed an effective and efficient method to accumulate and report these costs. The method that OPP and OCFO recently developed to revise and correct the FYs 2012 and 2011 amount of expenses from other appropriations that support FIFRA relies heavily on manual computations. These manual computations are inefficient and prone to error.

Another contributing factor to the error which resulted in the material overstatement of the expenses from other appropriations is the lack of involvement by OPP in the financial statement preparation process. While the OCFO prepares the FIFRA Fund financial statements, it does not have extensive knowledge of OPP business operations. Until we identified the error in the FYs 2012 and 2011 expenses from other appropriations that support FIFRA, OPP had not

reviewed the draft FY 2012 FIFRA Fund financial statements. If OPP had carefully reviewed the draft financial statements prior to its submission to the Office of Inspector General (OIG), this material error may have been avoided.

Recommendations

We recommend that the Office of the Chief Financial Officer:

1. Correct the FIFRA financial statements to reflect the proper expenses paid by other appropriations.
2. Ask OPP to carefully review and comment on the draft and final versions of the FIFRA Fund financial statements prior to their submission to the OIG.

We recommend that the Office of Chemical Safety and Pollution Prevention:

3. In consultation with the OCFO and other subject matter experts, develop a process that will provide accurate and timely allocation of EPM expenses from other appropriations that support the FIFRA Fund.

Agency Response and OIG Evaluation

The agency agreed with our findings and recommendations, and has completed corrective actions on recommendation 1.

Agency actions on recommendation 2 are pending. OCFO will request the Office of Chemical Safety and Pollution Prevention to carefully review and comment on the draft and final versions of the FIFRA Fund financial statements prior to their submission to the OIG. The estimated completion date for this corrective action is March 28, 2014.

Agency actions on recommendation 3 are pending. The Office of Chemical Safety and Pollution Prevention, in consultation with OCFO and other subject matter experts, will develop a process to ensure accurate allocations of expenses from other appropriations that support the FIFRA Fund. The estimated completion date for this corrective action is December 31, 2014.

The agency's complete response is included in appendix B to this report. We agree with the agency's proposed corrective actions and believe they adequately address the issues raised.

2 – EPA Understated FIFRA Payroll Liabilities Covered by Budgetary Resources

In its draft financial statements for FY 2012, the EPA materially understated the FIFRA Fund payroll liabilities covered by budgetary resources, as well as related payroll expense included in gross costs. OMB Circular A-136, *Financial Reporting Requirements*, and Statement of Federal Financial Accounting Standards No. 5 require that liabilities be recognized when they are incurred. The agency's practice of transferring employees and related expenses and liabilities from the FIFRA to EPM Fund for cash flow reasons led to the understatement. The FY 2011 payroll liabilities covered by budgetary resources for FIFRA was \$1,713,000, while the FY 2012 payroll liabilities covered by budgetary resources was zero. Such understatements could impact the opinion on the financial statements and the reliance on reported FIFRA financial information. This understatement is a recurring issue which needs resolution.

Statement of Federal Financial Accounting Standards No. 5 states that liabilities should be recognized for exchange transaction, such as when a federal employee performs services in exchange for compensation, when the services are provided. OMB Circular 136, states: "Liabilities shall be recognized when they are incurred regardless of whether they are covered by available budgetary resources."

OPP transferred all employees from FIFRA to EPM at the end of FY 2012 pay period 24. EPA uses EPM for a broad range of abatement, prevention and compliance activities and personnel compensation, benefits, travel and expenses for all programs of the agency. On average, 125 employees were assigned to FIFRA throughout FY 2012. The transfer removed the base upon which the payroll liabilities covered by budgetary resources are calculated. As a result, payroll liabilities covered by budgetary resources were significantly understated.

EPA began the practice of moving payroll expenses from FIFRA to EPM in FY 2000. When FIFRA resources are low, the agency transfers employees from FIFRA to EPM to keep FIFRA obligations and disbursements within budgetary and cash limits. As FIFRA fees are collected, employees are moved back to the FIFRA appropriation. EPA disclosed this ongoing practice in prior FIFRA financial statement reports, and this practice is expected to continue throughout FY 2013. Temporarily moving employees for cash flow reasons should not impact accruals as long as those employees are continuing the same work. If the transfers become permanent, FIFRA should recognize a benefit since another appropriation would be covering the accrued payroll debt.

The process of moving employees and related payroll expenses and liabilities from FIFRA to EPM contributed to the understatement of the FIFRA payroll liabilities in the draft FY 2012 financial statements. However, the OCFO should have realized that the transfer of employees from FIFRA to EMP was only temporary and computed payroll liability amounts accordingly.

Recommendations

We recommend that the Office of the Chief Financial Officer:

4. Correct the FIFRA financial statements to reflect the proper payroll liability amounts.
5. Closely monitor the payroll liability amounts for FIFRA at year-end.

Agency Response and OIG Evaluation

The agency agreed with our findings and recommendations, and has completed corrective actions on recommendation 4. OCFO corrected the FIFRA financial statements to reflect the proper payroll liability amounts.

Agency actions on recommendation 5 are pending. The estimated completion date for this corrective action is September 30, 2014.

The agency's complete response is included in appendix B to this report.

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	8	Correct the FIFRA financial statements to reflect the proper expenses paid by other appropriations.	C	Office of the Chief Financial Officer	09/24/13		
2	8	Ask OPP to carefully review and comment on the draft and final versions of the FIFRA Fund financial statements prior to their submission to the OIG.	O	Office of the Chief Financial Officer	03/28/14		
3	8	In consultation with the OCFO and other subject matter experts, develop a process that will provide accurate and timely allocation of EPM expenses from other appropriations that support the FIFRA Fund.	O	Office of Chemical Safety and Pollution Prevention	12/31/14		
4	10	Correct the FIFRA financial statements to reflect the proper payroll liability amounts.	C	Office of the Chief Financial Officer	02/26/13		
5	10	Closely monitor the payroll liability amounts for FIFRA at year-end.	O	Office of the Chief Financial Officer	09/30/14		

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

***FYs 2012 and 2011 (Restated) PESTICIDES
REREGISTRATION and EXPEDITED PROCESSING
FUND (FIFRA) 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Agency's Office of Pesticide Programs (OPP) was established to administer the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) to protect public health and the environment. The law requires the Agency to balance public health and environmental concerns with the expected economic benefits derived from pesticides. The guiding principles of the pesticide program are to reduce risks from pesticides in food, the workplace, and other exposure pathways and to prevent pollution by encouraging the use of new and safer pesticides.

In accordance with FIFRA and the Federal Food, Drug, and Cosmetic Act (FFDCA), the pesticide program administers the Revolving Fund for Certification and Other Services (Tolerance Fund) and the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund). As of 1996, fees for both tolerance and reregistration are deposited to the FIFRA account, which is available to the EPA without further appropriation.

Tolerance Program Description

As part of its authority to regulate pesticides, EPA is responsible for setting "tolerances." If the pesticide is being considered for use on a food or feed crop or as a food or feed additive, the applicant must petition EPA for establishment of a tolerance (or exemption from a tolerance) under authority of the FFDCA. A tolerance is the maximum legal limit of a pesticide residue on food commodities and animal feed. Tolerances are set at levels that ensure that the public is protected from health risks posed by eating foods that have been treated with pesticides in accordance with label directions.

In 1954, Congress authorized the collection of fees for the establishment of tolerances for raw agricultural commodities (Section 408 of FFDCA). Congress, however, did not authorize the collection of fees for food additive tolerances (Section 409 of FFDCA). EPA, therefore, does not collect fees for food additive tolerances. The Agency also does not collect fees for Agency-initiated actions such as the revocation of tolerances for previously canceled pesticides. Fees collected from tolerances for raw agricultural commodities were deposited to the U.S. Treasury General Fund until 1963 when Congress established the Tolerance Fund.

In 1996, pesticide reform legislation included provisions for additional fees to support reregistration activities. Passage of the Food Quality Protection Act (FQPA) of 1996 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, the Pesticide Registration Improvement Renewal Act in 2007, and the Pesticide Registration Improvement Extension Act of 2012, no additional tolerance petition fees will be deposited to the FIFRA Fund through FY 2019.

Pesticide Reregistration Program Description

As part of its authority to regulate pesticides, EPA is responsible for re-registering existing pesticides. The FIFRA legislation, requiring the registration of pesticide products, was originally passed in 1947. Since then, health and environmental standards have become more stringent and scientific analysis techniques much more precise and sophisticated. In the 1988 amendments to FIFRA (FIFRA '88), Congress mandated the accelerated reregistration of all products registered prior to November 1, 1984. The amendments established a statutory goal of completing reregistration eligibility decisions (REDs) by 1997. The legislation allowed for various time extensions which can extend the deadline by three years or more. The statutory requirement for the completion of reregistration food-use (REDs) was 2006, in conjunction with the new tolerance reassessment program. For the non-food-use active ingredient REDs, the current legal deadline under PRIA for completion of reregistration was October 3, 2008.

Congress authorized the collection of two kinds of fees to supplement appropriated funds to support reregistration program: an annual maintenance fee and a one-time reregistration fee. Maintenance fees are assessed on registrants of pesticide products and were structured to collect approximately \$14 million per year initially. Reregistration fees were assessed on the manufacturers of the active ingredients in pesticide products based on the manufacturer's share of the market for the active ingredient. In fiscal years 1992 through 1999, approximately 14% of the maintenance fees collected, up to \$2 million each year, were used for the expedited processing of old chemical and amended registration applications. Fees are deposited into the FIFRA Revolving Fund. By statute, excess monies in the FIFRA Fund may be invested. Waivers and/or refunds are granted for minor use pesticides, antimicrobial pesticides, and small businesses.

In 1996, pesticide reform legislation included provisions for additional fees to support reregistration activities. Passage of the FQPA of 1996 implemented the following changes in the Pesticide Reregistration Program: reauthorized collection of maintenance fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increased annual fees from \$14 million to \$16 million per year for 1998, 1999, and 2000 only) and required all tolerances (over 9,700) to be reassessed by 2006. EPA's 2002 appropriations bill extended authority to collect maintenance fees by one year for 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 PRIA 1 in FY 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 known as PRIA 2) on October 9, 2007 extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts at \$22 million each FY). PRIA 2 included the provision for use of maintenance fees to offset the costs of registration review beginning in FY 2008.

The reregistration process is being conducted through reviews of groupings of similar active ingredients called cases. There are five major phases of reregistration:

- Phase 1 - Listing of Active Ingredients. EPA publishes lists of active ingredients and asks registrants whether they intend to seek reregistration. (Completed in FY 1989)

- Phase 2 - Declaration of Intent and Identification of Studies. Registrants notify EPA if they intend to reregister and identify missing studies. (Completed in FY 1990)
- Phase 3 - Summarization of Studies. Registrants submit required existing studies. (Completed in FY 1991)
- Phase 4 - EPA Review and Data Call-Ins (DCIs). EPA reviews the studies, identifies and "calls-in" missing studies by issuing a DCI. A "DCI" is a request to a pesticide registrant for scientific data to assist the Agency in determining the pesticide's eligibility for reregistration. (Completed in FY 1994)
- Phase 5 - Reregistration Decisions. EPA reviews all studies and issues a Reregistration Eligibility Decision (RED) for the active ingredient(s). A "RED" is a decision by the Agency defining whether uses of a pesticide active ingredient are eligible or ineligible for reregistration. The registrant complies with the RED by submitting product specific data and new labels. EPA reregisters or cancels the product. Pesticide products are re-registered, based on a RED, when it meets all label requirements. This normally takes 14 to 20 months after issuance of the RED.

Research Program Description

EPA's Chemical Safety for Sustainability (CSS) research program is leading the sustainable development, use, and assessment of chemicals and materials by advancing integrated chemical evaluation strategies and decision support tools that promote human and environmental health and are protective of vulnerable species and populations. The research is focused on providing integrated solutions in support of the Agency's efforts to manage chemical (including pesticides and toxics) risks. The data, methods and tools developed will guide the prioritization and testing process, from screening approaches through more complex testing and assessments. The research program's major goals are: (1) to build the knowledge infrastructure to support scientific discovery and sustainable decisions, (2) to develop and apply rapid, efficient, and effective methods for improved chemical prioritization, screening, and testing, (3) to provide models and tools necessary to make decisions supporting safe use across the chemical lifecycle.

Current testing and assessment approaches are resource intensive and lack data sufficient to meet decision-making needs posed by the large and growing number of chemicals. The CSS ToxCast Program performs cost-effective, state-of-the-art chemical screening to assess how chemicals may affect human health. ToxCast simultaneously tests thousands of chemicals using hundreds of high-throughput and high-content approaches. This allows the EPA to directly examine environmental chemicals' role in human disease processes, cell systems, and pathway targets. The ToxCast program has moved beyond the proof-of-concept phase focus on pesticide actives. Results of Phase II of this program, which covers 1,860 chemicals, will be released and publicly available in FY13.

In providing research on methods, models, and data to support decision-making regarding specific individual or classes of pesticides and toxic substances that are of high priority, the program will continue to develop:

- Predictive biomarkers, quantitative structure activity relationships, and alternative test methods for prioritizing and screening chemicals for a number of adverse effects (e.g., neurotoxicity, reproductive toxicity) that will lead to a reduction in and more efficient use of whole animals in toxicity testing; and
- Approaches for applying high-throughput screening and computational models developed under the ToxCast program to support prioritization of chemicals for further testing under EPA's Endocrine Disruptor Screening Program.
- Data and protocols on the impact of waste water treatment technologies on pesticides and their products of transformation.

To support the development of probabilistic risk assessments to protect endangered populations of birds, fish, other wildlife, and non-target plants from pesticides while making sure farmers and communities have the pest control tools they need, this program has four key research components:

- Extrapolation among wildlife species and exposure scenarios of concern;
- Population biology to improve population dynamics in spatially-explicit habitats;
- Models for assessing the relative risk of chemical and non-chemical stressors; and
- Models to define geographical regional/spatial scales for risk assessment.

Methods for characterization of population-level risks of toxic substances to aquatic life and wildlife also are being developed as part of the Agency's long-term goal of developing scientifically valid approaches for assessing spatially-explicit, population-level risks to wildlife populations and non-target plants and plant communities from pesticides, toxic chemicals and multiple stressors while advancing the development of probabilistic risk assessment.

The program anticipates that the Agency will be better positioned to perform its mission of protecting human health and the environment as scientific information becomes digitized and readily available, methods and models to capture the complexities of chemical exposure and hazard in toxicity testing are developed and approaches focused on development of more sustainable alternatives are provided to decision-makers.

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 states' and tribes' pesticide programs emphasizes its commitment to maintaining a strong compliance and enforcement presence. Agency Cooperative Agreement priorities for FY2008 - FY2010 include the enforcement of worker protection standards; compliance monitoring and enforcement activities related to the newly promulgated pesticide

container and containment rules, 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 Agreement resources we support inspector training and training for state/tribal senior managers, scientists, and supervisors.

Highlights and Accomplishments

Tolerance Performance Measures

As mandated by PRIA 2, no Tolerance fees were collected and deposited to the FIFRA Fund in FY 2012.

Measure: Tolerance re-evaluations.

Results: The tolerance reassessment program was completed in FY 2007; therefore, no further tolerance reassessment decisions were needed or completed in FY 2012. At the end of FY 2007, EPA had completed 9,721 tolerance reassessment decisions, addressing 100% of the 9,721 tolerances that required reassessment.

Reregistration (FIFRA) Financial Perspective

During FY 2012, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration programs and other authorized pesticide programs were \$20.0 million and 120.8 workyears. Of this amount, OPP obligated \$16.8 million for PC&B.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2012, the Enacted Operating Plan included approximately \$ 43.8 million in appropriated funds for reregistration program activities. The unobligated balance in the Fund at the end of FY 2012 was zero.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$22.0 million in FY 2012 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 2012 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. No REDs were completed in FY 2012. 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. 613 reregistration cases (100%) had 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 2012, 186 products were reregistered; 980 products were amended; 92 products were cancelled; and 26 products were suspended. Currently, a universe of 24,583 products is undergoing or has completed product reregistration. The status of those products at the end of FY 2012 was as follows: EPA had completed decisions for 18,208 products (specifically, 4,929 products had been reregistered; 2,593 product registrations had been amended; 10,641 products were cancelled; and 45 products were suspended); and 6,375 products had actions/decisions pending. The Agency's goal in FY 2013 is to complete 1,200 product reregistration actions.

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

Results: EPA completed the last REDs in 2008, so all necessary studies to make reregistration eligibility decisions for all active ingredients subject to reregistration have been reviewed. At this time, the Agency does not plan to spend additional resources examining these records.

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 those REDs in FY 2008. There is no further activity to report for FY 2012.

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**

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**Environmental Protection Agency
FIFRA
Balance Sheet
As of September 30, 2012 and 2011
(Dollars in Thousands)**

	<u>FY 2012</u>	<u>FY 2011</u>
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 4,778	\$ 3,541
Total Intragovernmental	\$ 4,778	\$ 3,541
Property, Plant & Equipment, Net (Note 3)	559	657
Total Assets	\$ 5,337	\$ 4,198
 LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	\$ 52	\$ 202
Other (Note 4)	92	326
Total Intragovernmental	\$ 144	\$ 528
Accounts Payable & Accrued Liabilities	\$ 277	\$ 270
Payroll & Benefits Payable (Note 5)	2,458	3,213
Other (Note 4)	9,494	7,052
Total Liabilities	\$ 12,373	\$ 11,063
 NET POSITION		
Cumulative Results of Operations	(7,036)	(6,865)
Total Net Position	(7,036)	(6,865)
Total Liabilities and Net Position	\$ 5,337	\$ 4,198

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
FIFRA
Statement of Net Cost
For the Years Ended September 30, 2012 and 2011(Restated)
(Dollars in Thousands)

	FY 2012		Restated FY 2011
COSTS			
Gross Costs (Note 8)	\$ 19,824	\$	25,141
Expenses from Other Appropriations (Note 6)	24,368		28,886
Total Costs	44,192		54,027
Less:			
Earned Revenue (Notes 7, 8)	19,554		22,688
NET COST OF OPERATIONS (Note 9)	\$ 24,638	\$	31,339

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
FIFRA
Statement of Changes in Net Position
For the Years Ended September 30, 2012 and 2011(Restated)
(Dollars in Thousands)**

	<u>FY 2012</u>	<u>Restated FY 2011</u>
Net Position - Beginning of Period	(6,865)	(4,761)
Beginning Balances, as Adjusted	\$ (6,865)	\$ (4,761)
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	1	2
Income from Other Appropriations (Note 6)	24,368	28,886
Total Budgetary Financing Sources	\$ 24,369	\$ 28,888
Other Financing Sources (Non-Exchange)		
Imputed Financing Sources	98	347
Total Other Financing Sources	\$ 98	\$ 347
Net Cost of Operations	(24,638)	(31,339)
Net Change	(171)	(2,104)
Cumulative Results of Operations	<u><u>\$ (7,036)</u></u>	<u><u>\$ (6,865)</u></u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
FIFRA
Statement of Budgetary Resources
For the Years Ended September 30, 2012 and 2011
(Dollars in Thousands)**

	<u>FY 2012</u>	<u>FY 2011</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 404	\$ 1,746
Unobligated balance brought forward, October 1, as adjusted	404	1,746
Recoveries of Prior Year Unpaid Obligations	9	-
Unobligated balance from prior year budget authority, net	413	1,746
Spending authority from offsetting collections (discretionary and mandatory)	22,011	22,704
Total Budgetary Resources	<u>\$ 22,424</u>	<u>\$ 24,450</u>
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	\$ 20,721	\$ 24,046
Unobligated balance, end of year:		
Apportioned	1,703	404
Total unobligated balance, end of period	1,703	404
Total Status of Budgetary Resources	<u>\$ 22,424</u>	<u>\$ 24,450</u>
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations, Brought Forward, October 1 (gross)	\$ 3,137	\$ 2,427
Obligated balance, start of year (net), as adjusted	3,137	2,427
Obligations incurred	20,721	24,046
Outlays (gross)	(20,771)	(23,337)
Recoveries of prior year unpaid obligations	(9)	-
Obligated balance, end of period		
Unpaid obligations, end of year (gross)	3,078	3,137
Obligated balance, end of period (net)	\$ 3,078	\$ 3,137
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget authority, gross (discretionary and mandatory)	\$ 22,011	\$ 22,704
Actual offsetting collections (discretionary and mandatory)	(22,011)	(22,704)
Budget authority, net (discretionary and mandatory)	\$ -	\$ -
Outlays, gross (discretionary and mandatory)	\$ 20,771	\$ 23,337
Actual offsetting collections (discretionary and mandatory)	(22,011)	(22,704)
Outlays, net (discretionary and mandatory)	(1,240)	633
Agency outlays, net (discretionary and mandatory)	<u>\$ (1,240)</u>	<u>\$ 633</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
FIFRA
Notes to Financial Statements
(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 FYs 2012 and 2011 were \$24,368 thousand and \$28,886 thousand, respectively. These amounts are included as Income from Other Appropriations on the Statement of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost.

B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the EPA for the Reregistration and Expedited Processing (FIFRA) Revolving Fund as required by the Chief Financial Officers Act of 1990. The reports have been prepared from the books and records of the EPA in accordance with Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, and the EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by the EPA pursuant to OMB directives that are used to monitor and control the EPA's use of budgetary resources. The balances in these reports have been updated from the EPA consolidated financial statements to reflect the use of FY 2012 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 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 2012 and 2011, 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 2012 and 2011 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.

Note 2. Fund Balance with Treasury

	<u>FY 2012</u>	<u>FY 2011</u>
Revolving Funds: Entity Assets	\$ <u>4,778</u>	\$ <u>3,541</u>

Note 3. General Property, Plant and Equipment

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

As of September 30, 2012 and 2011, General Property, Plant and Equipment consist of the following:

	<u>FY 2012</u>			<u>FY 2011</u>		
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Software	949	(390)	559	905	(248)	657
Total	\$ <u>949</u>	\$ <u>(390)</u>	\$ <u>559</u>	\$ <u>905</u>	\$ <u>(248)</u>	\$ <u>657</u>

Note 4. Other Liabilities

For FYs 2012 and 2011, the Payroll and Benefits Payable, non-Federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 6).

	<u>FY 2012</u>	<u>FY 2011</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ <u>92</u>	\$ <u>326</u>
Total	\$ <u>92</u>	\$ <u>326</u>

Other Non-Federal Liabilities – Covered by Budgetary Resources

Advances from Non-Federal Entities	\$ <u>9,494</u>	\$ <u>7,052</u>
Total	\$ <u>9,494</u>	\$ <u>7,052</u>

Note 5. Payroll and Benefits Payable, non-Federal

	<u>FY 2012</u>	<u>FY 2011</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 502	\$ 1,153
Withholdings Payable	33	180
Thrift Savings Plan Benefits Payable	21	54
Total	<u><u>\$ 556</u></u>	<u><u>\$ 1,387</u></u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave Liability	<u><u>\$ 1,902</u></u>	<u><u>\$ 1,826</u></u>

At various periods throughout FYs 2012 and 2011, employees with their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 7 below showing trend of hours charged per month to the FIFRA fund for FYs 2012 and 2011.) 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 2012 and probably beyond that period.

This process has led to variations between the year-end liabilities for FYs 2012 and 2011. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2012 and FY 2011, no employees were charging their salary and benefits to FIFRA. As of September 30, 2012 these liabilities were \$92 thousand and \$556 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2011's balances of \$326 thousand and \$1,387 thousand, respectively.

In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2012 and 2011, approximately 254 and 258 employees, respectively, in total have been under FIFRA's accountability. During the last pay period of FY 2012, all FIFRA employees had been transferred to EPM so the liability was computed based on no employees charging to FIFRA in the last pay periods covering the timeframe from August 28, 2012 through September 30, 2012. Both the September 30, 2012 and 2011 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 \$1,902 thousand and \$1,826 thousand, respectively.

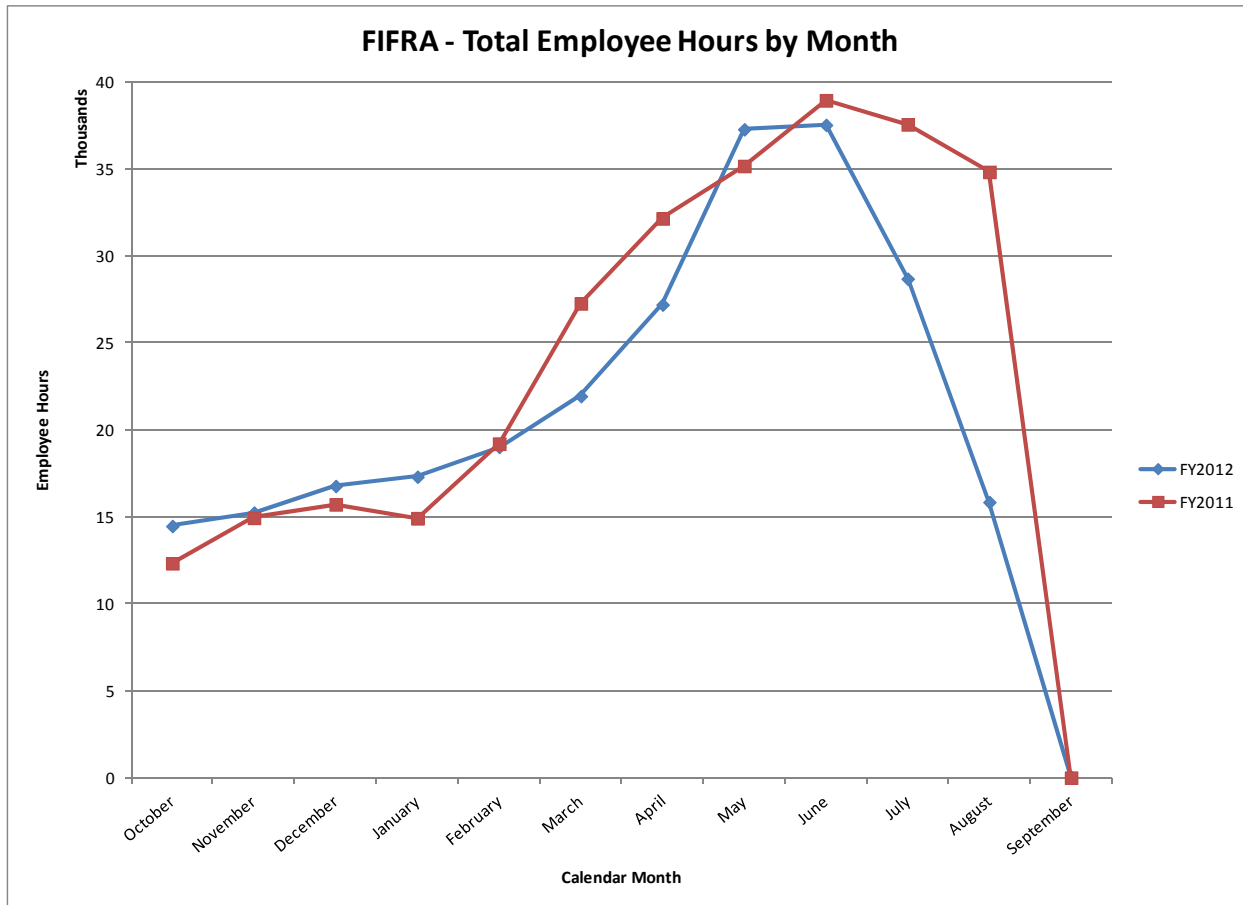
Note 6. Income and Expenses from Other Appropriations

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 2012 and 2011, 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 2012 and 2011 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.

	<u>Income From Other Appropriations</u>	<u>Expenses From Other Appropriations</u>	<u>Net Effect</u>
FY 2012 \$	24,368	\$ 24,368	\$ 0
Restated FY 2011 \$	28,886	\$ 28,886	\$ 0

Note 7. Exchange Revenues, Statement of Net Cost

For FYs 2012 and 2011, 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 2012</u>	<u>Restated FY 2011</u>
COSTS:		
Intragovernmental	\$ 3,839	\$ 5,822
With the Public	15,985	19,319
Expenses from Other Appropriations	24,368	28,886
Total Costs	\$ 44,192	\$ 54,027
REVENUE:		
With the Public	19,554	22,688
Total Revenue	\$ 19,554	\$ 22,688
NET COST OF OPERATIONS	\$ 24,638	\$ 31,339

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 2012</u>	<u>Restated FY 2011</u>
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 20,721	\$ 24,046
Less: Spending Authority from Offsetting Collections and Recoveries	(22,020)	(22,704)
Obligations, Net of Offsetting Collections	\$ (1,299)	\$ 1,342
Less: Offsetting Receipts	3	-
Net Obligations	\$ (1,296)	\$ 1,342
Other Resources		
Imputed Financing Sources	\$ 98	\$ 347
Income from Other Appropriations (Note 6)	24,368	28,886
Net Other Resources Used to Finance Activities	\$ 24,466	\$ 29,233
Total Resources Used To Finance Activities	\$ 23,170	\$ 30,575
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	\$ 1,292	\$ 54
Offsetting Receipts Not Affecting Net Cost	(3)	-
Resources that Finance Asset Acquisition	(45)	(862)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 1,244	\$ (808)
Total Resources Used to Finance the Net Cost of Operations	\$ 24,414	\$ 29,767
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	\$ 77	\$ 455
Increase in Public Exchange Revenue Receivable	3	-
Other	1	2
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	\$ 81	\$ 457
Components Not Requiring/Generating Resources		
Depreciation and Amortization	\$ 143	\$ 248
Expenses Not Requiring Budgetary Resources	-	867
Total Components of Net Cost that Will Not Require or Generate Resources	\$ 143	\$ 1,115
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	\$ 224	\$ 1,572
Net Cost of Operations	\$ 24,638	\$ 31,339

Note 10. Restatements

EPA discovered an accounting error that resulted in the material misstatement of EPA's financial statements issued for the period FY 2011. As a consequence, EPA is correcting the errors by restating its Statement of Net Cost and Statement of Changes in Net Position as of September 30, 2011.

The effect of the restatement is as follows:

	FY 2011, as Previously Reported	Adjustment	FY 2011, as Restated
Statement of Net Cost			
Expenses from Other Appropriations (Note 6)	35,439	(6,553)	28,886
Total Costs	60,580	(6,553)	54,027
Net Cost of Operations (Note 9)	37,892	(6,553)	31,339
Statement of Changes in Net Position			
Income from Other Appropriations (Note 6)	35,439	(6,553)	28,886
Total Budgetary Financing Sources	35,441	(6,553)	28,888
Net Cost of Operations (Note 9)	(37,892)	6,553	(31,339)

Agency's Response to Draft Report

NOV 19 2013

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. 0A-FY13-0081
"Fiscal Years 2012 and 2011 (Restated) Financial Statements for the Pesticides Reregistration and Expedited Processing Fund," dated November 4, 2013

FROM: Maryann Froehlich
Acting Chief Financial Officer

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

TO: Arthur A. Elkins, Jr.
Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the agency's overall position, along with its position on each of the report recommendations. We have provided high-level intended corrective actions and estimated completion dates to the extent we can.

AGENCY'S OVERALL POSITION

The agency concurs with the five recommendations.

AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1	Office of the Chief Financial Officer should correct the Pesticides Reregistration and Expedited Processing Fund financial statements appropriations.	Concur. OCFO corrected the financial statements to reflect the proper expenses paid by other appropriations.	September 24, 2013 (COMPLETED)

2	OCFO should ask the Office of Chemical Safety and Pollution Prevention to carefully review and comment on the draft and final versions of the FIFRA Fund financial statements prior to their submission to the Office of Inspector General.	Concur. OCFO will request OCSPP to carefully review and comment on the draft and final versions of the FIFRA financial statements prior to their submission to OIG.	March 28, 2014 (annually)
3	OCSPP, in consultation with the OCFO and other subject matter experts, develop a process that will provide accurate and timely allocation of Environmental Programs and Management expenses from other appropriations that support the FIFRA fund.	Concur in concept. OCSPP, in consultation with the OCFO and other subject matter experts, will develop a process to ensure accurate allocations of expenses from other appropriations that support the FIFRA fund.	December 31, 2014
4	OCFO should correct the FIFRA financial statements to reflect the proper payroll liability amounts	Concur. OCFO corrected the FIFRA financial statements to reflect the proper payroll liability amounts.	February 26, 2013 (COMPLETED)
5	OCFO should closely monitor the payroll liability amounts for FIFRA at year- end.	Concur.	September 30, 2014

CONTACT INFORMATION

If you have any questions regarding this response, please contact Christopher Osborne of the Office of Financial Management on (202) 564-5070.

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