



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Fiscal Year 2006 and 2005 Financial Statements for the Pesticide Registration Fund

Report No. 2007-1-00071

May 30, 2007

Report Contributors:

Paul Curtis
Wanda Whitfield
Bill Samuel
Sheree Brice
Diane Forrest
Carol Kwok

Ethel Lowery
Sheila May
Javier Negron
Demetrios Papakonstantinou
Cynthia Poteat
Phil Weihrouch

Abbreviations

CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
FMSD	Facilities Management and Services Division
GAD	Grants Administration Division
GAO	Government Accountability Office
IAG	Interagency Agreement
IFMS	Integrated Financial Management System
OARM	Office of Administration and Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPP	Office of Pesticide Programs
PRIA	Pesticide Registration Improvement Act
WFC	Washington Finance Center



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, and report findings and recommendations resulting from the audit.

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.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2007/20070530-2007-1-00071.pdf

Fiscal Year 2006 and 2005 Financial Statements for the Pesticide Registration Fund

EPA Receives Unqualified Opinion

We rendered an unqualified, or clean, opinion on EPA's Pesticide Registration Fund financial statements for fiscal years 2006 and 2005, meaning that they were fairly presented and free of material misstatement.

Internal Control Reportable Condition Noted

EPA did not timely obligate PRIA funds, totaling \$100,000, for worker protection activities.

Noncompliance With Laws and Regulations Noted

We tested compliance with those laws and regulations that could either materially affect the PRIA Fund financial statements, or that we considered significant to the audit. The objective of our audit, including our tests of compliance with applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any noncompliances that would result in a material misstatement to the audited financial statements. However, EPA's not recording \$100,000 in obligations for services performed during fiscal year 2006 was contrary to Title 31, U.S. Code, Section 1501.

Agency Comments and Office of Inspector General Evaluation

In a memorandum dated April 19, 2007, the Assistant Administrator for Administration and Resources Management responded to our draft report.



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

OFFICE OF
INSPECTOR GENERAL

May 30, 2007

MEMORANDUM

SUBJECT: Fiscal Year 2006 and 2005 Financial Statements for the
Pesticide Registration Fund
Report No. 2007-1-00071

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: James B. Gulliford
Assistant Administrator for Prevention,
Pesticides, and Toxic Substances

Luis A. Luna
Assistant Administrator for Administration
and Resources Management

Lyons Gray
Chief Financial Officer

Martha Cuppy
Assistant Regional Administrator, Region 7

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) fiscal year 2006 and 2005 financial statements for the Pesticide Registration Fund, conducted by the EPA Office of Inspector General (OIG). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. The report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The 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 \$249,000.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days of the date of this report. You should include a corrective action plan for each recommendation that includes milestone dates.

If you or your staff have any questions regarding this report, please contact me at (202) 566-0899 or Heist.Melissa@epa.gov, or Paul Curtis at (202) 566-2523 or Curtis.Paul@epa.gov.

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- A Fiscal Year 2006 and 2005 PRIA Financial Statements**
- B Full Text of Agency Response**
- C Distribution**

Inspector General's Report on the Fiscal Year 2006 and 2005 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, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing 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 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. 06-03, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit 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.

As discussed in Note 1.K., the Agency changed the manner in which it classified and reported amounts for offsetting receipts in fiscal year 2006 to comply with OMB Circular No. A-136, *Financial Reporting Requirements*. OMB Circular No. A-136 also does not require the restatement of prior year (fiscal year 2005) financial statements. Accordingly, the 2006 financial statements are not comparative with 2005 as they pertain to reporting offsetting receipts.

In our opinion, the financial statements present fairly the assets, liabilities, net position, budgetary resources, financing activities, and reconciliation of net costs to budgetary obligations of the PRIA fund, as of and for the years ended September 30, 2006 and 2005, in accordance with accounting principles generally accepted in the United States of America.

Evaluation of Internal Controls

As defined by OMB Bulletin No. 06-03, 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.

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Compliance with applicable laws and regulations - Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements; and any other laws, regulations, and Government-wide policies identified by OMB.

In planning and performing our audit, we considered EPA's internal control over PRIA financial reporting by obtaining an understanding of the Agency's internal controls. We determined whether internal controls have been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. 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. 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 controls that might be reportable conditions or material weaknesses. Because of inherent limitations in any internal control structure, losses, noncompliance, or misstatements could occur and not be detected. Also, projecting our evaluation of internal controls to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with such controls may deteriorate.

With respect to internal controls related to performance measures presented in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide assurance on internal controls over reported performance measures and, accordingly, we do not express an opinion on internal controls.

Material Weaknesses

Material weaknesses, as defined by OMB Bulletin No. 06-03, are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters discussed below involving operations that we consider a reportable condition and noncompliance issue, although we do not believe they are material weaknesses.

Reportable Conditions

OMB Bulletin No. 06-03 defines reportable conditions as matters that come to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet the objectives defined on the previous page. For fiscal year 2006, we identified one reportable condition.

During fiscal year 2006, EPA did not timely obligate \$100,000 in PRIA funds for worker protection activities. In two instances, EPA received goods ordered prior to obligating and expending the funds. The Government Accountability Office's (GAO's) *Standards for Internal Controls in the Federal Government* require accurate and timely recording of transactions and events. The Office of Pesticide Programs (OPP) committed the funds for these transactions. However, the funds were not recorded as obligations timely due to a delay by Region 7 and the Grants Administration Division (GAD) in providing documentation to the Cincinnati Finance Center (CFC). When obligations are not recorded timely, it increases the risk for inaccurate or incomplete information in the Agency's accounting system, the Integrated Financial Management System (IFMS). Accordingly, it impacts the quality and reliability of financial data available to manage EPA's resources.

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

OMB Bulletin No. 06-03 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 audit that were not reported in the Agency's FMFIA report.

For reporting under FMFIA, material weaknesses are defined differently than they are for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

Our audit did not disclose any material weaknesses, nor were any reported by the Agency as part of the Integrity Act process.

Tests of Compliance with Laws and Regulations

In accordance with PRIA, the Administrator is required to publish a schedule of decision 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 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 Agency's 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. However, our tests of laws and regulations disclosed the following noncompliance issue that we considered to be significant to the audit.

EPA Did Not Comply with U.S. Code for Recording Obligations

During fiscal year 2006, EPA did not record \$100,000 in obligations for services performed during the year. Title 31, U.S. Code, Section 1501 requires that the obligation be recorded when there is documentary evidence of a binding agreement or order between an agency and another party. OPP committed the funds for these transactions. However, the funds were not obligated timely due to a delay by Region 7 and GAD in providing documentation to CFC. Because the funds were not recorded as obligations until fiscal year 2007, obligations were understated in the fiscal year 2006 PRIA financial statements. Failure to promptly record obligations could result in a violation of the Anti-Deficiency Act.

Overview Section of the Financial Statements

Our audit work related to the information presented in Management's Overview 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.

Our audit work also included obtaining an understanding of the design of significant internal controls relating to the existence and completeness assertions of the performance measures in the Overview. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

Prior Audit Coverage

During previous financial or financial-related audits, we reported the following reportable conditions:

- We identified a weakness in the Agency's documentation of adjustments to IFMS entries.
- We could not assess the adequacy of IFMS automated controls.
- We identified a weakness in the Agency's preparation and quality control of the financial statements and footnotes.

The Agency began corrective action to improve documentation of adjusting and correcting entries in IFMS. EPA's Washington Finance Center (WFC) updated its procedures to include maintaining adequate source documentation when adjusting and correcting entries are made to transactions already entered in IFMS. WFC staff will include an adjustment control sheet to document the reason for the adjustments and corrections. In addition, a separate staff person will be assigned to review and approve the transactions (*Fiscal 2005 and 2004 (restated) Financial Statements for the Pesticide Registration Fund*, Audit Report 2007-1-00002).

EPA has made progress toward replacing IFMS. However, until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a reportable condition concerning documentation of the current accounting system and its automated application processing controls (*Audit of EPA's Fiscal 2006 and 2005 Consolidated Financial Statements*, Audit Report 2007-1-00019). In addition, EPA recognizes the importance of properly reviewing the financial statements, including the footnotes, supplemental information, and overview, prior to release or submittal for audit. EPA strengthened its quality control and review procedures for the financial statement documents.

Agency Comments and OIG Evaluation

In a memorandum dated April 19, 2007, the Assistant Administrator for Administration and Resources Management responded to our draft report. The rationale for our conclusions and a summary of the Agency comments are included in the appropriate sections of this report, and the Agency's complete response is included in Appendix B to this report.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
May 16, 2007

Reportable Condition

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1 - Worker Protection Funds Not Obligated Timely 7

1 - Worker Protection Funds Not Obligated Timely

During fiscal year 2006, EPA did not timely obligate \$100,000 in PRIA funds for worker protection activities. In two instances, EPA received goods ordered prior to obligating and expending the funds. The GAO *Standards for Internal Controls in the Federal Government* require accurate and timely recording of transactions and events. OPP committed the funds for these transactions. However, the funds were not recorded as obligations timely due to a delay by Region 7 and GAD in providing documentation to CFC. When obligations are not recorded timely, it increases the risk for inaccurate or incomplete information in IFMS. Accordingly, it impacts the quality and reliability of financial data available to manage EPA's resources.

The GAO *Standards for Internal Controls in the Federal Government* state that "transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records."

EPA Comptroller Policy Announcement No. 86-09, *Requirements for Timely Posting of Agency Obligations*, establishes policies and procedures that the Agency must comply with to ensure prompt recording of obligations. It states that "each program and administrative office is responsible for establishing supplementary procedures to ensure prompt processing of documents under its control from initiation to the point of obligation." Individuals with obligational authority are responsible for ensuring that the valid obligating document or, alternatively, written evidence is received by the servicing finance office. In addition, the policy requires that data be recorded in IFMS as promptly as possible after authorized officials take action in order to report accurately and timely on funds status and other financial results of Agency activities.

Funds to support worker protection activities for three transactions, totaling \$100,000, were not obligated timely. EPA issued two print requests for the reproduction of worker safety training materials, totaling \$50,000, to the U.S. Government Printing Office. The products from the print requests were received in fiscal year 2006. However, we learned that the funds for these two transactions were not obligated until February 8, 2007. The obligation occurred 10 months after the funds were committed and at least 3 months after the products were received. In addition, EPA increased funding for an Interagency Agreement (IAG No. DW-75-92221801-1) with the Department of Health and Human Services, National Cancer Institute, totaling \$50,000. Under this IAG, the National Cancer Institute is to provide a pesticide health effects data analysis to EPA. The IAG was signed in fiscal year 2006, but funds were not obligated until February 13, 2007. As of the end of our field work, these transactions had not been paid.

The funds were not recorded as obligations timely due to a delay by Region 7 and GAD in providing documentation to CFC. Failure to promptly record the obligations increases the risk for inaccurate or incomplete information in IFMS. Accordingly, it impacts the quality and reliability of financial data available to manage EPA's resources.

Recommendations

We recommend that the Assistant Regional Administrator, Region 7 Office of Policy and Management:

- 1-1 Have the Chief, Facilities, Security and Safety Branch, ensure that print orders placed with the Government Printing Office are promptly forwarded to CFC to ensure that the obligations are recorded timely in IFMS.

We recommend that the Assistant Administrator for Administration and Resources Management:

- 1-2 Have the Director, GAD, ensure that IAGs signed by all responsible parties are promptly forwarded to CFC to ensure that the obligations are recorded timely in IFMS.

Agency Response and OIG Evaluation

The Office of Administration and Resources Management (OARM) identified Region 7 as the appropriate organization to respond to Recommendation 1-1 because both printing requisitions originated in Region 7. Region 7 recognized its responsibility in an informal response and agreed with our finding and recommendation. OARM agreed with Recommendation 1-2, and indicated it will review its internal procedures and make any necessary changes to ensure that funds are obligated timely.

We acknowledge OARM's and Region 7's responses and appreciate their cooperation. We also note that the ultimate responsibility to monitor and ensure funds are obligated timely rest with OPP as the organization responsible for oversight of PRIA funds.

Compliance with Laws and Regulations

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2 - EPA Did Not Comply with U.S. Code for Recording Obligations

During fiscal year 2006, EPA did not record \$100,000 in obligations for services performed during the year. Title 31, U.S. Code, Section 1501 requires that the obligation be recorded when there is documentary evidence of a binding agreement or order between an agency and another party. OPP committed the funds for these transactions. However, the funds were not recorded as obligations timely due to a delay by Region 7 and GAD in providing documentation to CFC. Because the funds were not recorded as obligations until fiscal year 2007, obligations were understated in the fiscal year 2006 PRIA financial statements. Failure to promptly record obligations could result in a violation of the Anti-Deficiency Act.

Title 31, U.S. Code, Section 1501(a) states:

an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of -

- (1) a binding agreement between an agency and another person (including an agency) that is (A) in writing, in a way and form, and for a purpose authorized by law; and (B) executed before the end of period of availability for obligation of the appropriation or fund used for ... work or service to be provided; or ...*
- (3) an order required by law to be placed with an agency...*

The GAO *Principles of Federal Appropriations Law* describe an example of “orders required by law” as printing and binding to be done by the Government Printing Office (Title 44, U.S. Code, Section 501). The rule is that a requisition for printing services may be recorded as an obligation when placed if (1) there is a present need for the printing, and (2) the requisition is accompanied by copy or specifications sufficient for the Government Printing Office to proceed with the job. Pursuant to Title 31, U.S. Code, Section 1501, a voluntary interagency order for goods is recordable as an obligation when the order is placed.

Further, the EPA Resources Management Directives System 2520, *Administrative Control of Appropriated Funds*, Chapter 2, requires that accurate and complete documentation be forwarded immediately to the appropriate Financial Management Officer to record the obligation in IFMS.

EPA did not timely obligate funds to support worker protection activities for three transactions with documentary evidence, totaling \$100,000. The transactions consisted of two print requests totaling \$50,000 and an IAG totaling \$50,000. During fiscal year 2006, EPA issued the two print requests to the Government Printing Office and received the goods in fiscal year 2006. In addition, EPA increased funding for an IAG with the Department of Health and Human Services, totaling \$50,000, which was signed by all responsible parties in fiscal year 2006. However, the funds for these transactions were not recorded as obligations in IFMS until February 2007. OPP committed the funds for these transactions. The breakdown in recording these obligations occurred in Region 7’s and GAD’s delay in providing documentation to CFC. After our inquiry, the transactions were obligated.

Because the funds were not recorded as obligations until fiscal year 2007, obligations were understated in the fiscal year 2006 PRIA financial statements. Failure to promptly record obligations could result in a violation of the Anti-Deficiency Act.

We are not making further recommendations as implementation of the two preceding recommendations would address our findings above and ensure adherence to Title 31, U.S. Code, Section 1501, by providing closer monitoring and oversight of recording obligations.

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
1-1	8	Have the Chief, Facilities, Security and Safety Branch, ensure that print orders placed with the Government Printing Office are promptly forwarded to CFC to ensure that the obligations are recorded timely in IFMS.	O	Assistant Regional Administrator, Region 7 Office of Policy and Management			
1-2	8	Have the Director, GAD, ensure that IAGs signed by all responsible parties are promptly forwarded to CFC to ensure that the obligations are recorded timely in IFMS.	O	Assistant Administrator for Administration and Resources Management			

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 2006 and 2005 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 pursuant to 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 newly established 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. The legislation became effective on March 23, 2004, and the collection of registration fees are authorized through FY 2008. In order to help ensure a smooth transition (if PRIA is not re-authorized), PRIA reduces the registration service fees by 40 percent in FY 2009 and then by 70 percent in FY 2010. For any application received after September 30, 2008, but before September 30, 2010, 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 it includes the applicable fee and all the necessary forms, labeling, data requirements, and documents certifying payment of the fee. The legislation provides fee waivers for certain categories of small businesses, minor uses², IR-4 petitions³, and for applications from federal and state agencies. If the registrant requests a waiver or reduction of the fee, the decision review period will begin when the Agency grants such request or 60 days after receipt of the 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.

Research Program Description

EPA's pesticides and toxics research continues to focus on providing scientifically-valid, cost-effective, and low-burden methods for evaluating risks associated with pesticide manufacture, use, and release into the environment.

EPA's FY 2006 research addressed aggregate and cumulative risks that would result from both agricultural and residential exposures. Special emphasis was placed on addressing exposure and effects science issues regarding children's health, including the special susceptibilities of

¹ Out of approximately 1350 completed PRIA actions in FY06, 99.8% were completed on or before its 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.

infants and children exposed to pesticides and other toxins. Results from this work support human and environmental risk assessments.

Specifically, in FY 2006, EPA research results directly influenced regulatory actions and risk assessment decisions for pesticides to which the young are uniquely sensitive. To decrease the potential for exposure in the young, OPP cancelled or reduced household and agricultural uses of selected cholinesterase-inhibiting pesticides. Additionally, OPP issued a Data Call-In (DCI) for all registered organophosphates (~30) to collect data on comparative sensitivity of the young. This DCI provided important information for Agency consideration in evaluating the risk to infants and children.

Enforcement and Compliance Assurance Program Description

The Pesticide Enforcement and Compliance Assurance Program focuses on pesticide product and user compliance, including problems relating to pesticide worker safety protection, ineffective antimicrobial products, food safety, adverse effects, risks of pesticides to endangered species, ineffective pesticide containers and containment facilities, and e-commerce. 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 enforcement of the pesticide worker protection standards. In FY 2006, states continued to conduct compliance monitoring inspections on core pesticide requirements.

EPA will continue its commitment to maintaining a strong compliance and enforcement presence. Agency priorities for FY 2007 and FY 2008 include enforcement for products making illegal public health claims, including unregistered and ineffective products, such as inefficacious hospital disinfectants; enforcement of worker protection standards; compliance monitoring and enforcement activities related to newly promulgated pesticide container and containment rules, protection of endangered species from pesticides, and special action chemicals identified by the Office of Pesticide Programs as well as illegal distribution, sale, and advertisement of pesticides and pesticidal services via the Internet.

Highlights and Accomplishments

Registration Financial Perspective

During FY 2006, the Agency's obligations charged against the Pesticide Registration Fund for the cost of registration were \$10.7 million and 51.5 workyears (all obligated by OPP).

Appropriated funds are used in addition to Registration funds. In FY 2006, approximately \$39.8 million in appropriated funds were obligated for registration activities. The unobligated balance in the Fund at the end of FY 2006 was \$12.3 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$13.8 million in FY 2006 receipts, 100% 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 2006 President's budget.

Measure 1: Number of new active ingredients registered.

Results: In FY 2006, EPA registered 24 new active ingredients, of which 15 are biopesticides, 6 are antimicrobials, and 3 are conventional pesticides with domestic uses.

*OPP also established import tolerances for 8 conventional new active ingredients that are not registered in the U.S. but found on imported food products. This is **in addition** to the 24 total.*

Measure 2: Progress in Registering Reduced-risk Pesticides.

Results: In FY 2006, EPA registered 15 reduced-risk new active ingredients, all of which were biological pesticides. 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. There were no conventional chemicals with reduced-risk uses registered in FY 2006.

Measure 3: Number of New Food Uses Registered.

Results: EPA registered 186 new food uses for previously registered active ingredients.

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

Results: Included in the new uses registered are 40 reduced-risk, 4 organophosphate alternatives, and no methyl bromide alternative uses.

**PRINCIPAL
FINANCIAL STATEMENTS**

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**Environmental Protection Agency
PRIA
Balance Sheet
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 16,243	\$ 11,877
Total Intragovernmental	<u>\$ 16,243</u>	<u>\$ 11,877</u>
Property, Plant & Equipment, Net (Note 4)	131	179
Total Assets	<u><u>\$ 16,374</u></u>	<u><u>\$ 12,056</u></u>
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities	86	119
Other (Note 3)	45	39
Total Intragovernmental	<u>\$ 131</u>	<u>\$ 158</u>
Accounts Payable & Accrued Liabilities	402	275
Payroll & Benefits Payable (Note 5)	633	560
Other (Note 3)	15,763	11,517
Total Liabilities	<u>\$ 16,929</u>	<u>\$ 12,510</u>
NET POSITION		
Cumulative Results of Operations	<u>(555)</u>	<u>(454)</u>
Total Net Position	(555)	(454)
Total Liabilities and Net Position	<u><u>\$ 16,374</u></u>	<u><u>\$ 12,056</u></u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
 PRIA
 Statement of Net Cost
 For the Years Ended September 30, 2006 and 2005
 (Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
COSTS		
Gross Cost (Note 8)	\$ 9,908	\$ 10,739
Expenses from Other Appropriations (Note 6)	39,595	36,019
Total Costs	<u>\$ 49,503</u>	<u>\$ 46,758</u>
Less:		
Earned Revenues, (Notes 7 and 8)	<u>9,530</u>	<u>10,522</u>
NET COST OF OPERATIONS (Note 8)	<u>\$ 39,973</u>	<u>\$ 36,236</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, 2006 and 2005
 (Dollars in Thousands)**

	FY 2006	FY 2005
Net Position - Beginning of Period	\$ (454)	\$ (453)
Budgetary Financing Sources:		
Income from Other Appropriations (Note 6)	39,595	36,019
Total Budgetary Financing Sources	\$ 39,595	\$ 36,019
Other Financing Sources:		
Imputed Financing Sources	277	216
Total Other Financing Sources	\$ 277	\$ 216
Net Cost of Operations	(39,973)	(36,236)
Net Change	(101)	(1)
Net Position - End of Period	\$ (555)	\$ (454)

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
PRIA
Statement of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)**

	<u>FY 2006</u>	<u>FY 2005</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 9,229	\$ 9,621
Recoveries of Prior Year Unpaid Obligations	29	-
Budgetary Authority:		
Appropriations	<u>13,777</u>	<u>10,780</u>
Total Budgetary Resources	<u>\$ 23,035</u>	<u>\$ 20,401</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	<u>\$ 10,695</u>	<u>\$ 11,172</u>
Total Obligations Incurred	10,695	11,172
Unobligated Balances:		
Apportioned	<u>12,340</u>	<u>9,229</u>
Total Status of Budgetary Resources	<u>\$ 23,035</u>	<u>\$ 20,401</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	<u>\$ 2,647</u>	<u>\$ 1,746</u>
Total Unpaid Obligated Balance, Net	2,647	1,746
Obligations Incurred, Net	10,695	11,172
Less: Gross Outlays	(9,411)	(10,271)
Less Recoveries of Prior Year Unpaid Obligations, Actual	<u>(29)</u>	<u>-</u>
Total, Change in Obligated Balance	3,902	2,647
Obligated Balance, Net, End of Period:		
Unpaid Obligations	<u>3,902</u>	<u>2,647</u>
Total, Unpaid Obligated Balance, Net, End of Period	\$ 3,902	\$ 2,647
NET OUTLAYS		
Net Outlays:		
Gross Outlays	\$ 9,411	\$ 10,271
Less Distributed Offsetting Receipts (Note 1.K)	<u>(13,777)</u>	<u>-</u>
Total, Net Outlays	<u>\$ (4,366)</u>	<u>\$ 10,271</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Statement of Financing
PRIA
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

	<u>FY 2006</u>	<u>FY 2005</u>
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 10,695	\$ 11,172
Less: Spending Authority from Offsetting Collections and Recoveries	(29)	-
Obligations, Net of Offsetting Collections	<u>\$ 10,666</u>	<u>\$ 11,172</u>
Less: Offsetting Receipts (Note 1.K)	(13,777)	-
Net Obligations	<u>(3,111)</u>	<u>11,172</u>
Other Resources		
Imputed Financing Sources	\$ 277	\$ 216
Income from Other Appropriations (Note 6)	39,595	36,019
Net Other Resources Used to Finance Activities	<u>\$ 39,872</u>	<u>\$ 36,235</u>
Total Resources Used To Finance Activities	\$ 36,761	\$ 47,407
RESOURCES USED TO FINANCE ITEMS		
NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	\$ (1,136)	\$ (649)
Resources that Fund Prior Period Expenses	-	(59)
Offsetting Receipts Not Affecting Net Cost (Note 1.K)	<u>13,777</u>	<u>-</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>\$ 12,641</u>	<u>\$ (708)</u>
Total Resources Used to Finance the Net Cost of Operations	\$ 49,402	\$ 46,699
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 (Note 5)	53	-
Increase in Public Exchange Revenue Receivable	<u>\$ (9,530)</u>	<u>\$ (10,522)</u>
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	<u>\$ (9,477)</u>	<u>\$ (10,522)</u>
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	48	59
Total components of Net cost of Operations that Will Not Require or General Resources	<u>48</u>	<u>59</u>
Total components of Net cost of Operations that Will Not Require or Generate Resources in the Current Period	(9,429)	(10,463)
Net Cost of Operations	<u><u>\$ 39,973</u></u>	<u><u>\$ 36,236</u></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, 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 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 2006 and 2005 were \$39,595 thousand and \$36,019 thousand, respectively. This amount was included as Income from Other Appropriations on the Statements of Changes in Net Position and Financing and as Expenses from Other Appropriations on the Statement of Net Cost for FYs 2006 and 2005.

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 2006 and 2005, PRIA received funding from fees collected for monitoring of pesticides. For FYs 2006 and 2005, 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. Cash funds in excess of immediate needs, are invested in U.S. Government securities.

G. 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 two to 15 years. EPA shows property, plant and equipment at net of depreciation on its audited financial statements.

H. 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 and interest earnings, since PRIA receives no appropriation. Liabilities of EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

I. 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.”

J. 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 “Accounting for Liabilities of the Federal Government” (SFFAS No.5), 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 employing agencies to 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, as administrator of the CSRS, the FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide EPA with the ‘cost factors’ to compute EPA’s liability for each program.

K. Offsetting Receipts

OMB Circular No. A-136, *Financial Reporting Requirements*, states that the amount of distributed offsetting receipts reported in the Statement of Budgetary Resources (SBR) and the Statement of Financing (SOF) 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. Prior to FY 2006, EPA did not include PRIA receipts on the distributed offsetting receipts line on the SBR and SOF. OMB Circular A-136 does not require that prior periods be restated. PRIA offsetting receipts in FY 2005 were \$10,781 (in thousands).

Note 2. Fund Balances with Treasury:

		<u>FY 2006</u>	<u>FY 2005</u>
Revolving Funds:	Entity Assets	<u>\$16,243</u>	<u>\$ 11,877</u>

Note 3. Other Liabilities:

For FYs 2006 and 2005, the Payroll and Benefits Payable, non-Federal, are now presented on a separate line of the Balance Sheet and in a separate footnote (see Note 5 below).

	<u>FY 2006</u>	<u>FY 2005</u>
Other Intragovernmental Liabilities - Covered by Budgetary Resources		
Employer Contributions - Payroll	\$ 45	\$ 39
Total	<u>\$ 45</u>	<u>\$ 39</u>
Other Non-Federal Liabilities - Covered by Budgetary Resources		
Advances from Non-Federal Entities	\$ 15,763	\$ 11,517
Total	<u>\$ 15,763</u>	<u>\$ 11,517</u>

Note 4. General Plant, Property and Equipment:

Plant, property and equipment consists of EPA-Held personal property.

As of September 30, 2006 and 2005, Plant, Property and Equipment consist of the following:

	<u>FY 2006</u>			<u>FY 2005</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	\$ 238	\$ (107)	\$ 131	\$ 238	\$ (59)	\$ 179

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

	<u>FY 2006</u>	<u>FY 2005</u>
Covered by Budgetary Resources		
Accrued Payroll Payable to Employees	\$ 105	\$ 95
Withholdings Payable	94	84
Thrift Savings Plan Benefits Payable	7	6
Total	\$ <u>206</u>	\$ <u>185</u>
 Not Covered by Budgetary Resources		
Unfunded Annual Leave	\$ 427	\$ 375
Total	\$ <u>427</u>	\$ <u>375</u>

At various periods throughout FYs 2006 and 2005, 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 2006 and 2005.) 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 2006 and 2005. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2006, about 136 employees were charging all or part of their salary and benefits to PRIA. As of September 30, 2006, these liabilities were \$45 thousand and \$206 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2005's balances of \$39 thousand and \$185 thousand, respectively.

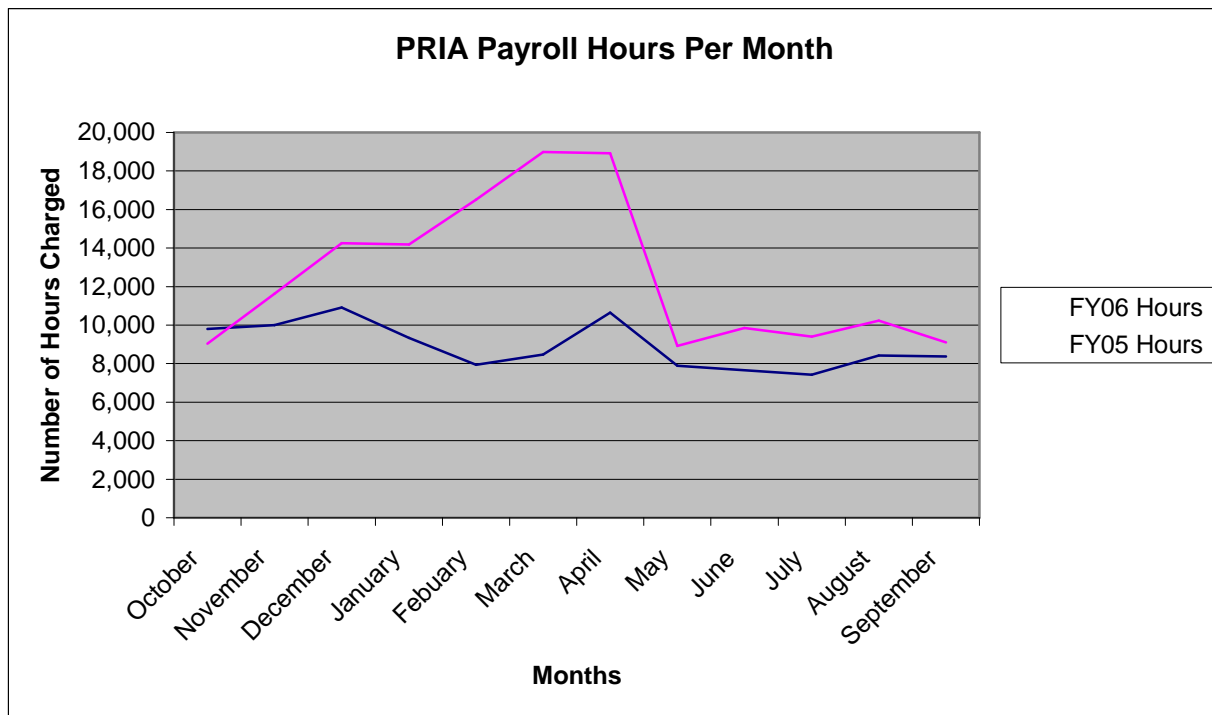
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2006 and 2005, approximately 52 employees in total have been under PRIA's accountability. Therefore the September 30, 2006 and 2005 liability balances for unfunded annual leave were accrued to cover these 52 employees for a total of \$427 thousand and \$375 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 2006 and 2005, 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 2006 and 2005 (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 2006 and 2005 are shown below. Note that a decrease in hours charged to PRIA normally signifies an increase in EPM's payroll costs, and vice versa.



All of the expenses from EPM were distributed among EPA's two Reporting Entities: Superfund and All Other (includes PRIA). This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses

proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the PRIA's Net Position.

	<u>Income from Other Appropriations</u>	<u>Expenses from Other Appropriations</u>	<u>Net Effect</u>
FY 2006	<u>\$39,595</u>	<u>\$39,595</u>	<u>\$0</u>
FY 2005	<u>\$36,019</u>	<u>\$36,019</u>	<u>\$0</u>

Note 7. Exchange Revenues, Statement of Net Cost

For FYs 2006 and 2005, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

Note 8. Intragovernmental Costs and Exchange Revenue

	<u>FY 2006</u>	<u>FY 2005</u>
COSTS:		
Intragovernmental	\$ 2,101	\$ 2,495
With the Public	7,807	8,244
Expenses from Other Appropriations	<u>39,595</u>	<u>36,019</u>
Total Costs	\$ 49,503	\$ 46,758
REVENUE:		
With the Public	<u>9,530</u>	<u>10,522</u>
Total Revenue	\$ 9,530	\$ 10,522
NET COST OF OPERATIONS	<u><u>\$ 39,973</u></u>	<u><u>\$ 36,236</u></u>

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

Full Text of Agency Response

April 19, 2007

MEMORANDUM

SUBJECT: Draft Audit Report
Fiscal Year 2006 and 2005 Financial Statements for the
Pesticide Registration Fund

FROM: Luis A. Luna /s/ Sherry A. Kaschak
Assistant Administrator

TO: Paul C. Curtis
Director, Financial Statement Audits

Thank you for the opportunity to provide our comments and perspectives on the Draft Audit Report.

The Report identifies a reportable condition, as defined in Office of Management Budget Bulletin No. 06-03, for Fiscal Year (FY) 2006. The condition involves the untimely obligation of \$100,000 in Pesticide Registration Fund dollars for worker protection activities. Specifically, the Report notes that the Agency: 1) obligated \$50,000 for two print requests to reproduce worker safety training materials ten months after the funds were committed and at least three months after the products were received; and 2) signed a \$50,000 amendment to an Interagency Agreement (IAG) with the Department of Health and Human Services, National Cancer Institute in FY 2006 but did not obligate the funds until February 2007.

The Report presents a number of recommendations to address these findings. OARM's response to these recommendations is presented below.

Recommendation #1-1: Have the Director, Facilities Management and Security Division, ensure that print orders placed with the Government Printing Office are promptly forwarded to the Cincinnati Finance Center (CFC) to ensure that the obligations are recorded timely in the Integrated Financial Management System (IFMS).

OARM Response: OARM is not the appropriate organization to respond to this recommendation because both printing requisitions originated in Region 7 and did not at any time involve the Facilities Management and Services Division or any other part of OARM. The Agency's printing manual specifies that regional offices are responsible for their own printing activities. We have forwarded your draft report to Region 7 and we understand they are already in touch with you and are developing a response which will be sent directly by them.

Recommendation #1-2: Have the Director, Grants and Interagency Agreement Management Division (GIAMD), ensure that IAGs signed by all responsible parties are promptly forwarded to CFC to ensure that obligations are recorded timely in IFMS.

OARM Response: OARM agrees with this recommendation. After an IAG is awarded, GIAMD's standard practice is to send the other Federal agency the IAG for acceptance. The agency has three weeks to accept the agreement and return a fully executed copy to EPA. After the accepted copy is received, the GIAMD sends a copy to CFC for the funds to be obligated. CFC obligates the funds within five working days.

To ensure that this process results in the timely obligation of funds, GIAMD periodically conducts follow-up with the other agency and CFC. Typically, follow-up is done on a quarterly basis, except for the large number of end-of-fiscal year IAGs, where follow-up is done on a weekly basis. During the rush to process the National Cancer Center IAG toward the end of FY 2006, GIAMD inadvertently failed to conduct the necessary follow-up. While we believe this was an isolated occurrence, we will examine our follow-up procedures and make any necessary adjustments.

Recommendation #2-1: Implementation of the two preceding recommendations would address our findings above and ensure adherence to Title 31, U.S. Code, Section 1501 by providing closer monitoring and oversight of recording obligations.

OARM Response: As explained above, OARM agrees with the two preceding recommendations and will review its internal procedures and make any necessary changes to ensure that the funds are timely obligated.

Thank you for the opportunity to comment on the Report. If you have any questions about the comments, please contact Sherry Kaschak, Director, Office of Policy and Resources Management at (202) 564-4600.

cc: Lyons Gray
James Gulliford
Susan Hazen
Richard Lemley
Howard Corcoran
David Bushta
Richard Kuhlman
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Distribution

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