



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Fiscal Year 2009 and 2008 Financial Statements for the Pesticide Registration Fund

Report No. 10-1-0088

March 30, 2010

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Abbreviations

EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
IFMS	Integrated Financial Management System
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRIA	Pesticide Registration Improvement Act



At a Glance

Catalyst for Improving the Environment

Why We Did This Audit

The Pesticide Registration Improvement Act (PRIA) requires that we perform an annual audit of the Pesticide Registration Fund (known as the PRIA Fund) financial statements.

Background

To expedite the registration of certain pesticides, Congress authorized the U.S. Environmental Protection Agency (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 PRIA Fund. PRIA also requires the establishment of decision time review periods for pesticide registration actions, and requires the Office of Inspector General to perform an analysis of the Agency's compliance with those review periods.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2010/20100330-10-1-0088.pdf

Fiscal Year 2009 and 2008 Financial Statements for the Pesticide Registration Fund

Opinion

We rendered an unqualified, or clean, opinion on EPA's Pesticide Registration Fund financial statements for Fiscal Years 2009 and 2008, meaning that they were fairly presented and free of material misstatement.

Compliance with Decision Time Review Periods

The Agency was in substantial compliance with the statutory decision time frames.

Agency Comments and Office of Inspector General Evaluation

The Office of the Chief Financial Officer and the Office of Prevention, Pesticides, and Toxic Substances had no comments on the draft report.



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

OFFICE OF
INSPECTOR GENERAL

March 30, 2010

MEMORANDUM

SUBJECT: Fiscal Year 2009 and 2008 Financial Statements for the
Pesticide Registration Fund
Report No. 10-1-0088

FROM: Paul C. Curtis 
Director, Financial Statement Audits

TO: Steve Owens
Assistant Administrator for Prevention,
Pesticides, and Toxic Substances

Barbara Bennett
Chief Financial Officer

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) Fiscal Year 2009 and 2008 Financial Statements for the Pesticide Registration Fund, conducted by the EPA Office of Inspector General (OIG). This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$155,160.

Action Required

Because this report contains no recommendations, you are not required to respond to this report. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact me at (202) 566-2523 or Curtis.Paul@epa.gov, or Robert Smith at (202) 566-2531 or Smith.RobertL@epa.gov.

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Inspector General's Report on the Fiscal Year 2009 and 2008 Financial Statements for the Pesticide Registration Fund

The Administrator
U.S. Environmental Protection Agency

We have audited the Pesticide Registration Fund (known as the PRIA Fund) balance sheet as of September 30, 2009, and 2008, 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 the U.S. Environmental Protection Agency's (EPA's) management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with U.S. 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*. 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 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.

In our opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the PRIA Fund, as of and for the years ended September 30, 2009, and 2008, 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, designed to provide reasonable assurance that the following objectives are met:

Reliability of financial reporting - Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Compliance with applicable laws, regulations, and government-wide policies -

Transactions are executed in accordance with laws governing the use of budget authority, government-wide 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 EPA's internal controls over PRIA financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls have 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*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

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 control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in any internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We did not note any instances involving operations that we consider to be a significant deficiency or noncompliance issue. However, as mentioned in the Prior Audit Coverage section of this report, we will continue to disclose a significant deficiency concerning the lack of system documentation that inhibits our ability to audit Integrated Financial Management System (IFMS) application controls until the new system is in place.

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

OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, September 23, 2009, 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 significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The Agency did not report, and our audit did not detect, any material weaknesses for Fiscal Year 2009 impacting PRIA.

Tests of Compliance with Laws and Regulations

In accordance with PRIA, the Administrator is required to publish a schedule of decision time review periods for pesticide registration actions and corresponding registration fees in the Federal Register. Decision time review periods are specified time limits for the Agency to grant or deny pesticide registrations. The Act also requires the Office of Inspector General (OIG) to perform an analysis of the Agency's compliance with decision time review periods. The Agency was in substantial compliance with the statutory decision time frames.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with those laws and regulations that could either materially affect the PRIA 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

Our audit work related to the information presented in the Management's Discussion and Analysis of the Pesticide Program included comparing the overview information with information in EPA's principal financial statements for consistency. We did not identify material inconsistencies between the information presented in the two documents.

Prior Audit Coverage

In Fiscal Year 2008, we did not identify any reportable conditions affecting PRIA. During previous financial or financial-related audits, we reported the following reportable conditions:

- We could not assess the adequacy of IFMS automated controls.
- We found that EPA did not timely obligate PRIA funds for worker protection activities.

EPA has taken additional steps toward correcting the open IFMS issue by replacing IFMS with a new financial system. EPA's contract with CGI Federal, Inc., is moving forward. The anticipated "go live" date for the new the EPA Financial System is first quarter of Fiscal Year 2012. Since the new system has not been implemented, a reportable condition will continue to exist concerning the lack of system documentation until the new system is implemented (*Audit of*

EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements, Audit Report 10-1-0029, issued November 16, 2009).

EPA took corrective action to ensure PRIA funds are obligated timely. Region 7 revised its procedures for the procurement of outside printing needs. The revised procedures require that print orders placed with the Government Printing Office are promptly forwarded to the Cincinnati Finance Center to ensure that the obligations are recorded timely in IFMS. The Office of Administration and Resources Management also agreed to review its internal procedures and make any necessary changes to ensure that funds are obligated timely (*Fiscal Year 2006 and 2005 Financial Statements for the Pesticide Registration Fund, Audit Report 2007-1-00071, issued May 30, 2007*).

Noteworthy Achievements

The Office of Pesticide Programs has done a commendable job in complying with statutory decision time review periods for pesticide registration actions. During our sample testing, we found that the Agency had completed the PRIA decisions due during Fiscal Year 2009 within the statutory time frames.

Agency Comments and OIG Evaluation

The Office of the Chief Financial Officer and the Office of Prevention, Pesticides, and Toxic Substances had no comments on the draft report.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
March 30, 2010

Attachment 1

***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
No recommendations							

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

***FYs 2009 and 2008 PESTICIDE REGISTRATION FUND
(PRIA)
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.

With passage of the Pesticide Registration Improvement Act (PRIA) of 2003, the pesticide program now administers the Pesticide Registration Fund. PRIA authorizes the collection of new fees for pesticide registrations. Registration service fees 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 the authority of FIFRA and the Federal Food, Drug, and Cosmetic Act (FFDCA) as amended by the Food Quality Protection Act (FQPA), no person or State can distribute or sell any pesticide that is not registered with the Agency. The pesticide registration program works to decrease the risk to the public from pesticide use through the regulatory review of new pesticides. In 2004, Congress passed PRIA, with deadlines for completion of certain registration actions. As part of the registration program, EPA expedites the registration of reduced-risk pesticide uses, which are generally presumed to pose lower risks to consumers, workers, groundwater, and/or wildlife. These accelerated pesticide reviews provide an incentive for industry to develop, register, and use lower risk pesticides. Additionally, the availability of these reduced-risk pesticides provides alternatives to older, potentially more harmful products currently on the market.

Biological agents are potential weapons that could be exploited by terrorists against the United States. EPA's pesticides antimicrobial program is working to help address this threat. Antimicrobials play an important role in public health and safety. EPA is conducting comprehensive scientific assessments and developing test protocols to determine the safety and efficacy of products used against chemical and biological weapons of mass destruction, and registering products as necessary. EPA is also developing a timeline for prioritizing and implementing the tests. In addition, the Section 18 program provides emergency exemption to any part of FIFRA. This authority is typically used by States on an emergency basis. EPA has recently used this authority to help with homeland security. Section 18 exemptions have been authorized to help with anthrax and soybean rust.

PRIA established registration service fees for certain antimicrobials, biopesticides and conventional pesticides registration actions. The category of action, the amount of the registration service fee, and the corresponding decision review periods by year are prescribed in the statute. The goal is to create a more predictable evaluation process for affected pesticide

decisions, and couple the collection of individual fees with specific decision review periods. The legislation also promotes shorter decision review periods for reduced-risk applications. PRIA became effective on March 23, 2004, and the collection of registration fees were authorized through FY 2008. PRIA was reauthorized with passage of the Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA 2) on October 9, 2007. PRIA 2 became effective retroactive to October 1, 2007, and the collection of registration fees are now authorized through FY 2012. In order to help ensure a smooth transition (if PRIA 2 is not reauthorized), PRIA 2 reduces the registration service fees by 40 percent in FY 2013 and then by 70 percent in FY 2014. For any application received after September 30, 2012, but before September 30, 2014, the reduced registration service fee applies, while the decision review periods do not.

In order 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 fees¹. 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 2, the fee has been paid and waiver granted. The legislation provides fee waivers for certain categories of small businesses, and minor uses². Exemptions from the requirement to pay a registration service fee is provided under PRIA 2 for applications solely associated with IR-4 petitions³. 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 it is determined that a fee is required and thus the waiver is not granted, the decision review period starts after the fee is collected.

Applications received prior to October 1, 2007 are covered by PRIA 1. Applications received in FY08 are covered by PRIA 2 and PRIA 2 contains the same audit provision as PRIA 1. PRIA 2 imposed minimum payment requirements; requires the EPA to reject an application for an unpaid fee; provides the ability to reject an application if it fails an initial content screen and retain a portion of the fee; increased the fee categories or types of applications covered by PRIA from 90 to 140; allows the use of investment income; eliminated the 100% fee waiver for small businesses; and increased the amount to support worker protection activities.

¹ Out of approximately 8200 completed PRIA actions since the start of PRIA, more than 99% were completed on or before the PRIA/PRIA 2 due date.

² 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.

³ 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.

Research Program Description

EPA's pesticides and toxics research program continues to examine risks resulting from exposure to pesticides and toxic chemicals. The research is designed to support the Agency's efforts to reduce current and future risks to the environment and to humans by preventing and/or controlling the production of new chemicals and products of biotechnology that pose unreasonable risk, as well as assessing and reducing the risks of chemicals and products of biotechnology already in commerce. The research program's major goals are: (1) to provide predictive tools to prioritize testing requirements; enhance interpretation of data to improve human health and ecological risk assessments; and inform decision-making regarding high priority pesticides and toxic substances; (2) to develop probabilistic risk assessments to protect natural populations of birds, fish, other wildlife, and non-target plants; and (3) to provide the tools necessary to make decisions related to products of biotechnology.

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 is developing:

- 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
- 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.

Additionally, research to support decision-making related to products of biotechnology includes:

- Development of methods to assess the potential allergenicity of genetically engineered plants.
- Characterization of the environmental impact of genetically engineered plants and developing methods to reduce them.

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

Registration Financial Perspective

During FY 2009, the Agency's obligations charged against the Pesticide Registration Fund for the cost of registration were \$18.2 million and 70.8 workyears (all obligated by OPP).

Appropriated funds are used in addition to Registration funds. In FY 2009, the enacted operating plan included approximately \$37.7 million in appropriated funds for registration activities. The unobligated balance in the Fund at the end of FY 2009 was \$7.0 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$16.1 million in FY 2009 receipts, 99.9% were fee collections.

Registration Program Performance Measures

The following measures support the program's strategic goals of Healthy Communities and Ecosystems as contained in the FY 2009 President's budget.

Measure 1: Number of new active ingredients registered.

Results: In FY 2009, EPA registered 19 new active ingredients, of which 15 are biopesticides, and 4 are conventional pesticides with domestic uses. This measure includes both reduced-risk and non-reduced-risk pesticides.

Measure 2: Progress in Registering Reduced-risk Pesticides.

Results: In FY 2009, EPA registered 16 reduced-risk new active ingredients, of which 15 were biological pesticides and 1 was a conventional pesticide. Biological pesticides are certain types of pesticides derived from such natural materials as animals, plants, bacteria, and certain minerals. They are usually less toxic and are typically considered safer pesticides than the traditional conventional chemicals; therefore, the 15 biopesticides new active ingredients are counted as reduced-risk pesticides. Conventional “reduced risk” pesticides have one or more of the following advantages over currently registered pesticides: low impact on human health, low toxicity to non-target organisms, low potential for groundwater contamination, lower use rates, low pest resistance potential, and compatibility with integrated pest management strategies.

Measure 3: Number of New Food Uses Registered.

Results: EPA registered 148 new food uses for previously registered active ingredients. Of these new uses, 139 were for conventional pesticides, 2 were for antimicrobial pesticides, and 7 were for biopesticides.

Measure 4: Progress in Registering Reduced-risk New Uses.

Results: Included in the new uses registered are 17 reduced-risk.

**PRINCIPAL
FINANCIAL STATEMENTS**

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**Environmental Protection Agency
PRIA
Balance Sheet
For the Years Ended September 30, 2009 and 2008
(Dollars in Thousands)**

	<u>FY 2009</u>	<u>FY 2008</u>
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 15,140	\$ 16,841
Other	0	42
Total Intragovernmental	\$ 15,140	\$ 16,883
Property, Plant & Equipment, Net (Note 4)	3,644	1,995
Total Assets	\$ 18,784	\$ 18,878
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities	202	202
Other (Note 3)	79	58
Total Intragovernmental	\$ 281	\$ 260
Accounts Payable & Accrued Liabilities	1,320	1,163
Payroll & Benefits Payable (Note 5)	956	767
Other (Note 3)	13,421	15,439
Total Liabilities	\$ 15,978	\$ 17,629
NET POSITION		
Cumulative Results of Operations	2,806	1,249
Total Net Position	2,806	1,249
Total Liabilities and Net Position	\$ 18,784	\$ 18,878

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
PRIA
Statement of Net Cost
For the Years Ended September 30, 2009 and 2008
(Dollars in Thousands)**

	<u>FY 2009</u>	<u>FY 2008</u>
COSTS		
Gross Cost (Note 8)	\$ 16,314	\$ 14,049
Expenses from Other Appropriations (Note 6)	49,215	45,693
Total Costs	<u>\$ 65,529</u>	<u>\$ 59,742</u>
Less:		
Earned Revenues, (Notes 7 and 8)	<u>17,850</u>	<u>15,664</u>
NET COST OF OPERATIONS (Note 8)	<u>\$ 47,679</u>	<u>\$ 44,078</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
PRIA
Statement of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(Dollars in Thousands)**

	<u>FY 2009</u>	<u>FY 2008</u>
Net Position - Beginning of Period	\$ 1,249	\$ (511)
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	8	10
Income from Other Appropriations (Note 6)	<u>49,215</u>	<u>45,693</u>
Total Budgetary Financing Sources	\$ <u>49,223</u>	\$ <u>45,703</u>
Other Financing Sources:		
Imputed Financing Sources	<u>13</u>	<u>135</u>
Total Other Financing Sources	\$ <u>13</u>	\$ <u>135</u>
Net Cost of Operations	(47,679)	(44,078)
Net Change	1,557	1,760
Net Position - End of Period	<u><u>\$ 2,806</u></u>	<u><u>\$ 1,249</u></u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
PRIA
Statement of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(Dollars in Thousands)**

	<u>FY 2009</u>	<u>FY 2008</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 8,872	\$ 10,260
Recoveries of Prior Year Unpaid Obligations	319	
Budgetary Authority:		
Appropriations	15,998	15,994
Spending Authority from Offsetting Collections:		
Earned:		
Collected	2	37
Temporarily Not Available Pursuant to Public Law	-	(156)
Total Budgetary Resources	<u>\$ 25,191</u>	<u>\$ 26,135</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 18,211	\$ 17,263
Total Obligations Incurred	18,211	17,263
Unobligated Balances:		
Apportioned	6,980	8,872
Total Status of Budgetary Resources	<u>\$ 25,191</u>	<u>\$ 26,135</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 7,812	\$ 6,146
Total Unpaid Obligated Balance, Net	7,812	6,146
Obligations Incurred, Net	18,211	17,263
Less: Gross Outlays	(17,543)	(15,597)
Total, Change in Obligated Balance	8,480	7,812
Less: Recoveries of Prior Year Unpaid Obligations	(319)	
Total, Unpaid Obligated Balance, Net, End of Period	\$ 8,161	\$ 7,812
NET OUTLAYS		
Net Outlays:		
Gross Outlays	\$ 17,543	\$ 15,597
Offsetting Collections	(2)	(37)
Less Distributed Offsetting Receipts (Note 1 Section L)	(15,833)	(15,984)
Total, Net Outlays	<u>\$ 1,708</u>	<u>\$ (424)</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
PRIA
Notes to Financial Statements
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (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 EPA in accordance with *Financial Reporting Requirements*, Office of Management and Budget (OMB) Circular A-136 and EPA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports also prepared by EPA pursuant to OMB directives that are used to monitor and control EPA's use of budgetary resources.

B. Reporting Entity

EPA 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 PRIA fund 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 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 II) extended the authority to collect pesticide registration service fees through FY 2012. PRIA II became effective October 1, 2007. The PRIA Fund is accounted for under Treasury symbol number 68X5374.

Pesticide 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 2009 and 2008 were \$49,215 thousand and \$45,693 thousand, respectively. This amount was included as Income from Other Appropriations on the Statements of Changes in Net Position and as Expenses from Other Appropriations on the Statement of Net Cost for FYs 2009 and 2008.

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 EPA submits an apportionment request to OMB based on the anticipated collections of industry fees.

D. Basis of Accounting

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 2009 and 2008, PRIA received funding from fees collected from registrants requesting pesticide registrations. For FYs 2009 and 2008, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

F. Funds with the Treasury

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

G. General Property, Plant and Equipment

Purchases of EPA-held personal equipment are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Depreciation is taken on a basic straight-line method over the specific asset's useful life, ranging from 2 to 15 years. EPA shows property, plant and equipment at net of depreciation on its audited financial statements.

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 2 to 10 years.

H. Investments in U. S. Government Securities

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

I. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by EPA as the result of a transaction or event that has already occurred. However, no liability can be paid by EPA without an appropriation or other collection of revenue for services provided. 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. Liabilities of EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

J. Annual, Sick and Other 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, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1987, 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.

Note 2. Fund Balance with Treasury:

		<u>FY 2009</u>	<u>FY 2008</u>
Revolving Funds:	Entity Assets	\$ <u>15,140</u>	\$ <u>16,841</u>

Note 3. Other Liabilities:

For FYs 2009 and 2008, the Payroll and Benefits Payable, non-Federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 5 below).

	<u>FY 2009</u>	<u>FY 2008</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ <u>79</u>	\$ <u>58</u>
Total	\$ <u>79</u>	\$ <u>58</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Advances from Non-Federal Entities	\$ <u>13,421</u>	\$ <u>15,439</u>
Total	\$ <u>13,421</u>	\$ <u>15,439</u>

Note 4. General Property, Plant and Equipment:

General property, plant and equipment consists of EPA-Held personal property and software (in development).

As of September 30, 2009 and 2008, General Property, Plant and Equipment consist of the following:

	<u>FY 2009</u>			<u>FY 2008</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>
EPA-Held Equipment	\$ 319	\$ (238)	\$ 81	\$ 323	\$ (202)	\$ 121
Software	3,562	-	3,562	1,874	-	1,874
Total	\$ <u>3,881</u>	\$ <u>(238)</u>	\$ <u>3,643</u>	\$ <u>2,197</u>	\$ <u>(202)</u>	\$ <u>1,995</u>

Note 5. Payroll and Benefits Payable, Non-Federal:

	<u>FY 2009</u>	<u>FY 2008</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 227	\$ 160
Withholdings Payable	124	104
Thrift Savings Plan Benefits Payable	12	9
Total	<u>\$ 363</u>	<u>\$ 273</u>
Not Covered by Budgetary Resources		
Unfunded Annual Leave	\$ 593	\$ 494
Total	<u>\$ 593</u>	<u>\$ 494</u>

At various periods throughout FYs 2009 and 2008 employees with their associated payroll costs were transferred from the fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 6 below showing trend of hours charged per month to the PRIA Fund for FYs 2009 and 2008.) These employees were transferred in order to keep PRIA's obligations and disbursements within budgetary limits.

This process has led to variations between the year-end liabilities of FYs 2009 and 2008. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. For FY 2009 Pay Period 26; 72 employees charged to PRIA part of their salary and benefits. As of September 30, 2009, these liabilities were \$79 thousand and \$363 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2008's balances of \$58 thousand and \$273 thousand, respectively.

In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2009 and FY 2008, approximately 173 and 144 employees, respectively, in total have been under PRIA's accountability. As of September 30, 2009 and 2008 liability balances for unfunded annual leave were accrued to cover these employees for a total of \$593 thousand and \$494 thousand, respectively.

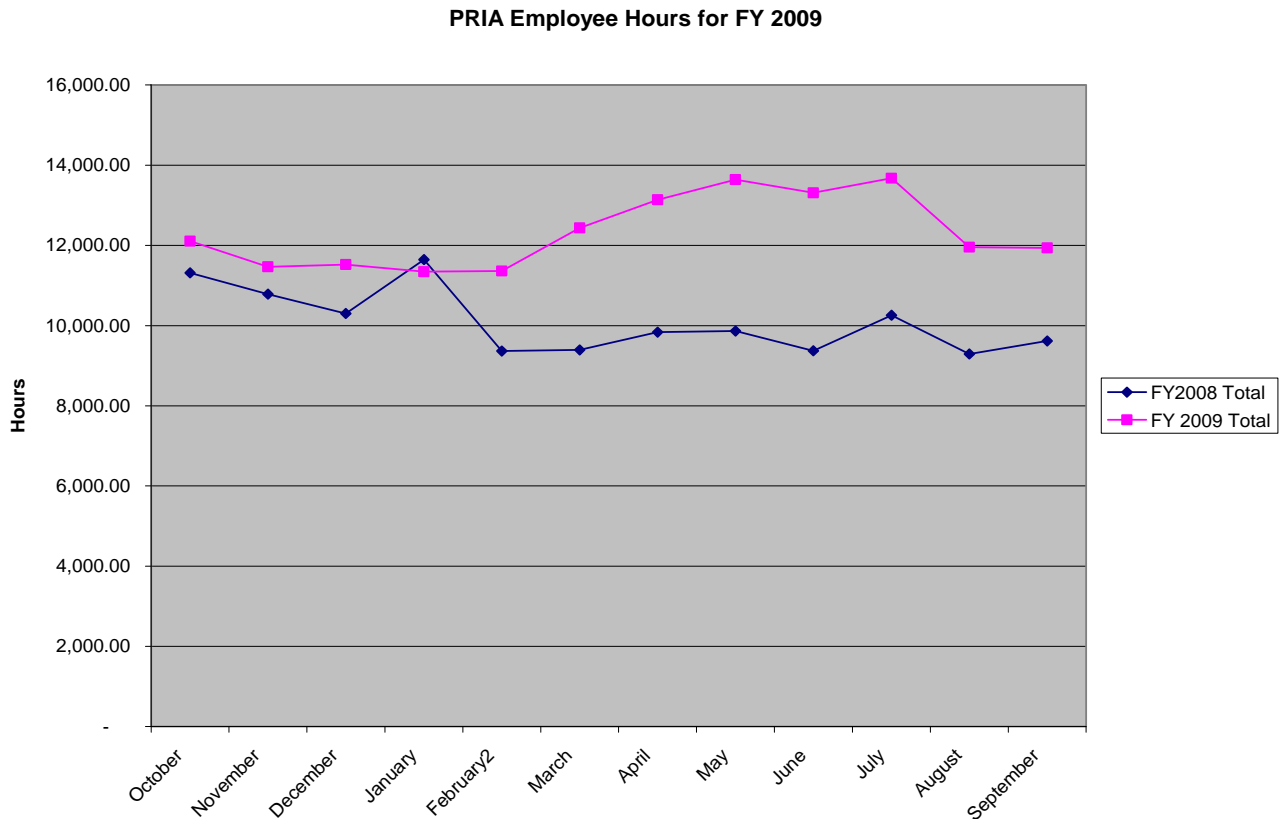
Note 6. Income and Expenses from Other Appropriations:

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 2009 and 2008, 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 PRIA to EPM at various times during FYs 2009 and 2008 (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 PRIA each month, the transfers of employees and their associated costs during FYs 2009 and 2008 are shown below. Note that a decrease in hours charged to PRIA normally signifies an increase in EPM’s payroll costs, and vice versa.



EPM costs related to PRIA are allocated based on specific EPM program codes which have been designated for Pesticide registration activities. As illustrated below, there is no impact on PRIA’s Statement of Net Position.

	<u>Income From Other Appropriations</u>		<u>Expenses From Other Appropriations</u>		<u>Net Effect</u>
FY 2009	\$ 49,215	\$	49,215	\$	0
FY 2008	\$ 45,693	\$	45,693	\$	0

Note 7. Exchange Revenues, Statement of Net Cost

For FYs 2009 and 2008, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

Note 8. Intragovernmental Costs and Exchange Revenue

	<u>FY 2009</u>	<u>FY 2008</u>
COSTS:		
Intragovernmental	\$ 2,776	\$ 2,672
With the Public	13,538	11,377
Expenses from Other Appropriations	49,215	45,693
Total Costs	\$ 65,529	\$ 59,742
REVENUE:		
With the Public	17,850	15,664
Total Revenue	\$ 17,850	\$ 15,664
NET COST OF OPERATIONS	\$ 47,679	\$ 44,078

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 2009</u>	<u>FY 2008</u>
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 18,211	\$ 17,263
Less: Spending Authority from Offsetting Collections and Recoveries	(321)	(37)
Obligations, Net of Offsetting Collections	<u>\$ 17,890</u>	<u>\$ 17,226</u>
Less: Offsetting Receipts (Note 1 Section L)	(15,833)	(15,984)
Net Obligations	<u>2,057</u>	<u>1,242</u>
Other Resources		
Imputed Financing Sources	\$ 12	\$ 135
Income from Other Appropriations (Note 6)	<u>49,215</u>	<u>45,693</u>
Net Other Resources Used to Finance Activities	<u>\$ 49,227</u>	<u>\$ 45,828</u>
 Total Resources Used To Finance Activities	 \$ 51,284	 \$ 47,070
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	\$ (38)	\$ (1,563)
Resources that Fund Prior Periods Expenses	-	(3)
Offsetting Receipts Not Affecting Net Cost (Note 1 Section L)	15,833	15,984
Resources that Finance Asset Acquisition	<u>(1,684)</u>	<u>(1,794)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	 \$ 14,111	 \$ 12,624
 Total Resources Used to Finance the Net Cost of Operations	 \$ 65,395	 \$ 59,694
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	\$ 98	\$ -
Increase in Public Exchange Revenue Receivable	<u>(17,850)</u>	<u>(15,664)</u>
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	 \$ (17,752)	 \$ (15,664)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	<u>36</u>	<u>48</u>
Total components of Net cost of Operations that Will Not Require or Generate Resources	<u>36</u>	<u>48</u>
 Total components of Net cost of Operations that Will Not Require or Generate Resources in the Current Period	 (17,716)	 (15,616)
 Net Cost of Operations	 <u>\$ 47,679</u>	 <u>\$ 44,078</u>

Appendix B

Agency Response to Draft Report

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

OFFICE OF
PREVENTION, PESTICIDES AND
TOXIC SUBSTANCES

MAR 18 2010

MEMORANDUM

SUBJECT: OPP Response to Draft Audit Report: Fiscal Year 2009 and 2008 Financial Statements for the Pesticides Registration Fund

FROM: Stephen A. Owens /s/
Assistant Administrator

Barbara Bennett /s/
Chief Financial Officer

TO: Paul C. Curtis, Director
Financial Statement Audits (2422T)

Thank you for the opportunity to respond to the March 11, 2010, Draft Audit Report: Fiscal Year 2009 and 2008 Financial Statements for the Pesticides Registration Fund. We appreciate the Office of Inspector General's (OIG) careful evaluation of the Office of Pesticide Programs' (OPP) financial statements for 2009 and 2008. We also appreciate your acknowledgement that OPP has done a commendable job in complying with statutory decision time review periods for pesticide registration actions. Your sample showed that we had completed PRIA decisions during Fiscal Year 2009 within the statutory time frames.

We concur with the OIG's general conclusions that our financial statements are fairly presented, free of material misstatement. Protection of human health and the environment from unreasonable adverse effects of pesticides is a responsibility we take very seriously and we welcome OIG's input on our work.

We appreciate OIG's work with OPP to improve the effectiveness of our programs, and we have no additional comments on the Audit Report. If you have any questions concerning our response you may contact Marty Monell, Deputy Director, Office of Pesticide Programs on 703-305-7090, or Maryann Petrole, Chief, Financial Management and Planning Branch, OPP on 703-308-8685.

Appendix C***Distribution***

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Chief Financial Officer
Agency Follow-up Official (the CFO)
Deputy Chief Financial Officer
Agency Follow-up Coordinator
General Counsel
Assistant Administrator for Prevention, Pesticides, and Toxic Substances
Assistant Administrator for Administration and Resources Management
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Acting Director, Office of Pesticide Programs, Office of Prevention, Pesticides, and Toxic Substances
Deputy Director, Office of Pesticide Programs, Office of Prevention, Pesticides, and Toxic Substances
Acting Director, Biopesticides and Pollution Prevention Division, Office of Prevention, Pesticides, and Toxic Substances
Director, Pesticide Re-Evaluation Division, Office of Prevention, Pesticides, and Toxic Substances
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Acting Inspector General