



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund**

**Report No. 09-1-0172**

**June 23, 2009**

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**Abbreviations**

EPA	U.S. Environmental Protection Agency
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FIFRA Fund	Pesticides Reregistration and Expedited Processing Fund
FMFIA	Federal Managers' Financial Integrity Act
FQPA	Food Quality Protection Act
IFMS	Integrated Financial Management System
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPP	Office of Pesticide Programs
OPPIN	Office of Pesticide Programs Information Network



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Audit

The Food Quality Protection Act requires that we perform an annual audit of the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA Fund) financial statements.

## Background

The U.S. Environmental Protection Agency (EPA) is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. To expedite this reregistration process, Congress authorized EPA to collect fees from pesticide manufacturers. The fees are deposited into the FIFRA Fund. Each year, the Agency prepares financial statements that present financial information about the Fund, along with information about EPA's progress in reregistering pesticides.

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

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2009/20090623-09-1-0172.pdf](http://www.epa.gov/oig/reports/2009/20090623-09-1-0172.pdf)

## ***Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund***

### **Opinion**

We rendered an unqualified, or clean, opinion on EPA's Pesticides Reregistration and Expedited Processing Fund Financial Statements for Fiscal Years 2008 and 2007, meaning that they were fairly presented and free of material misstatement.

### **Internal Control Significant Deficiency Noted**

We noted one significant deficiency in internal controls. The Office of Pesticide Programs was unable to provide reliable information on reporting accomplishments for reregistration and amendment actions under the FIFRA Program Performance Measure Two. EPA is required to annually report on its pesticide performance measures and goals.

### **Noncompliance With Laws and Regulations Noted**

We tested compliance with those laws and regulations that could either materially affect the FIFRA 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. However, we did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

### **Agency Comments and Office of Inspector General Evaluation**

In a memorandum received on May 20, 2009, from the Acting Assistant Administrator for Prevention, Pesticides, and Toxic Substances and the Acting Chief Financial Officer, the Agency agreed with our findings and recommendations, and has begun corrective actions. We concur with the Agency's corrective actions. In its response to the final report, the Office of Pesticide Programs needs to clearly explain in detail its corrective actions for Recommendation 2.




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

OFFICE OF  
INSPECTOR GENERAL

June 23, 2009

**MEMORANDUM**

**SUBJECT:** Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund  
Report No. 09-1-0172

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

**TO:** James J. Jones  
Acting Assistant Administrator for Prevention,  
Pesticides, and Toxic Substances

Maryann Froehlich  
Acting Chief Financial Officer

This is our report on the audit of the U.S. Environmental Protection Agency's (EPA's) Fiscal Year 2008 and 2007 financial statements for the Pesticide Reregistration and Expedited Processing 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 \$171,671.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed upon actions, including milestone dates. We have no objections to the future release of this report to the public. The 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).

Attachments

# *Table of Contents*

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## **Inspector General’s Report on the Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund**

Opinion on the FIFRA Fund Financial Statements.....	1
Evaluation of Internal Controls .....	2
Tests of Compliance with Laws and Regulations.....	3
Management’s Discussion and Analysis Section of the Financial Statements .....	4
Prior Audit Coverage.....	4
Noteworthy Achievements .....	5
Agency Comments and OIG Evaluation .....	5

## **Attachments**

<b>1 Significant Deficiency</b> .....	6
Continued Improvements Needed in Recording Reregistration and Amendment Actions .....	7
<b>2 Status of Recommendations and Potential Monetary Benefits</b> .....	10

## **Appendices**

- A Fiscal Year 2008 and 2007 FIFRA Financial Statements**
- B Agency’s Response to Draft Report**
- C Distribution**

## **Inspector General's Report on the Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund**

The Administrator  
U.S. Environmental Protection Agency

We have audited the Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA Fund) balance sheet as of September 30, 2008, and 2007, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended. These financial statements are the responsibility of the U.S. Environmental Protection Agency's (EPA's) management. Our responsibility is to express an opinion on these financial statements based upon our audit.

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

In our opinion, the financial statements, including the accompanying notes, present fairly, in all material respects, the assets, liabilities, net position, net cost, changes in net position, and budgetary resources of the FIFRA Fund, as of and for the years ended September 30, 2008, and 2007, in conformity with accounting principles generally accepted in the United States of America.

## Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

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

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

In planning and performing our audit, we considered EPA's internal control over FIFRA financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls have been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in any internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We noted a matter discussed below involving the internal control and its operation that we consider to be a significant deficiency but not a material weakness. In addition, as mentioned in the Prior Audit Coverage section of this report, we will continue to disclose a significant

deficiency concerning the lack of system documentation that inhibits our ability to audit Integrated Financial Management System (IFMS) application controls until the new system is in place.

### **Significant Deficiency: Continued Improvements Needed in Recording Reregistration and Amendment Actions**

The Office of Pesticide Programs (OPP) was unable to provide reliable information on accomplishments for reregistration and amendment actions under the FIFRA Program Performance Measure Two. In our Fiscal Year 2007 report, we found that nine reregistration and amendment actions were misclassified. OPP responded by taking corrective actions. While the corrective actions reduced the frequency of misclassifications, we still found four errors and believe continued improvement is needed in recording reregistration and amendment actions. The Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), as amended by the Food Quality Protection Act (FQPA), requires EPA to annually report on its pesticide reregistration performance measures and goals. Various errors in recording information for claimed reregistration and amendment actions resulted in the inaccurate reporting of performance results. As a result, the Agency could not be sure of its program accomplishments for this performance measure for Fiscal Year 2008.

### **Comparison of EPA's FMFIA 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 FMFIA report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

For 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.

For financial statement audit purposes, OMB Bulletin No. 07-04 defines material weaknesses in internal control as a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

The Agency did not report, and our audit did not detect, any material weaknesses for Fiscal Year 2008 impacting FIFRA.

### **Tests of Compliance with Laws and Regulations**

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 FIFRA financial statements, or that we considered significant to the audit. The objective of our audit, including our tests of compliance with applicable laws and

regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

## **Management's Discussion and Analysis Section of the Financial Statements**

Our audit work related to the information presented in the Management's Discussion and Analysis of the Pesticide Program included comparing the overview information with information in EPA's principal financial statements for consistency. No material inconsistencies between the information presented in the two documents were identified.

We reviewed supporting documentation for the tolerance performance measure and the five reregistration performance measures listed in the Management's Discussion and Analysis of the Pesticide Program. We did not note any significant discrepancies in these measures, with the exception of FIFRA Program Performance Measure Two. As discussed earlier, OPP was unable to provide reliable information for this measure.

## **Prior Audit Coverage**

During previous financial or financial-related audits, we reported the following significant deficiencies:

- We could not assess the adequacy of IFMS automated controls.
- We found that OPP was unable to provide reliable information on the accomplishments for reregistration and amendment actions under the FIFRA Program Performance Measure Two.

EPA has taken steps toward correcting the long-standing issue regarding automated application processing controls for IFMS. EPA awarded a new contract to replace IFMS. The proposal calls for two releases over the next 2.5 years, with the first release occurring in the last quarter of calendar 2009. However, until the new system is in place, a significant deficiency will exist concerning the lack of system documentation that inhibits our ability to audit IFMS application controls (*Audit of EPA's Fiscal 2008 and 2007 Consolidated Financial Statements*, Audit Report 09-1-0026, issued November 14, 2008).

EPA began corrective action to improve the recording of reregistration and amendment actions. During Fiscal Year 2008, OPP reviewed all reregistration and amendment actions claimed in Fiscal Year 2007, and produced revised totals of the numbers of those actions and the cumulative status of product reregistration actions. In its Pesticide Reregistration Performance Measures and Goals report for Fiscal Year 2007, OPP disclosed our finding and its review of these actions, and postponed reporting of Fiscal Year 2007 numbers until the Fiscal Year 2008 report. OPP also assigned a staff person to verify accomplishments reported in the Office of Pesticide Programs Information Network (OPPIN), and trained staff in how to close out reregistration

actions (*Fiscal Year 2007 and 2006 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund*, Audit Report 08-1-0194, issued July 8, 2008).

## Noteworthy Achievements

OPP took significant actions to address the significant deficiency on misclassifying reregistration and amendment actions in our Fiscal Year 2007 report. These included reviewing all reregistration and amendment actions claimed in Fiscal Year 2007 to make needed corrections, assigning a staff person to verify information put in their information system, and training staff in how to close out reregistration actions. Our test work showed a reduction in the error rate on reregistrations and amendments from 11 percent in Fiscal Year 2007 to 4 percent in Fiscal Year 2008.

## Agency Comments and OIG Evaluation

In a memorandum received on May 20, 2009, the Acting Assistant Administrator for Prevention, Pesticides and Toxic Substances and the Acting Chief Financial Officer responded to our draft report. The Agency agreed with our findings and recommendations, and has begun corrective actions. The Agency's complete response is included in Appendix B to this report.

We agree with the Agency's proposed corrective actions. In its response to the final report, OPP needs to clearly explain in detail its corrective actions for Recommendation 2.



Paul C. Curtis  
Director, Financial Statement Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
June 23, 2009

**Attachment 1**

***Significant Deficiency***

**Table of Contents**

**1 - Continued Improvements Needed in Recording Reregistration  
and Amendment Actions ..... 7**

## **Continued Improvements Needed in Recording Reregistration and Amendment Actions**

OPP was unable to provide reliable information on accomplishments for reregistration and amendment actions under the FIFRA Program Performance Measure Two. In our Fiscal Year 2007 report, we found that nine reregistration and amendment actions were misclassified. OPP responded by taking corrective actions. While the corrective actions reduced the frequency of misclassifications, we still found four errors and believe continued improvement is needed in recording reregistration and amendment actions. FIFRA, as amended by the FQPA, requires EPA to annually report on its pesticide reregistration performance measures and goals. Various errors in recording information for claimed reregistration and amendment actions resulted in the inaccurate reporting of performance results. As a result, the Agency could not be sure of its program accomplishments for this performance measure for Fiscal Year 2008.

We found errors with 4 of the 103 reregistration and amendment actions tested. Specifically, we found that 1 out of 55 claimed reregistration actions was completed in Fiscal Year 2007. For 2 out of 48 claimed amendment actions, 1 was actually a reregistration action, and 1 action up for suspension was mistakenly closed out in OPPIN, OPP's information system. The third amendment action, which had not been completed, was erroneously included in the universe of claimed actions. OPP personnel confirmed that the reregistration and amendment actions we identified were misclassified.

FIFRA, as amended by the FQPA, requires EPA to annually report in the Federal Register on its pesticide reregistration performance measures and goals. Specifically, Section 4(l) states:

*... Such measures and goals shall include the number of products reregistered, canceled, or amended, the status of reregistration ...*

FIFRA Performance Measure Two states:

*Number of products reregistered, canceled, or amended. Over 20,000 products are or eventually will be subject to product reregistration. Many products, however, contain more than one active ingredient. Since products are reassessed separately for each active ingredient, EPA will conduct approximately 38,000 product reviews.*

According to EPA's Strategic Plan, "measuring our performance is key to improving it." The Government Accountability Office's *Standards for Internal Control in the Federal Government* provide that "...control activities help to ensure that all transactions are completely and accurately recorded." The standards state that "...all transactions and other significant events are to be clearly documented, and the documentation should be readily available for examination..." The standard also states that "qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved."

OPP did not perform the product reregistration quarterly internal audits of Fiscal Year 2008 completed actions, included in its corrective action plan in response to our Fiscal Year 2007 report. Instead, OPP assigned one staff person from the Registration Division's Registration Support Branch, instead of a team composed of staff from each of OPP's product registering divisions, to review all completed actions to ensure OPPIN was updated properly. OPP personnel identified several reasons for errors in claiming product reregistration actions. Three errors were due to human error in recording information in OPPIN. The remaining error was due to a mistake made by OPP staff while preparing the universe listing of actions completed in Fiscal Year 2008.

During Fiscal Year 2008, OPP made significant efforts to improve the recording of reregistration and amendment actions, as noted in the Prior Audit Coverage and Noteworthy Achievement sections of this report. However, errors continued to exist. Because OPP provided unreliable information, we were unable to assess the Agency's program accomplishments of reregistration and amendment actions for FIFRA Program Performance Measure Two. We cannot be sure of the extent of errors in the universe of reregistration and amendment actions; however, we did note that the frequency of errors has declined since Fiscal Year 2007. As a result of the errors, we cannot provide assurance that the claimed reregistration and amendment actions for Fiscal Year 2008 and the cumulative status of product reregistration actions in the financial statements are accurate. Furthermore, the Agency cannot be sure of its accomplishments for this performance measure for Fiscal Year 2008. We believe that had OPP performed the product reregistration quarterly audits as planned with the responsible offices involved, the errors in recording reregistration and amendment actions may have been found and corrected.

## **Recommendations**

We recommend that the Assistant Administrator for Prevention, Pesticides, and Toxic Substances:

1. Review the entire universe of product reregistration and amendment actions claimed in Fiscal Year 2008, and correct any errors found in the OPPIN system.
2. Conduct the internal audits of product reregistration and amendment actions completed during Fiscal Year 2009, at least quarterly, to ensure reregistration and amendment actions are accurately recorded in OPPIN; and ensure that any errors noted are corrected in OPPIN and verified by management.
3. Use corrected figures for product reregistration and amendment actions in the Annual Report on Reregistration Performance Measures and Goals for Fiscal Year 2008 published in the Federal Register. If the corrected figures are not available before publication, disclose in the report that the Fiscal Year 2008 accomplishments for FIFRA Program Performance Measure Two are inaccurate and corrected figures will be published in the Fiscal Year 2009 Report.

## **Agency Response and OIG Evaluation**

The Agency agreed with our findings and recommendations, and has begun corrective actions. The Agency's complete response is included in Appendix B to this report.

We agree with the Agency's proposed corrective actions. In its response to the final report, OPP needs to clearly explain in detail its corrective actions for Recommendation 2.

## Attachment 2

## **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
1	8	Review the entire universe of product reregistration and amendment actions claimed in Fiscal Year 2008, and correct any errors found in the OPPIN system.	O	Assistant Administrator for Prevention, Pesticides, and Toxic Substances	12/31/09		
2	8	Conduct the internal audits of product reregistration and amendment actions completed during Fiscal Year 2009, at least quarterly, to ensure reregistration and amendment actions are accurately recorded in OPPIN; and ensure that any errors noted are corrected in OPPIN and verified by management.	O	Assistant Administrator for Prevention, Pesticides, and Toxic Substances	12/31/09		
3	8	Use corrected figures for product reregistration and amendment actions in the Annual Report on Reregistration Performance Measures and Goals for Fiscal Year 2008 published in the Federal Register. If the corrected figures are not available before publication, disclose in the report that the Fiscal Year 2008 accomplishments for FIFRA Program Performance Measure Two are inaccurate and corrected figures will be published in the Fiscal Year 2009 Report.	O	Assistant Administrator for Prevention, Pesticides, and Toxic Substances	12/31/09		

<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

**Appendix A**

***FYs 2008 and 2007 PESTICIDES REREGISTRATION  
and EXPEDITED PROCESSING FUND (FIFRA)  
FINANCIAL STATEMENTS***



*Produced by the U.S. Environmental Protection Agency  
Office of the Chief Financial Officer  
Office of Financial Management*

# TABLE OF CONTENTS

Management's Discussion and Analysis .....	1
Principal Financial Statements .....	10

**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.

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

### *Tolerance Program Description*

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

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

In 1996, pesticide reform legislation included provisions for additional fees to support reregistration activities. Passage of the Food Quality Protection Act (FQPA) of 1996 requires tolerances to be reassessed as part of the reregistration program. Effective January 1997, all fees related to tolerance activities were deposited in the FIFRA Fund. With passage of the Pesticide Registration Improvement Act (PRIA) of 2003 and the Pesticide Registration Improvement Renewal Act in 2007, no additional tolerance petition fees will be deposited to the FIFRA Fund through FY 2012.

## *Pesticide Reregistration Program Description*

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

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

In 1996, pesticide reform legislation included provisions for additional fees to support reregistration activities. Passage of the FQPA of 1996 implemented the following changes in the Pesticide Reregistration Program: reauthorized collection of maintenance fees through 2001 to complete the review of older pesticides to ensure they meet current standards (increased annual fees from \$14 million to \$16 million per year for 1998, 1999, and 2000 only) and required all tolerances (over 9,700) to be reassessed by 2006. EPA's 2002 appropriations bill extended authority to collect maintenance fees by one year for the amount of \$17 million; and the FY 2003 appropriations extended the authority to collect fees again by one year in the amount of \$21.5 million. Passage of PRIA in FY 2004 extended the authority to collect maintenance fees through FY 2008 (with annual fee amounts at \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (commonly known as PRIA 2) on October 9, 2007 extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts at \$22 million each FY). PRIA 2 includes the provision for use of maintenance fees to offset the costs of registration review beginning in FY 2008.

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

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

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

### *Research Program Description*

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

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

- Predictive biomarkers, quantitative structure activity relationships, and alternative test methods for prioritizing and screening chemicals for a number of adverse effects (e.g., neurotoxicity, reproductive toxicity) that will lead to a reduction in and more efficient use of whole animals in toxicity testing; and
- Data and protocols on the impact of waste water treatment technologies on pesticides and their products of transformation.

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

- Extrapolation among wildlife species and exposure scenarios of concern;

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

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

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

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

### ***Enforcement and Compliance Assurance Program Description***

The Pesticide Enforcement and Compliance Assurance Program focuses on pesticide product and user compliance. These include problems relating to pesticide worker safety, certification and training of applicators, ineffective antimicrobial products, food safety, adverse effects, risks of pesticides to endangered species, pesticide containers and containment facilities, and e-commerce and misuse. The enforcement and compliance assurance program provides compliance assistance to the regulated community through its National Agriculture Compliance Assistance Center, seminars, guidance documents, brochures, and other forms of communication to ensure knowledge of and compliance with environmental laws.

EPA's grant support to states' and tribes' pesticide programs emphasizes its commitment to maintaining a strong compliance and enforcement presence. Agency Cooperative Agreement priorities for FY2008 - FY2010 include the enforcement of worker protection standards; compliance monitoring and enforcement activities related to the newly promulgated pesticide container and containment rules, and program performance reporting. Core program activities include inspections of producing establishments; dealers/distributors/retailers; e-commerce; imports and exports, and pesticide misuse. Additionally, through the Cooperative Agreement resources we support inspector training and training for state/tribal senior managers, scientists, and supervisors.

### ***Highlights and Accomplishments***

#### **Tolerance Performance Measures**

As mandated by PRIA 2, no Tolerance fees were collected and deposited to the FIFRA Fund in FY 2008.

**Measure: Tolerance re-evaluations.**

*Results: The tolerance reassessment program was completed in FY 2007; therefore, no further tolerance reassessment decisions were needed or completed in FY 2008. At the end of FY 2007, EPA had completed 9,721 tolerance reassessment decisions, addressing 100% of the 9,721 tolerances that required reassessment.*

**Reregistration (FIFRA) Financial Perspective**

During FY 2008, the Agency's obligations charged against the FIFRA Fund for the cost of the reregistration programs and other authorized pesticide programs were \$23.5 million and 136.9 workyears. Of these amounts, OPP obligated \$22.0 million of this cost and funded the 136.9 workyears.

Appropriated funds are used in addition to FIFRA revolving funds. In FY 2008, the Enacted Operating Plan included approximately \$38.6 million in appropriated funds for reregistration program activities. The unobligated balance in the Fund at the end of FY 2008 was \$6.6 million.

The Fund has two types of receipts: fee collections and interest earned on investments. Of the \$22.1 million in FY 2008 receipts, approximately 99% were fee collections.

**Reregistration Program (FIFRA) Performance Measures**

The following measures support the program's strategic goals of Healthy Communities and Ecosystems as contained in the FY 2008 President's budget.

**Measure 1: Number of Reregistration Eligibility Documents (REDs) completed.**

*Results: In FY 2008, OPP completed 27 Reregistration Eligibility Decisions (REDs). Of the 613 chemical cases (representing approximately 1,150 pesticide active ingredients), that initially were subject to reregistration, 384 cases have completed REDs. An additional 229 reregistration cases were voluntarily canceled before EPA invested significant resources in developing REDs. 613 reregistration cases ( 100%) had completed the reregistration eligibility decision making process by the end of FY 2008.*

**Measure 2: Number of products reregistered, canceled, or amended. Over 20,000 products are or eventually will be subject to product reregistration. Many products, however, contain more than one active ingredient. Since products are reassessed separately for each active ingredient, EPA will conduct approximately 38,000 product reviews.**

*Results: Due to corrective actions to be taken in response to audit findings, Registration Division's FY 2008 product reregistration actions, product amendment actions, product cancellation actions, and product suspension actions will all be reviewed again during FY 2009 (with the end of calendar year 2009 as the target completion date for this review). Currently, a universe of over 21,350 products is undergoing or has completed product reregistration. The*

*status of those products at the end of FY 2007 was as follows: 2,602 products had been reregistered; 631 product registrations had been amended; 5,046 products were cancelled; 6 products were suspended; and 13,066 products had actions/decisions pending. The Agency's goal in FY 2009 is to complete 1,250 product reregistration actions.*

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

Results: EPA made progress during FY 2008 in reducing the number of unreviewed studies submitted by registrants in support of pesticides undergoing reregistration. During fiscal year 2008, the Agency reduced by five percent the number of studies for List A pesticides categorized as unreviewed, and reduced by almost three percent the number of such studies for all pesticides. The Agency is exploring options for further categorizing reregistration studies more precisely. (See Table 1.)

Table 1. Review Status of Studies Submitted for Pesticide Reregistration, End of FY 2008

Pesticide Reregistration List, per FIFRA Section 4(c)(2)	Studies Reviewed (including Cited <sup>2</sup> ) + Extraneous <sup>1</sup>	Studies Awaiting Review	Total Studies Received
List A	12,095 reviewed (includes 779 cited) + 663 extraneous = 12,758 (92%)	1,071 (8%)	13,829
List B	6,748 reviewed (includes 88 cited) + 1,081 extraneous = 7,829 (82%)	1,738 (18%)	9,567
List C	2,131 reviewed (includes 29 cited) + 351 extraneous = 2,482 (84%)	461 (16%)	2,943
List D	1,280 reviewed (includes 3 cited) + 136 extraneous = 1,416 (86%)	228 (14%)	1,644
Total Lists A - D	22,254 reviewed (includes 899 cited) + 2,231 extraneous = 24,485 (87.5%)	3,498 (12.5%)	27,983 (100%)

<sup>1</sup> Extraneous studies is a term used to classify those studies that are not needed because the guideline or data requirement has been satisfied by other studies or has changed.

<sup>2</sup> Cited studies is a term used to classify those studies that are referenced in REDs, RED bibliographies, or related science support documents.

### **Measure 4: Number and Type of DCIs Issued to Support Product Reregistration by Active Ingredient.**

*Results: The number and type of data requests or Data Call-In notices (DCIs) issued by EPA under FIFRA section 3(c)(2)(B) to support product reregistration for pesticide active ingredients included in FY 2008 REDs are shown in Table 2.*

Table 2. Data Call-Ins (DCIs) to Support Product Reregistration for FY 2008 REDs

Case Name	Case No.	Number of Products Covered by the RED <sup>1</sup>	Number of Product Chemistry Studies Required <sup>2</sup>	Number of Acute Toxicology Studies Required <sup>3</sup>	Number of Efficacy Studies Required
Acrolein	2005	8	31	6 (1 batch)	0

Case Name	Case No.	Number of Products Covered by the RED <sup>1</sup>	Number of Product Chemistry Studies Required <sup>2</sup>	Number of Acute Toxicology Studies Required <sup>3</sup>	Number of Efficacy Studies Required
Busan 77	3034	149	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Chloropicrin	0040	74	31	Not Applicable <sup>4</sup>	0
Chromated Arsenicals (CCA)	0132	21	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Creosote/Coal Tar	0139	14	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Dazomet	2135	22	31	42 (2 batches/5 products not batched)	0
Diiodomethyl-p-tolyl sulfone (Amical 48)	4009	9	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Ethylene Oxide	2275	26	31	Not Applicable <sup>4</sup>	0
Formaldehyde	0556	9	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
HHT (Grotan)	3074	17	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Inorganic Thiosulfates (Ammonium Thiosulfate)	4057	1	31	6 (1 product not batched)	0
Methyl Bromide (soil fumigant uses)	0335	73	31	Not Applicable <sup>4</sup>	2
Methyl Isothiocyanate (MITC)	2405	2	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Methyldithiocarbamate Salts (Metam Sodium/Metam Potassium)	2390	55	31	66 (6 batches/5 products not batched)	0
Naphthalene	0022	9	31	12 (1 batch/1 product not batched)	0
Nicotine (Cancellation)	2460	1	Not Applicable	Not Applicable <sup>5</sup>	Not Applicable
Organic Esters of Phosphoric Acid	4122	2	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Pentachlorophenol	2505	6	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
d-Phenothrin (Sumithrin)	0426	195	31	Acute toxicity batching has not been completed	PDCI has not been completed
Prometon	2545	52	31	90 (10 batches/5 products not batched)	0
Siduron	3130	19	31	54 (3 batches/6 products not batched)	0
Sodium Fluoride	3132	7	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed

Case Name	Case No.	Number of Products Covered by the RED <sup>1</sup>	Number of Product Chemistry Studies Required <sup>2</sup>	Number of Acute Toxicology Studies Required <sup>3</sup>	Number of Efficacy Studies Required
Sulfometuron Methyl	3136	28	31	84 (7 batches/7 products not batched)	0
TBT-Containing Compounds	2620	29	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Tetramethrin	2660	292	31	270 (17 batches/28 products not batched) <sup>6</sup>	6
Triclosan (Irgasan)	2340	20	31	Antimicrobial RED – Acute toxicity batching has not been completed	PDCI has not been completed
Triforine	2720	3	31	Acute toxicity batching has not been completed	0
Total		1,143			

Special Local Need (SLN) or Section 24(c) products are not included in the acute toxicity batching. These products have a parent product; therefore, acute toxicity data do not need to be generated for these SLN or Section 24(c) products.

<sup>1</sup> The number of registered products containing a pesticide active ingredient can change over time. The product total that appears in the RED document (counted when the RED is signed) may be different than the number of products that EPA is tracking for product reregistration (counted later, when the RED is issued). This table reflects the final number of products associated with each RED, as they are being tracked for product reregistration.

<sup>2</sup> This column shows the number of product chemistry studies that are required for each product covered by the RED.

<sup>3</sup> In an effort to reduce the time, resources, and number of animals needed to fulfill acute toxicity data requirements, EPA “batches” products that can be considered similar from an acute toxicity standpoint. For example, one batch could contain five products. In this instance, if six acute toxicology studies usually were required per product, only six studies (rather than 30 studies) would be required for the entire batch. Factors considered in the sorting process include each product’s active and inert ingredients (e.g., identity, percent composition, and biological activity), type of formulation (e.g., emulsifiable concentrate, aerosol, wettable powder, granular, etc.), and labeling (e.g., signal word, use classification, precautionary labeling, etc.). The Agency does not describe batched products as “substantially similar,” because all products within a batch may not be considered chemically similar or have identical use patterns. (Note: FIFRA Section 24(c) or Special Local Need (SLN) registrations are not included in acute toxicity batchings because they are supported by a valid parent product (Section 3) registration.)

<sup>4</sup> Acute toxicity data are not required for the chloropicrin, ethylene oxide, and methyl bromide PDCIs; these chemicals are highly toxic and toxicity categories are already established for all products.

<sup>5</sup> The Nicotine RED is a cancellation; therefore, neither a PDCI nor acute toxicity data are required.

<sup>6</sup> A majority of the tetramethrin products also contain MGK-264, PBO, and Pyrethrins as active ingredients. These products were included in the acute toxicity batching for the MGK-264, PBO, and Pyrethrins REDs, issued in FY 2006. The registrants of these products would either submit or cite acute toxicity data according to the acute toxicity batchings in those REDs. If the acute toxicity data are acceptable, the data will support the product for all of the active ingredients (MGK-264, PBO, Pyrethrins and Tetramethrin). Therefore, only 138 products that contain Tetramethrin as an active ingredient are included in the acute toxicity batching for FY 2008.

### **Measure 5: Future Schedule for Reregistrations.**

The last REDs were completed in FY 2008, therefore there are no remaining candidates for future decisions.

**PRINCIPAL  
FINANCIAL STATEMENTS**

# TABLE OF CONTENTS

## Financial Statements

Balance Sheet .....	12
Statement of Net Cost .....	13
Statement of Changes in Net Position .....	14
Statement of Budgetary Resources .....	15

## Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies .....	16
Note 2. Fund Balance with Treasury .....	19
Note 3. Investments.....	19
Note 4. Other Assets – Advances to Working Capital Fund .....	19
Note 5. General Property, Plant and Equipment.....	19
Note 6. Other Liabilities .....	20
Note 7. Payroll and Benefits Payable, non-Federal .....	20
Note 8. Income and Expenses from Other Appropriations .....	21
Note 9. Exchange Revenues, Statement of Net Cost .....	23
Note 10. Intragovernmental Costs and Revenue.....	23
Note 11. Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing) .....	24

**Environmental Protection Agency  
FIFRA  
Balance Sheet  
As of September 30, 2008 and 2007  
(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>ASSETS</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 2,342	\$ 9,284
Investments (3)	7,921	-
Other (Note 4)	<u>1</u>	<u>100</u>
Total Intragovernmental	\$ 10,264	\$ 9,384
General Property, Plant and Equipment (Note 5)	88	-
<b>Total Assets</b>	<b>\$ <u>10,352</u></b>	<b>\$ <u>9,384</u></b>
 <b>LIABILITIES</b>		
Intragovernmental		
Accounts Payable & Accrued Liabilities	\$ 135	\$ 250
Other (Note 6)	<u>192</u>	<u>199</u>
Total Intragovernmental	\$ 327	\$ 449
Accounts Payable & Accrued Liabilities	515	212
Payroll & Benefits Payable (Note 7)	2,171	3,121
Other (Note 6)	<u>10,137</u>	<u>8,708</u>
Total Liabilities	\$ 13,150	\$ 12,490
 <b>NET POSITION</b>		
Cumulative Results of Operations	<u>(2,798)</u>	<u>(3,106)</u>
Total Net Position	(2,798)	(3,106)
<b>Total Liabilities and Net Position</b>	<b>\$ <u>10,352</u></b>	<b>\$ <u>9,384</u></b>

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

**Environmental Protection Agency  
FIFRA  
Statement of Net Cost  
For the Years Ended September 30, 2008 and 2007  
(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>COSTS</b>		
Gross Cost (Note 10)	\$ 21,696	\$ 22,641
Expenses from Other Appropriations (Note 8)	51,227	52,042
Total Costs	<u>\$ 72,923</u>	<u>\$ 74,683</u>
Less:		
Earned Revenues, (Notes 9 and 10)	<u>\$ 20,554</u>	<u>\$ 21,376</u>
<b>NET COST OF OPERATIONS (Note 10)</b>	<b><u><u>\$ 52,369</u></u></b>	<b><u><u>\$ 53,307</u></u></b>

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

**Environmental Protection Agency  
FIFRA  
Statement of Changes in Net Position  
For the Years Ended September 30, 2008 and 2007  
(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
Net Position - Beginning of Period	\$ (3,106)	\$ (3,381)
Budgetary Financing Sources:		
Nonexchange Revenue - Securities Investment	177	-
Income from Other Appropriations (Note 8)	<u>51,227</u>	<u>52,042</u>
Total Budgetary Financing Sources	\$ <u>51,404</u>	\$ <u>52,042</u>
Other Financing Sources:		
Imputed Financing Sources	<u>1,273</u>	<u>1,540</u>
Total Other Financing Sources	\$ <u>1,273</u>	\$ <u>1,540</u>
Net Cost of Operations	(52,369)	(53,307)
Net Change	308	275
Net Position - End of Period	<u><u>\$ (2,798)</u></u>	<u><u>\$ (3,106)</u></u>

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

**Environmental Protection Agency**  
**FIFRA**  
**Statement of Budgetary Resources**  
**For the Years Ended September 30, 2008 and 2007**  
**(Dollars in Thousands)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance, Brought Forward, October 1:	\$ 6,986	\$ 5,616
Recoveries of Prior Year Unpaid Obligations	985	828
Spending Authority from Offsetting Collections:		
Earned:		
Collected	20,730	21,389
Change in Unfilled Customer Orders:		
Advance Received	1,429	631
<b>Total Budgetary Resources</b>	<u>\$ 30,130</u>	<u>\$ 28,464</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Reimbursable	\$ 23,529	\$ 21,478
Total Obligations Incurred	23,529	21,478
Unobligated Balances:		
Apportioned	6,601	6,986
<b>Total Status of Budgetary Resources</b>	<u>\$ 30,130</u>	<u>\$ 28,464</u>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 2,296	\$ 2,427
Total Unpaid Obligated Balance, Net	2,296	2,427
Obligations Incurred, Net	23,529	21,478
Less: Gross Outlays	(21,181)	(20,781)
Less: Recoveries of Prior Year Unpaid Obligations	(985)	(828)
Total, Change in Obligated Balance	3,659	2,296
Obligated Balance, Net, End of Period:		
Unpaid Obligations	3,659	2,296
Total, Unpaid Obligated Balance, Net, End of Period	\$ 3,659	\$ 2,296
<b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays	\$ 21,181	\$ 20,781
Less: Offsetting Collections	(22,159)	(22,020)
<b>Total, Net Outlays</b>	<u>\$ (978)</u>	<u>\$ (1,239)</u>

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

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

**Note 1. Summary of Significant Accounting Policies:**

**A. 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 Reregistration and Expedited Processing (FIFRA) Revolving Fund as required by the Chief Financial Officers Act of 1990. The reports have been prepared from the books and records of 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 FIFRA Revolving Fund was authorized in 1988 by amendments to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). The 1988 amendments mandated the accelerated re-registration of all products registered prior to November 1, 1984. Congress authorized the collection of maintenance fees to supplement appropriations to fund re-registration and to fund expedited processing of pesticides. Maintenance fees are assessed on registrants of pesticide products. FIFRA also includes provisions for the registration of new pesticides (funded in part from the PRIA or Pesticide Registration Fund), monitoring the distribution and use of pesticides, issuing civil or criminal penalties for violations, establishing cooperative agreements with the states, and certifying training programs for users of restricted chemicals. Appropriated funds, with the exception of partial funding of registration from Pesticide Registration Service Fees in the Pesticide Registration Fund, pay for these activities. The FIFRA Revolving Fund is accounted for under Treasury symbol number 68X4310.

FIFRA 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 2008 and 2007 were \$51,227 thousand and \$52,042 thousand, respectively. These amounts are 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.

### **C. Budgets and Budgetary Accounting**

Funding of the FIFRA Revolving Fund 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**

EPA's 2002 appropriations bill extended authority to collect maintenance fees by one year in the amount of \$17 million and the FY 2003 appropriations extended the authority to collect fees again by one year in the amount of \$21.5 million. Passage of the Pesticide Registration Improvement Act (PRIA) in 2004 extended the authority to collect maintenance fees through FY 2008 (with annual fee amounts at \$26 million in FY 2004; \$27 million in FY 2005-2006; \$21 million in FY 2007; and \$15 million in FY 2008). Passage of the Pesticide Registration Improvement Renewal Act (commonly referred to as PRIA II) in 2007 extended the authority to collect maintenance fees through FY 2012 (with annual fee amounts set at \$22 million each year from 2008-2012). For FYs 2008 and 2007, the FIFRA Revolving Fund received funding from maintenance fees collected on existing registered pesticide products and from interest collected on investments in U.S. Government securities. For FYs 2008 and 2007, revenues were recognized from fee collections to the extent that expenses are incurred during the fiscal year.

### **F. Funds with the Treasury**

FIFRA deposits receipts and processes disbursements through its operating account maintained at the U.S. Department of Treasury. Cash funds in excess of immediate needs, are invested in U.S. Government securities.

### **G. General Property, Plant and Equipment**

General property, plant and equipment for FIFRA consists of software (in development). All funds (except for the Working Capital Fund) capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from 2 to 10 years.

## **H. Investments in U. S. Government Securities**

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

## **I. Accounts Receivable and Interest Receivable**

FIFRA receivables are mainly for interest receivable on investments.

## **J. Liabilities**

Liabilities represent the amount of monies or other resources that are likely 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 FIFRA, liabilities are liquidated from fee receipts and interest earnings, since FIFRA receives no appropriation. Liabilities of EPA, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

## **K. 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."

## **L. 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.

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

	<u>FY 2008</u>	<u>FY 2007</u>
Revolving Funds: Entity Assets	\$ <u>2,342</u>	\$ <u>9,284</u>

***Note 3. Investments***

At the end of FY 2008, EPA invested \$7.9 million in Government Account Series (GAS) Market Based Bills at the Bureau of Public Debt. In FY 2007, EPA did not invest at year-end and allowed all investments to mature.

***Note 4. Other Assets – Advances to Working Capital Fund***

FIFRA advances funds to the EPA's Working Capital Fund to pay for computer, postage, and other administrative support services. As of September 30, 2008 and 2007, funds advanced that will be applied to future costs as incurred were one thousand and \$100 thousand, respectively.

***Note 5. General Property, Plant and Equipment***

In FY 2008, FIFRA incurred \$88 thousand in costs related to the development of information technology software associated with the "Pesticide Registration Improvement System".

**Note 6. Other Liabilities**

For FYs 2008 and 2007, the Payroll and Benefits Payable, non-Federal, are presented on a separate line of the Balance Sheet and in a separate footnote (see Note 7 below).

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Other Intragovernmental Liabilities - Covered by Budgetary Resources</b>		
Employer Contributions - Payroll	\$ 192	\$ 199
<b>Total</b>	<u>\$ 192</u>	<u>\$ 199</u>
<b>Other Non-Federal Liabilities – Covered by Budgetary Resources</b>		
Advances from Non-Federal Entities	\$ 10,137	8,708
<b>Total</b>	<u>\$ 10,137</u>	<u>8,708</u>

**Note 7. Payroll and Benefits Payable, non-Federal:**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>Covered by Budgetary Resources</b>		
Accrued Payroll Payable to Employees	\$ 526	\$ 359
Withholdings Payable	342	427
Thrift Savings Plan Benefits Payable	30	31
<b>Total</b>	<u>\$ 898</u>	<u>\$ 817</u>
<b>Not Covered by Budgetary Resources</b>		
Unfunded Annual Leave Liability	<u>\$ 1,273</u>	<u>\$ 2,304</u>

At various periods throughout FYs 2008 and 2007, employees with their associated payroll costs were transferred from the FIFRA fund to the Environmental Programs and Management (EPM) appropriation. (See graph in Note 8 below showing trend of hours charged per month to the FIFRA fund for FYs 2008 and 2007.) These employees were transferred in order to keep FIFRA's obligations and disbursements within budgetary and cash limits. When resources became available, the employees charging to FIFRA increased in order to utilize resources as much as possible. The Agency expects that the practice of transferring employees when FIFRA's resources are low, and restoring employees when funds become available, will continue throughout FY 2008 and probably beyond that period.

This process has led to variations between the year-end liabilities for FYs 2008 and 2007. The liabilities covered by budgetary resources (both intragovernmental and non-Federal) represent unpaid payroll and benefits at year-end. At the end of FY 2008, 156 employees were charging all or part of their salary and benefits to FIFRA compared to 54 employees for the end of FY 2007. As of September 30, 2008 these liabilities were \$192 thousand and \$898 thousand for employer contributions and accrued funded payroll and benefits, as compared to FY 2007's balances of \$199 thousand and \$817 thousand, respectively.

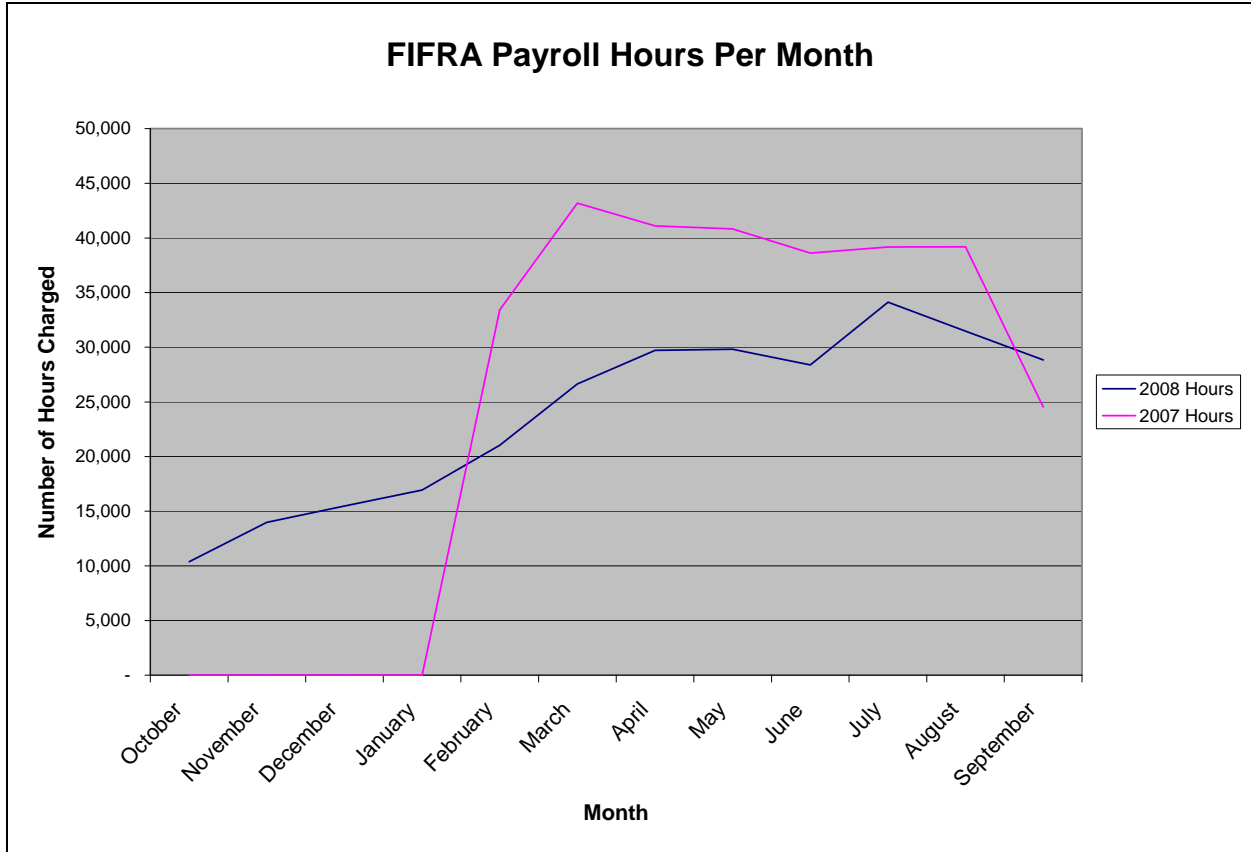
In contrast, the unfunded annual leave liability is a longer term liability than the funded liabilities. At various periods throughout FYs 2008 and 2007, approximately 229 and 319 employees, respectively, in total have been under FIFRA's accountability. During the last pay period of FY 2008, the number of employees transferred from FIFRA to EPM was not significant; therefore, the liability was computed based on 156 employees charged to FIFRA during pay period 26. Both the September 30, 2008 and 2007 liability balances for unfunded annual leave were accrued to cover the employees charged to FIFRA at the end of the fiscal year for a total of \$1,273 thousand and \$2,304 thousand, respectively.

***Note 8. 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 2008 and 2007, EPA had two appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Transfers of employees from FIFRA to EPM at various times during these years (see Note 7 above) resulted in an increase in payroll expenses in EPM, and these costs financed by EPM are reflected as an increase in the Expenses from Other Appropriations on the Statement of Net Cost. The increased financing from EPM is reported on the Statement of Changes in Net Position as Income from Other Appropriations.

In terms of hours charged to FIFRA each month, the transfers of employees and their associated costs during FYs 2008 and 2007 are shown below. Note that a decrease in hours charged to FIFRA normally signifies an increase in EPM's payroll costs, and vice versa. In addition, Pesticide was separated from FIFRA starting with FY 2004 and Pesticide has its own set of financial statements.



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

	<u>Income From Other Appropriations</u>		<u>Expenses From Other Appropriations</u>		<u>Net Effect</u>
FY 2008 \$	51,227	\$	51,227	\$	0
FY 2007 \$	52,042	\$	52,042	\$	0

**Note 9. Exchange Revenues, Statement of Net Cost**

For FYs 2008 and 2007, the exchange revenues reported on the Statement of Net Cost include both Federal and non-Federal amounts.

**Note 10. Intragovernmental Costs and Exchange Revenue**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>COSTS:</b>		
Intragovernmental	\$ 6,572	\$ 7,028
With the Public	15,124	15,613
Expenses from Other Appropriations	<u>51,227</u>	<u>52,042</u>
Total Costs	\$ <u>72,923</u>	\$ <u>74,683</u>
<b>REVENUE:</b>		
Intragovernmental	\$ -	\$ 602
With the Public	<u>20,554</u>	<u>20,774</u>
Total Revenue	\$ <u>20,554</u>	\$ <u>21,376</u>
<b>NET COST OF OPERATIONS</b>	<b>\$ <u><u>52,369</u></u></b>	<b>\$ <u><u>53,307</u></u></b>

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

**Note 11. Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing)**

	<u>FY 2008</u>	<u>FY 2007</u>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 23,529	\$ 21,478
Less: Spending Authority from Offsetting		
Collections and Recoveries	(23,144)	(22,848)
Obligations, Net of Offsetting Collections	\$ 385	\$ (1,370)
Other Resources		
Imputed Financing Sources	\$ 1,273	\$ 1,540
Income from Other Appropriations (Note 8)	51,227	52,042
Net Other Resources Used to Finance Activities	\$ 52,500	\$ 53,582
Total Resources Used To Finance Activities	\$ 52,885	\$ 52,212
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods	\$ 427	\$ 1,510
Resources that Fund Prior Period Expenses	(1,032)	(415)
Resources that Finance Asset Acquisition	(88)	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (693)	\$ 1,095
Total Resources Used to Finance the Net Cost of Operations	\$ 52,192	\$ 53,307
<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:		
Other	177	-
Total components of Net Cost of Operations that Require or Generate Resources in Future Periods	177	-
<b>Net Cost of Operations</b>	<b>\$ 52,369</b>	<b>\$ 53,307</b>

## Appendix B

***Agency's Response to Draft Report***

May 20, 2009

MEMORANDUM

**SUBJECT:** OPP Response to Draft Audit Report: Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund

**FROM:** James J. Jones, Acting Assistant Administrator /s/  
for Prevention, Pesticides and Toxic Substances

Maryann B. Froehlich /s/  
Acting Chief Financial Officer

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

Thank you for the opportunity to respond to the May 7, 2009, Audit Report: Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund. We appreciate the Office of Inspector General's (OIG) careful evaluation of the Office of Pesticide Program's (OPP) financial statements for 2007 and 2008.

We concur with the OIG's general conclusions that our financial statements are fairly presented and free of material misstatement. We appreciate the OIG's efforts in helping us to evaluate our program, and your suggestions concerning how to improve our tracking of the effectiveness of our program. Protection of human health and the environment from unreasonable adverse effects of pesticides is a responsibility we take very seriously and we welcome OIG's input on our work.

The audit report noted one significant deficiency in internal controls and made three recommendations. Those recommendations and our response follow.

**Recommendation 1-1:** Review the entire universe of reregistration and amendment actions claimed in fiscal year 2008, and correct any errors found in the OPPIN system.

**Response:** An internal audit team, comprised of staff in the affected registering divisions, will review the actions according to the following procedure: (1) review the product jackets for documentation of reregistrations and amendments; and (2) review OPPIN to ensure the actions were properly coded and accurate information entered. The Audit Team's kick off meeting took place February 24, 2009. OPP is reviewing all the product reregistration and amendment actions

that were reported during fiscal year 2008 and will correct any errors found. We expect to complete this task by December 31, 2009.

**Recommendation 1-2:** Conduct the internal audits of product reregistration and amendment actions completed during Fiscal Year 2009, at least quarterly, to ensure reregistration and amendment actions are accurately recorded in OPPIN; and ensure that any errors noted are corrected in OPPIN and verified by management.

**Response:** OPP will conduct an internal audit of Fiscal Year 2009 actions. We currently have a staff member in the Registration Support Branch who reviews the actions when copies of letters completing the actions are sent to her. The audit team, comprised of staff from all branches of the registering divisions, will also review the actions according to the same procedure used for the 2008 audit. Any errors found will be given to the appropriate Branch Chief for correction.

As an additional measure to ensure that OPP is accurately reporting the actions completed for FY 2009, RD will maintain both paper and electronic copies of the documentation for reregistration and amendments; one in hard copy and placed in file drawers, and the other scanned into an electronic filing system.

**Recommendation 1-3:** Use corrected figures for product reregistration and amendment actions in the Annual Report on Reregistration Performance Measures and Goals for Fiscal Year 2008 published in the Federal Register. If the corrected figures are not available before publication, disclose in the report that the Fiscal Year 2008 accomplishments for FIFRA Program Performance Measure Two are inaccurate and corrected figures will be published in the Fiscal Year 2009 Report.

**Response:** The 2008 Pesticide Reregistration Performance Measures and Goals Report was signed on May 1, 2009, and has been published in the Federal Register. It contains the following language:

*3. Product reregistration actions and universe in FY 2008.*In response to 2009 findings by EPA's Office of the Inspector General resulting from the annual FIFRA Financial Statements Audit, the EPA Office of Pesticide Programs (OPP) is reviewing product reregistration actions completed in FY 2008 and will make any needed corrections. OPP expects to complete this review by December 31, 2009. In next year's Performance Measures and Goals **Federal Register** notice reporting on actions completed in FY 2009, the Agency plans to provide numbers of product reregistration actions completed in FY 2008 and in FY 2009.

Again, we appreciate the OIG's working with OPP to improve the effectiveness of our programs. If you have any questions concerning our responses you may contact Marty Monell, Deputy Director, Office of Pesticide Programs on 703 305-7090, or Doug Weik, Acting Chief, Financial Management and Planning Branch, OPP on 703-305-6926.

**Appendix C*****Distribution***

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