



OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Audit Report

# Fiscal Year 2007 and 2006 Financial Statements for the Pesticide Registration Fund

Report No. 08-1-0149

May 5, 2008

<b>Report Contributors:</b>	Paul Curtis Wanda Whitfield Bill Samuel Sabrina Berry Diane Forrest Robert Hairston	Sheree James Ethel Lowery Sheila May Javier Negron Demetrios Papakonstantinou
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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 and Public  
Liaison at (202) 566-2391.**

**To view the full report,  
click on the following link:  
[www.epa.gov/oig/reports/2008/20080505-08-1-0149.pdf](http://www.epa.gov/oig/reports/2008/20080505-08-1-0149.pdf)**

## **Fiscal Year 2007 and 2006 Financial Statements for the Pesticide Registration Fund**

### **PRIA Receives an Unqualified Opinion**

We rendered an unqualified, or clean, opinion on EPA's Pesticide Registration Fund Financial Statements for Fiscal Years 2007 and 2006, 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**

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

May 5, 2008

**MEMORANDUM**

**SUBJECT:** Fiscal Year 2007 and 2006 Financial Statements for the  
Pesticide Registration Fund  
Report No. 08-1-0149

**FROM:** Paul C. Curtis  
Director, Financial Statement Audits

A handwritten signature in black ink that reads "Paul C. Curtis".

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

Lyons Gray  
Chief Financial Officer

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) Fiscal Year 2007 and 2006 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 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 \$163,278.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. 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, please contact me at (202) 566-2523 or [Curtis.Paul@epa.gov](mailto:Curtis.Paul@epa.gov), or Wanda Whitfield at (202) 566-2533 or [Whitfield.Wanda@epa.gov](mailto:Whitfield.Wanda@epa.gov).

**Fiscal Year 2007 and 2006 Financial Statements for the  
Pesticide Registration Fund**

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# **Inspector General's Report on the Fiscal Year 2007 and 2006 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, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources for the year 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 accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net costs, changes in net position, and budgetary resources of the PRIA Fund, as of and for the years ended September 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

## Evaluation of Internal Controls

As defined by OMB Bulletin No. 07-04, 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.

**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.

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, 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. 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 control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and audit requirements described in OMB Bulletin No. 07-04, 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.

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. 07-04. Our procedures were not designed to provide assurance on internal controls over reported performance measures and, accordingly, we do not express an opinion on such controls.

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 documentation of the current accounting system and its automated application controls until EPA implements the planned replacement automated accounting system.

### ***Comparison of EPA's FFMFIA Report with Our Evaluation of Internal Controls***

OMB Bulletin No. 07-04 requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FFMFIA report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FFMFIA report.

For reporting under FFMFIA, 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.

For financial statement audit 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 reported that three material weaknesses had been identified for Fiscal Year 2007, one of which has been corrected. All of these material weaknesses were identified by the OIG in the course of the *Audit of EPA's Fiscal Year 2007 and 2006 (Restated) Consolidated Financial Statements* (Audit Report 08-1-0032). These weaknesses do not impact 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 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. However, 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 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.

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 Management's Discussion and Analysis. 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 found that EPA did not timely obligate PRIA funds for worker protection activities.
- We identified a weakness in the Agency's documentation of adjustments to Integrated Financial Management System (IFMS) entries.
- We identified a weakness in the Agency's preparation and quality control of the financial statements and footnotes.
- We could not assess the adequacy of IFMS automated controls.

EPA began 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.

The Agency began corrective action to improve documentation of adjusting and correcting entries in IFMS. EPA's Washington Finance Center updated its procedures to include maintaining adequate source documentation when adjusting and correcting entries are made to transactions already entered in IFMS. Washington Finance Center 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).

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. EPA has made progress toward replacing IFMS, and expects to begin implementation in Fiscal Year 2008. However, until EPA implements the planned replacement automated accounting system that addresses past issues, we will continue to disclose a significant deficiency concerning documentation of the current accounting system and its automated application processing controls (*Audit of EPA's Fiscal 2007 and 2006 (Restated) Consolidated Financial Statements*, Audit Report 08-1-0032).

## **Agency Comments**

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  
May 1, 2008

**Attachment 1**

***Status of Recommendations and  
Potential Monetary Benefits***

RECOMMENDATIONS					POTENTIAL MONETARY BENEFITS (in \$000s)		
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
No recommendations							

<sup>1</sup> 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 2007 and 2006 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 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 II) on October 9, 2007. PRIA II 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 II is not re-authorized), PRIA II 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 fees<sup>1</sup>. 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 50% fee waiver, the fee has been paid and waiver granted. The legislation provides fee waivers for certain categories of small businesses, minor uses<sup>2</sup>, and IR-4 petitions<sup>3</sup>. Applications from federal and state agencies are 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 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 will be covered by PRIA II and PRIA II contains the same audit provision as PRIA 1. PRIA II 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

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<sup>1</sup> Out of approximately 1600 completed PRIA actions in FY07, 99.8% were completed on or before its due date.

<sup>2</sup> 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.

<sup>3</sup> 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.

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.

### ***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 2007 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 infants and children exposed to pesticides and other toxins. Results from this work support human and environmental risk assessments.

Specifically, in FY 2007, EPA research results directly influenced regulatory actions and risk assessment decisions for pesticides to which the young and others are uniquely sensitive. To decrease the potential for exposure in the young and others, research provided a suite of biomarkers in saliva that can be used to determine pesticide exposures in children; determined the impact on human health of reducing exposure to water borne pathogens in drinking water and cumulative impact of air pollution reduction programs for children and older individuals; and developed, evaluated, and applied a DNA-based molecular indicator method for characterizing exposure to endocrine disrupting chemicals.

### ***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 ineffectual 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 2007, the Agency's obligations charged against the Pesticide Registration Fund for the cost of registration were \$15.2 million and 59.5 workyears (all obligated by OPP).

Appropriated funds are used in addition to Registration funds. In FY 2007, approximately \$40.7 million in appropriated funds were obligated for registration activities. The unobligated balance in the Fund at the end of FY 2007 was \$10.3 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$13.1 million in FY 2007 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 2007 President's budget.

##### **Measure 1: Number of new active ingredients registered.**

*Results: In FY 2007, EPA registered 27 new active ingredients, of which 11 are biopesticides, 6 are antimicrobials, and 10 are conventional pesticides with domestic uses.*

*OPP also established import tolerances for 2 conventional new active ingredients that are not registered in the U.S. but found on imported food products. This is **in addition** to the 27 total.*

##### **Measure 2: Progress in Registering Reduced-risk Pesticides.**

*Results: In FY 2007, EPA registered 13 reduced-risk new active ingredients, of which 11 were biological pesticides and 2 were conventional 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 11 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 233 new food uses for previously registered active ingredients. Of these new uses, 200 were for conventional pesticides, 24 were for antimicrobial pesticides, and 9 were for biopesticides.*

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

*Results: Included in the new uses registered are 4 reduced-risk, and 1 organophosphate alternative.*

## **PRINCIPAL FINANCIAL STATEMENTS**

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**Environmental Protection Agency  
PRIA  
Balance Sheet  
For the Years Ended September 30, 2007 and 2006  
(Dollars in Thousands)**

	<u>FY 2007</u>	<u>FY 2006</u>
<b>ASSETS</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 16,407	\$ 16,243
Total Intragovernmental	\$ 16,407	\$ 16,243
Property, Plant & Equipment, Net (Note 4)	249	131
<b>Total Assets</b>	<b>\$ 16,656</b>	<b>\$ 16,374</b>
<b>LIABILITIES</b>		
Intragovernmental		
Accounts Payable & Accrued Liabilities	234	86
Other (Note 3)	45	45
Total Intragovernmental	\$ 279	\$ 131
Accounts Payable & Accrued Liabilities	1,024	402
Payroll & Benefits Payable (Note 5)	745	633
Other (Note 3)	15,119	15,763
Total Liabilities	<b>\$ 17,167</b>	<b>\$ 16,929</b>
<b>NET POSITION</b>		
Cumulative Results of Operations	(511)	(555)
Total Net Position	(511)	(555)
<b>Total Liabilities and Net Position</b>	<b>\$ 16,656</b>	<b>\$ 16,374</b>

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

**Environmental Protection Agency  
PRIA  
Statement of Net Cost  
For the Years Ended September 30, 2007 and 2006  
(Dollars in Thousands)**

	<u><b>FY 2007</b></u>	<u><b>FY 2006</b></u>
<b>COSTS</b>		
Gross Cost (Note 8)	\$ 14,194	\$ 9,908
Expenses from Other Appropriations (Note 6)	<u>41,636</u>	<u>39,595</u>
Total Costs	<u>\$ 55,830</u>	<u>\$ 49,503</u>
Less:		
Earned Revenues, (Notes 7 and 8)	<u>13,812</u>	<u>9,530</u>
<b>NET COST OF OPERATIONS (Note 8)</b>	<b><u>\$ 42,018</u></b>	<b><u>\$ 39,973</u></b>

**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, 2007 and 2006**  
**(Dollars in Thousands)**

	<b>FY 2007</b>	<b>FY 2006</b>
<b>Net Position - Beginning of Period</b>	\$ (555)	\$ (454)
<b>Budgetary Financing Sources:</b>		
Income from Other Appropriations (Note 6)	<u>41,636</u>	<u>39,595</u>
Total Budgetary Financing Sources	<u>\$ 41,636</u>	<u>\$ 39,595</u>
<b>Other Financing Sources:</b>		
Imputed Financing Sources	<u>426</u>	<u>277</u>
Total Other Financing Sources	<u>\$ 426</u>	<u>\$ 277</u>
Net Cost of Operations	(42,018)	(39,973)
Net Change	44	(101)
<b>Net Position - End of Period</b>	<b><u><u>\$ (511)</u></u></b>	<b><u><u>\$ (555)</u></u></b>

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

**Environmental Protection Agency  
PRIA  
Statement of Budgetary Resources  
For the Years Ended September 30, 2007 and 2006  
(Dollars in Thousands)**

	<b>FY 2007</b>	<b>FY 2006</b>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 12,340	\$ 9,229
Recoveries of Prior Year Unpaid Obligations	-	29
Budgetary Authority:		
Appropriations	<u>13,167</u>	<u>13,777</u>
<b>Total Budgetary Resources</b>	<u><u>\$ 25,507</u></u>	<u><u>\$ 23,035</u></u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct	<u>15,247</u>	<u>10,695</u>
Total Obligations Incurred	<u><u>15,247</u></u>	<u><u>10,695</u></u>
Unobligated Balances:		
Apportioned	<u>10,260</u>	<u>12,340</u>
<b>Total Status of Budgetary Resources</b>	<u><u>\$ 25,507</u></u>	<u><u>\$ 23,035</u></u>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	<u>3,902</u>	<u>2,647</u>
Total Unpaid Obligated Balance, Net	<u><u>3,902</u></u>	<u><u>2,647</u></u>
Obligations Incurred, Net	<u>15,247</u>	<u>10,695</u>
Less: Gross Outlays	<u>(13,003)</u>	<u>(9,411)</u>
Less Recoveries of Prior Year Unpaid Obligations, Actual	<u>-</u>	<u>(29)</u>
Total, Change in Obligated Balance	<u>6,146</u>	<u>3,902</u>
Obligated Balance, Net, End of Period:		
Unpaid Obligations	<u>6,146</u>	<u>3,902</u>
Total, Unpaid Obligated Balance, Net, End of Period	<u><u>\$ 6,146</u></u>	<u><u>\$ 3,902</u></u>
<b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays	<u>13,003</u>	<u>9,411</u>
Less Distributed Offsetting Receipts (Note 1 Section K)	<u>(13,167)</u>	<u>(13,777)</u>
<b>Total, Net Outlays</b>	<u><u>\$ (164)</u></u>	<u><u>\$ (4,366)</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 (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 2007 and 2006 were \$41,636 thousand and \$39,595 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 2007 and 2006.

## **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 2007 and 2006, PRIA received funding from fees collected from registrants requesting pesticide registrations. For FYs 2007 and 2006, 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. 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.

## **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, 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 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.

## **K. Offsetting Receipts**

The FY 2007 OMB Circular A-136 *Financial Reporting Requirements* states 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. Prior to FY 2006, EPA did not include PRIA receipts on the distributed offsetting receipts line on the SBR.

**Note 2. Fund Balance with Treasury:**

	<u>FY 2007</u>	<u>FY 2006</u>
<b>Revolving Funds:</b> Entity Assets	\$ <u>16,407</u>	\$ <u>16,243</u>

**Note 3. Other Liabilities:**

For FYs 2007 and 2006, 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 2007</u>	<u>FY 2006</u>
<b>Other Intragovernmental Liabilities - Covered by Budgetary Resources</b>		
Employer Contributions - Payroll	\$ <u>45</u>	\$ <u>45</u>
<b>Total</b>	<u>\$ 45</u>	<u>\$ 45</u>
<b>Other Non-Federal Liabilities - Covered by Budgetary Resources</b>		
Advances from Non-Federal Entities	\$ <u>15,119</u>	\$ <u>15,763</u>
<b>Total</b>	<u>\$ 15,119</u>	<u>\$ 15,763</u>

**Note 4. Property, Plant and Equipment:**

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

As of September 30, 2007 and 2006, Property, Plant and Equipment consist of the following:

	<u>FY 2007</u>			<u>FY 2006</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	\$ 403	\$ (154)	\$ 249	\$ 238	\$ (107)	\$ 131

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

	<b>FY 2007</b>	<b>FY 2006</b>
<b>Covered by Budgetary Resources</b>		
Accrued Payroll Payable to Employees	\$ 144	\$ 105
Withholdings Payable	96	94
Thrift Savings Plan Benefits Payable	7	7
<b>Total</b>	<b>\$ 247</b>	<b>\$ 206</b>
 <b>Not Covered by Budgetary Resources</b>		
Unfunded Annual Leave	\$ 498	\$ 427
<b>Total</b>	<b>\$ 498</b>	<b>\$ 427</b>

At various periods throughout FYs 2007 and 2006, 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 2007 and 2006.) 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 2007 and 2006. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2007, about 130 employees were charging all or part of their salary and benefits to PRIA. As of September 30, 2007, these liabilities were \$45 thousand and \$247 thousand for employer contributions and accrued funded payroll and benefits as compared to FY 2006's balances of \$45 thousand and \$206 thousand, respectively.

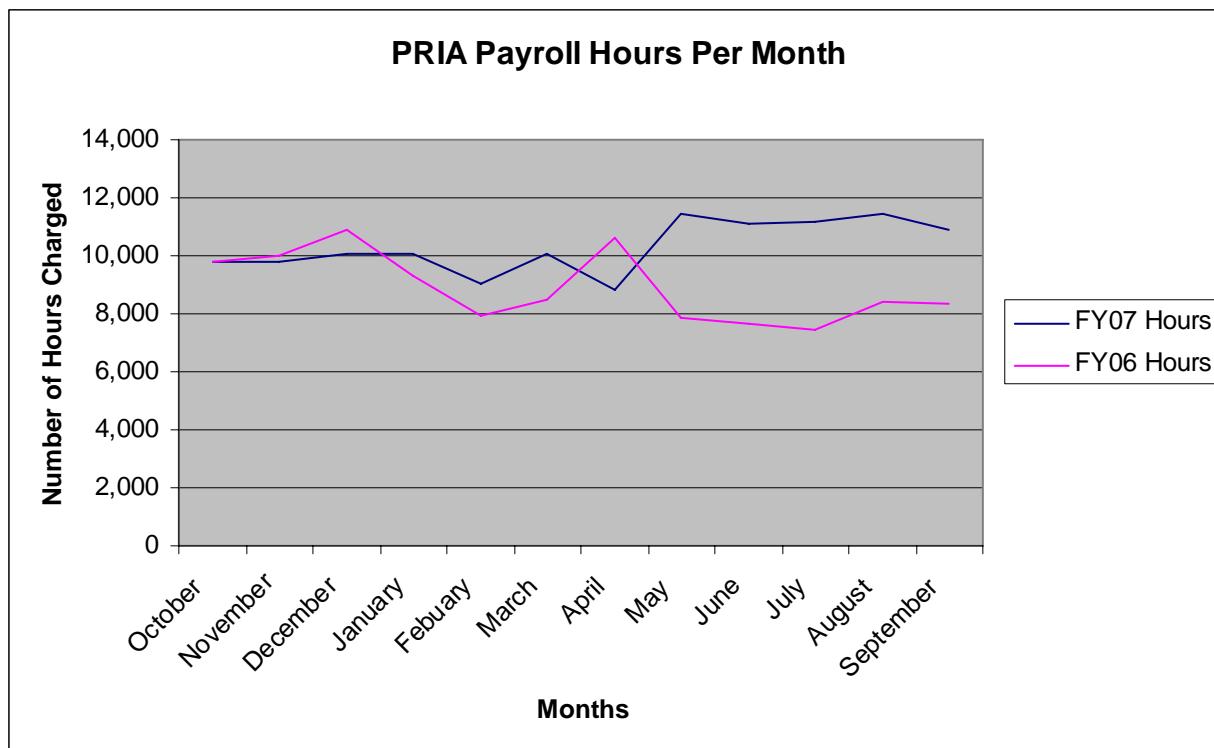
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2007 and 2006, approximately 130 employees in total have been under PRIA's accountability. As of September 30, 2007 and 2006 liability balances for unfunded annual leave were accrued to cover these 130 employees for a total of \$498 thousand and \$427 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 2007 and 2006, 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 2007 and 2006 (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 2007 and 2006 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.

	<b>Income From Other Appropriations</b>	<b>Expenses From Other Appropriations</b>	<b>Net Effect</b>
<b>FY 2007</b>	\$ <u>41,636</u>	\$ <u>41,636</u>	\$ <u>0</u>
<b>FY 2006</b>	\$ <u>39,595</u>	\$ <u>39,595</u>	\$ <u>0</u>

**Note 7. Exchange Revenues, Statement of Net Cost**

For FYs 2007 and 2006, the exchange revenues reported on the Statement of Net Cost consists of non-Federal amounts.

**Note 8. Intragovernmental Costs and Exchange Revenue**

	<b>FY 2007</b>	<b>FY 2006</b>
<b>COSTS:</b>		
Intragovernmental	\$ 3,118	\$ 2,101
With the Public	11,076	7,807
Expenses from Other Appropriations	<u>41,636</u>	<u>39,595</u>
Total Costs	\$ 55,830	\$ 49,503
<b>REVENUE:</b>		
With the Public	13,812	9,530
Total Revenue	\$ 13,812	\$ 9,530
<b>NET COST OF OPERATIONS</b>	<b>\$ <u>42,018</u></b>	<b>\$ <u>39,973</u></b>

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)**

	<b>FY 2007</b>	<b>FY 2006</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 15,247	\$ 10,695
Less: Spending Authority from Offsetting Collections and Recoveries	- <hr/>	(29) <hr/>
Obligations, Net of Offsetting Collections	\$ 15,247 <hr/>	\$ 10,666 <hr/>
Less: Offsetting Receipts (Note 1 Section K)	(13,167) <hr/>	(13,777) <hr/>
Net Obligations	2,080 <hr/>	(3,111) <hr/>
Other Resources		
Imputed Financing Sources	\$ 426	\$ 277
Income from Other Appropriations (Note 6)	41,636 <hr/>	39,595 <hr/>
Net Other Resources Used to Finance Activities	\$ 42,062 <hr/>	\$ 39,872 <hr/>
Total Resources Used To Finance Activities	\$ 44,142	\$ 36,761
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated	\$ (1,432)	\$ (1,136)
Offsetting Receipts Not Affecting Net Cost (Note 1 Section K)	13,167 <hr/>	13,777 <hr/>
Resources that Finance Asset Acquisition	(165) <hr/>	- <hr/>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 11,570	\$ 12,641
Total Resources Used to Finance the Net Cost of Operations	\$ 55,712	\$ 49,402
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	70	53
Increase in Public Exchange Revenue Receivable	\$ (13,812) <hr/>	\$ (9,530) <hr/>
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ (13,742) <hr/>	\$ (9,477) <hr/>
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	48	48
Total components of Net cost of Operations that Will Not Require or General Resources	48 <hr/>	48 <hr/>
Total components of Net cost of Operations that Will Not Require or Generate Resources in the Current Period	(13,694)	(9,429)
<b>Net Cost of Operations</b>	<b>\$ 42,018</b>	<b>\$ 39,973</b>

## **Appendix B**

### ***Distribution***

Office of the Administrator  
Chief Financial Officer  
Agency Followup Official (the CFO)  
Deputy Chief Financial Officer  
Agency Followup 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  
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  
Director, Biopesticides and Pollution Prevention Division, Office of Prevention, Pesticides,  
and Toxic Substances  
Director, Special Review and Reregistration Division, Office of Prevention, Pesticides,  
and Toxic Substances  
Director, Registration Division, Office of Prevention, Pesticides, and Toxic Substances  
Director, Antimicrobials Division, Office of Prevention, Pesticides, and Toxic Substances  
Director, Information Technology and Resources Management Division, Office of Prevention,  
Pesticides, and Toxic Substances  
Director, Office of Human Resources, Office of Administration and Resources Management  
Director, Office of Financial Management, Office of the Chief Financial Officer  
Director, Office of Financial Services, Office of the Chief Financial Officer  
Director, Reporting and Analysis Staff, Office of the Chief Financial Officer  
Director, Financial Policy and Planning Staff, Office of the Chief Financial Officer  
Director, Research Triangle Park Finance Center  
Director, Cincinnati Finance Center  
Director, Las Vegas Finance Center  
Director, Washington Finance Center  
Audit Followup Coordinator, Office of the Chief Financial Officer  
Audit Followup Coordinator, Office of Prevention, Pesticides, and Toxic Substances  
Audit Followup Coordinator, Office of Administration and Resources Management  
Audit Liaison, Washington Finance Center  
Deputy Inspector General